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HOW TO SET YOUR PRICING



TIPS FOR SMALL BUSINESS OWNERS



Take the Guesswork Out of Pricing

As a small business owner or self-employed entrepreneur, determining the right pricing strategy for your products or services can understandably feel overwhelming. You're constantly balancing the need to cover costs, generate profit, and remain attractive to customers.

We understand that many micro business owners rely on imperfect approaches to pricing, like simply matching competitors or going with gut instinct.

However, implementing a deliberate, well-informed pricing strategy can be a lever used to significantly **boost your profitability** and ensure the long-term success of your business.

This guide offers key insights and practical strategies to help you establish effective pricing practices that will support your business growth and sustainability.

Understanding Your Foundation: Calculating Your Costs

Before diving into the specifics of different pricing structures and strategies, a thorough grasp of all the costs associated with running your business and delivering your offerings is essential.

Accurate cost calculation is foundational for making informed pricing decisions and ensuring that revenues adequately cover expenses and provide a healthy profit margin. You can begin this process by focusing on two primary cost categories: fixed costs and variable costs.

- **Fixed costs** are expenses that generally remain consistent, irrespective of production or sales volume. These are often recurring obligations, such as rent, employee salaries, insurance, loan repayments, property taxes, and the depreciation of business assets.
- **Variable costs** on the other hand fluctuate directly with production or sales levels. Examples include raw materials, temporary or hourly staff wages, packaging, shipping expenses, sales commissions, and usage-dependent utility expenses.

Some expenses exhibit characteristics of both fixed and variable costs; these are known as **semi-variable or mixed costs**. A utility bill, for instance, might include a fixed monthly service charge plus a variable usage component. Similarly, a

salesperson's compensation could consist of a base salary plus sales-based commissions. For optimal pricing accuracy, it's advisable to separate the fixed and variable elements of mixed costs.

Calculating the total cost of your products involves summing all direct costs tied to each unit's production (e.g., raw materials and direct labor) and allocating a fair share of total indirect costs (overhead expenses like rent, utilities, and administrative salaries) to each unit.

For businesses selling physical goods, determining the **cost of goods sold (COGS)** per unit is crucial. And service-based businesses must factor in service delivery time, labor costs (including the value of the owner's time), materials or supplies, and overhead allocation. Accurately estimating service delivery time and assigning a realistic value to that time are vital.

Many small business owners tend to focus on immediate direct costs, overlooking the significant impact of indirect or overhead expenses on overall financial health. Furthermore, service-based businesses sometimes undervalue their time, a critical component of their cost structure.

Meticulously calculating all costs, encompassing both fixed and variable elements, is a fundamental prerequisite for developing a sound pricing strategy and should not be overlooked.



FIXED COSTS

VARIABLE COSTS

Common Pricing Strategies for Small Business Owners

Once you have a comprehensive understanding of your costs, you can begin to explore various pricing strategies and identify which one is suitable for your business. Here are several common pricing approaches:

Cost-Plus Pricing

This straightforward method involves calculating your total production or service delivery costs, then adding a markup to determine the final price. For example, if a product costs \$10 to produce and you apply a 50% markup, you'd sell it for \$15.

Cost-plus pricing ensures your costs are covered with a predictable profit margin, is simple to implement and explain, and **promotes transparency** that can build customer trust. However, it focuses inward on your costs rather than customer value, and may lead to overpricing (losing sales) or underpricing (missing profit opportunities). It can also discourage efficiency in project-based work and leaves businesses vulnerable to undercutting by competitors.

While cost-plus pricing remains popular among entrepreneurs starting a business, it works best when combined with market-driven strategies.

Value-Based Pricing

Value-based pricing sets prices according to how much value your product or service creates for customers, not your costs or competitor pricing. This approach asks, "What is this worth to my customer?" rather than "What did it cost me?"

This strategy is particularly effective for micro business owners offering unique, differentiated solutions. If your product saves customers time, money, or solves significant problems, you can price to reflect those outcomes. For example, if your software saves a company \$100,000 annually, charging \$20,000 captures significant value while leaving the customer with a substantial net gain.

