

THE AUTOMATED MILLIONAIRE BEST BUSINESS PRACTICES PRICING FOR PROFIT



By
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BEST BUSINESS PRACTICES

Pricing For Profit

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BEST BUSINESS PRACTICES

The Automated Millionaire Best Business Practices describes various Best Business Practices and/or Terminology used in business. These are aimed at giving you a better insight to terminologies, explanations or 'How Tos' for your business.

A NOTE ABOUT THIS DOCUMENT

This document is a bit different from most of the other Best Business Practices from The Automated Millionaire, in that we will discuss more here on strategic considerations etc., more than specific Best Business Practices as are typically portrayed in our series of written supplements and information.

A NOTE ABOUT LINKS IN THIS DOCUMENT

Throughout this document you will find links (such as the yellow link just below) for more resources, which could be training videos, other documents or access to tools and the like. The individual links are directed to specific sections and resources relevant to what is being said it's linked to, but for your privacy and security, all links are sent to pages residing secured website of The Automated Millionaire website.

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To Your Success

I truly wish your success.

I believe entrepreneurs are critical for our society and that it is the entrepreneurs who often pave the way for innovations and development in the world.

Entrepreneurs accept great risk, work diligently and often have to endure great struggles in their pursuit of their dreams.

Those who succeed not only improve their own lives, but also many other lives. Lives of the other people in their families, but also lives of the people they employ and their families. Vendors as well and their families are positively affected by the ripples sent out from a well run and successful business.

I am therefore hopeful that my personal pursuit of helping as many entrepreneurs as possible can help increase these positive ripples, affecting as many people positively and as far reaching as possible.

Please feel free to connect with me for anything you believe I may be able to help and serve you with.

- Mikkel Pitzner

Email [Mikkel](#)



Setting prices for your products can be tough.

Set prices too high, and you miss out on valuable sales. Set them too low, and you miss out on valuable revenue.

In this document we will discuss several Pricing Strategies and I will offer you some insights that I have gained over the years on my entrepreneurial journey.

Pricing By Math

If you have come across our Best Business Practice on Overhead Absorption Rate you would have found a pricing example that I will repeat here:

Let's imagine you have a production facility and that you are quoting a specific job.

Let's say you have total cost of materials for that job of \$3,580 and that you'll need 287 labor hours to complete it, and that your hourly rate is \$22 for your labor plus a labor burden of 44.5%

Your price calculation would then look like this:

Materials		\$ 3,580
Labor	\$22 x 287 hours	\$ 6,314
Labor Burden	\$6,314 x 44.5%	\$ 2,810
Total Cost of Goods Sold		\$ 12,704

Now we want to apply our Overhead Absorption Rate, which would be our rate of 44.35% x Total Cost of Goods Sold:



Total Cost of Goods Sold	\$ 12,704
Overhead Asorption Rate (44.35%)	\$ 5,634.10
Subtotal	\$ 18,338

This gives you the Break Even Point for doing this specific job.

Let's say you have a desired Profit Margin of 35%, then your calculation would look as follows:

$$\text{\$18,338} / (100-35)\% = \text{\$28,212.31}$$

For some jobs you may have a contingency factor or a weather factor (as in construction industries) added to your quote, let's say that was 5%, which would mean you would just add 5% to your price:

$$\text{\$28,212.31} \times 1.05 = \text{\$29,622.92}$$

The method of calculating your price following the above is a Cost Plus Pricing method. It's pricing by the math, and it satisfies that your end price will fulfill paying for all your costs and secure your desired profit margin.

From our Best Business Practice on Gross Profit and Gross Profit Margin we spoke a bit on the topic of Variable or Direct Costs which goes into your Cost of Goods Sold. We also there saw how we account for those expenses when price our products or services.

Also, from our Best Business Practice supplement on Markup Vs. Margin we got a good grip on the methodology for calculating the markup or the desired margin, and ensured we did not leave the table thinking that these are the same.



Our Best Business Practice on Labor Burden, helped us identify the true cost of our labor so we do not end up cheating ourselves, but helped us ensure that we allocated some portion of our selling price to go towards all costs associated with labor including those that would not be covered by the Cost of Goods items.

Finally, the Best Business Practice on Overhead Absorption rate helped us understand how we can account for all the other, non-direct or fixed expenses that we haven't already covered via e.g. the Labor Burden.

Together these practices help us ensure that we price our goods or services correctly by the math.

