



How to Price Your Products: A Guide for Marijuana Retailers

Why does strategic pricing matter?

If your items are priced too low, you run the risk of not producing enough revenue to cover operating expenses. If your prices are too high, you'll likely attract fewer customers.

How do you find the right balance?

This guide will help you find the right balance by explaining pricing fundamentals, 8 pricing strategies, margins, and markups. After you have an understanding of those, you'll be well on your way to strategically pricing your products!

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Pricing Fundamentals

It is important to take pricing your products seriously and not just follow suit with the rest of the marijuana retail stores in your area. Pricing in relation to your competition is one strategy, but it's often not the only one you should consider. Below is a breakdown of each factor in consideration when determining prices.

1. Understand Your Customer

Take time to conduct market research in your area. Gauging the average salary versus the cost of living in the area will give you insight as to how much people might be able to spend on products in your store.

A market research team can compile the information you need, but at a cost. **If you're on a tight budget, look at government wage and employment statistics in your area via your state's website or www.census.gov.**



TIP: Creating customer personas will allow you to understand your **customer's** goals and challenges; giving you insight as to how you can help them with your products and pricing.

2. Understand Your Expenses

Do you know the exact costs of operating your marijuana retail store? When setting prices, don't forget that you must produce enough revenue to cover expenses like:

- Hourly wages of employees
- Salaries of non-hourly employees
- Product cost
- Costs of marketing
- Operating expenses
- Hardware
- Software
- Utilities



If you don't know how to come up with an accurate picture of your expenses, accounting software or a CPA can help.

3. What's Your Revenue Target?

How much money does your marijuana retail business need to [break even](#)? How much revenue do you want to produce? An example with formulas and a walkthrough can be found [here](#).

Having a revenue target for every month, quarter, or year can influence how you price your products.

4. Who's your Competition?

An easy way to view your competition's prices is to search for local stores on [Weedmaps](#), [Leafly](#), or other menu publishing services. If you're curious about other specials and deals they may have, give them a call.



Even though it's not the only factor to consider, your competition's pricing matters.



5. Plan Ahead

A tip for business owners is to look where the market is going and not where it has been. The marijuana industry is expected to grow substantially over the next decade and having financial projections for the next quarter, year, and even 3-5 years will help you prepare for this.

Planning ahead is difficult for all new business, especially marijuana retailers since we operate in an industry that is considered federally illegal, but you can always change your projections as the industry and markets change.

TIP: Planning ahead for holidays or busy times of the year will allow you to budget for having enough product and staff when you need it most.

8 Pricing Strategies

These eight pricing strategies will explain how to attract more customers, incentivize customers to spend more at your store, and increase your overall revenue.

A general rule of thumb to follow when setting prices for your store is the following formula:

$$\text{Retail Price} = \left[\frac{(\text{Cost of Item})}{(100 - \text{Markup Percentage})} \right] \times 100$$

For example, if an item cost \$50 and you want to mark it up 25%, the retail price would be \$66.67.

$$\text{Retail Price} = \left[\frac{(\$50)}{(100 - 25)} \right] \times 100 = \$66.67$$

 **TIP:** Pricing strategies can often be combined.

1. Keystone Pricing

Keystone Pricing is one of the most common pricing strategies; you simply double the cost of an item to set the selling price.

In a marijuana retail store, doubling the cost of wholesale flower purchased from local growers would be a legitimate option because some wholesale prices can be low at just a few dollars per gram. This allows your marijuana retail store to maintain competitive yet affordable prices for your customers.

SUMMARY

Keystone Pricing is the simplest pricing method, but not always the most effective for maximizing revenue since it doesn't take into account supply and demand.

Be aware of what your state regulations allow when considering these pricing strategies. For example, some states don't allow selling products below cost, giving products away for free, or bundling sales (buy 5, get 1 free).

2. Multiple Pricing

Multiple pricing refers to **selling items in bundles**. This is common in retail and medical marijuana stores for pre-rolls and vape pen cartridges.

What you don't want to do is offer bundles too frequently. It will give your customers the idea that you're overpricing products. It also strays them away from making purchases during non-promotional periods.

If you have a strain of flower that isn't selling well, you could **offer a gram for a reduced price with the purchase of a regularly priced strain**.

SUMMARY

The ideal time to use this pricing strategy in your marijuana business is when products have been sitting longer than you'd hoped for. It's an optimal way to attract more customers and sell unpopular inventory while still turning a profit.



3. Discount Pricing

Discount pricing, **or a sale**, can easily attract more customers.

The ideal time to use discount pricing is during **special events and holidays**. Veteran discounts and price breaks for those on state/government assistance programs are also a good idea (*if your state regulations allow it*). A small discount, such as 10% to 15% can keep customers with financial difficulty coming through your doors.

Discounts are also a strategy to attract new customers. Some may be wary of trying a new marijuana retail store and not want to pay full price in case they are disappointed. Discount pricing is a way to overcome that objection.

SUMMARY

TIP: Save your discounts for special occasions whenever possible. It is misleading to customers regarding regular pricing if you have frequent discounts available.



Discount pricing (i.e. 15% off a product) is an easy way to attract new customers and is best during special events and holidays.



4. Loss-leading Pricing

Loss-leading pricing can be tricky for marijuana retailers. For example, state regulations in OR don't allow marijuana retailers to give away products for free, sell below cost, or give a discount for purchasing more (i.e. buy 5, get 1 free).

The idea of the “Loss-Leading Pricing” strategy is to lower the price on a single item while highlighting complementing products in the same advertisement, but at regular pricing. Ideally, the lower priced item will be lower than your competition’s.