Value-based pricing requires a deep understanding of your target market, their needs, and the problems your offering solves. However, when implemented effectively, it can yield higher profit margins while delivering measurable value to customers.

Competitive Pricing

Competitive pricing involves setting prices based on prevailing competitor rates for similar offerings. You might price slightly lower to attract price-sensitive customers, higher to position as a premium option, or match competitor pricing.

This approach helps maintain competitiveness in crowded markets, is relatively simple to implement through competitor monitoring, and can be effective for entering new markets or defending market share. However, competitive pricing often compresses profit margins, may not fully leverage your unique value proposition, can trigger price wars, and ignores your specific cost structure.

While competitive pricing can be appropriate in certain situations, it shouldn't define your entire strategy, especially when building a business with unique offerings.

Penetration Pricing

Penetration pricing sets intentionally low initial prices to quickly attract customers, boost adoption, and gain market share. This approach works particularly well for new entrants in established markets.

This strategy can create rapid traction and positive word-of-mouth. However, it comes with significant risks: bargain-hunters may not remain loyal when prices increase, and low pricing can damage brand perception or trigger price wars with established competitors.

Penetration pricing works best as a short-term tactic paired with a clear plan to shift toward value-based pricing once market share is secured.

Tiered Pricing

Tiered pricing offers multiple pricing levels based on features, usage, or service packages—making it ideal for businesses serving diverse customer segments. From basic to premium, each tier provides increasing value, allowing customers to choose options that fit their needs and budget.

This model boosts revenue potential by tapping into varying willingness to pay, encouraging upgrades over time, and optimizing profit margins at higher tiers. It's widely used by small business owners providing subscription services, software, or consulting.

For **success with tiered pricing**, keep your structure simple with 3-4 distinct options, ensure clear value differences between tiers, and consider creating a high-end "anchor" tier that makes mid-tier options seem more reasonable.

Knowing Your Market: The Power of Research

Regardless of which pricing strategy you choose, thorough market research is essential for growing a business. Research reveals what customers value, what they're willing to pay, and how competitors position themselves.

To gauge customer willingness to pay, you can conduct surveys and interviews for direct feedback, analyze online reviews and social media commentary, and experiment with different price points among small customer segments. For competitor analysis, make sure to identify both direct competitors (offering similar products/services) and indirect competitors (addressing the same customer need differently), and gather detailed information on their pricing structures, discounts, and value propositions. You might also consider using tools for competitor research and price monitoring.

Remember that market research is an ongoing endeavor that should continuously inform your pricing decisions as your business and the market conditions at large evolve.

Highlighting Your Worth: Leveraging Your Value Proposition

A compelling value proposition clearly communicates the unique benefits your product or service offers to target customers. It articulates why customers should choose your business over competitors by explaining how you address their problems, the specific benefits they'll gain, and your distinct competitive advantages.

To effectively communicate your value, clearly articulate tangible benefits and positive outcomes customers can expect. Emphasize the value delivered rather than focusing solely on price. Use customer testimonials, before-and-after scenarios, or quantifiable results to build trust. Be specific—"Reducing response time by 50%" or "Generating \$10,000 in additional sales" carries more weight than more general claims.

Understanding and communicating your value proposition will also help you avoid underpricing, which can result in missed profit opportunities that **stunt business growth**.

Crafting a clear, compelling value proposition is one of the most powerful ways to stand out, attract the right customers, and grow sustainably. Once your value is defined, the next step is making sure it's consistently communicated across all of your messaging.

The Ongoing Process: Reviewing and Adjusting Your Pricing

Pricing is a dynamic process requiring regular review and adjustment. Given the changing landscape of market conditions, competition, and costs, your pricing strategy must remain adaptable to ensure ongoing competitiveness and profitability.

Factors prompting price adjustments include:

- Fluctuations in cost of goods or operating expenses
- Shifts in market demand and customer willingness to pay
- Competitor actions
- Changes in the perceived value of your offerings

Regularly reviewing and adjusting pricing strategies is essential for maintaining profitability amid changing market conditions. Experts suggest that companies should **conduct pricing reviews** quarterly and implement adjustments every six to twelve months, depending on the company's maturity and market dynamics. Neglecting regular price updates can erode profitability as costs increase or market conditions change.

