

Expert Insight

 [E-mail This Article](#)

Don't Sell Yourself Short: How to Raise Service Business Prices

By Vistage member [Brad Farris](#)

Many new professional service or creative service businesses price their services below market rates as a way to bring in initial business. As business increases, however, you need to hire a bookkeeper, administrative help, and find a bigger office. Soon, you find yourself with a growing business but not a growing profit. What's the answer? Should you raise prices?

Your current clients, the ones who made this success possible, have put a value on your services – the value that you initially set for them. So, if you raise your prices by 20 to 40 percent, at par with your competitor's rates, your customers may think, "Wow, that's expensive!" But, if you don't raise prices, you may end up with nothing for yourself.

The problem with low prices

When you price yourself considerably lower than your competitors, your services are viewed as being "cheap," regardless of their true *value*. This leads to three significant problems:

1. Customers often equate a discounted service with low quality.
2. You're unable to invest money in your business (i.e., administrative staff, equipment, new services) that would provide new services and more value to your customers.
3. You may miss out on highly profitable clients.

How can low prices drive clients away? If you need surgery, would you look for the cheapest surgeon? Probably not. But, to get the best level of service, you pay the high-end of the range. In a professional service business, you're sought after because of your knowledge or talent in a certain area. Your prices should, and must, reflect that talent at the outset of every relationship with each client.

Here are some things to consider when setting your prices, be it now or from the beginning.

1. Do your research. Check out your competition, especially those who are most successful. What do they charge and why are you different? Be prepared to answer that question for your customers and potential customers.
2. Know your costs. You need to set prices in such a way that you make the profit you want and need. Proper pricing can help you ensure the long-term health of your business.
3. Don't discount. If the value of your services is \$5,000, why would you offer it for \$4,000? Is it less valuable to this client than it is to others? If so, let's find more of those clients who find it more valuable. After all, you're a professional, not a discount shop.
4. Don't bill by the hour. There are few professions in which hours provide a good measure of value. Additionally, with hourly billing the more experienced you become, the more efficient you are, the less money you make! The client doesn't care if it took you 50 hours or 50 minutes to design their marketing piece. As long as they receive a terrific design, it holds the same value to them.

How to raise prices

At first, leave your current clients alone. Instead, resolve not to accept any new business below your newly established higher price. Publish new contracts, price sheets or rate cards and stick to them. Once you start receiving business at your new price level, you will feel your service is worth the higher value that these new clients have assigned to it.

Once you establish the new pricing with your new clients, then return to your old clients. Have a face-to-face meeting with them, preferably, and review with them the value of the services you deliver. Let them know that you have researched your competitors and found that you are offering more value for less money. Also, let them know you are billing new clients at the higher price level. Then, raise their prices with an effective date two to four months in the future. This gives you a chance to finish current projects or services at the present price while allowing them time to adjust their expectations and budgeting for future projects or services. If it's worthwhile to you offer them the chance to pre-pay now for future projects or services at their current low rate. This gives you the certainty of their future business as well as cash in your pocket today!

Setting your prices at true market value will secure client loyalty and respect, allow you to invest in and grow your business, and improve your profit margins. If you, as the business owner, don't value your own products or services, you can't expect your clients to value them either. Don't settle for less than you're worth!

Brad Farris is a principal with Anchor Advisors, Ltd. in Chicago, IL. Since 2001 Anchor Advisors has been helping to grow small businesses, particularly professional service firms, by helping them clarify their purpose, get the most from their people, keep their eye on key performance measures, and implement consistent processes.

Marketing & Sales: [Pricing](#)
General Business: [Growth Management](#)

Average Reader Rating:  based on 5 Reader Reviews and Ratings
[How to Raise Service Business Prices](#)

 CEO Wireless Friday, May 9, 2008

Reviewer: Member [Eric Stumberg](#) from Austin, Texas, United States - [See all my reviews](#)

Article is targeted and accurate. Further, the financial impact of increasing prices offsets considerable sales loss: if you raise your prices 10% and have a contribution margin of 30%, you can afford a 25% drop in sales.

 VP Monday, May 5, 2008

Reviewer: Mbr Prospect [Charles Ergenzinger](#) from Island Park, New York, United States - [See all my reviews](#)

I don't need 150 words your article was RIGHT ON.

Write a Reader Review



Write a review of this article and share your opinions with the community.
See our [Terms of Use](#) for guidelines.

On a scale of 1 to 5 stars, with 5 stars being the best,

1. How do you rate this article?

Choose...

2. Please enter a title for your reader review: (optional, required with a review)

3. Type your review in the space below: (optional; maximum of 150 words)

Submit Your Review

[Home](#) [Help](#) [Contact Us](#)
[Nominations](#) [Terms of Use](#)
[Confidentiality Pledge](#)

© Copyright 2009 Vistage
International, Inc. All Rights
Reserved.