Good Salesmanship

- how to raise prices

Entrepreneurs often set their prices too low, and it can take years to get them to the right level. So how do we increase our prices without losing customers?

By David Madié, founder and CEO of GrowthWheel International Inc.

When we as entrepreneurs are not making enough money it may be because we are not setting the right prices. Generally, we are good at producing and delivering products. However, it is just as important to be good at running a business and getting properly paid for our work. So to run a sustainable business and get the most from it, somewhere along the way we need to learn how to become a good salesman or saleswoman. How do we go about this?

Why are our prices too low?

There are various reasons why we set our prices too low. A frequent "beginners mistake" is that we think we make enough money. We often forget about all the less predictable expenses in the budget or we underestimate how much time we spend on each task. Perhaps we forget that it is not enough to get a decent salary. The company needs to make its "own" money to be able to invest in product development, marketing etc. To tell the company's earnings from our personal income may be the first step towards setting the right prices.

"Once customers have gotten used to a specific price range, it may take years for us to raise our prices to the right level."

Emotional barriers

Too low pricing may also be the result of a number of psychological barriers. Typically, we as entrepreneurs are so passionate about our businesses that we would work for free! Another barrier could be that we, as owners of a startup, do not feel we can allow ourselves to have high prices. Perhaps we fear that we are not good enough or not worth the extra money. A third barrier might be that we are afraid of losing an order. For startups, every order is important and the risk of losing one may be a reason to keep our prices low.

What should it cost?

The decision on how to price our products or services should be made the moment we give a customer an offer or make our price list. When setting a price we can choose from two different approaches: *mark-up* or *market price*. With mark-up pricing we put together all expenses we have from making and delivering the product. Next, we add the

percentage we want to earn. Of cause, the scope of the earnings depends on the market and the fixed costs we have from running the business.

When we set the prices based on the market value, we focus on what the customers are willing to pay for the product. We decide this by figuring out how much the customers are paying for similar products on the market today.

When pricing according to market price we focus on the *value* we create for the customer, i.e. how much the customer earns or saves, the problems we are solving or the new possibilities the customers get when buying our products or services. By focusing on the value we create we often get a completely different starting point for setting prices. Finally it is worth remembering that high prices also indicate high quality. Sometimes a high price may even be one of the products characteristics.

"Satisfied customers are a prerequisite for price increases."

"Special price for YOU"

A general principle for good salesmanship is that the prices do not have to be the same for all customers. Rather you should set the price according to what the customers are willing or able to pay. From the market place we know the expression "Special price for YOU" and this principle is used in every type of business, just in a more sophisticated way. We might offer products of different quality or perhaps sell add-ons to the same customer. Or we can simply offer the same product to different customer groups at different prices.

Discounts that do the trick

Discounts are an important part of the company price policy. A fundamental principle is of course that everybody wants to make a good deal and believe they bought the product for a lower price than what it is actually worth. This is why it is often a good idea to set the prices high and then use discounts to make the prices more competitive. We may offer introductory discounts, seasonal discounts, quantity discounts, bonus systems etc. As long as the price is high enough from the start the discounts will help us bring our prices up, not down. More importantly, the discounts give us a chance to negotiate with the customer. The first price you offer is rarely the price that closes the deal.

Price increases without surprises

The big problem of having low prices is that once customers have gotten used to a specific price range, might spend years raising the prices little by little before we get to the right level. So what do we do if our prices are too low? A smart way to increase our prices is to give customers an early heads-up. We often read the line "The offer is valid until December 31" at the bottom of the price lists. We should always have a good reason for increasing prices, such as a better product or service or price increases in general that make prices go up. It is important that customers feel that they get "their money's worth" and that the price increase is fair.

Do it well!

We can do a lot to become better salespeople. The best way is to become really good at making and delivering what we promise. Satisfied customers are a prerequisite for price increases. When customers focus on the value our company creates rather than the price on our products, the chances of getting a good price are much better.

Suggestions for next step

- Communicate the values you are creating for your customers and set your prices accordingly.
- Adjust your prices according to the market price.
- Notify your customers of your next price increase.