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Is the Price Right?

Ask people to pay too much for your product or service and they will stop buying. Ask too little and your profit margin slides or customers may assume your product is of a lesser quality. Getting the price just right factors in all of your costs while maximizing your margins and remaining attractive to customers. Here's how to set your prices:

RESEARCH AND GET TO KNOW THE MARKET:

Doing your research is key. You should aim to find out how much customers will pay, as well as how much competitors charge. Simply matching a price is dangerous, though - you need to be sure all your costs - both direct and indirect - are covered. Think material cost, labor cost, packaging and shipping and other. Be sure to factor in all costs before determining your markup. See below!

CHOOSE THE BEST PRICING TECHNIQUE:

Cost-plus pricing involves adding a mark-up percentage to costs; this will vary between products, businesses and sectors. Value-based pricing is determined by how much value your customers attach to your product. Decide what your pricing strategy is before making a calculation.

WORK OUT YOUR COSTS:

Include all direct costs, including money spent developing a product or service. Then, calculate your variable costs (for materials, packaging, etc). Work out what percentage of your fixed costs (overheads such as rent, rates and wages) the product needs to cover. Cost of goods for providing the service, etc. Add all of these costs together and divide by volume to produce a unit break-even figure.

CONSIDER COST-PLUS PRICING:

You will need to add a margin or mark-up to your break-even point. If the price looks too high, trim your costs and reduce the price accordingly. Be aware of the limitations of cost-plus pricing, because it works on the assumption you will sell all units. If you don't, your profit is lower.

SET A VALUE-BASED PRICE:

You'll need to know your market well to set a value-based price. For example, the cost to bring a hairdryer to market might be $10. But you might be able to charge customers $25 if this is the market value.

THINK ABOUT OTHER FACTORS:

Can you keep margins modest on some products in order to achieve higher margin sales on others? You might need to calculate different prices for different territories, markets or sales you make online.

STAY ON YOUR TOES:

Prices can seldom be fixed for long. Your costs, customers and competitors can change, so you will have to shift your prices to keep up with the market. Keep an eye on what's going on and talk to your customers regularly to make sure your prices remain optimal.

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Pricing Worksheet

Product Based

MATERIAL COSTS	LABOR COSTS/ HOURS	PACKAGING + SHIPPING COSTS	OTHER	MARKUP	TOTAL

NOTES:

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Pricing Worksheet

Service Based

MATERIALS COSTS	LABOR COSTS/ HOURS	OVERHEAD COSTS	OTHER	PROFIT MARGIN	TOTAL

NOTES: