

How to Find Your Best Selling Price

The more you can differentiate your products or services from others the wider the range of possible prices you may be able to charge as the customer has little to compare what you are offering against.

If you can differentiate what you are offering, a higher price may work better. People automatically value high priced items more than low priced items and some people just wouldn't buy a low priced item on the belief it is also low quality.

The perceived value to the customer must be greater than the price or they won't buy.

Your price will not ultimately be determined by you but by what your prospects are prepared to pay. You can only find this out by testing different prices.

You will always have a minimum price below which it doesn't make sense to sell your product or service. You've got your overheads to cover and the minimum amount you need to earn to cover your personal living costs.

To test for the optimum price you need to test some price points. If you can differentiate what you do, look at raising prices by 25% or 50%. If you can't differentiate what you sell from your competitors, small increases are likely to be more relevant. Then record the results. You also need to test to see if price decreases make you more profit.

It has been proven in studies that the price sensitive points work such as £99 rather than £100, although it has also been shown more recently that many people now read £99 as £100 and that you actually need to change a 9 to a 7 with many people for it to have an impact.

Make sure you measure the impact of price movements on profit and not on sales levels. Let's look at an example for a company selling widgets...

Sales (1000 widgets at £100 each) 100,000

Cost of sales (1000 widgets at £70 each) -70,000

Gross Profit 30,000

Fixed overheads -25,000

Profit 5,000

The company wants to know if it is going to be better off by reducing prices by 10% or increasing them by 10%. The only way to find out is to test. After testing, they find out ...

- **Option 1** of reducing prices by 10% results in a 20% increase in quantity sold, and
- **Option 2** of increasing prices by 10% results in a 20% fall in quantity sold.

Which should they do?

It's tempting to go for option 1 with 20% more sales with only a price cut of 10% but let's look at what happens...

Option 1

Sales (1200 widgets at £90 each) 108,000

Cost of sales (1200 widgets at £70 each) -84,000

Gross Profit 24,000

Fixed overheads -25,000

Profit -1,000

Option 2

Sales (800 widgets at £110 each) 88,000

Cost of sales (800 widgets at £70 each) -56,000

Gross Profit 32,000

Fixed overheads -25,000

Profit 7,000

Raising prices is better. In addition you have less work to do for more money.

Every situation will vary depending on your profit margins, which is why it's important to do the numbers. However, using discount pricing will generally mean you do have to significantly increase sales volumes to make more profit.

The following chart gives you an idea of the effect on your profitability by showing the quantity your sales would need to increase or decrease if you reduced or increased your prices. You can use this table as a guide to your pricing policy.

If your present gross profit percentage is:	20%	25%	30%	35%	40%	45%	50%	55%	60%
And your prices fall by	To increase profit, sales volume must increase by more than...								
2%	11%	9%	7%	6%	5%	5%	4%	4%	3%
4%	25%	19%	15%	13%	11%	10%	9%	8%	7%
6%	43%	32%	25%	21%	18%	15%	14%	12%	11%
8%	67%	47%	36%	30%	25%	22%	19%	17%	15%
10%	100%	67%	50%	40%	33%	29%	25%	22%	20%
12%	150%	92%	67%	52%	43%	36%	32%	28%	25%
14%	233%	127%	88%	67%	54%	45%	39%	34%	30%
16%	400%	178%	114%	84%	67%	55%	47%	41%	36%
18%	900%	257%	150%	106%	82%	67%	56%	49%	43%
20%	-	400%	200%	133%	100%	80%	67%	57%	50%
25%	-	-	500%	250%	167%	125%	100%	83%	71%
If your present gross profit percentage is:	20%	25%	30%	35%	40%	45%	50%	55%	60%
And your prices rise by	To increase profit, sales volume must not reduce by more than...								
2%	9%	7%	6%	5%	5%	4%	4%	4%	3%
4%	17%	14%	12%	10%	9%	8%	7%	7%	6%
6%	23%	19%	17%	15%	13%	12%	11%	10%	9%
8%	29%	24%	21%	19%	17%	15%	14%	13%	12%
10%	33%	19%	25%	22%	20%	18%	17%	15%	14%
12%	38%	32%	29%	26%	23%	21%	19%	18%	17%
14%	41%	36%	32%	29%	26%	24%	22%	20%	19%
16%	44%	39%	35%	31%	29%	26%	24%	23%	21%
18%	47%	42%	38%	34%	31%	29%	26%	25%	23%
20%	50%	44%	40%	36%	33%	31%	29%	27%	25%

If your present gross profit percentage is:	20%	25%	30%	35%	40%	45%	50%	55%	60%
25%	56%	50%	45%	42%	38%	36%	33%	31%	29%

The ONLY way to find your best price is to TEST.

How We Can Help You

We can advise on price points to test and on measurement of the results.