Cost of Goods Sold		
	Hours	\$ Per Hour
Labor	287	\$ 22.00
Labor Burden		Percentage: 44.50%
Labor Total		\$ 6,314.00
Materials		\$ 2,809.73
Subcontractors		\$ 9,123.73
Equipment Rentals		\$ 3,580.00
Other		\$ -
Other		\$ -
Other		\$ -
Other		\$ -
COGS Total		\$ 12,703.73
Overhead Absorption Rate	Percentage: 44.35%	\$ 5,634.10
Total Cost		\$ 18,337.83
Contingency Rate	Percentage: 5.00%	\$ 916.89
Desired Margin	Percentage: 35%	\$ 19,254.73
Markup (calculated by input of desired Margin)		\$ 10,367.93
Subtotal		\$ 29,622.66
Discount	Percentage: 10%	\$ (2,962.27)
Selling Price or Quote		\$ 26,660.39
Actual Price Quote or Selling Price		\$ 26,595.00
Profit	\$ 7,340.27	Margin 27.60%

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You can use The Automated Millionaire Pricing Calculator that comes with the

[Pricing For Profit Program](#)



Houston, We Have A Problem

But, for most of the businesses that I have helped over the years, pricing by the math would leave them with a selling price that quite frankly too often would just be too high and would leave them uncompetitive in their market space.

Of course, much of their predicament comes from the fact that they have long not run their business optimally and are still not running their business optimally.

This has made their production or entire business running inefficient and has typically, to make matters worse, added more debt and more financial burden on top of every other challenge to the mix.

Essentially, they have made themselves uncompetitive and placed them in a tough spot to remain sustainable.

Naturally, what they'll need to do is to change their business into a great and well-run business with optimal efficiency.

But most business owners and entrepreneurs have no such system nor an awareness of such. To add to this, most business owners, although by now truly stressed and out of their wits, don't even seek out the help that can be found from someone who really knows how to fix their situation.

They're scared and you can't blame them.

They already have huge amounts of debt, and are having trouble just servicing the obligations they already have.

The ones who know how to fix things come at a hefty price. Worth it for sure when they have fixed the business and the return on that investment comes back manyfold higher.



But it's a decision that has to be made when everything already looks bleak and when you're already scared about how you will even survive the financial burden you already have.

And to pull the trigger and have a professional help out, would often mean that a further debt obligation would have to be agreed upon, for the professional needs to get paid too, so some sort of financing is often needed in order to engage this help.

But the problem is that the math doesn't lie.

If you do not secure that you cover all your expenses and leave yourself with some profits, then you are just not going to survive very long.

But if you're too expensive then you just won't get enough sales either and that quickly spells a business going under too. And competition is fierce.

Something has to happen.

This is where the best business turn around agents and business consultants come in and find ways of improving the cost structures of the business.

As you saw in the video on Gross Profit & Gross Profit Margin and the Dynamics of Business, improving the efficiency in a business even by relatively small percentage amounts, can actually quickly lead to substantial improvements in cash and profitability.



As a side note, it appeared that most of my clients found they were in particularly competitive areas geographically.

One of my pharmacy clients had 19 pharmacy competitors surrounding her within a 3 mile radius. A rubber mold client seemed to have the bulk of rubber mold and CNC machining companies gathered up all around him, and so on. My meat production clients and my farmers elsewhere, all seemed particularly clustered in certain areas.

Guess, what. Almost regardless of where you are and what you're selling, you'll find that competition is fierce.

The need therefore is to get really good at your business, so you can run it better than everybody else and therefore stay more competitive than your counterpart.

But for now, let's return our attention back to further price strategies, for there are many to choose from.



Pricing Strategies

- Cost Plus Pricing (Pricing by the math)
- Penetration Pricing
- Predatory Pricing
- Monopoly
- Image Pricing or Prestige Pricing
- Profit Oriented Pricing
- Competitor Oriented Pricing
- Customer Oriented Pricing
- Dynamic Pricing
- Price Discrimination
- Freemium
- Low Ticket
- High Ticket
- High-Low Pricing
- Value-Based Pricing
- Time-Based Pricing
- Hourly Pricing
- Skimming Pricing
- Project Based Pricing
- Bundle Pricing
- Psychological Pricing
- Geographic Pricing
- Time Based Pricing



Competitor Oriented Pricing

It appears to me that most small businesses set their prices based on competition. They see what others are charging and kind of set their prices from the “going rate” for similar products and services.

I have found both here in the US as well as in Europe, that often we are up against competitors who miraculously sell their goods or services in our marketplace at such low rates that you’re scratching your head.

Yes, I’ve often found that it has a lot to do with them not knowing how to run a business and that they are probably running at a loss or close to it. But while we can expect them soon enough to close up shop, when they have run out of credit and other ways to sustaining them, I have unfortunately found that all too often, waiting for this to happen takes far too long.

The question is then: *“Do I match their pricing?”*

Well, if I match their pricing, I will probably soon enough be selling at prices that cannot sustain me with profits, but will begin to tear into any reserves I may have built up.

So, *“do I keep my prices and ensure that I remain profitable?”*

Well, that would seem a good idea.

“But if I keep my prices, I’ve outpriced myself and won’t get half the orders or sales!”

Yes, unfortunately that is often the case too.

In general, I personally feel that far too many business owners are too focused on all their competitors instead of paying more attention and directing more focus on their



own business, own product quality and service, and the value they are providing in the marketplace. I feel too often they forget that some of the largest focus truly needs to be on their customers or clients.

But competitor pricing is a strategy that I probably have seen the most utilized among small companies.

With this pricing strategy the business owner pays a lot of attention to the pricing that competitors are charging for similar and sets his/her prices much according to what they're doing.

