

Mastering the art and science of strategic pricing for SMEs

When it comes to running a small or medium-sized business, setting the right price tag for your goods or services isn't just a case of slapping on a markup and calling it a day. Pricing is a highly strategic undertaking that involves a very careful balancing act between making a profit and staying attractive to customers, both of which are essential for a sustainable business.



Source: [Unsplash](#)

That's according to Palesa Mabasa, business development head: SME funding at FNB, who says that SMEs need to recognise the strategic significance of pricing.

"For many SME owners, setting the right price might seem like a straightforward calculation, but in reality, it requires a good understanding of factors, including cost of goods and trading, market dynamics, and consumer perceptions." Mabasa offers the following guidelines for SMEs that are serious about getting their pricing strategies right:

Know what your product really costs you - To nail your pricing, you've got to dig deep into what it really costs you to get your product or service out the door.

That means everything from what you pay for goods or materials to the less obvious input costs like how much you're shelling out for transport, storage, staff, and electricity.

"You can't just wing it with a set markup," Mabasa explains, "you need to have a very clear picture of every single cost involved in getting your product or service to a customer, and then set a price that covers those costs and makes you some profit."



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Price with tomorrow in mind – Input costs tend to go up and down over time, but that doesn't mean your prices should too. Constant price changes can be a source of frustration for your customers, so you need to aim for a price tag that can weather the ups and downs of market dynamics.

Keep an eye on the competition - Knowing what your competitors are charging for similar products or services is key to pricing your offering correctly. Price yourself too high or too low, and you might send the wrong message to your customers.

Too cheap, and they'll think there's a quality issue; too expensive and they'll look elsewhere. It's about finding that sweet spot where your price feels just right to your customers.

Quality is king - Skimping on quality to cut costs will almost always backfire and put your business at risk. Mabasa points out that your customers will immediately notice if the quality of your goods or services drops, and once they lose trust, they're probably not coming back.

"If your prices are a bit high when compared to your competitors, don't start looking for cheaper goods to sell that are lower quality," she says, "rather find other ways to trim your input costs and pass those savings on to your customers."



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Always find ways to add value - Sometimes, it's okay to ask for a bit more money, especially if you're offering something extra that your customers will love. Whether it's top-notch service, free delivery, or a little freebie, it's all about making your customers feel like they're getting their money's worth.

Build a brand that people love - If you can get customers to love your brand, they're less likely to quibble over prices. Build a brand that speaks to your customers, and they'll stick with you, even if prices go up, and if you must raise your prices, just be honest about why. People appreciate transparency.

Choose turnover over margins - Obsessing over big profit margins can lead to big problems, especially if your customers think you're being greedy.

It's better to make a smaller profit but keep your customers coming back, rather than making big once-off profits on each

sale but losing any chance of repeat business or customer referrals. In the end, a steady stream of sales over time is what will keep you in business.

“In many ways, pricing is as much an art as it is a science,” Mabasa says, “and it requires a deep understanding of both the internal and external business environment, a commitment to quality, and a focus on delivering value to your customers.

Get it wrong, and your business could quickly find itself in trouble; but get it right and you’ll not just be making a steady profit, you’ll also be building a business that lasts.”

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