



Raising Fees in Small Business

Most of us in small, intensely personal businesses are reluctant to raise our fees. I know that I am.

I know why, too. It's not the pain of listening to clients complain about my increased fee, although wanting to avoid that pain is certainly a factor.

And it's not driven by the need to stay competitive with other local providers.

One of the professional organizations in my field has just published its annual fee survey. We use this survey as part of our decision-making process not only for setting our fees, but also for establishing compensation rates for our employees.

For me, by far the most valuable page of the 70 page document is the one that lists the reasons people give for not increasing their fees.

Here is a selection of reasons for not increasing fees:

- *"Biggest complaint I get is that competitor's fees are outrageous."*
- *"Other competitors had lower fees."*
- *"New in the business."*
- *"Market does not call for fee increase."*
- *"Have switched software to keep prices the same."*
- *"To get new clients."*

All of these reasons are certainly valid, at least to a point. But there is a part of me that wonders where the valid part ends and where the excuse part begins.

Here's what I am thinking: Low prices tend to attract and retain customers who base their buying decisions primarily on price.

The problem of course is that these customers will leave whenever they see a competitor who charges \$5 less than you.

After all, that's why they came to you in the first place!

In a free market economy, we are all free to price our goods and services based on our assessment of the relative worth of what we provide.

Pricing is a complex undertaking, and one of the most important things we do. A small business

is usually close to his or her customers, and tries very hard to be fair to those customers.

In my experience, in trying to be fair to the customers, we end up being unfair to ourselves. We value our customers more than we value ourselves, our work, and sometimes our families.

Inflation in our economy has been relatively benign the last few years, running somewhere between 1% and 3% per year.

The financial planners and those whose business it is to help us accumulate wealth talk about the miracle of compound interest over time.

A \$10,000 investment made early in life can easily reach \$40,000 at retirement age.

Inflation is really the negative side of compound interest. Over time, inflation erodes purchasing power and wealth just as readily—and in far more damaging ways.

Thus, a business owner who says s/he will not increase prices this year has just taken a pay cut.

This owner will end up working more hours, or serving more customers, just to maintain their current income level.

If prices are held constant for several years, the negative aspect of compound interest will generate significant revenue shortfalls, and imperil the life of the business.

Personally, I think we look for excuses not to increase fees. I know I do. So I tell myself, "I don't want to be the most expensive guy on the block, but I don't want to be the cheapest, either!"

And I want to stay in business, provide for my family, compensate my employees fairly, and maintain a cash reserve "just in case".

So far all this is about not raising fees. But that survey has a whole list of reasons why people decreased their fees. Here's a sample.

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- *“To stay competitive”*
- *“Difficult year for customers”*
- *“Keep from losing customers”*
- *“Charge by their ability to pay”*
- *“Slow economy”*

Again, these are all valid reasons.

But they can also be valid excuses, and that’s the point!

Most of my customers don’t want my fees to increase significantly. But I’d like to think that most of my customers want me to stay in business year after year, to keep the same people year after year, and to be open on a year-round basis.

Most of us in small businesses ask ourselves the following question: “Should I raise my prices this year?”

That’s the wrong question for a lot of us. We should turn the question around.

We should ask ourselves “Why should I not raise fees this year?”