To a large degree setting the price using this strategy seems to be based much on fear. Fear that "if I don't set my price near or below my competitors, then I'll lose all my sales."

Price Elasticity

Agreed, that there are products (and perhaps some services) that are governed by very high price sensitivity and where even small incremental changes in price can change demand drastically.

Agreed, also there are products (and perhaps some services) for which demand can quickly transfer to competitors, if for whatever reason you are all of a sudden priced higher.

We say that such products or services have a very high Price Elasticity, which basically means that demand for the product or service can quickly changes from even small changes in price.

Technically you can calculate the price elasticity using this formula:

$$\% \text{ Change in Quantity} \div \% \text{ Change in Price} = \text{Price Elasticity of Demand.}$$



PRICE ELASTICITY OF DEMAND

Price elasticity measures the extent to which a customer is sensitive to the prices of a product or service

Price Elasticity of Demand

% Change in Quantity / % Change in Price = Price Elasticity of Demand

Broken down even further to include the calculation of percent change, this formula looks like:

$$\frac{(QN - QI) / (QN + QI) / 2}{(PN - PI) / (PN + PI) / 2}$$

QN = New Quantity **7,000**

QI = Initial Quantity **10,000**

PN = New Price **\$ 150.00**

PI = Initial Price **\$ 100.00**

Price Elasticity of Demand **-0.88**

Perfectly Inelastic Demand
If your Price Elasticity of Demand equals 0, price changes do not affect the demand for your product.

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PRICE ELASTICITY OF DEMAND

Perfectly Inelastic Demand < 1
Price changes do not affect the demand for your product. Typically only absolutely essential items and services.

Relatively Inelastic Demand < 1
If the percent change for demand is less than the percent change of product's price. E.g. where substitutes may appear difficult to acquire, such as electricity.

Unit Elastic Demand
If the change in demand yields a proportional change in price. E.g. increase your price by 10% and your demand decrease by 10%.

Relatively Elastic Demand > 1
If demand change is greater than the change in your product's price. E.g. airline travels and private travellers.

Perfectly Elastic Demand > 1
If demand falls to zero at the slightest price increase or demand becomes great with a slight prices decrease.

Perfectly Elastic Demand
If demand falls to zero at the slightest price increase or demand becomes great with a slight prices decrease.

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For most of us business owners, in practice, I don't believe we need to calculate the price elasticity of our products or services. Instead, I suspect we probably have a fair idea of how elastic the demand is depending on our pricing.

An example of such products is gasoline.

If your gas station all of a sudden is slightly higher than the gasoline sold at the other nearby gas station, a lot of the demand may quickly shift to the lower priced gas station.

This is why you'll often see that price on such products typically are fairly much the same across many vendors in a geographic region.



You'll find High Elasticity in products and services that are considered easy to substitute with by same products and services offered by other vendors, or for products and services that can fairly easily be substituted by similar products or services.

But even when you're selling products or services with high price elasticity, there are ways for you to make you a better choice in the eyes of the consumer.

Sometimes you may have the convenience factor play to your advantage. Your gas station is just closer or have better accessibility in terms of how the traffic flows than the next gas station.

But you have several other factors that can play in and make your offer more alluring than your competitors.

If we stay with the example of the gas station, here are some examples:

How safe does your gas station appear to be compared to the other gas stations?

Expanding on this could be questions such as:

How well-lit is your gas station?

Are there ample amounts of attendees in your store?

Are there typically some "weird creepy looking person lurking around there or not"?

How clean do you keep your gas station?

How organized is your store looking?

Do you offer a convenience store with your gas station?



And if so, how well is it stocked with products and assortments?

How's your staff?

And much more.

If you run through some of these questions with this example (and I'm sure you can come up with a myriad more), you'll quickly see that there are many other (non-pricing) factors that can play in in customers'/consumers' choice of vendors.

In fact, I bet you probably have your own preferred gas station that you make use of for much of the same reasons.

Yet, most of my clients get so focused on the fact (fact in their mind) that the price is the definitive answer to whether they'll get the sale or not.

If you noticed earlier as I mentioned the words on Price Elasticity I mentioned services in parentheses. I did do, because when you truly remember that you're offering a service, if this is the case for your business, the difference in service and level of service can play a huge part in "how competitive" you are and vulnerable you may be or not be in your marketplace that you serve, even if what you're selling typically would be easily substituted by others or by other similar products/services.

Many people will much rather pay extra for the service provider that they "feel good with" and the provider they trust, than just going with anybody. But because a lot of these small companies do not pay much attention into how they carry out their business and treat their customers/clients then their offerings are often reduced to just "any other provider".

You can get your tires on your car changed at many outlets. But do you think you might prefer to come back next time to the shop that showed genuine curtesy and friendliness? That was speedy in servicing you, while also ensuring they completed the job professionally and safely tightened the lock nuts? The place that offered a



pleasant waiting area, perhaps with some freshly brewed coffee or beverage of other choice?

You bet.

