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Pricing Your Products and Services

Pricing isn't just about choosing a number – it's a key business decision that shapes how customers perceive your value, impacts your profit margins, and positions you in the market. The right pricing strategy supports your goals, reflects the benefits you deliver, and keeps your business sustainable.

This hands-on guide will help you move from guesswork to strategy. Whether you're launching, growing, or refining your business, you'll find tools and insights to confidently set and adjust your prices as needed.

Here's what you'll explore in this document:

- **Before Setting Your Prices** - The key factors to consider before landing on a number
- **Pricing Strategies** - Methods you can use based on your goals, market position, and customer expectations
- **Pricing for Profitability** - Ensuring your pricing covers costs and supports sustainable business growth
- **How to Decide: High vs. Low Pricing Models** - A breakdown of when each approach makes sense based on product type, business goals, and demand sensitivity
- **Selective Pricing: Customizing Your Strategy for Greater Impact** - How to categorize your products and services to set flexible, value-based pricing that fits your market

Let's get started and build a pricing strategy that works for *you* and your customers.

1. Before Setting Your Prices

Setting the right price is part art, part strategy, and part math. It needs to be **low enough to attract customers** but **high enough to generate a profit** — and that balance depends on multiple factors. This section walks you through the key steps to help you build a pricing foundation that supports your goals and reflects your value.



Step 1: Define Your Pricing Goal

Start by asking: *What do I want my pricing to achieve?*

- Do you want to attract as many customers as possible?
- Position your business as a high-value or premium brand?
- Filter out low-margin clients?
- Drive growth in a specific market?

Pricing Goal Examples	What This Looks Like
Maximize short-term sales	Lower price point, special offers, fast action
Attract high-value clients	Premium pricing, strong brand positioning
Cover costs and grow profitably	Balanced pricing with clear value-added services

Your goal influences everything else — from how you set prices to how you communicate them. Make sure your pricing approach aligns with your **business objectives** and **brand positioning**.

Step 2: Research the Market

You don't need to price in a vacuum. Take time to understand what others in your space are charging.

Ways to gather data:

- Visit competitor websites or marketplaces
- Ask peer businesses (outside your region) what they charge
- Check trade associations or industry reports
- Talk to potential customers and ask what they currently pay or expect to pay

Use this research to set a **pricing range** and decide where you want to fall within it based on your goals and your value.

Step 3: Know Your Costs

Before you price anything, you must know your numbers. At a minimum, make sure your pricing covers:

- **Direct costs** (materials, packaging, labour)
- **Indirect costs** (rent, software, insurance, admin time)
- **Your profit goal** (what you need to pay yourself and grow the business)

For Service-Based Businesses:

Add up all business expenses and divide by your available billable hours to estimate your **hourly rate**. Decide when to **charge hourly** (e.g., complex or changing scope) vs. **by project** (e.g., defined deliverables or when hourly sticker shock is a concern).

For Product-Based Businesses:

Use a **break-even analysis** to make sure you're pricing sustainably.

Basic formula:

$$\frac{\text{Business Fixed Costs}}{\text{Price per Unit} - \text{Variable Cost per Unit}} = \text{Units You Must Sell to Break Even}$$

Example:

- Price per item: \$5.00
- Variable costs (materials, packaging): \$0.75
- Fixed monthly costs (rent, equipment): \$250

Break Even Point: $\$250 \div (\$5.00 - \$0.75) = 59$ units/month to break even

Step 4: Identify and Communicate Your Value

Your price should reflect more than just your costs — it should represent the *value* your customer receives.

Ask yourself:

- What sets me apart from competitors?
- What extra benefits do I offer (speed, reliability, experience, customization)?
- What outcomes do I help my customers achieve?

Value Add Examples	Do You Offer It?	How Do You Communicate It?
Faster delivery	Yes / No	Website, quote, onboarding process
Specialized expertise	Yes / No	Case studies, referrals, bio
Personalized service	Yes / No	Messaging, follow-up

Highlighting these value-adds justifies your price and helps customers understand *why* you charge what you do.

Step 5: Build Your Pricing Strategy

Use all the information from Steps 1–4 to define a pricing approach that works for your business.

