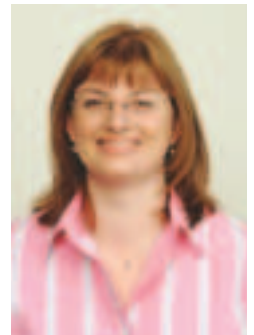


GET YOUR PRICE RIGHT

Michelle Pearce discusses how to establish the optimum pricing policy for your salon



SETTING the prices for your products or services can be one of the most challenging yet important tasks when establishing and running a business. Your pricing policy directly impacts on the profitability and success of your business.

Chances are you are not asking the right price for your services, and it is most likely that you are not asking enough.

The price of your service is a marketing tool, because the level you set your prices at should communicate to your customers what they should expect in terms of quality and value.

For example, if you set your prices at low levels, then in most customers' minds this could indicate that your product or service is a bargain or lower-quality product. Alternatively, if

your prices are higher, this can set an expectation of a superior quality, and even an exclusivity, of the service. Some businesses set their prices high as a marketing technique to attract an exclusive and specific type of clientele.

THINGS TO CONSIDER

There are essentially eight factors to consider when determining your price:

1. Costs: If your price per item or hourly rate does not include enough margin so you can break even, you are heading for trouble. Your costs include

all your overheads (rent, marketing costs, utilities) and operating costs (packaging, printing, employees). If you work from home you should also include your home office expenses like a percentage of rent or mortgage interest – even if you don't plan to claim a tax deduction for the costs. Just make sure you include everything, be very precise.

2. Profit: How much money do you want to make after all your expenses? Realistically, it should be at least enough to equal what you would have

made as an employee, otherwise there's no point to being in business. However, your desired profit should also include an amount for the risk associated with being in business.

3. Market demand: The more the demand, the higher your price can be. A sign that there is a high demand can be that you have too much work coming in.

4. Industry standards: What are other people charging for the same work? The more you know about your competitors the easier it will be to price yourself. But remember, being cheaper than your competitor is not always better. As mentioned above, pricing can communicate your quality. So if you price your services significantly lower than your competitors you may find that customers will wonder why and may conclude that they are not the same quality even before they set foot in your salon.

5. Skill and experience level: If you are setting a price for your service your rate per hour should be commensurate with your skill and experience.

6. Business strategy: Be true to your business strategy when setting your prices. When you prepared your business plan, was your vision to be an elite business that catered to the high end of the market (where your product or service is exclusive) or was your vision to deliver good services but at the lowest possible prices? Setting your prices involves an understanding of where you want to place yourself in the market.

7. Your service: Is your price all-inclusive or do you offer different levels of service depending on the price?

8. Who is your client? Your price may vary for different clients. This happens for various reasons. Some clients require more effort, some are riskier, some are repeat clients, some you

don't want to keep because they are too much effort.

Alternatively, your business location may determine your client and impact your pricing policy. If you are located in the Eastern Suburbs of Sydney or on Hasting Street in Noosa, your clientele may consist of affluent people who demand higher quality, personalised service and exclusive amenities.

On the other hand, if your business is located in areas where the clientele are budget conscious who want a good quality product for the best price then you need to set your prices accordingly and knowledge of your competitors' prices is vital.

HOW TO SET YOUR PRICE

The following is a guide to how to set your price for a product or service using the cost-plus method. You can also set your prices using a value-based method. This method is about setting your price at the amount your customer thinks your product or service is worth or valued. Both methods require you to calculate your costs and desired profit, otherwise you run the risk of setting your price too low.

You should always remember that once you have made your first attempt at setting your price you need to compare this to your competitors, think about your customer's reactions and ensure your price is fair but profitable.

CALCULATING PRICES

Step 1: Calculate your costs

This calculation should not only include the cost of producing or buying your product but also your fixed overheads such as rent.

Step 2: Determine your profit

This is the amount you want left over on an annual basis. This should be in addition to your salary (which should be included in step 1 above).

Step 3: Determine your mark-up

To calculate your mark-up divide your sales (profit + costs) by your cost of sales (this is the cost of your product without overheads). This will determine a number or factor, for example 1.33.

Step 4: Determine your price

Determine your price by multiplying the mark-up by the cost price for each product.

Calculating an hourly rate for your service

Step 1: Pick your annual salary.

This can be what you earned for doing similar work when you were an employee, what other employees earn for similar work, or how much you would like to earn (as long as your goal is reasonable).

Step 2: Calculate your annual overheads

Make sure you include all your costs, particularly if you work from home (don't forget home office costs such as electricity, rent or mortgage interest). You may even want to include the cost of childcare if this is required to run your business.

Step 3: Profit

You are also entitled to earn a profit over and above your salary and overhead expenses. Your salary should not count as profit; it's one of the costs of doing business. Profit is the reward you get for taking the risks of being in business for yourself. It also provides money to expand and develop your business.

Profit is usually expressed as a percentage of total costs.

Step 4: Billable hours

You need to determine how many hours you will work and get paid for

during the year. Assume a number of working hours per week, even though you may end up working more. If you want to take a holiday each year, you will need to factor this in. Also, you need to factor in public holidays and potential sick days.

You will also need to establish a percentage of hours you spend doing non-client work (marketing, administration and training).

Step 5: Calculate the hourly rate

This is effectively the following formula:
Annual salary + costs + profit/billable hours = charge-out rate.

Rules of price rounding

Once you have determined your most desirable pricing range, you must begin testing prices for optimal impact. The following is a list of some natural human preferences to keep in mind.

Under \$10: Use endings in 4, 5 or 9.

\$10 – \$25: Use endings in .95.

\$25 – \$50: Generally use whole dollar amounts ending in 5 or 9, but .50, .75 and .95 are okay.

\$50 – \$100 – Use whole dollars ending in 5, 7 or 9.

SUMMARY

The more you think about your pricing and how it relates back to your business plan and vision, the easier it will be to quote for your services or decide on an appropriate mark-up for your products.

The steps above should help you with your price-setting but remember to constantly review your pricing, as your costs may change or your competitors may change their pricing policy.

*Michelle Pearce works for Face Chartered Accountants, an advisory firm located in Balmain, Sydney. Tel 02 9555 1309 **B***

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