

Pricing:

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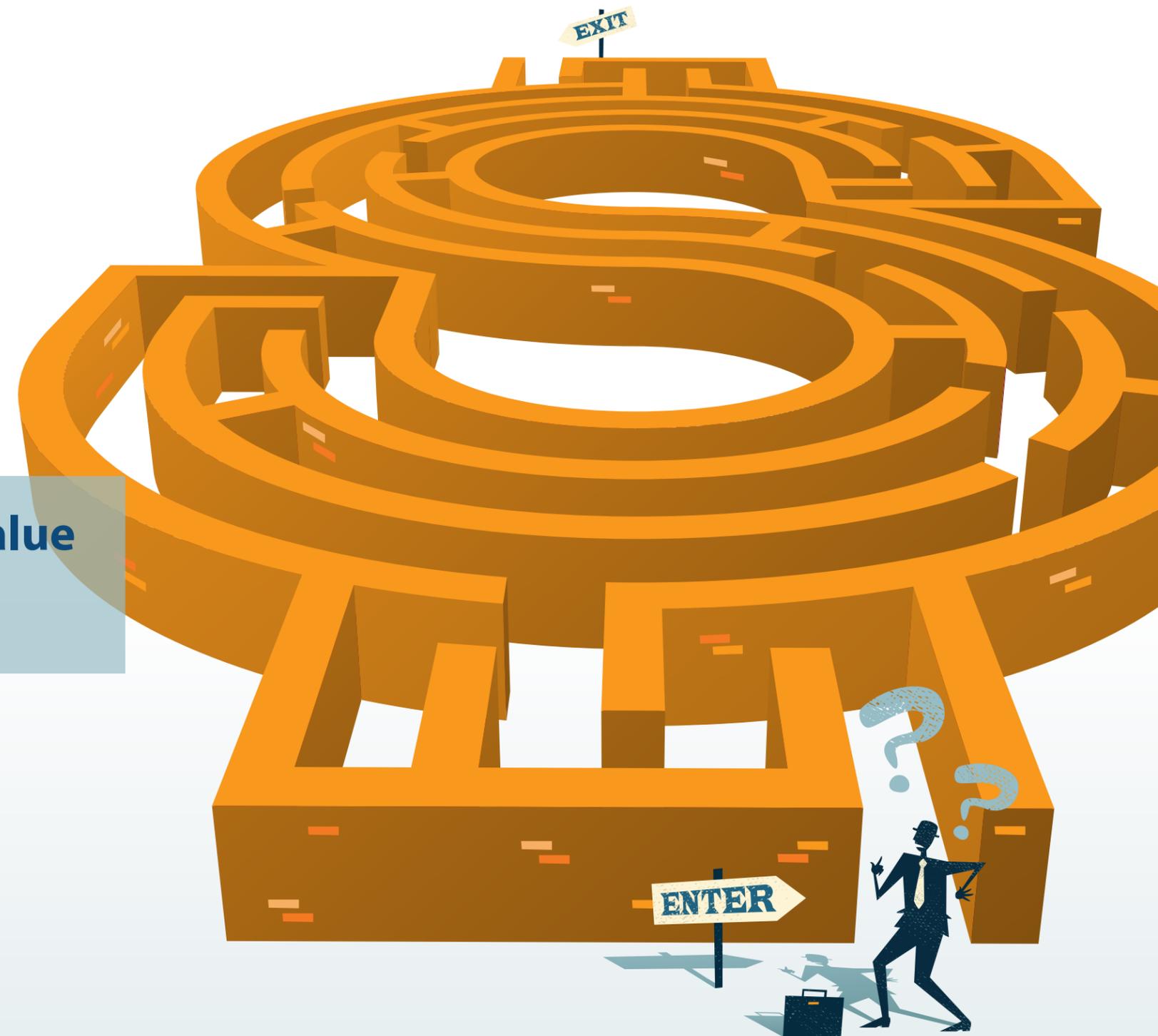
Proven Tips for  
**MAXIMIZING**  
your profit



# Introduction

Even great concepts flop because of price. Ask too much, and you'll limit your customer base. Ask too little, and you'll hurt your profitability or client perception. Beyond these basic concerns, there are many other factors to consider. In the next few chapters, we'll explain the difference between fixed vs. variable costs, cost-plus vs. value-based pricing, how to build a pricing strategy, how to prove your worth, and the pros and cons of raising or lowering prices.

**Fixed costs + variable costs + perceived value  
= **your product price****



# 1 Covering Fixed & Variable Costs

All the costs faced by a company can be broken into two main categories: fixed and variable costs. Variable costs vary with output. Fixed costs on the other hand are independent of output. It's important to separate these costs out because having a 360-view of where your hard-earned cash is going is the first step to creating a successful pricing strategy and identifying your contribution margin and break-even point.

By gaining complete visibility to both fixed and variable costs, you'll be able to quickly identify areas for improvement in your spending. You might even find fixed costs you can reduce by quoting out competitive offers for your company's phone, Internet, and other services. Knowing where you stand is half the battle of managing expenses.

To distinguish a variable cost from a fixed cost, ask yourself this question:

## **Does this cost vary with my level of production?**

If you answered 'yes,' it is a variable cost.  
If you answered 'no,' it is a fixed cost.

