

BUSINESS TOOLS

How To Price Your Service



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A pricing strategy constitutes taking a structured approach to establish optimal price points for your services. This approach ensures that you, your customers, and your suppliers can get maximum value from sales.

While changing the price of your service can be the easiest way to differentiate yourself from competitors, you will need to ensure that the price you set is sustainable for your business as well as yourself.

In this guide, we've outlined some key aspects of pricing that you will need to consider when creating your business, or as you look to grow and refresh your business.

However, before you start, make sure you are clear on what your 'Unique Value Proposition' (UVP) is and have a good understanding on the types of customers your service or product will appeal too. This will make it easier to choose which pricing approach to take.



Finding your Unique Value Proposition' (UVP)

In a busy world, customers have short attention spans when it comes to choosing a service or product due to the overwhelming number of choices. If they don't immediately see the true value of your product or service – your UVP – and how that value benefits them, they'll move on. This is why it's important to work on defining the UVP of your product or services before setting your pricing.

For example, if you have a totally unique product or service you should go with Customer Based Pricing. If your UVP is that your product is a no-frills, budget version, then Cost Based Pricing would make more sense. For more established brands then Competitor Based Pricing is best.

Here's a useful template for finding your UVP: Value Proposition Canvas Template PDF¹



¹ https://assets.ctfassets.net/pn8wbiqtnzw9/7muQrlQ5v20uu1f0Nj9dqM/9e06ff433d44e8dc7b59e0d1c4256fdb/Value_Proposition_Canvas_Template.pdf



Cost Based Pricing

This option allows you to cover the costs of your service as well as add a margin for profit.

This method is most useful when you are looking to set your price as low as possible to help drive sales and remain competitive in your market and industry. This method mainly appeals to customers who are looking for lower cost options first and foremost, rather than quality.

Competitor Based Pricing

This approach asks you to consider your market position and what your competitors in the market are charging.

Typically, this method is used by business with strong brand recognition and knowledge of the industry.

You may look to match the price point of your competitors and look for alternative ways to reach your customers, perhaps offering value added options to the price to incentivise customers your way instead of your competitors.

This approach is also used to consider the value you offer is of higher or lower quality than your competitors and price accordingly from there.

Customer Based Pricing

Customer based pricing is an approach where you consider the price sensitivity of your customers.

This is the extent to which customers will want to pay for your service as the cost of that service changes.

You will need to complete customer research to determine the highest price people will be willing to pay for your service.

This method for costing your service will likely be most successful when targeting customers that value higher quality service or product over price.

Customer Research – where do I start?

Here are some questions you may look to ask prospective customers to help you determine where your product or service sits in the market:

1. At what price point would you consider the service to be “too expensive,” leading you to not consider using it?
2. At what price point would you think the service is “too low” in cost, making you concerned about its quality or value?
3. At what price would you start to find the service expensive enough that you’d need to pause and think before deciding to use it, but it’s still within consideration?
4. At what price would you perceive the service to be a bargain, offering great value for the cost?

The first two questions will help frame an acceptable price range, while the last two help to narrow this down to an optimal price range.

Service Pricing Calculator

Please find below a simple service pricing calculator you can use to help price your new service. Please note that you should complete market research to help define the best pricing method for your business.²



² <https://centraleda.sharepoint.com/:x/g/EXC-vTD2o3dlreEHocJXfa4BFCIB9v51HcMNGifC459FAA?rtime=rBnc0hPQ20g>





For more resources, check out Tools and Resources

The Central Economic Development Agency (CEDA) exists to drive and facilitate the creation and growth of economic wealth in Manawatū and beyond.

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