I usually say, and yes, this again is my personal viewpoint, that we should leave the activity of competing to the Walmarts of the world.

They are volume driven types of businesses and much of it is competing on small margins in order to secure high volumes. They typically have the resources and capital to carry out this kind of business, but for most small and medium sized businesses this way of competing in the marketplace is not really a sound and health choice for us.

Much of this discussion leads to what I much rather want most of my clients to focus on:

Value Pricing

Yes, Value Pricing.

This is where you price your products and services much more on the value that you offer with what you are selling.

So granted, with many types of services and many types of products, the similarities and the options for substitution are rather great and it lessens your ability to base your price on value.

However, I'm sure that you can still see how you can obtain a competitive advantage when you offer more alongside your products/services.



Again, perhaps your location offers more convenience and closer proximity. Perhaps your location, and e.g. store is nicer, cleaner, more pleasant to the eyes. And perhaps you and your staff are phenomenal at providing the best of services.

Basically, you are offering a better value and certainly a better experience than your competitor and for that you may be able to obtain a better price.

Certain industries offer a lot more opportunity to price for value.

My industry of business consulting certainly is one of these.

If you have a business that you have run for many years, but it has suffered greatly the past few years and perhaps you're not even sure if you can afford to keep running it.

How much might it be worth to you, if I could come and help you and make it profitable for you again for many, many more years to come?

How valuable would this perhaps be for you, if I could help you and your team, with systems and methods and instructions, and help set it all up, and ensure that when I leave your business again, you and your team know perfectly how to continue this path of prosperity?

That's right.

If you had ever had a great business experience before prior to your challenges, I'm betting you would find this highly valuable.

If you factor in also thoughts on, what's the alternative?

Close up shop? Be left with lots of debt obligations and no income? Have to take a job again somewhere and have to accept having a boss? Perhaps having to accept a job you really wouldn't care for? Have to accept a small pay? Be left with a feeling of degradation and perhaps a feel of having failed?



I bet the value just went up again in your mind, didn't it.

That is why high levels of expertise and professional services can charge a premium.

Your attorney might charge you a hefty sum, but he/she helps you out of a nasty lawsuit or some other unfortunate position, you probably feel it's worth it. The CPA who can save you hundreds of thousands in taxes is well worth a premium compared to the run of the mill CPA service at the strip mall.

Allow me to ask you this: If you had to have a serious brain surgery, would you rather want to be operated by the brain surgeon who charges you \$10,000 for the procedure or the one who charges you \$100,000?

My bet is, that if you could choose, you would want to have the surgeon who's charging \$100,000.

You may have heard the little story of the plumber that is called to a house to fix the furnace, that has long been acting up despite myriad of visitors from other plumbing companies, that apparently couldn't fix the issue.

The skilled plumber comes in, looks at the furnace and checks it here and there. Then pulls out his little hammer, and gives the furnace a little tap. It all takes less than about 10 minutes, but he fixes the problem to perfection.

He writes his invoice of \$2,200.

The customer is rather taken back and inquires how could he possibly charge this much, to which he answers:

*"Coming out here and inspection your furnace and giving it the tap with the hammer is the \$200. The \$2,000 is for **knowing where to tap.**"*



Here's another take away, especially when talking about value pricing:

If your client is balking at your price, it's typically because you haven't yet demonstrated enough value.

Hourly Pricing

A lot of companies and especially service companies have hourly charges.

Hourly charges can be great as they can help secure that if a job ends up taking long than expected then you will get covered as per your pricing model.

Basically, your hourly rate, typically for the labor (but could be also for e.g. machines etc.) will be priced such that it covers your labor cost including the full labor burden. As per previous discussions (see The Automated Millionaire Best Business Practices on Overhead Absorption Rate), you'd ideally also have factored in something that helps cover your overhead expenses.

For a lot of companies this is natural avenue and strategy for pricing.

Construction companies are a great example of where hourly rates come into play perhaps on a significant level and where it is essential to have a very solid way of estimating how many hours go into a project.

Again, in my industry of business consulting you will also often find hourly charges, as you will often in many other professional industries (attorneys, CPAs and many others).

Hourly pricing is basically trading time for money.



If you run a company that offers a lot of people (say. Could be machinery or such also) on an hourly rate, you can potentially make a sound profit, by earning a little on a lot of hours supplied by a lot of people.

When I ran my limousine services back in Denmark, I basically made money off of my chauffeurs supplying their time with my vehicles, chauffeuring our clients. As long as we could sell a decent amount of transfer trips or hourly calculated services, we had a sound business.

When we had extra ordinary large events, we would see huge increases in revenue accompanied by huge increases in profits for that time period in concern, especially as only our variable expenses typically were affected as we sold more and more hours.

Job takers are typically trading their time for money.

Let me honest with you.

It's just about one of the lousiest ways of making money.

We all give up some time in our pursuit of making an income. But the job taker typically gets an hourly rate. Typically, there's little room for scale. A typical employee in the US has a 40 hour workweek.

