

Develop a pricing strategy

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Pricing is a crucial element of business. Find out what you need to consider when you price your products and services, types of pricing strategies, legislation obligations, what your price should include, and where to conduct research.

What is pricing?

Pricing is the process you use to set the price of your product or service. Pricing your products and services can be difficult to determine. If you set your prices too high, your customers may find your products too expensive; however, you can also affect your profits if you set your prices too low.

The following steps can help you through the process of pricing your products.

1. Calculate your costs

Before you calculate your price, it's useful to calculate how much it costs to produce or deliver your product or service. When coming to a figure, always consider the cost of producing your product or service as well as your overheads. Don't forget to also factor in goods and services tax (GST) and other relevant taxes in your costing.

When you're pricing your products or services you need to remember to include:

- manufacturing cost
- market place
- competition
- market condition
- brand
- quality of product

Once you know the true cost of your product or service you can then start analysing other influences and set your objectives and strategies.

2. Determine your pricing objectives

A key consideration when you develop your pricing strategy is to understand your objectives when you price your products or services. One objective of pricing is to make a profit on your products or services, but there are many other pricing objectives that can affect your pricing decisions including:

- position in the market
- competitors' positioning
- ability to supply to or increase demand

Positioning

Positioning can help you establish your products or services in the market. For example, your business might sell high-end products, try to compete on price, or get into the budget level market. Price can indicate a level of quality so it's important that the price of your products or services complement your overall brand.

Remaining competitive

For many businesses, being price-competitive is important, whether as a price leader or responding to the competition. When setting prices it's always important to anticipate what your competition will do in response to your prices and ensure that you factor it into your strategy.

Increasing demand

Using price to increase demand in new or existing products or services can be a good objective for establishing customers or boosting lagging sales. When multiple products or services are involved, it's a good idea to be aware of how the prices complement each other.

It's important to keep your business and marketing objectives in mind when developing your pricing objectives to ensure they're complementary to one another. By establishing your pricing objectives early, your choice of strategy may be easier to determine.

3. Determine your pricing strategy

There are a number of pricing strategies you can employ when setting your price, including strategies based on:

- costs
- competition
- perceived value
- product

When choosing your pricing strategy, it's also important to keep your overall marketing strategy in mind to ensure your strategies complement one another.

Cost-based pricing strategies

- **Cost-plus pricing:** a strategy that adds a small margin or mark-up to the costs of producing and distributing the product or service. Care should be taken when calculating your price to ensure that all relevant costs such as cost of goods sold, fixed costs including Goods and Services Tax (GST) and other taxes are factored in. If your calculations are accurate this strategy can keep your price competitive while ensuring that you still make a profit.
- **Charge per hour:** this strategy is often used by service-based businesses and independent contractors. The 'per hour' method calculates all the relevant costs of a business at an hourly rate. When using this method it's important to factor in all your business costs and not overlook taxes, a wage for yourself, superannuation and leave entitlements.

[Business Queensland has a calculator to help you determine your prices.](#)

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Competition-based pricing strategies

- **Going rate pricing:** this strategy is a safe way for small businesses to remain competitive without eating into profits. The strategy means you price your products and services close to the market price leader.

Value-based pricing strategies

There's a number of value-based pricing strategies you can use including:

- **Value pricing:** this strategy is based on what customers think a product or service is worth, rather than actual costs. The value is determined through market testing and a price is set based on this value. For example, sometimes customers will pay more if it saves them a lot of time. The price reflects this saving.
- **Premium pricing:** this strategy reflects the prestige, luxury or exclusive value of the products or services you provide. Typically, at a premium price customers have high expectations of quality, performance and service.

Product-based pricing strategies

There's a number of product-based pricing strategies you can use including:

- **Penetration pricing:** this strategy provides you the opportunity to set a low initial price on a new product or service to gain high sales or market share. Once this point is reached, the prices are increased to normal pricing levels.
- **Skimming pricing:** this strategy sets a high initial price which aims to excite audiences who desire products or services that are in high demand and are highly valued. Once the required profits are made, the price is then lowered for a wider market.
- **Loss leader pricing:** this strategy aims to attract customers by offering a product or service at below cost. The strategy hopes that customers will also purchase other products or services with a higher profit margin.

4. Legislation and regulations

When you price your products or services, or even advertise a price, you need to comply with regulations.

