

Section 2

Pricing It Right

In section two your goal is to ensure that your services are priced right for your business mission, market and profitability. The key elements of your pricing system should include:



1. Clearly Defined Position – pricing should align with your company mission, your niche market, and ensure profitability goals are met
2. Pricing Analysis – analyze your service pricing using the three pricing models outlined
3. Annual Price Adjustment Plan – establish the system you will use annually to review and adjust service pricing

Clearly Defined Position

At the time you started your pet care business you made a decision on your target market and pricing strategy. This decision should be a reflection of your business mission. Now is a good time to step back and review your written business mission (put this in writing now, if you have not done so previously).

Pricing Analysis

For services that generate the majority of your revenue you should analyze pricing using all three models described in this step. Each approaches pricing from a different perspective and are important inputs to your final pricing decisions.

Keep in mind that most small businesses undercharge for the services provided. The goal of a sound pricing strategy is to provide your business with an acceptable profit level *and* have your clients value that they get their money's worth. In reality, this is a very difficult goal to balance.

The three pricing models that provide input to your final decision are:

1. Actual cost plus profit margin
2. Value pricing (benefit versus price)
3. Competitor pricing



ACTION STEP 1

ANSWER ALL THE FOLLOWING
QUESTIONS:

- ☐ 1. Do current business operations align with your mission statement?
 - a. If no, do you need to change your mission statement, or
 - b. Do you need to make changes in your operations to align with your mission?
- ☐ 2. Does your current client base reflect the niche market you defined?
 - a. If no, update your target market profile
- ☐ 3. Are you satisfied with your market pricing position? (e.g., top prices in market, lowest prices, mid-range).
 - Keep in mind that most competition is in the mid-range sector of pricing.
 - a. If no, you will need to create a plan to make changes in your pricing policies and marketing strategies
- ☐ 4. Does your defined position fit your facility design, look and feel?
 - a. If no, you will need to make the changes to be accepted in the marketplace in your new price position

Knowing your actual costs of providing each type of service offered is critical to remaining in business. Many times only the direct cost of providing the service (e.g., labor and supplies) is included in this calculation. However, your business has other fixed expenses that must be paid. To remain in business and thrive your revenue must pay for these costs too (e.g., rent or mortgage payment, utilities, receptionist/cleaning staff, insurance, etc.).

ADDITIONAL RESOURCE:



You can get assistance in determining the cost of providing your key services with our Know Your Numbers Workbook.

What level of profit margin do you expect from each service provided? This is a key number to define so you have a benchmark to use in making decisions on each revenue stream in your business. This is also a key number to the final amount you are paid as the business owner.

The problem with **cost plus pricing** is that it does not consider what a client is willing to pay or what competitors charge. These are our next two models or inputs to the final pricing decision.

Value pricing considers what a service is worth to our clients. This is an area where many small business owners underestimate. Obviously, your clients are willing to pay your current prices.

Now I want you to think about how many times you have been told your rates are too high by potential customers. If never, then you should feel good about making an increase as you are probably priced too low.

Another aspect of **value pricing** is to consider what unique “value-added” is in your services versus the competition; what sets your business apart (e.g., a unique service, your background and training, staffed 24/7, investment in staff training program, etc.).

Competitor pricing analysis is how most businesses established pricing initially. The problem with this model is it is an outward view.

A sample of calculating these costs is included in Chapter 9 of Counting Noses and Know Your Numbers includes an excel template to plug in your numbers.

It does not consider the cost structure of your business model that could vary significantly from your competitor. When was the last time you checked pricing of your competitor? They could easily have changed rates since your initial analysis.



ACTION STEP 2

ANSWER ALL THE FOLLOWING

QUESTIONS:

- ☐ Perform pricing analysis using all three models for your primary service revenue streams (e.g., dog daycare, dog lodging). Extra points if you take time to complete for each revenue area!