Yes, the employee may be able to get some overtime hours and a little better rate, but ultimately speaking the situation isn't scalable, and certainly no matter how we slice and dice it, we have a ceiling of 24 hours in a day out of which we also need some sleep, rest and time to eat etc.

Only by acquiring more skills, expertise or providing substantially more value to a company, can the employee end up truly scaling the income generated from his/her job.



If you are a business owner and your business provides a lot of hourlies, then you can have a great business and it can make way for substantial profits. That's because you are now hiring a resource that you now provide into the marketplace with your markup and when you sell enough of these to cover much more than your variable as well as your fixed expenses, now you will make a great profit.

However, let me address the value-based pricing strategy again as a sidenote here. Go back to the example of my entering your business to help you turn things around again.

In all honesty, would you rather want me to charge you per hour I'm physically there with you in the trenches, and you'd end up paying perhaps \$250,000 for the entire engagement?

Or would you prefer that I could flip a switch for you and arrive at the same result in an instant, say in one hour, yet still charge you \$250,000?

I bet you would prefer the latter.

Yet, that basically would mean that I would charge you \$250,000 per hour, wouldn't it?

I also bet, that if truly I could flip a switch for you and in one hour the troubles of your business were solved, then you might be very inclined to pay me more than \$250,000 for my services.

So equating the value of what I provide you with how many hours I will have to put into it, doesn't seem to actually be a smart choice nor do justice to you nor I.

In fact, as long as I would provide you with a greater return on your investment than the price of your investment, then you probably would want to say yes thank you to my services (if liquidity wasn't an issue and the results were a positive guarantee).



If I ask you to give me \$10,000 now, and in an hour I would give you back \$20,000, you'd probably want to do that all day long and keep doing that for all eternity if you could, wouldn't you?

You may or may not be able to convert your offerings into something of value-based pricing. It could be advisable or not to switch to a value-based pricing strategy. I cannot say for sure what to choose without knowing exactly what you offer, in what kind of marketplace and conditions. But at least I want you to have an awareness of some of these pricing strategies.



Picasso's Napkin Drawing



The picture is of Picasso's "Dove of Peace" Napkin Art.

This piece of art has an interesting story that I know many have heard but you may not have seen the actual picture. It never hurts to be reminded of the moral of a good story.

According to the story, Picasso was sitting in a Paris café when an admirer approached and asked if he would do a quick sketch on a paper napkin.

Picasso politely agreed, swiftly executed the work, and handed back the napkin but not before asking for a rather significant amount of money.

The admirer was shocked:

"How can you ask for so much? It took you a minute to draw this!"

"No", Picasso replied. "It took me 40 years."



Penetration Pricing

When you enter a new market, or sometimes as you launch your start up company, or when you want to gain some speedy traction or take over some market size from incumbent competitors, you can engage in Penetration Pricing strategies.

Basically it consists of offering a price that is so low that consumers or customers of what you are selling basically have to consider buying from you and perhaps switching away from where their purchases are placed till then.

Insurances, internet services, and phone services could be such kind of products or offerings that one could see often temporary highly consumer beneficial pricing from.

Typically, the special pricing is offered for a temporary period of time, until the provider has acquired a decent amount of business, and not least customers and market presence and market recognition. Then from there the provider will more than likely begin to “normalize” the price levels offered.

Penetration pricing typically is sustainable in the long run.

Dynamic Pricing

With dynamic pricing your prices change much in recognition of the changes in demand. As demand increases so do your prices in order to capture the most profits from what you are offering.

We see dynamic pricing especially in the travel industry. Hotels, airfares and car rentals all have dynamic pricing and charge higher prices when seasons are busy, special events increases demand etc.



Dynamic pricing is an excellent avenue for making much more profit in a business than a standard price could offer. Simultaneously, if you know the coming weekend is going to be super slow, it may be beneficial to offer some very special low rates to lure more rentals out, perhaps from people who wouldn't otherwise choose to rent a vehicle for the weekend.

High Ticket Pricing

When you operate in high ticket pricing, your offerings generally come at what would be considered a high price.

Expensive?

Not necessarily.

Again, this has much to do with the **perceived value** of what you are selling.

Remember again, the neurosurgeon. Yes, you'd probably would want to have the high-priced surgeon if you could. Your perceived value of getting the best neurosurgeon as possible in such important matters as someone having to operate on your brain would make the price seem less important, if you had the means or had an insurance that would pay for it.

So yes, it can be a lot of money, but that does not necessarily mean it is expensive.

As a business consultant we would often charge on an hourly or daily rate and we would charge a substantial amount. But if by the way of our help and assistance that the business we help would make a lot more money, then it would be worth it and you couldn't really say it would be expensive.



As long as the return on the investment is positive, then it really could be said to be worth it. If the return was 200%, 300%, 400% or perhaps even more, then you'd really want to do that all day long for as long as you could obtain such return.

Notice, how you often would place higher trust and belief in the capabilities of the professional that comes at a higher rate too.

Again, just bear the neurosurgeon in mind.

Your assumption would be that the \$100,000 surgeon would be much more qualified and possibly experienced than the one who comes with the \$10,000 price tag.