Consider:



- Will you charge hourly, by project, or use flat fees?
- Will you use **tiered pricing**, **bundles**, or **volume discounts**?
- Do you want a **one-price policy** or **flexibility** to adjust pricing based on scope or customer type?
- How will your pricing vary across **sales channels** (e.g., direct sales vs. wholesale)?

Pricing Model	Best For	Considerations
Hourly	Variable projects, unknown scope	Easy to track, but clients may resist
Project-based	Clear deliverables, defined timelines	Good for quoting and profit planning
Tiered pricing	Productized services or packaged offerings	Helps attract multiple buyer types

Think about how your pricing ties into promotions or customer incentives — like referral discounts, early-payment discounts, or seasonal offers.

2. Pricing Strategies

Setting prices for your products or services is one of the most important — and often most difficult — decisions you'll make in your business. It's not just about covering your costs; it's about creating value, staying competitive, and supporting your long-term goals.

Many businesses struggle with profitability because they don't consider all the factors that should influence pricing — such as market demand, competition, customer expectations, and cost structure. With rapid shifts in technology, consumer behavior, and global competition, it's essential to revisit your pricing strategy regularly.

The following sections outline common pricing strategies and how to apply them effectively.

Manufacturer's Suggested Retail Price (MSRP)

Using the manufacturer's suggested retail price is common and simple — but may not be competitive in your local market. This approach doesn't always account for local competition, customer preferences, or your cost structure.

Use with caution: Always compare MSRP to what similar businesses are charging, and adjust based on your value proposition.

Competitive Pricing

This strategy involves setting your prices based on what others in your market are charging — particularly businesses of similar size and customer volume.

Best for: Businesses in highly competitive markets with similar offerings. Tip: Instead of matching prices exactly, highlight your other advantages — like location, customer service, or convenience.

Pricing Below the Competition

Undercutting your competitors can help you gain customers and increase volume, but it comes with risks. Lower profit margins require you to tightly manage costs and operations.

To make this strategy work, you must:

- Negotiate the best possible supplier prices
- Minimize overhead and location costs
- Limit inventory to high-turnover products
- Focus advertising on price specials
- Offer minimal (but still acceptable) services

Caution: This approach can be hard to sustain and may trigger price wars.

Pricing Above the Competition

Premium pricing works when customers are willing to pay more for perceived value — such as better service, exclusivity, or convenience.

Justified by:

- Exceptional customer service
- Expert knowledge or advice
- Unique location or product selection
- High-quality, exclusive, or hard-to-find products

Price Lining

This approach involves offering products within a specific price range to appeal to a defined market segment. For example, a boutique may only sell handbags priced over \$75.

Benefits include:

- Simplifies choices for customers
- Reduces inventory complexity
- Streamlines marketing and messaging
- Multiple Pricing (Bundling)

Selling multiple units for one price (e.g., 2 for \$9.99) works well for consumables and clearance items. It encourages larger purchases and simplifies promotions.

Cost-Based Pricing

Many small businesses set prices by calculating total costs and adding a profit margin. To do this well, you need to understand and account for all cost components:

Key Cost Categories

Cost Type	Description
Materials	Direct costs of ingredients or components used in your product. Example: wood and screws in furniture.
Labour	Time spent producing your product or delivering your service. Don't forget to include benefits and payroll taxes.
Overhead	Indirect costs like rent, insurance, admin, advertising, and utilities. Also includes support staff and depreciation.

Tip: Overhead should be updated at least annually to reflect changes in wages, inflation, and operating costs. Recalculate semi-annually if your business is growing quickly.

Service-Based Pricing

If you're a consultant or service provider, you'll likely charge hourly or by project. Be sure to:

- Include travel time if relevant
- Build in buffer time to account for slow periods
- Cover all your overhead in your rate
- Price based on the value you deliver, not just time spent

Pro tip: Don't undercharge just to get the work. High-value clients are more focused on outcomes than rates.

Summary

Your pricing structure reflects your brand, your positioning, and your profitability. Whether you're a product-based business or offer services, your pricing equation should look like this:

Cost + Operating Expenses + Desired Profit = Price

The most successful businesses treat pricing as a strategy, not a guess. Set your approach intentionally, revisit it often, and adjust based on your market, your value, and your goals.

