



# How to Price Strategically

You could see vast improvements to your revenues and client base by changing your approach to pricing.

By Jean Hardy Robinson & Tracey Foreman

**T**oo many nonprofits don't price their services at all. Knowing that many government contracts prohibit them from passing on costs to clients eligible for public support, nonprofits often overlook the chance to broaden their client base. Two distinct practices prevail:

- Nonprofits refuse services to those who aren't eligible for subsidies based on federal-government income formulas.
- Nonprofits offer services without charge to those who could afford to pay all or a portion of the costs if asked.

A better strategy is to use the practice of price discrimination. When you do so, you adopt a deliberate pricing formula that runs the continuum from clients paying what they can on a sliding scale to clients paying the full cost of services. Even if you depend on government contracts, this practice lets you offer services to more lower-income Americans and make decisions that support sound fiscal management and mission fulfillment.

## Open the Doors to Lower-Income Families

An executive director, in concert with an accountant, can lead an organization into the practice of pricing. A number of administrative steps are necessary to support this approach:

This practice lets you offer services to more lower-income Americans.

Use cost accounting methods that quantify the costs of all your services and programs. Accurate costing of nonprofit services and products forms the basis for sound pricing decisions.

**Identify** all major competitors, including nonprofit and for-profit organizations, and document what they charge for their services.

**Formulate** a price-discrimination policy to complement third-party/government subsidies or reimbursement for services to the very poor.

**Establish** procedural changes to manage one or more of the following options:

- **Voluntary Pricing**—clients pay what they can or are willing to pay
- **Honor System Ability to Pay**—sliding scale discounts or scholarships built on a client's statement of ability to pay
- **Documented Ability to Pay**—sliding scale discounts or scholarships requiring documentation of a client's ability to pay
- **Preferential Pricing for Bundled Services**—may be used to encourage memberships
- **Full Price**—full recovery of costs or market rate prices for defined groups of self-pay clients.

**Reach out** to new constituencies by marketing services in ways that

resemble (but aren't identical to) private-sector marketing.

**Measure** your added income and enhanced position in the community—in other words, the social return on investment that results from a broader socio-economic client base.

**Appeal** to new and existing funders who encourage pricing as a way of expanding income and reaching more clients.

**Conduct** market research to determine the market value of your services and programs. Market research into prices charged by for-profit competitors is extremely informative. Service providers need to conduct market research frequently to determine the value of their services to those who already purchase the service from the private sector. For example, nonprofit providers of in-home care need to know that local market rates for an identical service are often double the reimbursement rate from the state. While market research isn't the focus of this article, it's critical to successful pricing. You don't need to maintain market-research expertise in-house; you can outsource it.

## Examples of Pricing Models

**1. Voluntary pricing:** National Public Radio's fund drives are based on a blend of voluntary pricing and giving. Listeners use the service and then pay or give what they think it's worth, tempered by what they're willing to pay (or give).

For an example in human services, consider the many frugal seniors

## Don't forget to measure your social return on investment.

who benefit from nutritious meals offered at neighborhood sites or delivered to their homes by a sponsoring nonprofit and volunteers. Many clients voluntarily pay a “suggested price” of \$2 to \$5. Others pay more for a lunch and social interaction. This payment makes a huge difference in attitude for those who don't want to accept charity but can't afford to eat out regularly at restaurants.

This same sense of pride and personal responsibility causes some lower-wage families *not* to seek out programs they need, because they perceive that these services are meant for the very poor. If told the cost of delivering a needed service, and asked what they're willing to pay in money or volunteer time, many working poor people or those on low fixed incomes would use the service and pay for it. Some soup kitchens and food pantries have introduced this concept. Habitat for Humanity is famously successful with its model of engaging recipient families in the labor of building their houses.

In his award-winning book, *Begging for Change*, Robert Eggers challenges every nonprofit to ask all service recipients what they can give back. Asking lower-wage clients what they can pay is consistent with this “contract” based on a respectful exchange.

**2. Full price plus a sliding-scale discount or scholarship structure, based on documented ability to pay:** Perhaps the most widespread acceptance of pricing that includes a highly developed system to measure need is higher education. Families routinely provide information about income and assets through a standardized form. Colleges use this information to determine the tuition price.

**3. Hybrid models:** There are a number of hybrid pricing models, such as discounted fees for members. Thus, an organization like

the Girl Scouts or YMCA offers reduced fees to members for camps, classes, or even child care. These pricing discounts support diversity and membership growth by bundling benefits that have clear financial value. The same organizations may establish higher non-member prices for the same programs or use of facilities.

### Pricing Offers Many Benefits

When you price your services, you will see numerous returns:

**Improved service quality:** Pricing services has a positive effect on service quality, in part because those who pay for a service demand high quality. Market demand is one measure of success.

**Diversity:** More socio-economic client diversity benefits those receiving human services and the professionals serving them. For example, job training organizations frequently report that clients who are mandated to attend classes and who have no required co-pay are less likely to achieve desired outcomes than those who “self-select” and invest even a modest amount of money in the training. Many lower and middle income adults need retraining, and their inclusion in the classroom can improve the classroom culture for all participants.

**Increased revenue:** The income earned from higher pricing can diversify your revenue stream, adding a greater and more secure source of funds.

**Removal of stigma:** Most clients welcome a chance to pay what they can afford, thus freeing themselves from the stigma of “charity.” (Of the nine million working female heads-of-household in the U.S. who earned between \$10,000 and \$40,000 per year in 2007, only 5% accessed any public benefits or services.)

**Stronger position with government funders:** Nonprofits that de-

velop credible cost accounting will strengthen their case to government agencies for contracts that support high-quality service delivery to contract-eligible clients.

**Wider brand recognition in the marketplace and community:** Offering excellent services to clients from a wider socio-economic base brings positive brand recognition.

**Mission fulfillment:** Human service providers need to ask if their mission promises service only to those whom the government has defined as economically eligible. If the mission commits them to serve those in need, including those who “fall off the cliff” when an increase in income causes a loss of eligibility, it's time to make the changes necessary to reach a broader client base. Pricing can support this service expansion to underserved lower-income and middle-income markets in a fiscally responsible manner.

**Market testing:** Pricing a service is an excellent way to test and affirm its value in the marketplace. ■

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