



Pricing Services

Introduction

Setting the right price for your services is essential for profitability and business sustainability. Many service providers struggle with pricing because they don't fully account for all costs. This guide will help you accurately calculate your service prices, ensuring you cover expenses, allocate overhead properly, understand market dynamics, and generate a fair profit.

Key Components of Service Pricing

To determine a profitable and competitive price, consider these essential factors:

1. **Direct Costs** – Expenses directly tied to delivering a service, such as materials and labour.
2. **Overhead Costs** – Indirect expenses required to run your business, such as rent and administrative costs.
3. **Profit Margin** – A markup ensuring profitability and business growth.
4. **Market Positioning** – Understanding competitor pricing and how your services compare in value.
5. **Customer Perception of Value** – Setting a price that reflects the benefits your service provides to customers.

Your final price should encompass all these elements to prevent underpricing and financial losses while ensuring market competitiveness.

Step 1: Conduct Market Research

Before setting your prices, it's crucial to research:

- **Competitor Pricing** – Analyze what similar businesses charge for comparable services.
- **Customer Expectations** – Understand how much customers are willing to pay and what they value most.
- **Industry Standards** – Learn about pricing norms in your sector to ensure competitiveness.

If your services provide additional value (e.g., exceptional customer service, convenience, or premium quality), you may be able to charge a premium price.

Step 2: Calculate Direct Costs

Materials & Supplies

If your service requires materials (e.g., hair products for a salon, cleaning supplies for a janitorial business, or parts for a repair service), list these costs per job. Keeping an up-to-date cost inventory ensures accurate pricing. When calculating material costs, consider:

- **Purchase price per unit** – The cost of acquiring materials from suppliers.
- **Waste factor** – Some materials may be wasted during use (e.g., fabric cutting waste, excess paint, or disposable supplies).
- **Storage and handling costs** – Some materials require storage facilities, which should be factored into pricing.
- **Bulk pricing and discounts** – Buying in bulk may reduce per-unit costs but requires upfront capital.

Calculating Material Costs Per Job	Cost Per Unit	Units Required	Total Cost
Paint	\$30/gallon	2 gallons	\$60
Brushes & Rollers	\$5/each	3 units	\$15
Tape & Coverings	\$10/roll	1 roll	\$10
Total Material Cost			\$85

Labour Costs

Your labour cost per hour should include not just wages but also employer-paid expenses such as:

- Canada Pension Plan (CPP) Contributions
- Employment Insurance (EI) Premiums
- Workers' Compensation (WCB/WSIB)
- Vacation Pay & Statutory Holidays
- Health Benefits (if provided)

Calculating Total Labour Cost Per Hour	Cost Per Hour	% of Wages	Additional Cost
Hourly Wage	\$25.00		\$25.00
CPP & EI		7.5%	\$1.88
Workers' Compensation		3.0%	\$0.75

Vacation & Holiday Pay		8.0%	\$2.00
Health Benefits		5.0%	\$1.25
Total Direct Labour Cost Per Hour			\$31.88

This example shows that while an employee is paid \$25/hour, the actual cost to the business is \$31.88/hour when all additional expenses are included.

Step 3: Calculate Overhead Costs

Overhead costs include expenses necessary to operate your business but not directly tied to a specific service job. Examples include:

- Office rent/mortgage
- Utilities (electricity, internet, phone)
- Marketing & advertising
- Business insurance
- Software & technology subscriptions
- Office staff salaries

To allocate overhead costs properly:

- Determine your total monthly overhead expenses.
- Estimate the total number of billable hours per month.
- Divide total overhead by total billable hours to determine overhead cost per hour.

Allocating Overhead	Monthly Cost
Rent & Utilities	\$2,500
Insurance	\$300
Advertising	\$400
Admin Salaries	\$2,500
Software & Misc.	\$300
Total Monthly Overhead	\$6,000

If the business averages **120 billable hours per month**, the overhead cost per billable hour is:
 $\$6,000 \div 120 \text{ hours} = \50 per hour

Step 4: Select a Pricing Strategy

Different pricing strategies work for different businesses:

- **Cost-Plus Pricing** – Adding a fixed percentage markup to cover profit.

- **Value-Based Pricing** – Charging based on the perceived value to the customer.
- **Competitive Pricing** – Aligning with competitors' rates.
- **Penetration Pricing** – Setting lower initial prices to attract customers before adjusting upwards.

Choosing the right strategy depends on your costs, target market, and competitive positioning.

Step 5: Add Your Profit Margin

Your profit ensures your business remains sustainable and can grow. Profit margins vary by industry, but a 30% to 50% markup on total costs is common.

Formula for Selling Price = (Direct Costs + Overhead Costs) × (1 + Profit Margin %)

If Direct Costs = \$31.88 per hour and Overhead Costs = \$50 per hour, the total cost is \$81.88 per hour.

Adding a 30% profit margin results in: $\$81.88 \times 1.30 = \106.44 per hour.

Thus, the final service price should be \$106.44 per hour.

Common Pricing Mistakes to Avoid

- **Underpricing Services** – Failing to account for all costs leads to financial losses.
- **Ignoring Overhead Costs** – These must be included in your pricing structure.
- **Not Adjusting for Market Changes** – Regularly reviewing prices ensures competitiveness.
- **Failing to Charge for Admin & Prep Time** – Time spent on scheduling, invoicing, and client communication should be accounted for.

Conclusion

Setting the right price requires a balance of cost analysis, market positioning, and value perception. By following these steps, you can ensure your pricing covers costs, aligns with market expectations, and supports long-term profitability.

Regularly review your pricing to adapt to changes in costs, competition, and customer expectations. This aid discusses costing and pricing of services to assure that each job earns a reasonable profit. The figures used in the tables and examples do not reflect what your service costs, prices, and profits actually would or should be. The figures are used to demonstrate costing and pricing and are rounded off for further simplicity. Because of the importance and sometimes complexity of costing and pricing, it is good business practice to consult your trade association and particularly your accountant to learn what are the best current practices, cost ratios, and profit margins in your service business.