3. Pricing for Profitability

What It Means

Pricing for profitability means setting prices that do more than just cover your costs — your pricing should support your business goals, reflect your value, and respond to your market.

Why Cost-Based Pricing Isn't Enough

Cost-based pricing (adding a markup to your costs) is simple and widely used. It ensures that your expenses are covered and is often seen as fair by both buyers and sellers. However, it has limitations:

Strengths of cost-based pricing:

- Easy to calculate
- Ensures costs are covered
- Feels fair and consistent

Limitations:

- Doesn't account for customer demand
- Ignores what competitors are doing
- Misses opportunities to price higher for high-value items
- Treats every product or service the same, regardless of market potential

Important Note: Cost-based pricing helps you set a *minimum* price, but pricing for profitability requires you to go further by factoring in customer value, demand, and competition.

Profit-Based Pricing Strategy

To price for profitability, think of your price as part of your overall business strategy. A strong pricing strategy helps you:

- Stand out from the competition
- Reflect your product or service quality
- Appeal to your target market
- Protect your margins and sustainability
- Communicate your brand positioning

The right price is the highest price that still fits your customer expectations and business goals.

Matching Price to What You Offer

Different products and services benefit from different pricing strategies. Use the following table as a guide:

Product or Service Type	Suggested Pricing Strategy
Fast-moving essentials	Lower prices, lower margins, focus on sales volume
High-quality or custom work	Higher prices, higher margins, emphasize value
Niche or slow sellers	Higher markup to offset carrying costs
New product launches	Introductory offers or premium pricing (price skimming)

Matching Price to Your Customer

Your target audience plays a key role in how you price:

- Customers focused on affordability will respond to lower prices and discounts.
- Customers focused on quality or prestige are more willing to pay higher prices for added value or exclusivity.
- A high price may reinforce the perception of high quality, while a low price can signal value or accessibility.

Pricing sends a message. Make sure it reflects what you want your brand to stand for.

When to Revisit Your Pricing

Pricing is not a one-time decision. Review it regularly and especially when:

- Introducing new products or services
- Entering a new market or serving a new audience
- Facing rising costs or shrinking margins
- Competitors change their pricing or positioning
- Your overall business strategy shifts

Begin by asking:

- Should I raise or lower my price?
- By how much?

This second question requires you to estimate what your customers are willing to pay, based on not just demand and competition, but also their motivations — such as perception, image, convenience, or urgency.

How to Raise Your Prices

Raising your prices can be one of the most effective ways to improve your business's financial health — when done strategically. Many business experts agree that pricing too low is a common cause of financial trouble. In fact, if your prices haven't increased in years while your costs have, it may be time to take a closer look.

When Raising Prices Isn't Optional

There are times when increasing your prices isn't just a good idea — it's essential. You may need to raise your prices if:

- Your prices are significantly below your competitors
- You're flooded with quote requests because people know you undercharge
- Sales volume is steady or growing, but profits are shrinking
- Customers are surprised by how low your prices are
- You're consistently selling out or unable to keep up with demand
- Inflation or rising costs have outpaced your current pricing

These are all signs that your pricing no longer reflects the value you provide — or the realities of your market.

When Higher Prices *Can* Work

Premium pricing isn't right for every business. To make it work, you need two key things:

- A product or service that delivers exceptional value
- A customer base that recognizes and is willing to pay for that value

If both are true for you, then it may be time to consider a price increase — not just to cover costs, but to boost margins and strengthen your brand position.

How to Raise Prices Strategically

Raising prices isn't just about changing a number — it's about increasing perceived value at the same time. To do this, consider how you can enhance what customers receive when they buy from you.

If You're a Product-Based Business:

- Develop or promote premium versions of your products
- Improve packaging to reinforce value
- Highlight unique features or differentiators
- Offer value-added bundles or limited editions

If You're a Service-Based Business:

- Introduce service upgrades, such as faster delivery, personalization, or added support
- Highlight your expertise or credentials
- Add free or bundled services (e.g., onboarding, training, emergency support)
- Improve the customer experience through better communication or convenience

When you raise your prices, you may sell fewer units — but each sale can become more profitable. Your goal is to find the point at which the **extra profit per sale outweighs any drop in volume**.

