3 Steps To Fix The Pricing Problems In Your Service Business

5 min read

Key Takeaways

- It is recommended for businesses to devise a data-based pricing strategy that will help you achieve your goals.
- A vital step in establishing effective pricing is to analyze the market in which you operate. Dig into what your competition is up to...
- The biggest benefit of true job costing is knowing that nothing slipped through the cracks and you're getting paid for all the value that you delivered.

One of the biggest decisions a business owner will make is pricing– how do you know that you are pricing your services properly?

Every business owner would agree, having an effective pricing strategy is a challenging aspect of running a successful business. You need prices that generate strong profit margins while keeping you competitive in the marketplace.

Establishing optimal cost-based pricing while staying competitive is especially difficult for a service business, as this process requires careful accounting and allocation of both direct costs and overhead expenses.

Begin your pricing strategy by first **establishing your goals**, then working backward to optimize your strategy. With this pricing model, you can write strong profit margins into your prices to fortify your business while you take it to the next level.

It is recommended for businesses to devise a *data-based* pricing strategy that will help you achieve your goals.

Gain the insights you need for smarter decision-making,

Get Customized Pricing!

How To Boost Growth + Profitability Through Pricing In 3 Steps

1. Establish Your Goals

Start with the end in mind.

To optimize your pricing with a go-to-market strategy and business growth in mind, start by determining and prioritizing the company goals you hope to reach as a result of your new pricing structure.

Some examples…

- **Increase profit margins**: Optimal pricing is vital to the profitability of your company.
- **Increase revenue per customer or job type:** Are you looking to increase how much revenue you gain from each customer acquired? Nailing down your pricing is

a good start.

- **Improve cash flow:** There are several ways to improve your cash flow, but it begins with making sure you have effective pricing. It's important to nail down a price that's reasonable in terms of the scope and quality of the product or service for the ideal customer.

- **Expand your market share:** In order to increase your market share, you must determine how you'll manage to earn additional market share away from your competitors. Your pricing strategy may just get you there.

- **Introduce new services:** Are you looking to launch a new service? A major component of a go-to-market strategy is pricing- finding a sweet spot that appeals to the target demographic.

- **Increase leads and/or conversions**: How will new leads and prospects respond to a new pricing structure?

Your goals will help determine how you strategically set up your service models and pricing to differentiate from competitors, attract customers, improve profit margins, or any other goal you wish to achieve.

2. Analyze the Market

The next step in establishing effective pricing is to analyze the market in which you operate.

Dig into what your competition is up to:

- **How are they pricing their services?**

- **What packages do they offer?**

- **How successful have they been?**

This is where benchmarking comes in.

Benchmarking is a way to compare your company's outputs and processes to competitors in your industry. It involves looking outside of your business to examine how industry competitors achieve a high level of performance and the processes they use to maintain their success. **This enables you to identify performance gaps and achieve a competitive advantage.**

One area to consider is how your competitors are pricing their jobs and services. Compare your own company to the competition and, based on your level of services, your brand, your marketing, and the services that differentiate you from your competition, determine whether a premium pricing model or a competitive pricing model is the better fit.

Both low and high prices can sway customers toward and away from choosing your company. Which way they go depends on your company's image and perceived value within your target market. Your level of services, pricing, branding, and marketing all affect your perceived value in the marketplace and will dictate the range of price points that work best for your business.

Be careful. While analyzing the market, **don't forget about the goals you established in the first step.** While a premium price point might best reflect your service model, it might not be the best way to attract new customers in the market you hope to penetrate. That, of course, depends on whether you're entering a high-end or budget-minded market.

Keep in mind that price-matching your competition can be limiting, and following your competitors' decisions can lead you to underpricing or undervaluing your business's service model.

3. Optimize Pricing

Keeping the prior steps- your goals and market- in mind, the third and final step really takes you into the heart of pricing.

This is where you'll follow a few steps and run the numbers to determine the optimal pricing solutions for your business.

First, get the data you need at your fingertips using job costing.

With job costing, you can view profit and loss statements by client type, job type, or service model to determine costs, revenue, and profit margins on each.

The biggest benefit of true job costing is knowing that nothing slipped through the cracks and you're getting paid for all the value that you delivered.

When you use job costing, it calculates the exact cost of your jobs that not only accounts for the direct materials and direct labor associated with a particular job or service, but it also accurately divides and allocates overhead (indirect expenses) to individual projects (using time-driven activity based costing).

This type of thorough accounting and expense allocation makes accurate pricing possible because simply splitting overhead expenses evenly between different jobs doesn't result in accurate cost representation.

For example, a construction company might find that although a simple addition or remodel brings in less revenue, it might actually be more profitable than a larger, ground-up build because the smaller project demands fewer hours from the most experienced/valuable people working in the company. The smaller job requires a smaller allocation of overhead, expanding its profit margin and making it more profitable than the large project.

Once you have P&Ls for each of your service types, you can compare and contrast the profit margins on each and adjust the pricing accordingly.

Monitor what happens when increasing your rates, asking for up-front payment, or offering different services packages.

See what creates the most attractive options for your clients while still providing you with the robust profit margins you need to keep cash flow strong and operate securely.

When you've determined the pricing models that help you achieve your desired profit margins, circle back to the goals you originally established and the market considerations you've made to determine whether your newly optimized pricing needs to be adjusted in any way to help you achieve those goals.

Unlock Your Company's Profit Potential with Management Accounting

Setting goals, analyzing the market, and optimizing your pricing with accurate job costing can be daunting tasks. **However, a sound management accounting system streamlines and simplifies the process.**

Accurate, timely financial reports are key to regularly tracking and evaluating your business's most important key performance indicators (KPIs).

These KPIs will help you determine what your company's goals should be, where you stand in the marketplace, and how you can improve your pricing. Most importantly, management accounting will enable you to make the data-driven decisions that will boost your profit margins to grow your company!