Conclusion: Setting Prices for Sustainable Growth

Establishing the right pricing strategy is an important part of building a strong, sustainable business. It involves understanding your costs, recognizing your value, staying informed about market trends, and being open to ongoing adjustments.

When you approach pricing thoughtfully, rather than relying on guesswork or competitors' cues, you create a foundation for healthy profits and long-term growth.

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This year, we awarded \$15,000 in scholarships to five fantastic young people. We know the winners will put their \$3,000 to good use this school year and we are proud to assist them on their journey.



Joseph Whooley

La Cañada Flintridge, California

Joseph will use the scholarship to attend Louisiana State University where he plans to major in Animal Sciences with the ultimate goal of becoming a veterinarian.



Denivia Rivera

Bronx, New York

Denivia will use the scholarship to attend Hofstra University where she plans to major in Journalism and Dance with the ultimate goal of pursuing a career path in journalism and dance simultaneously.



Alexander Duquette

Staunton, Virginia

Alexander will use the scholarship to attend Virginia Polytechnic Institute & State University where he plans to major in Engineering with the ultimate goal of working on projects that support rural development, clean energy, and community-focused innovation.



Kenzie Huck

Prosper, Texas

Kenzie will use the scholarship to attend University of Texas at Austin where she plans to major in Civil Engineering with the ultimate goal of bringing into existence elaborate structures capable of spanning many lifetimes.



Liliana Mulchy

Pawlet Island, South Carolina

Liliana will use the scholarship to attend Rollins College where she plans to major in Business with the ultimate goal of owning her own salon where she can hire individuals with disabilities and break down barriers.



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Overview of the Key Small Business and Tax Provisions in the July 2025 Reconciliation Package

On July 4, 2025, President Trump signed into law the *One Big Beautiful Bill Act* [reconciliation package]. The bill includes hundreds of provisions, including extended and expanded tax cuts, and deep cuts to Medicaid, food benefits and other social welfare programs. The bill is also projected to add more than \$3 trillion to the national debt over the next decade. Over the course of the last week, Republicans made several last minute changes to the bill, including stripping out controversial

provisions (such as a 10 year moratorium on state-level AI regulations and a sell-off of public lands in 11 western states). The package includes significant additional funding to the Department of Homeland Security for immigration enforcement, and to the Department of Defense.

Below is an analysis of the tax provisions included in the bill, with special attention to provisions that impact small business owners, including tax cuts, paid leave/childcare provisions, etc.



I. TCJA Tax Provisions:

One of the most significant sections of the reconciliation package covers the extension of the *2017 Tax Cuts and Jobs Act (TCJA)*, signed into law by President Trump. Below is a side-by-side comparison of the 2017 TCJA tax provisions and those that were included in the reconciliation package:

	Existing Law	Reconciliation
Pass-Through Deduction	<p>The TCJA created a 20% deduction for qualified income from pass-through businesses like sole proprietorships, partnerships, and S-corps.</p> <p>The benefit phases out for higher earners, especially in service industries, and was set to expire after 2025.</p>	<p>Permanently extends the 20% deduction for pass-through business income from TCJA, currently scheduled to expire after 2025. This deduction is also referred to as 199A or the qualified business income (QBI) deduction.</p> <p>Starting in 2026, provides a minimum \$400 deduction for taxpayers with at least \$1,000 in qualified business income from actively running a trade or business, with both of those figures adjusted for inflation after 2026.</p> <p>Cost over 10 years: \$737 billion</p>