Sometimes there are reasons that consumers or buyers actually appreciates a high price.

Consider the buyers of luxury cars such as Lamborghini, Ferrari and Rolls Royce. If truly, these vehicles were offered at prices anywhere near the prices of say other fine cars (but less expensive ones) such as Mercedes Benz and BMW, do you think the buyers would find the vehicles equally valuable?

Imagine if the new Ferrari in concern was now \$130,000, same as a nice high end new model of BMW. The Ferrari would still be a Ferrari, cool and fun, but the perceived value would have fallen drastically now.

There's a benefit to the high price tag in this case even from the consumer's point of view.

The price tag quite simply automatically provides a certain guarantee for exclusivity as most people wouldn't be able to afford it.

That means there will be less of the Ferrari driving around, it will be more exclusive and it will demand more attention and possibly respect.



Yes, absolutely, I believe that's part of the reasons the buyers of the Ferraris, Lamborghinis and Rolls Royces choose such vehicles.

High ticket pricing can sometimes be called Premium Pricing or Prestige Pricing.

Freemium Pricing

At the other end of the spectrum you have Freemium pricing.

Freemium pricing is the strategy of offering something for free.

Free is sometimes hard to beat and the word alone has a tendency to stop people in their tracks.

I actually believe creating an ad today that uses the word Free and that will pass by Facebook's compliance team is difficult to make happen.

Free is that powerful.

Yet, offering something for free can make way for a great business. I should know, for I was part owner of a business that was based on an entirely free service, which grew profits year upon year and a company that eventually covered the entire markets and geography of Denmark Norway, Sweden and commenced operations also into Germany with more to come I'm sure. This company was in fact so successful that we took it public with its IPO (Initial Public Offering) in 2018.

So what was our product/service?

Well, we actually provided free of charge rentals of small cargo trailers. You know, it's kinda like the little Uhaul closed trailers that you hitch on to a vehicle so you can transport stuff.



Our model was that we financed these trailers by selling advertising and then we partnered with big box companies.

Where we made money was a lot of small upsells, such as extra rental time beyond the free time, and insurance solutions etc.

Like I stated. The entire business was based on Free, but it has generated lots of money and made way for a large company.

You will often find that online or SAAS based offers are offered with a free trial period to lure people in. After a free trial period the model typically turns to a subscription type of pricing.

Basically, people get to “test” the platform or software solution and then find that it solves problems well for the user, so that they’ll stay with the solution ever once they are being charged for it.

High-Low Pricing

A lot of retail companies use the High-Low pricing strategies. They offer their new products at relatively high prices, but lowers these as the novelty of the product diminishes.

Often the lowering of the prices come in the form of discounts or sales.

Some use of this strategy is pricing the products so high, that you can in fact offer what will appear to be tremendous discounts and sales, e.g. at events such as Black Friday etc.



Skimming Pricing

Skimming Pricing is used when you make your initial offer to the marketplace at high prices and then lowers it successively over time as e.g. others enter the market with similar products.

Often skimming pricing is used to recover as much of the sunk cost (the initial investment that might have been necessary to make the products available to market).

Then as other solutions in the market place is entering, the price is lowered to remain competitive.

Often the pricing is lowered in several stages, as the seller is aiming at generating as much return on the product as possible until such time as the price has settled at a competitive market price along competing products.

You'll often see this kind of pricing strategy with pharmaceuticals.

The Price Skimming Calculator tallies up what you project to make from your price skimming activities

Phase	Price	Units Sold	Projected Revenue	Projected Gross Profit
Product Cost to Produce				£ 100.00
Phase 1 Pricing	£ 250.00	1,000.00	£ 250,000.00	£ 200,000.00
Phase 2 Pricing	£ 1,200.00	900.00	£ 1,080,000.00	£ 780,000.00
Phase 3 Pricing	£ 5,000.00	2,000.00	£ 10,000,000.00	£ 9,900,000.00
Phase 4 Pricing	£ 3,000.00	3,000.00	£ 9,000,000.00	£ 8,700,000.00
Final Total		6,900.00	£ 23,230,000.00	£ 21,780,000.00



Bundle Pricing

Bundle pricing is a way of discounting really, but when employed in a smart way, can perhaps make the sale seem more advantageous than the actual percentage/discount offer to the client.

An example is “Buy Two Get Three.

The discount offered is better for the seller than giving e.g. 50% offs, yet the offer may seem very alluring to the consumer.

Seller also benefits from more volume sale, which in its own right may pave the way for the discount to be a great idea.

Bundling products or services with other products or services that are complementary can often be a great idea to make the value seem much higher without necessarily driving up the cost for the seller of the products or services.

Discriminative Pricing

For some products or services it may be a good idea to offer discriminative pricing. E.g. you may have special rates in the cinemas or to parks, or for transportation services for senior citizens or children under a certain age.

Geographical Pricing

In certain geographical markets the dispensable money available among the citizens may be less than in other geographic areas, and so it may make sense to lower prices to such regions.



