

PRICING METHODS

TO DETERMINE PRICES OF GOODS OR SERVICES, AND TO HELP YOU DECIDE WHAT TO CHARGE FOR YOUR PRODUCT / SERVICE YOU MUST KNOW:

- What are your costs to produce a service, or buy a product? (Direct and indirect.)
- What is the customer prepared to pay? (The urgency of market demand.)
- What are your competitors charging? (Market research data)
- Charge enough to make a profit. (How much do you want to make?)
- These factors must be balanced.

THERE ARE A VARIETY OF PRICING METHODS. ONE OF THE MOST COMMON IS:

FORMULA BASED PRICING.

- This method is widely used by consultants.
- It is vital to research the competition and have set guidelines
- Do not undercharge
- Invoice customers at the end of the month for work in progress
- Multiply salary by 3
 - If you want to earn \$20 per hour, you charge \$60 per hour. This figure covers salary, overhead and profit.

PRODUCT PRICING FORMULA

**Material Cost+Labour Costs+Overhead Expenses / # of items produced =
Cost per item.**

Material Costs:

- **Figure the total cost of the raw materials used to make up a single item,**

OR

- **Divide the material cost of a batch of items, by the number of items produced.**

Labour Costs:

- **Figure what you pay to employees to produce the item, whether or not you have employees.**
- **Assign a wage figure even if you are the only one producing the item.**
- **Take the weekly salary you pay someone to produce the weekly volume of items, and divide it by the number of items.**

Overhead Expenses:

- **Rent, Gas, Electricity, Business telephone calls, Cleaning, Insurance, Office Supplies, Postage, repairs, Maintenance, Delivery and Freight Charges, Packaging and Shipping Supplies**
- **If you are working from home calculate a portion of your total rent or mortgage payment, in proportion to your workspace, or assign a reasonable figure.**
- **List all overhead expense items and total them.**
- **Divide the total overhead figure by the number of items per month. This amount will be your overhead per item.**

Profit:

- **Add an amount to the cost of each item. Check your competition for what they are charging, and work accordingly. (Profit margin)
Retailers usually double the wholesale price.**

Add profit to the Cost per Item for the Total Price per Item.

SERVICE PRICING FORMULA

Hourly Overhead Expense + Hourly Wage + Profit = Total Price per Hour.

Overhead Expenses:

- Calculate all the costs related to operating your business from home, and arrive at a total cost per month.
- Divide this by the average number of hours worked per month, to obtain your hourly expense.
- *Hourly Wage:* Decide on a wage to pay yourself, considering background training and expertise.
- Compare this to industry averages.
- *Hourly Profit:* Add a factor to your hourly wage, to provide a profit margin.
- Check your competition, and market demand.

PRICING RANGE

The Pricing Ranges, their characteristics, and bases for customers' decisions making are as follows:

HIGH END

- **Prestige and Image. Everyone knows the quality.**
- **Features.**
- **Quality.**
- **Warranty.**
- **Uniqueness.**
- **Novelty. (price is not a major factor.)**
- **Must have recognition in this range.**

MID RANGE

- **Quality.**
- **Features. (Value is critical. Trade off with Price)**
- **Warranty.**
- **Practicality.**
- **Serviceability.**

LOW END

Caution. In a service business, people tend to think that something is wrong, if your prices are too low. They assume that the services are of inferior quality.

- **Price Based.**
- **Be prepared to live without features or services.**
- **No customer loyalty.**
- **You must react to competitors pricing.**

OBJECTIVE:

- **To lower prices to gain a foothold in the market, and deter competition.**
- **Increase prices if you are going for prestige or exclusivity.**

VALUE, BENEFITS, PRICE

WHY DO PEOPLE BUY?.

VALUE = PERCIEVED BENEFITS / PRICE

- **Customers do not make their purchase decisions based on price.**
- **They select the best value fo r themselves.**
- **To increase your customers' perceived value of your product or service, either increase the benefits or decrease the price.**
- **Surround your product or service with so many benefits of such great value to your customers, that they will pay a higher price, and you will attain a greater market share profitably.**