Tips for a Smooth Price Increase

- **Increase** gradually, especially if your customer base is price-sensitive
- Communicate clearly — explain improvements or value additions that justify the change
- Monitor customer reactions and be prepared to adjust if needed
- Keep an eye on competitors — some may raise their prices too, while others may not

Finally, always consider the risk. Will customers still perceive your offering as a good value at the new price? Do you have enough demand to support the shift? And can your team deliver the elevated experience that a higher price implies?

Raising Your Prices Worksheet

Step	Guiding Questions	Notes
1. Identify the Need for a Price Increase	Are your prices significantly lower than competitors? Are your profits shrinking despite steady or growing sales? Are customers surprised at how low your prices are?	
2. Evaluate Your Product or Service Value	What makes your product or service stand out? What results or benefits do customers get? Are you currently underpricing premium features?	
3. Define Value Enhancements	What can you improve to justify a higher price? Can you add services, features, or upgrades? How can you improve packaging, branding, or customer experience?	

4. Plan Your Communication Strategy	How will you explain the price change to customers? What improvements can you highlight? Do you need to phase in the change gradually?	
5. Monitor and Adjust	Are customers still buying at the new price? Have competitors responded? Should you adjust the price further or offer new options?	

How to Lower Your Prices

Lowering your prices can be a smart move — but only when it's done strategically. If you're not seeing the sales or market traction you expect, price may be part of the issue. Still, before making a change, it's important to evaluate whether price is really the problem — and if lowering it will bring the results you want.

When to Consider Lowering Your Prices

You may be pricing too high if:

- You have excess inventory or unused capacity
- Your market share is falling
- Your prices are noticeably higher than competitors offering similar quality
- Even small price reductions result in a significant sales boost
- Customers consistently hesitate or push back on your pricing

In a declining market, you may also need to adjust your pricing. But be cautious — a market dip doesn't always mean your prices are the problem. Before cutting prices:

- Look at whether the decline affects the whole market or just your business
- Separate fact from perception (rumors or temporary slowdowns aren't always reliable indicators)
- Explore other causes like outdated offerings, reduced demand, or increased competition

Avoid reacting too quickly. Premature price cuts can reduce profits unnecessarily or trigger a competitive race to the bottom.

Strategic Reasons to Lower Prices

Even if your prices aren't too high, you might still choose to lower them for strategic reasons:

- To increase sales volume and improve cash flow

- To gain market share or enter a new customer segment
- To discourage new competitors from entering your space
- To promote a specific product or service as a loss leader — one that draws people in so they purchase other, full-price items

Done right, a lower price can improve your turnover rate (how quickly you sell through inventory), which can be more profitable than higher margins with slower sales.

Key Considerations Before Lowering Prices

Before adjusting your prices, ask:

- What is the long-term impact on brand perception? Will lowering prices hurt your image of quality or value?
- Is the price change temporary or permanent? Temporary promotions or discounts may be safer.
- Can you segment your pricing instead — such as offering a lower-cost option or bundling instead of cutting your main price?
- What's the potential impact on profit margins, and can you offset the reduction through volume or efficiency?

If Competitors Cut Prices First

If your competitors start a price war, you don't always have to follow. Consider a non-price counterattack:

- For small competitor price cuts, try a limited-time discount or cents-off sale
- For moderate cuts, offer a bonus item, loyalty points, or low-cost extras
- For larger price cuts, increase marketing visibility or highlight added value
- For deep undercutting, reposition your brand or product line to emphasize premium quality

Alternatively, you could introduce a budget-friendly product or service without changing your core pricing — allowing you to stay competitive without compromising your value.

Lowering prices can work — if it's intentional and well-planned. It's a tool, not a default. Always weigh your goals, brand, market conditions, and customer expectations before making the change. And be ready with a clear plan to protect your margins and long-term growth.

