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Women: Are You Selling Yourself Short? Pricing for a Healthy Business

By Anne Alexander

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A few years ago, Vlasic Pickles teamed up with Walmart to sell a gallon of pickles for the unheard of price of \$2.97. They sold over 240,000 gallons of pickles a week. Vlasic loved the sales numbers, only to discover that profits were shrinking by 25% or more, since they only made a penny or two of profit on each jar. Vlasic filed for bankruptcy in 2001.

This story (fully described in Fast Company December '03 issue), highlights a vital point. In general, we want to price with a goal of maximizing profits, not sales volume. Too often, business owners look at gross revenues (sales), when the net profit is what really matters. We could have sales of \$250,000 a year, or \$1 million, and be losing money. More sales do not necessarily mean more profit. Having sound accounting and analyzing financial reports regularly are essential. It's important to remember that profit is not a dirty word. A business must earn a profit to stay in business. Whether a particular business' profit is fair or is excessive is another matter - that could be the subject of another article!

Why Women Underprice in Their Businesses

Underpricing is a common problem for women entrepreneurs, which happens for several reasons, one of which may be that we don't know how to properly set a price that will yield a fair profit. Another reason is we often undervalue ourselves and our product and/or service. Furthermore, many of us have concerns about fair economic access to our products and services.

Pricing basics

The first problem of understanding the best way to approach pricing one's product or service is solved by getting sound business advice, which is readily available in Western North Carolina's entrepreneurial environment (see sidebar).

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There are many methods for pricing for service businesses, retail operations and manufacturers. Going into many of them would be too extensive for this article. However, the basic parameters are easily set. Costs determine our lowest price and must include overhead expenses, marketing costs, R & D, etc. Demand and competition determine our highest price.

Self-worth

Another reason for underpricing is that we often undervalue ourselves. It's only in the past decade or two that women have been business owners in the large numbers that currently exist. Most new business owners, whether male or female, do not have extensive prior experience in running a business. Women have the additional challenge of overcoming our internalized devaluation of ourselves, especially in the business world. We may feel unqualified or undereducated. Where men might have the tendency to understand and properly value (or sometimes overvalue) their product or service, this is usually not the case with women.

Related to this, we may also underprice so customers will think we're reasonable and nice. In charging full worth for our products or service, we value not only ourselves but others, because we know that they will receive full value from what they buy. Charging too little for our product or service ultimately devalues both the customer and us. Have you ever had someone charge you too little? You may well have felt bad because you were getting away with something, or you may have paid that person more because otherwise it wouldn't have felt right. I've done both. We must get the help we need to fully value ourselves.

To handle this, we need to get a more objective evaluation of the worth of our product or service. First, we must come to terms with our own worth, through our own inner work with or without the help of friends, therapists, etc. Then we need to do market research. We must know what competitors are charging. This doesn't mean we charge what they charge, but we need to think through the reasons to charge less, the same or more. Any of these may be effective and profitable, depending on our business.

Equity & social justice

Another reason we might underprice is that we want to have our service and products available to a wide spectrum of people, not just those with higher incomes. This comes from valuable ideals of social justice. Instead of lowering our prices across the board, perhaps to the point of inadequate profits, we can offer unadvertised discounts or sliding scale prices, when appropriate. Another approach is, in our marketing materials, to invite prospective customers to inquire about opportunities for low-income people. If we offer too much at low prices or pro bono, we may end up out of business. Then we can't help anyone!

Sell on value, not price

The key benefit of our product or service should not be having a low price or the lowest price. This turns our product or service into a commodity (as in the Vlasic pickle story), which is something to be avoided at all costs, no pun intended. We will do best to sell on value. Lowering our prices may result

in competitors lowering theirs, so we gain nothing and actually lose. As Bill Caskey wrote in *Same Game, New Rules*, "The real question is not "what's the price?" although that is what the prospect asks. It's really, 'Is there value in changing from my current situation without this product?' "

Cash flow

Sometimes we need cash quick, and lowering prices can accomplish that. However for long-term profitability, we may need a higher price. Remember, our product or service helps people solve their problems. The good news is that there are plenty of problems to be solved. So if some potential customers find our prices too high and we have fully explained the value they'll receive, we can let them go, knowing there are plenty who will see the value and buy from us. Changing our pricing may not be the solution, but rather developing our communication skills.

Raising prices

It's the same with raising prices. We may gain customers. However competitors may raise theirs, too, and keep their existing customers. If we raise prices and sales decline, it's not automatically a bad thing. We need to examine our net profits. If our profits are the same or higher, we're okay. Also, if sales decline, we should see if there has been an overall market decline, rather than a decline in our

market share.

In summary, analyze the pros and cons that affect various pricing options you have. If you have extensive industry knowledge, trust your intuition on pricing. Review your pricing frequently, but don't change it frequently. It's good to experiment in the beginning, but after the start-up phase, change your pricing only if there is some fundamental change in your product, service or market. Do your homework, experiment scientifically, and don't get yourself into a pickle!

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When is Wholesale Really Wholesale

By Johnny Burke

You've finally found the wholesale source for the high demand widget that is selling like hotcakes on the Internet. Thoughts of watching the money pouring in and celebrating the new found success selling widgets has you so excited that you can't wait to buy 5 widgets at wholesale and double the investment.

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After a lot of effort to market your widgets, you haven't sold any. Then, much to your surprise, you find others selling the same widget at a much lower price and doing a great business. You can blame the wholesaler for your lack of success or you can face the truth about wholesaling and volume purchasing.

So, after an unsuccessful attempt to sell widgets, you decide to do the research to find out why you couldn't compete. The first eye opener is that you can find the widget at a number of places selling for less than your wholesale cost.

Let's look at the reasons for this. The retailer can buy in bulk and receive quantity pricing. In many cases this also qualifies the retailer for manufacturers' wholesale rebates.

So it now seems that the word wholesale is a relative term. Small businesses get first level wholesale pricing. Large businesses (with great buying power) get 2nd and 3rd level wholesale pricing plus incentives. As an example, the small business may pay a price of \$10 each buying wholesale widgets in quantities of 1–10. The large business may pay \$5 each for the same widget in quantities of 500–1000.

So, is there any recourse for the small business?

Yes, the simple answer is Market Research.

OK, how can market research help me with wholesale buying?

The problem that needs addressing is buying widgets at too high of a price to be competitive. Plus, there are hundreds of places that sell widgets for a lot less than you can. If the demand, competition and average selling price of widgets can be determined, then you can make an informed decision about the selling potential of the widget.

That is the simplified version of the answer, but touches on the main points of market research.

You can do the research manually but by far the best bet is to use one of the existing market research tools available on the Internet. A moderate investment is required up front but the information compiled and presented is essential to profitable marketing.

A clear understanding how wholesale works in an open market along with good research can multiply

your chances of successfully operating a small business. This applies to online storefronts, auction sellers, or anyone doing business from home.

Johnny Burke is a successful online seller and webmaster for E-MarketingAmerica

offering resources and information for the online

marketer

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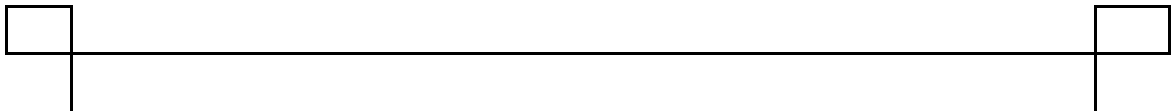
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