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Tips for tricky task of raising prices

More small businesses think about changing price structure as inflation threatens.

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When Julie Melillo started out as a business and personal coach in 2005, she decided to charge a low hourly rate while she established her business. She had to raise her fee when she moved from Arizona in 2007 because of New York's higher operating costs and because she realized she had undervalued her work.

Her rate, now more than quadruple the original one, still isn't where it should be, Ms. Melillo says. It will probably go up “in the next year or so” as she takes on new clients, she added.

Many entrepreneurs are concerned about keeping their businesses profitable as inflation threatens to increase overhead expenses. An April survey by the National Federation of Independent Business found that 24% of its members planned to raise prices for their goods or services, compared with 9% a year earlier.

Obviously, getting customers to pay more isn't a simple matter. Changing its price structure is a critical decision for any small business, according to Jim Neuwirth, president of Manhattan-based Northstar Research Partners.

“There's a risk of alienating your customer base,” Mr. Neuwirth said.

Experts and entrepreneurs offer these tips to determine if and how your business should raise prices.

1. GATHER MARKET INTELLIGENCE.

Find out what competitors are doing before you make a move, says Jim Joseph, president of Lippe Taylor, a marketing and communications firm in Manhattan.

“If they're raising prices, you have a bit more license,” Mr. Joseph said.

If they're not, you'll likely have to look for other ways to maintain your margins.

2. DO A SMALL-SCALE TEST.

A pilot hike will help you gauge customer reactions and mitigate risks, according to Bruce Bachenheimer, clinical professor of management and director of the entrepreneurship program at Pace University.

For example, if you have two stores, raise prices on select items or at just one location, Mr. Bachenheimer says.

3. CONSIDER THE WILLINGNESS TO PAY.

Some industries have it easier than others.

Professional services providers may find that their clients will bear fee increases, because “businesses are recognizing the importance of having good strategic advice,” said Ronald L. Walker, president and founding partner of Next Street, a merchant bank that works with many small companies and has offices in Boston and New York.

But things become more complicated for a vendor of mass-market shoes, for instance, which customers may defer purchasing if the merchandise is too expensive. In such cases, Mr. Walker said, owners might have to restrict their inventory and sell “only those shoes that will give them their margin.”

4. LET DATA BE THE GUIDE.

Many entrepreneurs make the mistake of relying on gut instinct to decide about increases, Mr. Walker said. Instead, you should use real numbers, such as the information collected through a point-of-sale system. Look for clues that indicate your customers' tipping point on price.

5. PHASE OUT OLD RATES GRADUALLY.

To arrive at her current fee schedule, Ms. Melillo began charging new clients more, rather than trying to upgrade existing ones.

“That made it easy for me,” she said.

6. BE TRANSPARENT.

Explain price increases to customers rather than trying to gloss over the reality, Mr. Neuwirth says. “It shows customers you are treating them fairly and with respect,” he said.

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