HOW TO PRICE YOUR PRODUCTS TO SELL

by

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My Background

- International Trade Consultant - SBDC
- Global Background – UK/Jamaica/USA
- International Trade Finance - BNP
- Started Casauri – Manufacture/Sell
- Wrote book on Entrepreneurship

Priced to Sell Mindset

Determine:

- What is Important to You?
- What is Important to the Retailer?
- How much you can Negotiate?

Purpose of Price – Capture Value

- **Actual** Value -- Cost Inputs
- **Perceived** Value -- Assumed Value

What is the difference?

Which is more important?

Your Brand Positioning -- Price Point

- **How** do you want to be **perceived** in the market?

  Luxury --- Middle Market --- Mass?
- **Who** are your **target** customers – who will **pay**?
- **Where** do they **expect** to find you?
- **How** will you **tell** them where you are?

Sales Channels – Where you Sell

- Channel Costs
- Direct to Consumer – **B2C**
- Indirect – Go Between – **B2B**
  - Wholesale
  - Sales Representative
  - Distributor

Retailers Care About…

- **Merchandising** – Fit with assortment/brand appeal
- **Margin** – Profit and Markdown potential (sale)
- **Markup** – Keystone versus more markup
- **Movement** – Inventory Sell-through Speed/Turnover
- **Reliable** Quality and On Time Delivery
- **Responsiveness** - Ease of Communication
- **Flexible** Payment Terms – Depends on the Retailer

You Care About…

- **All of the Above** – like the retailer, but also…
- **Incoterms** – Where merchandise changes ownership
- **Costs** – LDP/Marketing/Transportation/Insurance
- **Break-Even Point** – Sales and Unit Quantity
- **Gross Margin and Net Margin** - Top line and Bottom line Profit and your level of flexibility
- **Markup Strategy**- Having a Target Price
- **Product** – Sales Volume and Timeframe to sell
- **Payment** – How and When/Retailer Creditworthiness

Product Costs

Components of Product Price:

1. **Cost of Goods Sold** = Labor + Materials

2. **Overhead**
(includes Fixed Costs + Variable Costs)

3. **Profit**

Export Costs – Landed Duty Paid (LDP)

Components of LDP:

1. **Cost of Goods Sold** = Labor + Materials

2. **Transportation/Insurance Costs**
(includes Fixed Costs + Variable Costs)

3. **Duty and Taxes**

Markup versus Margin

What is the difference?

Two perspectives on the relationship between price and cost.

Capturing Value -- Markup

If the cost = $10
selling price = $30

What is the Markup?

Capturing Value --- Markup Formula

Markup = (Price-Cost)/**Cost**

Example: ($30-$10)/$10 = **2*100%= 200%**

Am I charging enough?

Capturing Value -- Gross Margin = Gross Profit Formula

Margin (Gross Margin) =

(Price – Cost of Goods Sold)/**Price**

Example: ($30-$10)/$30 = 0.67 or **67%**

Am I making enough profit?

Break Even

1. When Expenses **Equal** Sales
2. The **Minimum Quantity** to Produce

It is the **Intersection** between:

- Cost
- Volume
- Profit

Break Even Formula

Break Even = Fixed Costs/Contribution Margin*

- Fixed Costs ---- Independent of sales
- Variable Costs --- Correlated to sales

Break Even Formula

***Contribution Margin** can be expressed as a percentage or dollar amount (*Page 147*)

1. **Contribution Margin %** = Unit Variable Cost/Unit Selling Price **(Sales Needed)**
2. **Contribution Margin $** = Unit Selling Price – Unit Variable Cost **(Units Needed)**

Break-Even Components

1. Select a period of time – e.g., 1 year or any period and use Income Statement
2. List all fixed costs – includes rent, insurance
3. List variable costs – connected to producing the sale, e.g., sales commissions, cost of goods

Break-Even Example -- Sales

How Many **Sales** Needed to Break-Even?

1) **Variable Cost Percentage(VCP) =**

 Unit Variable Cost/Unit Selling Price

 $10/$30= **33.33%**

2) **Contribution Margin** % = 100%-VCP = 100%-33.33%=**66.67%=0.6667**

3) **Break-Even Sales=**

 Total Fixed Costs/Contribution Margin%

 $100,000/0.6667= **$149,992** (150K)

Break-Even Example -- Units

Example: How Many **Units** Needed to Break-Even?

Fixed Costs/(Unit Selling Price - Unit Variable Cost)

$100,000/($30 - $10) = **5,000 Units**

WHAT IS THE GOAL OF A BUSINESS?

Profit! These formulas can inform better decisions.

THANK YOU!

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