

↗ GROWTH

Pricing & margins

Know what each product or job really earns, and price with confidence. A small change in price usually has a bigger effect on profit than any cost saving.

Margin and mark-up are not the same

Gross margin = (price – direct cost) ÷ price

Mark-up = (price – direct cost) ÷ direct cost

MARK-UP ON COST	25%	33%	50%	100%
Gross margin	20%	25%	33%	50%

Pricing at “cost plus 25%” gives a 20% margin, not 25%. Confusing the two is one of the most common reasons businesses are busier than they are profitable.

The power of price

Take a business with sales of £1m, direct costs of £600,000 (a 40% gross margin) and overheads of £300,000, making a profit of £100,000.

A **5% price rise** with no loss of sales adds £50,000 to gross profit, and increases the bottom line by **50%**, to £150,000.

Discounts cost more than you think

AT A 40% GROSS MARGIN	EXTRA SALES NEEDED TO STAND STILL
5% discount	14% more volume
10% discount	33% more volume
20% discount	100% more volume

The reverse also holds. After a 10% price rise, you could lose 20% of your volume and still make the same gross profit.

At a glance

+50%

profit from a 5% price rise, in the example

33%

more sales needed to pay for a 10% discount at a 40% margin

15%

employer National Insurance, a cost to price in

Signs you are underpriced

- ☐ You rarely lose a quote on price
- ☐ You are busy, but profit is not growing
- ☐ You have not raised prices for over a year
- ☐ Wages, materials and energy have gone up
- ☐ Your prices are copied from competitors

Know your true costs

- **Direct costs:** materials, subcontractors and the labour used on each job or product.
- **Labour at its full cost:** employer National Insurance, pension contributions, holiday and non-chargeable time, not just the hourly wage.
- **Overheads:** rent, systems, insurance and management time, recovered through a realistic hourly rate or margin.
- **Contribution:** what each product, job or customer leaves after its direct costs to pay for overheads and profit.

Break-even

Break-even sales = fixed overheads ÷ gross margin %

In the example, £300,000 ÷ 40% = **£750,000** of sales before the business makes a penny of profit.

Pricing approaches

APPROACH	WHEN IT WORKS
Cost-plus	Simple, but ignores what customers will pay
Value-based	Where you save or earn the customer money
Good, better, best	Tiers let customers choose, and many trade up
Bundles	Raise average order value and reduce price comparison
Minimum charges	Protect margin on small jobs and orders
Annual review	Build in regular, expected increases

How we help

- 01 Profitability analysis** by product, service, job and customer, from your own records.
- 02 True cost rates** for labour and overheads, so every quote covers its costs.
- 03 Price change modelling** showing the effect on profit and the volume you could afford to lose.
- 04 Monthly margin tracking** in your management accounts, so problems show up early.

Before you raise prices

- ☐ Know your margin by product or service, so rises go where they are needed most
- ☐ Give customers notice, and explain what is changing and why
- ☐ Protect key accounts with a conversation, not just a letter
- ☐ Track sales and margin closely for three months afterwards

↗ TALK TO A PARTNER

Which work really makes you money?

We analyse profitability by product, job and customer, and help you set prices with confidence. You deal directly with Doug Murphy or Stephen Thompson, not a rotating account team.

[Book a discovery call →](#)

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