How to Raise Prices Without Losing Customers

Six ways to raise prices and increase margins while keeping customers (relatively) happy.

By Jeff Haden; December 27, 2013

Raise prices as you add services.

If all you do is raise your price, your customers will naturally focus solely on that price increase. But if you have new services or products ready to roll out, it's fairly easy to lessen the impact of a price increase. The key is to show greater value along with higher prices.

Create different volume points.

You don't always have to raise prices in order to increase margins. Lowering volume while maintaining the same price automatically increases your profit margin. A restaurant can often decrease portions while maintaining price; food, health and beauty, and other commodity providers do the same thing. Or you can introduce a lower volume point with a higher per-unit price. Customers are conditioned to expect discounts on higher volume and to pay a higher per-unit price on lower volume.

Create bundles of products or services.

We tend to assume we get a better deal when products or services are bundled, even when we can't determine the cost of individual items. Create a bundle of similar services, or create a bundle of products with a complementary service, and you may be able to raise prices on some of the individual items while masking that increase inside the bundle.

Establish new service options.

Say you promise a 48-hour turnaround. If some customers could benefit from a quicker turnaround, introduce premium pricing for 24-hour (or less) service. Again, provide additional value at a higher price and most customers will be less resistant to the change; in fact, some may willingly switch to the options.

Change or eliminate payment term discounts.

Many businesses like yours offer discounts on quick invoice payment. Offering a 3% discount on invoices paid within 5 days definitely increases cash flow, but it also cuts your margins. If you can afford to wait, phase out the discount. (Or switch to a lower discount on a greater number of days.)

Explain.

In some cases you may have no option but to simply raise prices. When fuel prices skyrocket many businesses are forced to raise prices due to the dramatic impact on their costs. If you sell building supplies and the cost of raw lumber has increased by double-digit percentages, your customers will understand if you are forced to raise prices. If that happens in your industry, let your customers know why you'll need to raise prices.

Most are already aware of the situation and will understand--they won't love it, but they will understand. Just keep in mind that your customers may also expect prices to return to pre-crisis levels if the conditions creating the price increase fade away.

But what if you feel raising prices, no matter how you implement the change, will negatively impact your business? There is one other option. Sometimes the best way to "raise" prices is to cut costs. The easiest and quickest payback comes from attacking variable costs.

Focus on areas like labor, productivity, quality control, and shipping. And while you're at it, attack semi-variable costs like maintenance and utility costs. Reduce any expense and your bottom line automatically improves... without raising prices.

And don't forget your cost of inventory. Whether you sell a product where your inventory is your product, or whether you provide a service where your "inventory" is employee capacity, look for ways to maximize the utility of inventory without keeping too much product or labor on hand.

"Just in Time" is almost always cheaper than "Just in Case."

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