

Business Case

ARE YOU CHARGING ENOUGH?

GROW YOUR PROFESSION

You don't have to choose between high profits and happy customers. You can have both.

By Matt Alderton

When self-employed marketing consultant Lior Krolewicz, founder and CEO of Los Angeles-based Yael Consulting, started his business five years ago, he had no idea what his time was worth. So he looked up competitors on Craigslist and based his rates on what others were charging. Within 18 months, however, it was obvious he'd sold himself short.

"I was working hard and getting spread too thin," recalls Krolewicz, who found he was working constantly to keep up with his clients' demands. "I was concerned with the quality of my work because my industry is plagued with people who over-promise and under-deliver," he adds. "I didn't want to be that guy, so I pushed myself hard. When I realized I couldn't keep that up forever, I decided to raise my prices."

Krolewicz subsequently raised his rates by 25 percent, allowing him to earn more money working fewer hours, and to grow his business by hiring staff. His wife, a personal trainer, had a similar epiphany. "Small businesses have more personal relationships with clients than bigger companies. So when we approached our clients to increase prices ... they were unmoved," continues Krolewicz, who says neither he nor his wife lost clients by raising prices.

That may sound counterintuitive, but it's true: Although everyone loves a bargain, most consumers appreciate good quality and high value—and they're generally willing to pay for them.

Price Sensitivity: Myth or Reality?

While no one likes to overpay, consumers aren't as cost-conscious as business owners think, according to pricing guru Per Sjöfors, founder and CEO of pricing research and advisory firm Atenga Inc.

"Most business owners believe their customers are more price-sensitive than they actually are," suggests Sjöfors, who says price is all about perception—and perception is all about differentiation. "If what



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you're offering is a commodity with no differentiators, consumers will go for the lowest price every time. But if you can differentiate yourself in some way, you can command a higher price."

Sjofors, however, says you have to earn the right to charge higher prices, which is easier when you focus on being everything to someone instead of having something for everyone. "For example, massage therapists can differentiate themselves by using organic oils. People keen on the organic movement aren't looking for the cheapest price; they're looking for the exact service they want, and they're willing to pay for it."

Roberta Perry, the founder and president of ScrubzBody Natural Skin Care in Bethpage, New York, had been slowly raising her prices for years, but only incrementally because she was afraid of losing customers. Finally, she found the courage to charge what she thought her signature product was worth—\$28, which is \$10 more than she charged when she started her business 10 years ago. "And guess what?" says Perry. "Not one person stopped buying when they asked about the higher price."

Some consumers even prefer higher prices, suggests consumer psychologist and retail consultant Bruce D. Sanders, Ph.D., author of *Sell Well: What Really Moves Your Shoppers*. "Busting the myth of high-price sensitivity is a shopper's mindset with status-building purchases," he says. Some will gravitate to high-priced products and services to impress others. "Consumers

are less price-sensitive than business owners expect. Research confirms that when people buy products or services at unusually low prices, they feel the quality is less than if they'd paid a higher price. And most consumers don't want to compromise quality."

Increase with Care

Sanders and Sjofors agree that consumers are more likely to accept price increases when:

- **They have a history with the company.** Loyal customers are less likely to count pennies, according to Sanders. "Once someone finds a service provider who's reliable and competent, they're hesitant to change," he says.
- **There's a reason for them.** Price increases are more palatable when service providers can explain their causes and benefits, according to Sanders. Common justifications include access to a more convenient location or new services.
- **They have advance notice.** A client who finds out about it the day of their appointment is more likely to be upset than a client who finds out a month in advance. "Tell your customers about the price increase three to six months in advance," Sjofors advises. "That way, there are no surprises."

As long as you're honest with your clients, you've nothing to fear, Krolewicz says. "If you're coming from a good place and clearly communicate your value, they'll understand," he says. ☉



For more information on consumer psychology, see the following articles:

Martin, S.W. *What separates the strongest salespeople from the weakest.* Harvard Business Review. March 18, 2015.

Fariha Tabasum, F., Ibrahim M., Rabbani M., Asif M. *Impact of Salesmen Personality on Customer Perception and Sales.* Global Journal of Management and Business Research: E-Marketing. Vol. 14, Issue 8, Version 1.0, 2014.

Lam, B. *The psychological difference between \$12.00 and \$11.67.* The Atlantic. Jan. 30, 2015.

PRICING POINTERS

Considering a price increase? Peek inside consumers' wallets *and* their heads with these pricing tips from consumer psychologist Bruce Sanders, Ph.D., and pricing consultant Per Sjofors:

PRICE ON THE NINE: Consumers are more likely to buy a service for \$49.95 than \$50, according to Sjofors. "Numerous studies have shown that if you price on the nine, your customer is going to spend, on average, 20 percent more," he says.

OFFER OPTIONS: Offer "good," "better,"

"best" and "extreme" pricing, Sjofors suggests. "The 'extreme' should be very high, which makes the other three look much more affordable," he says.

BE FRIENDLY: Your personality matters as much as your service, according to Sanders. "Research has repeatedly found that when it comes to services, attentiveness, friendliness and empathy toward the customer influence customer satisfaction—and willingness to pay a higher price," he says.