You may see examples of this with medicine which in e.g. Europe, would be considerable higher than the same medicine offered in e.g. many African countries.

Subscription Pricing

The subscription model has really seen a blossoming the last few years.

I believe one of the first notable movers of changing e.g. the pricing for software was that of Adobe.

Adobe offers a creative suite of several programs including Acrobat Pro / Premium, Photoshop and many more.

It used to be that one would have to buy the suite (or single individual software programs), and these came at a relatively high price.

Then Adobe did away with this model, and instead offered the solutions or programs/suite as a subscription model.

With the program sales, consumers would often skip a new product release (perhaps even for several generations of releases) in order to save money. But with the subscription plan, as soon as you stopped the subscription you basically lost your ability to use the programs.

The subscription plan was offered at what may seem like a good price (and includes all future updates and new releases as long as you keep paying your subscription), and because you would lose the programs if you didn't continue your subscription you stick with the subscription for a long time.

It's a great win for Adobe, who now has consistent and budget-able revenues. They introduced the change in 2011 to stakeholders. In 2013 they had an annual revenue of \$200 million. Today their annual revenue is \$5 billion. They are now a \$95 billion company.



Since Adobe made this change most other large software offers followed suit. Microsoft followed suit early 2013.

Psychological Pricing

Ever wondered why so many prices are ending in a number containing 95, 97 or 99?

Well, it's because that tests have showed that psychologically these prices do better with sales than other prices.

Charging for a candy bar at \$1.99 may sell a lot more candy bars than charging for them at \$2.00. Overall sales and over profits by far exceeds the "loss" the 2 cents per candy bar.



From what I've seen, most business owners and entrepreneurs have no formal business education or have ever been privy to great business methods or systems. Most are really great tradesmen or trades ladies, but they have built their business on intuition and with a lot of sweat equity.

I know how it is. It's to large degree how I have run a lot of my businesses in many of my earlier years.

Although I have some ivy league schooling in my background (have attended, University College of London (UCL, in London, England), Columbia University (in NY/NY), and Harvard (in Cambridge, MA), none of my schooling was really business education.

Well, OK Harvard was, but only for a relatively small area concerning Delivering Excellent Service.

No, the way I ran most of my businesses was by following gut, intuition, observing others, and by trial and error.

However, this just doesn't cut it when you want to consistently help others with extremely great speed because you know that otherwise you come at too high an investment. No, for that to work you need a real system and method that you have found to work consistently, and pretty much without fail.

I personally wish, I had such method and system back in my earlier days in business. Although I had some great results back then, I can see, how I would have gotten so much more out of my efforts with the system and method I'm now using.

Thankfully, the past many years I've had such a system, and that coupled with my personal lifelong experiences from business, from all over Europe, US and Canada, and covering a myriad of industries, has helped me to be able to consistently deliver results and left me in a position where I can actually help business owners "fix" their businesses.

In my pursuit and mission to help as many people as possible, I've decided to create and offer the how to and the business system in my signature program:

The Automated Millionaire Business System.

- Mikkel Pitzner



When we looked at the dynamics of business in the video on Gross Profit & Gross Profit Margin and the Dynamics of Business, we saw that even relatively small improvements in our efficiency could spell a lot of dollars added to our bottom line.

I urge you to perhaps revisit that video and the associated PDF, so you can get motivated to make some positive changes in your business.

If you need some further help, I suggest you consider our program

The Automated Millionaire Business System

that also comes with Weekly Group Coaching Calls so you're not alone in your quest to "fix" your business, so you can finally get the results you really deserve.



Discounting

Discounting hold strategies that can be very powerful to increase demand, get new sales started, penetrate a market, get excess stock moved and dated goods liquidated.

But discounting can also hold some serious pitfalls that most of the business owners I have met do not think of.

Because this is not only an important area, but also a large discussion on its own, I will deal with this in its own separate document in The Automated Millionaire Best Business Practices series.

READ THE GREEN BOX BELOW AND YOU'LL UNDERSTAND JUST HOW IMPORTANT IT IS THAT YOU GAIN FULL INSIGHTS IN THE AREA OF DISCOUNTING:

If you sell your product or service at a gross profit of 40%:

- Offering a 5% discount means you need to sell **14% more volume** to make the same dollar amount of gross profit.
 - Offering a 10% discount means you need to sell **33% more volume**.
 - Offering a 20% discount means you need to sell **twice as much!**
 - Offering a 30% discount means you need to sell **four times as much!**
 - Offering a 40% discount means **you don't break even no matter how much you sell!**
-
- These numbers also work in reverse. The higher your price, the less volume you have to produce for a given dollar amount of profit! Even a small price increase can generate significant additional profit.



“Obviously the better you can manage your costs, the better you will be able to actually apply all the right math to ensure that your business ends up making the desired profit. But as your costs rise, and you start adding on all these factors, your selling price quickly becomes very large and possibly so large that you now are no longer competitive in your marketplace.

Helping our clients we typically make changes in the efficiencies of the clients’ businesses, so that by being more efficient the costs of producing what they are selling goes down. Efficiency improvements can often really move the needle a lot even with what can seem like small efficiency improvements.

