PRICING YOUR PRODUCT OR SERVICE

Three ways to set a price, how to check it covers your costs, and how to raise prices without losing good customers.

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AT A GLANCE

- Your price has to **cover your costs, fit your market, and match the value customers get**. Check all three.
- New founders usually **price too low**. Low prices mean more work for less money and leave no room for mistakes or growth.
- Don't confuse **markup** (added on top of cost) with **margin** (share of the price you keep). A 100% markup is a 50% margin.

Why it matters

Pricing is one of the fastest ways to change your profit. A small increase can matter more than many new customers. And your price tells customers something. Too low can make people wonder about quality.

Three ways to set a price

Method	How it works	Good for
Cost-based	Add up your costs per item, then add a margin.	Setting your minimum price
Market-based	Look at what similar businesses charge.	Seeing the range customers expect
Value-based	Price based on what the result is worth to the customer.	Services, custom work, and products that save time or money

Use cost-based pricing to find your **floor**, market-based to find the **range**, and value-based to decide **where in the range** you belong.

Margin vs. markup

Price = Cost ÷ (1 − target margin)

Target margin	Markup on cost	A $6 cost becomes
40%	67%	$10.00
50%	100%	$12.00
60%	150%	$15.00
70%	233%	$20.00

Example: Mei's candles

> EXAMPLE
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> Mei makes candles. Each one costs her **$6.00**: wax $2.50, jar $1.75, wick and fragrance $1.25, label $0.50.

1. **Floor (cost-based):** she wants at least a 60% margin to cover her booth fees, website and time. $6.00 ÷ 0.40 = **$15.00**.
2. **Range (market-based):** similar handmade candles at local markets and online sell for **$14 to $28**.
3. **Value:** her scents are based on her family's recipes, and customers buy them as gifts. She prices single candles at **$22** and a gift set of two at **$40**.

At $22, Mei keeps $16 per candle, a margin of about 73%. Her original idea had been to charge $12, which would have left her $6 per candle, only a 50% margin.

Pricing services

For services, start with your hourly cost:

1. Decide what you want to earn per year, for example $50,000.
2. Estimate your **billable** hours. Not every work hour is paid. If you work 40 hours a week but only 25 are with clients, for 48 weeks, that's 1,200 hours.
3. Add business costs, for example $10,000 a year.
4. ($50,000 + $10,000) ÷ 1,200 = **$50 per billable hour** as your floor.

Raising prices

- **Give notice.** Tell regular customers 2 to 4 weeks ahead.
- **Explain briefly,** if you like: higher material costs, or better service.
- **Raise new-customer prices first** if you're nervous.

- **Expect to lose a few customers.** Often they're the most price-focused, and higher margins make up the difference. See **M-08 Costs, Margins and Break-Even** for the math.

Common mistakes

- **Pricing from fear.** Being the cheapest is a hard way to win.
- **Forgetting hidden costs**, like card fees, packaging, shipping, returns and your own time.
- **Discounting too often.** Frequent sales teach customers to wait.
- **Never reviewing prices.** Check them at least once a year, and whenever costs rise.

Your checklist

- ☐ Calculate your full cost for one product or one hour
- ☐ Find your floor price at your target margin
- ☐ Research 5 competitors' prices
- ☐ Decide where your value puts you in that range
- ☐ Set a yearly reminder to review prices

Key words, explained

Word	What it means
Margin	The share of the price you keep after direct costs.
Markup	The amount added on top of cost, as a percentage of cost.
Billable hours	Hours you can charge a client for.
Price floor	The lowest price that still covers costs and your target margin.

Where to go next

- **M-08 Costs, Margins and Break-Even**
- **M-09 Unit Economics: What Each Customer Is Worth**
- **L-06 Selling: How to Ask for the Sale**

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