Lowering Your Prices Worksheet

Step	Guiding Questions	Notes
1. Identify Signs That Prices May Be Too High	Are you seeing excess capacity, falling sales, or shrinking market share? Do small price drops lead to major sales increases? Are your prices significantly higher than competitors offering similar quality?	
2. Evaluate Market Conditions	Is the market declining, or is it a temporary dip? Are there non-price factors causing the drop in sales? Is the decline industry-wide or specific to your business?	
3. Consider the Strategic Purpose of Lowering Prices	Are you lowering prices to increase volume, match competitors, or enter a new market? Could a limited-time offer or promotional discount achieve the same goal?	
4. Plan Your Price Reduction or Alternative Response	Should you reduce prices across the board or only for select items? Could you introduce a lower-cost product or service instead? How will you maintain brand value after a price reduction?	
5. Monitor and Respond to Competitor Moves	Are your competitors cutting prices? Would a non-price counterattack (e.g., better service, promotions, or value-adds) be more effective? Can you differentiate instead of participating in a price war?	

How to Raise or Lower Prices Without Changing Your Price Tags

Sometimes you don't need to adjust your list prices to shift your revenue — you just need to rethink how you price. You can raise prices by charging for services you once offered for free, or lower them by offering well-structured discounts. This approach allows you to protect your brand position while fine-tuning profitability.



Raising Prices Through Add-On Services

One way to increase revenue without changing your listed prices is to begin charging for high-value services you currently include for free. Think about what those services are worth to your customer. Could they do it themselves? Hire someone else? Go without?

If outsourcing the service would cost them more — or if your service helps their business perform better — charging for it becomes an easy and justifiable upsell.

Examples might include:

- Expedited shipping
- Customization or personalization
- Setup, installation, or onboarding
- Training or technical support

To do this successfully, focus on services your customers already value and are willing to pay for. Make the value clear and position the offering as an enhancement rather than a take-away.

Lowering Prices Through Discounts and Incentives

Discounting can also reduce your effective price without changing your published prices. Used strategically, discounts can drive volume, win new customers, and retain existing ones — especially in competitive or high-end markets where a sale price feels more like a reward than a markdown.

Types of discounts include:

- Bulk or volume-based discounts
- Seasonal promotions or flash sales
- Prompt-payment or cash discounts
- Loyalty or referral incentives

Discounts are particularly effective when they enhance the perceived value of luxury or premium products without affecting brand image.

Be Aware of the “Pocket Price”

One pitfall of excessive discounting is that it erodes your pocket price — the actual amount you collect after all discounts and incentives are applied. Many businesses focus only on the invoice price, but the real measure of profitability is your pocket price.

Consultants Michael Marn and Robert Rosiello advise keeping a close eye on pocket price variation. In some cases, uncontrolled discounts have created pricing differences of up to 60% between customers. One company they studied boosted operating profit by 43% just by reducing inconsistent discounting — without increasing sales volume.

Optimize Discounts Based on Customer Preferences

Not all discounts have equal impact. Customers may respond well to certain types of offers but ignore others — even if the savings are similar. Track what works. Focus on high-impact incentives and eliminate or simplify the rest. This approach can improve your average pocket price and overall profitability.

You can raise or lower what customers pay without ever changing your price tags. By charging for value-added services and using discounts more selectively, you gain the flexibility to improve profit margins, respond to market shifts, and support your brand — all without confusing your customer base or risking a pricing backlash.

4. How to Decide: High vs. Low Pricing Models

"Pricing is a numbers game," claim Cochrane Chase and Kenneth L. Barasch in "Marketing Problem Solver." Despite all the detailed decision charts, task breakdowns and other price rationalizers included in their book, they conclude that instinct, not formulas, provides the best guide to good pricing. "After reviewing all information and relationships among factors," they write, "It is time to use a good instinctive feel for the market and its environment."

The following charts, compiled from Chase and Barasch's book and a variety of other texts, should help get your instincts flowing.