Once you know your variable and fixed costs, you are ready for a break-even analysis:

## **Units Sold = Fixed Costs / (Price – Variable Costs)**

With this simple formula, you are able to determine a price point fit to your expected level of output.



## 2

## The Difference Between Cost & Value

Always sell value. Customers pay for benefits. Determine which services your customers find the most value in, and then focus on selling the benefits they provide. Don't lower prices to meet competitor prices. Instead, educate customers on the value of your services and why they're worth the price tag.

Don't become a commodity by playing pricing wars. If you sell on value/benefits, you'll make much more in the long run. Value speaks to something you bring to the table that no one else can, or the pain relief or cost savings a customer enjoys as a result of employing your service.

In the cost-plus model, you simply add a percentage on top of your hard cost and call it a day. Sounds easy enough, right? But if everyone does that, how do you differentiate yourself? If you focus on areas everyone else offers, you'll have to compete on price (which turns you into a commodity) because customers will be more equipped to price shop. Be different. It pays.

**Gary Pica from TruMethods recommends making a list of differentiators vs. items everyone touts. Figure out if/where you're different, then focus on those differentiators.**

*-Gary Pica, "Packaging and Pricing" video series.*

# 3 How to Build a Pricing Strategy

We've already discussed cost-plus and value pricing, but there's more to pricing strategy than just these two basic approaches.

While we always advocate leading with value, you must also understand who your ideal customers are. Ask people who fit those 'ideal customer' profiles value-based questions (with a 1 to 10 rating scale) to determine how much is too much/too little. Then, analyze the data to determine price points and logical product/service bundles.

Understanding your 'ideal customers' will help you decide on product customizations and pricing. Discover what those ideal customers value, and then create buyer personas to further flesh out what they want and how your product will eliminate key pain points.



**Pricing and how you choose to package your offering is only as effective as how you communicate the value to your customers. Don't forget to also communicate this value internally! A pricing strategy should be executed in a unified effort.**



## 3 How to Build a Pricing Strategy (cont.)

Some personas might only want a few features from your product suite, while others might need everything you offer. Consider this when developing and pricing product and service packages. Not everyone needs the kitchen sink, so act accordingly.

Furthermore, what you think customers are willing to pay might be way off. It's vital to conduct research. What do your personas value? What are they currently paying for similar services? What would they be willing to pay more for? Understanding what they value and positioning yourself to offer unique services they need can help you secure a higher margin, but only if you effectively communicate that value. Once you think you have a solid strategy in place, test it on a small scale to ensure it's a winner, and then periodically review the results.

# 4 Prove Your Worth

Get in front of your customer once per quarter for a business review. This is your opportunity to demonstrate value. Tell them how many updates you pushed, bugs you squashed, threats you disarmed, and so forth. When customers don't see anything going wrong, it's easy for them to assume your services are either unneeded or overpriced.

**Always be prepared. We recommend empowering your team with value-based answers to common pricing objections.**

**Every customer set is different. Test desired pricing strategies on a small set of customers to determine if they make sense for your business.**



# 5 Raising or Lowering Prices

Communication is everything, and it's better to give customers small increases than huge hikes. Every market is different, and you should certainly analyze your numbers for yourself, but by and large the more unique your offering is, the less price sensitive customers will be. So the more one-of-a-kind you strive to make your offering, the more you'll be able to charge. Remember, half the battle is educating your customers on what that offering is and why they should be looking your way.

On the flip side, reducing prices can certainly help expand your reach, grow volume, and (in some cases) boost profits. But, it's all a numbers game. If there's not enough demand to support a volume play, don't discount. And we really recommend selling on the value rather than discounting anyway. You'll be much happier with the customer base that selects you. They know why you're worth a little more.

Discounting should be kept to a minimum. As the service provider, you need to understand what this new client will bring to your bottom line before you start throwing around discounts. If it's a high-potential account, use discretion in discounting, but if it's just someone looking for the lowest price, they're probably not a client you'd want anyway.



# Conclusion

Now that you have everything you need to understand the pillars of pricing, you're ready to start evaluating how a well-planned pricing increase or decrease could affect your current revenue and profit. Try different scenarios to see which pricing changes can help your business grow.

Test different options to see what works best for the way you do business. Your pricing strategy should involve constant refinement. What works today might not make sense next year.

Take it a step farther by implementing a smart business management platform—like ConnectWise—that can help you dynamically manage unique pricing across every single customer.

For a deeper dive into how ConnectWise can help you better run your business, don't hesitate to sign up for an [interactive ConnectWise demo!](#)



## About ConnectWise

Made for companies that sell, service, and support technology, ConnectWise is the #1 business management platform worldwide. Today, more than 90,000 users rely on ConnectWise to achieve greater accountability, operational efficiency, and profitability. Leveraging the cloud, the platform fully integrates business-process automation, help desk and customer service, sales, marketing, project management, and business analytics that dramatically streamline a company's operations. ConnectWise also gives its users access to a powerful network of ideas, experts, and solutions. A veteran in the technology services industry, ConnectWise has been the premier business management platform for technology companies for more than 15 years.