	Existing Law	Reconciliation
Depreciation allowance for qualified production property	The TCJA provided 100% bonus depreciation for machinery and equipment from calendar years 2018 through 2022, declining 20 percentage points each year from 2023 through 2027 until it reaches 0%.	Permanently allows immediate expensing of 100 percent of the cost of qualified property acquired on or after Jan. 19, 2025 Cost over 10 years: \$363 billion
Full Expensing for Domestic Research & Development Expenses	Businesses were required to amortize – or spread out – their deductions for R&D.	Permanently allows immediate expensing beginning with the 2025 tax year. Allows retroactivity to the beginning of 2022 (not just the beginning of 2025) for small businesses that meet an average annual gross receipts threshold of \$31 million or less. Cost over 10 years: \$141 billion
Expand Business Interest Deductions	Before the TCJA, both C-corporations and pass-through businesses could deduct 9% of income from qualified domestic production activities (Section 199). About 70% of the benefits went to C-corps, and 30% to pass-throughs. TCJA permanently repealed this deduction in 2018.	Permanently restores a more generous interest deduction limit that was in place from 2018 through 2021 under TCJA, retroactive from January 1, 2025 onwards. The more generous interest deduction limit is based on earnings before interest, taxes, depreciation, and amortization (EBITDA) rather than earnings before interest and taxes (EBIT). The EBIT standard went into effect in 2022. Cost over 10 years: \$61 billion
Opportunity Zones (OZ)	Investors can elect to temporarily defer tax on capital gains that are reinvested in a Qualified Opportunity Fund (QOF). The tax on the gain can be deferred until the earlier of the date on which the QOF investment is sold or exchanged, or Dec. 31, 2026. If the investor holds the investment in the QOF for at least ten years, the investor may be eligible for a permanent exclusion of any capital gain realized by the sale or exchange of the QOF investment.	Establishes a new, permanent OZ program, with OZ designations every 10 years starting as early as Jan. 1, 2027. Tightens the requirement for OZ designations to be in low-income census tracts, with median family income not exceeding 70% of statewide median income (as opposed to 80% in current law). Requires realization of gains in the fifth year of any given 10-year OZ window. Provides a bonus “basis boost” for OZs in rural areas, at 30% of the investment instead of 10%. Cost over 10 years: \$41 billion
Itemized Deductions	The TCJA suspended for 2018 through 2025 a large group of deductions lumped together in a category called “miscellaneous itemized deductions” that were deductible to the extent they exceeded 2% of a taxpayer’s adjusted gross income.	Makes permanent the termination of most miscellaneous itemized deductions and imposes a new limit on all itemized deductions Cost over 10 years: \$24 billion
Exception to Limit of Deductions for Business Meals	TCJA generally eliminated the deduction for any expenses related to activities considered entertainment, amusement or recreation. However, under the law, taxpayers can continue to deduct 50% of the cost of business meals if the taxpayer (or an employee of the taxpayer) is present and the food or beverages are not considered lavish or extravagant.	Preferential treatment for meals provided to crew members on a commercial vessel, certain fishing vessels or certain fish processing facilities. Under TCJA, businesses face new limits starting in 2026 for deducting business meals, including those provided on-site to employees.

