

How to Adapt Your Pricing for Inflation

5 min read



We are indeed in the midst of inflationary times. In June the U.S. Bureau of Labor and Statistics measured the inflation rate rising to 9.1% [1], a new 40-year high.

Key Takeaways

- **Why You Need to Adjust Prices During Inflationary Times:** During inflationary times as historic as these, cutting costs is going to be more challenging than usual, so the best strategy is to...
- **How to Adapt Your Service Business's Pricing for Inflation:** In a service business, however, price increases are trickier to execute than they are in product-based businesses because the process is more complicated than simply coming up with new cost-based prices and switching out price tags...
- **With The Economy in Flux, You Need Quick-Draw Numbers:** Especially essential during inflationary times are your cash flow reports, cash flow forecasts, and budget vs. actual reports where you can keep a close watch on your planned revenue and expenses compared to your...

According to a Bloomberg survey, economists are now nearly split on whether or not they believe the country is on the precipice of plummeting into another economic recession [2]. Regardless of where you stand, it's clear that our country's economic outlook is uncertain at best and likely leading businesses and consumers, alike, into challenging financial times.

Now is the time for business leaders to turn to strategies to safeguard their cash flow and profits, and one of the best ways to do that is by adapting your pricing for inflation.

Why You Need to Adjust Prices During Inflationary Times

Like every other business and consumer in the U.S. right now, your business's costs are going up, with increases in categories pretty much across the board.

Read More: [Don't Be a Pricing Coward! Get This Under Control...](#)

This means that you need to find creative ways to cut costs or offset the rising costs with new pricing strategies. During inflationary times as historic as these, cutting costs is going to be more challenging than usual, so the best strategy is to increase prices (along with everyone else).

How to Adapt Your Service Business's Pricing for Inflation- 6 Steps

In a service business, however, price increases are trickier to execute than they are in product-based businesses because the process is more complicated than simply coming up with new cost-based prices and switching out price tags; in a service business, you have existing clients to deal with, a variety of different clients and service levels to adjust, contracts to uphold and then renegotiate, and a careful balance of value offered compared to your prices.

In order to successfully adapt your service business's prices for inflation, consider the following process:

1. Take Inventory of Existing Contracts

Go through all of your existing contracts to determine how much every client is currently paying and for what level of services.

Read More: [3 Steps To Fix The Pricing Problems In Your Service Business](#)

Additionally, identify which customers can have their prices renegotiated now and which you need to put on a future schedule of renegotiation according to the terms of their individual contracts.

2. Research Your Price Potential and Targets

Now it's time to get into the numbers. The next step is to determine how much you need and want to increase your prices.

Additionally, perform research to determine how much you can increase your prices. (You might find that you were already underpriced before inflation.)

 [More of a listener? Dive Into The Impact Of Pricing...](#)

3. Differentiate Revenue Channels

Next, you need to differentiate your revenue channels because you likely don't charge blanket, uniform fees to all of your clients. Separate out client types, service types, and product types. Then, rank them by how easy or difficult it will likely be to increase their prices.

Additionally, rank these existing categories by current profitability. You might find that certain client types or job types are much less profitable than others. These less-profitable categories need the biggest price increases. Alternatively, you might find that you could make a big improvement in your company's overall profit margins if you simply stop working with less-profitable clients or stop agreeing to take on less-profitable job types.

4. Incentivize Your Sales Team

Gain internal buy-in by incentivizing your sales team and rewarding sales that meet new targeted price goals.

Read More: [Want To Increase Your Profit Margins? Use This Sales Commission Model.](#)

You can also support your sales team with materials such as argumentation guidelines, approved concessions, and approved negotiation tactics.

6. Communicate and Train

Communicate the reasons for price increases with your team and be sure to provide your team with training on the implementation of the new pricing structure.

7. Define, Measure, and Monitor Success

Establish the key performance indicators you plan to track, measure, and continue to monitor to measure the success of your new pricing strategy.

The Key to Winning Old Customers With New Prices: Remember Your Value and Sell It

Many service businesses are afraid to increase prices on existing customers or to try to sell the same services to new customers at higher price points. While this fear is understandable, it is unfounded. First, you need to recognize that everyone is aware of inflation and basically expects prices to increase. So, your price hike won't surprise any of your existing customers or new prospects.

Additionally, it's extremely important to hold onto your unique value proposition as a business, truly believe that this value sets you apart from your competition, and really sell that value to customers (new and existing). It doesn't hurt to remind your market how valuable your services are and what it is you offer that no one else can.

With your value in mind, your clients who already understand the need to raise prices during inflation will readily accept the cost increases on their end because they know the value they would be sacrificing if they were to choose to stop doing business with you.

With The Economy in Flux, You Need Quick-Draw Numbers

In addition to adapting your prices for inflation, it's essential that you keep close tabs on your numbers when the economy and your costs are constantly in flux. When you might normally look at financial reports once a month, you might find that the landscape is changing so rapidly that you need to look at your financial reports once a week.

Especially essential during inflationary times are your cash flow reports, cash flow forecasts, and budget vs. actual reports where you can keep a close watch on your planned revenue and expenses compared to your actual revenue and expenses. With this kind of

vigilance, you can quickly make adjustments to prevent unexpected cash flow shortages from occurring as a result of costs that are constantly changing.

To learn more about setting up a back office with the team, tools, and technology necessary for having timely and accurate management and financial reports available with quick-draw capabilities, we welcome you to contact GrowthForce to talk to an accounting professional about how taking your back office to the next level and can help see your business through the challenges of inflationary times.