- **Comparative pricing:** when you compare the current price of a product to a previous price, you must make sure you don't mislead consumers. If you're untruthful in any way, you will be in breach of the [Australian Consumer Law](#).
- **Recommended Retail Price (RRP):** this price is only a recommendation to a retailer. It's illegal for a supplier to pressure resellers into selling products at or above certain prices, or threaten to cut off suppliers if price demands are not met.
- **Predatory pricing:** this pricing occurs when a business with significant market share reduces their prices for the purposes of eliminating or damaging smaller competitors. Predatory pricing is anti-competitive. Reports can be made to the [Australian Competition & Consumer Commission \(ACCC\)](#) [\[1\]](#).
- **Price fixing:** this practice is illegal in Australia. Price fixing is where 2 or more competitors agree on setting prices or agree to charge certain fees.
- **Parallel pricing:** this practice follows the pricing practices of other businesses, mainly competitors. This is illegal when it's a '[concerted practice](#) [\[2\]](#)' between businesses and it substantially reduces competition.
- **Multiple pricing:** this is typically done in error, when a good is advertised with more than one displayed price. Under consumer law, a business must either sell the goods at the lower price, or withdraw the good from sale until the price is corrected. This does not apply when
 - advertisements state that prices vary in different regions
 - a price is hidden by another price
 - a price is displayed in an overseas currency or unit price
- **[Unit pricing code](#) [\[3\]](#):** this regulation ensures that retailers calculate a standard measurement unit price such as litres or grams. Unit pricing allows customers to compare the price and value of similar types of products. Under the unit pricing

code, it is compulsory for certain retailers to display both a product price and a unit price for grocery items.

- Credit card surcharging [↗](#) : you must clearly label any credit card surcharges that apply to your products or services. You can only charge what it costs you to accept that payment method.

You can find out more about the rules around pricing on the [ACCC's setting prices page](#) [↗](#) and in their [Advertising and selling guide](#) [↗](#).

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Display your prices

You need to understand the legislation and regulation to ensure you display your prices correctly. Your prices need to be clear, accurate and not misleading to consumers. Learn more about [displaying prices](#) to comply with the Australian Consumer Law.

5. Research

Research can help you find the optimum price for your products. Generally, the optimum price is one that your customers are willing to pay, without it affecting your profits. This isn't a one-off activity, you must monitor your key pricing influences regularly as part of your overall market research to ensure your prices stay competitive and you still meet your customers' expectations.

Market testing

To help you determine how much your customers are willing to pay for your product or service you should perform some form of market testing. As a start, research your customer's purchasing behaviour such as:

- their current and anticipated demand for this type of product or service
- what they pay for similar products or services
- the quantity likely to be purchased
- additional features they value

With this customer information in mind, you can then develop a price comparison offering a number of different product or service options for testing to help you determine a price range that is acceptable.

Competitors

You should have already determined who your direct competitors are and how your business compares to them when you developed your marketing plan. This information can be useful to help you determine your price point.

If you decide to use your competitors' prices as a guide, be careful that it doesn't dictate your prices too much, as it can seriously undervalue your product or service and drive down your profits.

When you compare your business to competitors, it's also important to ensure you look at the business as a whole and compare on other value-based traits (such as special features, quality and customer service) as well as price.

Influences

Pricing influences are external factors that can impact the price of products. Four influences that you may encounter include:

- price sensitivity
- level of demand
- level of competition
- government regulation

Price sensitivity

Price sensitivity refers to price fluctuations as customer demand increases and decreases. For example, commodity goods such as petrol have high price sensitivity. The difference of a few cents in price can impact a customer's behaviour.

Some markets are more sensitive to price increases than others. Price sensitivity can change over time based on a number of factors including changes in the economic environment, competition or demand. Factors other than price, such as quality, service, and uniqueness, can also influence price sensitivity.

Level of demand

Product and service demand can influence your prices. If there is high demand, it is likely you can increase your price. Price can also influence demand. For example, if the price lowers, then demand can temporarily increase.

Level of competition

Competition can also influence your product's or service's price. In general, the less competition you have, the more demand there is for your product. If a new competitor enters the market, the competitor can affect your price.

Government regulations

Government regulation can influence your pricing decision, as additional fees or levies may increase the sale price of your product or service.

Discounts

Discounts can affect your bottom line. While you may quickly sell and remove stock from your supply, you also need to understand how discounts affect the rest of your business.

Your business can benefit from offering a discount. These benefits can include that you:

- attract new customers
- sell unwanted stock
- entice customers to return

There are different types of discounts [↗](#). These include:

- special offers or pricing deals
- packages or bundles
- quantity discounts
- value-add offers
- seasonal or periodic discounts

If you intend to offer discounts, you should develop a plan specifically for that sale.

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