Using a specific method and system helps to bring forth these improvements and helps the implementation of results improving changes.

This is largely what I teach in my programs. I stress the importance of business owners getting a true understanding of how these dynamics work, so they can get a better grip on their business, and then help them and their teams implement an easy to follow 8 simple step business system that has proven to be repeatable, effective and successful.

By the short time the business owner and his/her team has gone through the program, they are now equipped to continue the path on their own and are now capable of creating the desired results knowing what to do in order to get there and in order to secure their success.”

- Mikkell Pitzner



A lot of what's keeping business owners from success is their lack of business acumen.

Don't get me wrong. Pretty much all the clients I have had the privilege to serve and help, have been very smart and intelligent people. I have the utmost respect for the fact that they have often created the business they have.

Often said business used to provide great results, but as time passed and the business grew the results became more lackluster and soon enough the business landed in trouble.

What often happened is, that the business grew, but the business owner's acumen and knowledge of business did not grow alongside.

That's the gap I'm hoping to help bridge. With better understanding of business and better insights, you can make better and educated decisions that can lead to much improved results.

Without the business acumen at the right levels, and without knowing these matters well, you are just making uneducated decisions, and that is very dangerous, when you run your business.

Again, running a business truly well for profits, is to large extend a matter of attaining the right knowledge and insights as to how to do so, and implementing sound and efficient systems.

But as you can see, it is remarkable improvements that can be made by positively affecting your business in one or several areas.

Colleagues and myself have successfully implemented a system in many companies helping to turn their results from struggling positions to truly successful companies or helping successful companies perform even greater."

- Mikkel Pitzner



If you wish to see how this system works, so you can implement this in your business, then simply click the link below:

**How To Turn Around Any
Business In 8 Simple Steps**



Key Takeaways

- How do you decide what to charge for your product or service? The specifics will be different for every business, but it comes down to one thing: VALUE.
- If your customers can see the value of buying your product or service, they'll happily pay the price.
- If they don't see that value, it makes little difference how low you set your price, the customer will look somewhere else for the perceived value, even if "somewhere else" costs more than your product or service!
- it helps to understand that customers are not actually buying a product or service. They are buying a SOLUTION to a perceived problem or need.
- Fill that need at a price they can afford and you'll have no shortage of potential buyers for your product or service.
- If you can show your customers that your product or service will save them lots of time, money, and/or aggravation, you may be able to charge more.
- If you already provide your customers/clients good service at a fair price, most will have very little objection to a modest price increase



Special Video Training On This Subject

For Special Video Training On This Subject,
Including The Subject Of Pricing, And How To Price For Profits And Success

Pricing For Profit



How To Turn Around Any Business In 8 Simple Steps

Or

The Secrets Method Of A Successful Turn Around Agent

Mikkel Pitzner, founder and creator of The Automated Millionaire, its programs and its coaching, has been an entrepreneur all his adult life and his business endeavors have taken him and his activities all over. From initial activities in Denmark to activities in Sweden, Norway, Poland, Germany, England and the United States.

He has been engaged in all kinds of business from all industries and on all levels inside business.

Following obtaining the coveted Green Card, Mikkel soon commenced working with one of the largest and most successful business consulting companies in the US



and soon ranked among the top 3 consultants there among some 1,300 esteemed colleagues.

The time with the large consulting company rapidly exposed Mikkel to a huge multitude of companies from all kinds of industries and of all sizes, spread all throughout the US and Canada.

Most of these companies were in need of help. Many of the companies were downright struggling for survival, but in very short time with the help of Mikkel, these companies were soon on a new path towards prosperity.

“Through all the experience of helping these companies, I learned some great insights.

One of these is the fact that actually most businesses can be turned around fast even if everything appears really doom and gloom. I also learned to even greater extent that in all businesses there’s cash to be found.

With the help of the consulting company and my brilliant colleagues I also learned a system, which I have now expanded upon to make it even more comprehensive. An accessible framework that can be used in any business, to turn it around or to make a great business even greater.

This framework and system truly is How To Turn Any Business Around In 8 Simple Steps.

The bases of this system or method has been successfully incorporated with several hundreds of thousands of businesses by me and many of my colleagues collectively.

It is HIGHLY EFFECTIVE and it just downright WORKS. I have yet to find a business in which it wouldn't work.



Want to access a quick overview of the 8 Simple Steps?

Just click the link below and I'll show you the method so you can incorporate it in your business now:

- *Mikkel Pitzner*

**How To Turn Around Any
Business In 8 Simple Steps**



About The Automated Millionaire

The Automated Millionaire helps small and medium sized businesses achieve greater profits and more efficiently run operations without having to work harder and does so by implementing a specific business method called The Automated Millionaire Business System.

The Automated Millionaire is founded by Mikkel Pitzner, who is also the creator of The Automated Millionaire Programs and Coaching.

To Get A Free Taste Of Some Of The Insights Of The Automated Millionaire That You Can Use In Your Business Click The Button Below:

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Further Resources

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