Pricing low is a good strategy if items are:	Pricing high is a good strategy if items are:
Widely available	Rare or customized
Usable for a long time	Outmoded rapidly
Not very durable	Durable over many years
Used for one thing only	Versatile; multiple uses
Low-tech; unlikely to receive rapid changes or upgrades	High-tech; likely to receive rapid changes or upgrades
Fast moving; high turnover	Slow moving; low turnover
A source of long-term profits	A source of short-term profits
Sold in a highly competitive environment	Sold in a market with little competition
Part of a line of related products	Single, unrelated, stand-alone products
Compatible with no or few sellable services like installation and training	Compatible with sellable services like installation and training
	Impulse or emergency items

Pricing low is a good strategy if you, as a manufacturer or distributor, want:	Pricing high is a good strategy if you, as a manufacturer or distributor, want:
Introduction of a new capital-intensive product, whose unit cost will decrease rapidly with volume production	Introduction of a new labor-intensive product, whose unit cost will increase rapidly with volume production
A simple distribution system involving one distributor	A complex distribution system involving multiple levels of distribution
A large or mass-market share	A small, select market share of upscale buyers
Little or no use of promotional support through advertising and sales activities	Considerable use of promotional support through advertising and sales activities
Entry into a well-developed market penetrating many industries	Entry into a poorly developed market penetrating few industries
Entry into a mature, highly competitive market	Entry into a new or developing market
Easy market penetration	High profits for the short-term only
<i>(Note: Downside of low-balling is that low price does not always generate volume sales.)</i>	<i>(Note: Downside of highballing is that it discourages some buyers, attracts competition and may wrongly assume availability of buyers willing to pay a higher price for higher quality.)</i>

Be aware that price shifts can raise or lower demand and sales for certain kinds of products, but have little or no effect on other products. For example, lowering the price of paper clips would not induce customers to buy and consume more than they would otherwise. Lowering the price of laptop computers, however, would indeed stimulate greater demand and a higher volume of sales.

Demand for these products DOES change when prices are raised or lowered:

- Products for which many substitutes are available
- High-ticket items
- Luxury goods
- Highly durable items
- Products that satisfy a hard-to-fulfill need
- Products that buyers can postpone purchasing

Demand for these products DOES NOT change when prices are raised or lowered:

- Products for which no substitutes are available

- Low-ticket times
- Necessity goods; staples
- Not very durable items
- Products that satisfy an easy-to-fulfill need
- Products that buyers need now and cannot postpone purchasing

5. Selective Pricing: Customizing Your Strategy for Greater

Not all products or services need to be priced the same way - and in today's market, one-size-fits-all pricing can actually hold your business back. Selective pricing means setting different price points based on product type, customer group, delivery method, or value-added features. It's about being strategic and flexible - charging based on the perceived value to different buyers, rather than applying a blanket price to everything you offer.

This approach can help you:

- Maximize profits on high-value or specialized items
- Stay competitive on essentials or fast-moving goods
- Offer accessible options without discounting your entire lineup
- Tailor offers to different buyer personas or use cases

How to Categorize for Selective Pricing

Here are common categories that help you apply selective pricing effectively:

Core Products vs. Premium Offerings

- Core Products: Your everyday, most-sold items - often priced competitively.
- Premium Products: Higher-quality, specialty, or customized items that can command higher prices.

Standard Services vs. Add-On Services

- Standard Services: Basic offerings included in your package or price.
- Add-On Services: Extras like delivery, customization, installation, or support that can be priced separately.

High-Demand vs. Low-Demand Items

- High-Demand: Bestsellers or seasonal must-haves - may benefit from slightly higher prices due to urgency.
- Low-Demand: Niche or slow-moving items - may be priced lower to encourage movement.

Introductory vs. Established Offerings

- Introductory: New products/services can be priced lower to encourage adoption (penetration pricing).
- Established: Trusted products or services with proven value may hold higher pricing.

DIY vs. Done-for-You Options

- DIY: Self-serve or product-only versions, often at a lower price point.
- Done-for-You: Full-service, white-glove options that justify premium pricing.

Selective pricing isn't about charging more - it's about charging *right*. By categorizing your offerings and matching price to perceived value, you can increase revenue, improve customer satisfaction, and stay competitive in a fast-moving market.

In Closing

Pricing isn't a one-time decision — it's a dynamic part of your business strategy that should evolve as your products, customers, and market change. Whether you're setting prices for the first time or revisiting your current approach, the key is to stay aligned with your goals, understand your value, and remain flexible. Use the strategies, tools, and reflections in this guide to price with confidence — and remember, the right price is the one that works for both your business and your customers.