How to maximize the most important selling point your have - your price

PRICE! Doesn't it seem that we spend a lot of time thinking about it, adjusting it, and being afraid that we are too high? You and I know that price is not the most important thing. Price IS one of the most important tools we have. This lesson will give you a few pricing concepts to think about.

You may have little choice. If your market facts tell you that all your competitors are selling the same item at one dollar, and if one dollar is the absolute least you can charge and still survive, then the decision makes itself. This, however, is rare; you usually have some flexibility.

Your price (less costs) sets your gross profit--at least on that one sale. Very few businesses, of course, can survive on just one sale. So your gross profit, in actuality, is based on your price, multiplied by your number of units of sale, minus your costs.

Some customers buy on price alone, or with price as a key factor. A very few ignore price completely. Most seek the greatest value, real or imagined, per dollar. This factor is usually known as "perceived value." The "ceiling" and the "floor" are terms that describe the highest and lowest possible price decisions you can make. Your ceiling might be what your competition is offering; your floor might be the lowest price you can charge and still turn a profit.

Sometimes, you may wish, briefly, to sell near or below your cost, in order to get customers to try your product or service. Eventually, of course, you must sell above your cost in order to build gross profit--that is, the dollars that allow you to keep your business in operation.

If you are more efficient than your competitor, you might sell below their price and still generate enough income to pay all your other costs and still end up with a net (or bottom line) profit. If you do sell below your competitor's price, you will probably aim to sell enough extra units to make up for the lost income from lower price. Your gross will very likely be lower than the competitor's on each individual sale. By the same token, higher real or perceived value can let you sell above your competition's price. This can cut your number of units sold just as a lower price raised them. However, if you can compensate for the reduction by the extra dollars you will see with a higher price, income goes up.

Pricing should be a window, not a barrier. For instance, volume discounts to key larger customers usually increase your efficiency and profitability, and thus represent a reasonable basis for a price reduction.

Clearly, your decision can be a little tricky. Your price should probably be somewhere between your cost and your competitor's price. If you decide to charge more than a competitor, you need to have reasons that justify the higher price and/or a superior product or service.

If you can show that you have a higher service level, shorter delivery time, less out of stocks, or more customers in the area (or less, whichever is a larger benefit) you can usually sell at a higher price than your competition.