Note: Sometimes “Loss Leaders” sell products below cost which some states don’t allow marijuana retailers to do.

Marijuana retail stores can benefit from this pricing strategy by offering a free pre-roll or free gram (or discounted instead of free) with specific purchases. Since some pre-rolls are made from the shake at the bottom of storage containers, this strategy works well for selling lower quality product.

With this pricing strategy, there’s a good chance you’ll still make a profit from selling other products at regular prices and in some cases, customers will actually purchase more to take advantage of the promotion.

SUMMARY

This pricing strategy is great for marketing efforts and promotions that you send to customers via social media, email, or through other advertisements. It’s an effective strategy for selling lower quality products, like shake, faster than usual.

5. Psychological Pricing

This is one of the more scientific pricing strategies because consumers perceive prices differently. Many traditional retailers (clothing, hardware, technology, etc.) use odd numbers at the end of their prices.

The most common numbers in pricing are 5, 7 and 9. Rather than pricing grams at, let’s say, \$15, consider including the tax in your pricing or advertising products at \$14.95, just to see if it attracts more customers.

If your store deals only in cash, this pricing strategy might create more work for your budtenders, so be aware.

This strategy makes consumers feel like they are paying significantly less, when in fact; it’s only a few pennies less. Seeing products with non-whole numbers at the end is historically more attractive.

TIP: Research shows that the number 9 is the most used and most well perceived strategy. For instance, instead of \$10/gram, consider \$9.



SUMMARY

There’s lots of research on the effectiveness of psychological pricing, but be aware that if your store deals only in cash, that this can create more work for your budtenders.



6. Below Competition

Pricing slightly below your competitors, even \$0.25 to \$1 can make a big difference.

In the marijuana retail market, consumers generally go where they can get quality for the lowest cost. When you make these adjustments to your pricing, make sure to keep an eye on your competition's pricing. They're likely to respond by doing the same if they're following a similar pricing strategy.

SUMMARY

Pricing below the competition is another common pricing strategy because it is easy to monitor your competition's pricing and then adjust your prices accordingly. *It is also one of the most dangerous if you don't have an understanding of your business's financials.*

This may start a pricing war, so don't go too low. As mentioned in the "Pricing Fundamentals" section, having an understanding of your business's financials will give you insight into just how low you can go before you accidentally put your business at risk.

7. Above Competition

How do you justify your prices being more than the competition?

In most cases, you're offering a better environment at your marijuana retail store or you're offering a service that the others don't. Offering a comfortable waiting area is one tactic to validating higher prices in consumer's minds, along with having higher quality displays, monitors, and decor.



TIP: In some states, marijuana retail stores must be located in industrial areas. If yours is near a major highway, advertise your location and the ease of accessing it from the highway. Be aware of your state's advertising laws when doing so.

SUMMARY

If you're priced significantly higher than the competition for the same product, have a good reason.

8. Anchor Pricing

Anchor pricing is a strategy that shows customers the retail price of something versus a sale or promotional price.

Directly showing customers how much they are saving makes the offer more attractive. When you are closing products out of your inventory or need to rid your shelves of items that have been sitting too long, reduce the price and showcase the savings.

For example, marijuana retail stores can advertise a 200 mg vape pen cartridge for \$40 at regular price, but a limited time savings event advertising the product for \$30. Showing the original cost tells customers they could save \$10 for a limited time. Adding a "time" factor will increase urgency in consumers.

SUMMARY

If you're going to discount something, make it easy to see how much customers would save. Combining "Anchor Pricing" and "Discount Pricing" can be very effective in attracting more customers and increasing revenue.

Understanding Margins

Profit margins can be challenging to understand if you are new to the retail industry. Without a proper margin, your business can experience financial loss and be unable to sustain itself. What you learn from calculating profit margin is how much marijuana retail stores get to keep per dollar of revenue. For example, if your profit margin is 25%, you get to keep \$0.25 of every \$1.00 of revenue.

Consider the following example:

You have revenue of \$1,000,000

Your cost of goods sold equals \$400,000

Your profit margin would be

$$\text{Profit Margin} = \left[\frac{(\text{Revenue} - \text{Cost of Goods Sold})}{\text{Revenue}} \right]$$

→ 60% = $\left[\frac{(\$1,000,000 - \$400,000)}{\$1,000,000} \right]$

Determining Markups

Many traditional retailers follow the keystone pricing strategy and markup their products by 100% (just doubling the cost of the item). So, if a product costs your business \$10, you'd mark it up by \$10 to make the price \$20. You'd in theory make a profit and cover the cost of purchasing the item yourself.

Some retailers use a 100% markup strategy to generate revenue with little to no effort in understanding pricing strategies.

The cost of operating a marijuana retail store is often far more than a traditional retail store and the effort you put into your pricing strategy should reflect this.

With increased competition in the marijuana retail market, stores must find a way to differentiate themselves and strategic pricing is one way to do that.

Summary

Throughout this guide, we've given a high-level overview of pricing fundamentals, pricing strategies, margins, and markups.

We can't stress enough the importance of understanding your customers, competition, and business financials in order to truly strategically price your products.

Knowing which pricing strategy to use, or which combination of strategies to use, can be the difference in how fast you achieve your revenue goals and the ultimate success of your business.



Want to know more about our painless POS and inventory management solution? Visit greenbits.com or call 877.420.7628 today.

SOURCES

- <https://www.shopify.com/retail/120028547-9-strategies-for-profitably-pricing-your-retail-products>
- <https://www.thebalance.com/what-is-profit-margin-in-retail-2890209>
- <https://www.entrepreneur.com/article/193986>
- <http://www.inc.com/guides/price-your-products.html>