	Existing Law	Reconciliation
Expensing for Small Businesses	<p>Before the TCJA, the government capped business taxpayers' Section 179 deduction at \$500,000, with a phase-out beginning at \$2 million.</p> <p>The TCJA raised the deduction limit to \$1 million and the phase-out threshold to \$2.5 million, including annual adjustments for inflation.</p>	<p>Expensing for Small Businesses</p> <p>Increases the sec. 179 expensing allowance targeted at small businesses, from a maximum of \$1.25 million in 2025 to a maximum of \$2.5 million in 2025.</p> <p>Raises the threshold at which the allowance begins to phase out, from \$3.13 million in sec. 179 property in 2025 to \$4 million in sec. 179 property in 2025.</p> <p>Cost over 10 years: \$25 billion</p>
Standard Deduction	\$15,000 single; \$30,000 married filing jointly for 2025	<p>Increase by \$750 (\$1,500 for couples) in 2025 and make permanent with inflation adjustments.</p> <p>\$15,750 single; \$31,500 married filing jointly for 2025</p> <p>Cost over 10 years: \$2,193 billion</p>
Bonus Deductions for Older Adults	\$1,600 for age 65 and older for 2025; \$2,000 unmarried/not surviving spouse for 2025	<p>Make permanent the termination of personal exemptions (they were replaced by a larger standard deduction and child tax credit in the 2017 tax bill) and add an additional \$6,000 deduction for seniors (65+) for tax years 2025-28</p> <p>*Those eligible would receive the full deduction if their adjusted gross income is up to \$75k for a single filer and \$150k for those married/filing jointly. For taxpayers above the thresholds, the deduction would phase out at a 6% rate.</p> <p>Savings over 10 years: \$1,807 billion</p>
State and Local Tax Deductions (SALT)	\$10,000 limit through 2025	<p>Cap itemized deductions for state and local taxes at \$40,000 per household; increase annually; then revert to \$10,000 in 2030. The current cap is set to expire next year, so any cap imposed would save the government money.</p> <p>Savings over 10 years: \$946 billion</p>
Child Tax Credit	Max credit of \$2,000 per child through 2025; refundable portion of \$1,700 for 2025	<p>Permanently increase to \$2,200 in 2026 and require a Social Security number from one parent.</p> <p>Taxpayers must earn at least \$2,500 in annual income to qualify for the refundable portion (\$1,700) of the tax credit.</p> <p>Cost over 10 years : \$817 billion</p>
Estate and Gift Tax Exemption	\$13.99 million for single filers; \$27.98 million for married filing jointly for 2025	<p>Increases and permanently extends the estate and lifetime gift tax exemption: \$15 million single; \$30 million married filing jointly for 2026</p> <p>Cost over 10 years: \$212 billion</p>

	Existing Law	Reconciliation
Charitable Deduction for Non-Itemizers	The 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act allowed an above-the-line deduction for non-itemizers for individual contributions of up to \$300 for charity. This policy was temporarily expanded in 2021 by increasing the above-the-line limit to \$600 for married couples. It expired at the end of 2021.	Creates a deduction for charitable contributions from 2026 onwards for those who do not itemize deductions, equal to \$1,000 for single taxpayers and \$2,000 for married couples. Cost over 10 years: \$74 billion

II. New (Non-TCJA) Tax Provisions:

The package also enacts a number of new tax provisions that will only last through the remainder of President Trump’s term, meaning they will expire in 2028 unless they are continued via Congressional action.

No Tax on Overtime:

- Adds a deduction for qualified overtime compensation from 2025-2028
- There is a limit of \$12,500 on the amount of the deduction (\$25,000 for married couples)
- The deduction applies to the extra compensation a taxpayer earns overtime, not their entire compensation during (if a taxpayer regularly makes \$20 per hour and \$30 during overtime, the deduction would only apply to the \$10 per hour in extra compensation)
- The deduction phases out at a 10% rate for single taxpayers making less than \$150,000 and married couples making more than \$300,000
- **Cost: \$89 billion**

No Tax on Tips:

- Adds a deduction for qualified tips from 2025-2028
- Includes a \$25,000 limit on the amount of the deduction, and the deduction is generally limited to occupations that the Treasury certifies “customarily and regularly” receives tips before 2025.
- The deduction phases out at a 10% rate for single taxpayers making \$150,000 and married couples making more than \$300,000.
- **Cost: \$31 billion**

No Tax on Car Loan Interest:

- Creates a new deduction for certain auto loan interest from 2025-2028
- The deduction is limited to \$10,000 overall and phases out at about 20% for single payers making above \$100,000 and married taxpayers making above \$200,000
- The deduction only applies to vehicles that are completed (i.e. assembled) in the US and only applies to new vehicles (not used vehicles)
- **Cost: \$31 billion**

“Trump Accounts”:

- Creates new savings accounts called “Trump Accounts”, only available to children under 18 in a given year, and the contribution limits are generally \$5,000 per year, adjusted for inflation
- Amounts from the Trump Accounts may not be distributed to beneficiaries until after they have turned 18
- A pilot program provides \$1,000 credit to Trump accounts for U.S. citizens born from 2025-2028
- **Cost: \$15 billion**

Katie Vlietstra is NASE’s Vice President for Government Relations and Public Affairs; You can contact her at kvlietstra@nase.org.