

Establishing Prices

There are three basic approaches to pricing your product:

Pricing to the Market

This could mean one of two things:

1. Almost every new entrepreneur starts with selling their product at the same price as their competitors. What competitors are able to charge would indicate market value or for new products, you could survey potential customers to see how much they would be willing to pay for your product. This would also indicate fair market value for your product. If you choose to price according to competitors, try to set yourself apart by quality and service to the customer.

Break-even Pricing

2. This is another viable way to determine your price. Take into account all the costs associated with producing your product (including your wage as well) and use this as your selling price. You will break-even in the business if you maintain this pricing approach. However, you will not have profits. Maintaining this cost approach should be considered as a short time option only as the main function of a business is to make profits.

Following is a simple calculation to help you determine your break-even price.

$$\text{Material Costs (per unit) x Number of Sales + Operating Costs x Number of Sales = Break-Even Price}$$

Cost Approach

This is the most desirable approach that an entrepreneur would take to ensure that their opportunity is a moneymaking opportunity. It requires calculating all costs associated with producing your product or service and determining a suitable profit to keep you in business for many years. First calculate the Cost of Goods Sold for one item:

Cost of Materials for one item \$ _____
+ Cost of Labour for producing one item \$ _____
+ Direct Operating Costs \$ _____
= Total Costs of Goods Sold \$ _____

Then:

Cost of Goods Sold (CGS) \$ _____
+ Profit Rate per item (i.e. 30%; .30xCGS) \$ _____
= Selling Price \$ _____

The Six Secrets of Costing:

1. Find out what you need to produce your product, where you can get the supplies and what they will cost.
2. Decide how many products you can create and sell to satisfy your customers' needs.
3. Calculate the total costs that went into creating your product and mold it into your selling price, making sure your customers are willing and able to pay that price.
4. Look at your business location and the monthly maintenance cost to maintain a good venue for your product.
5. Make sure to pay yourself for the work that you put into your business.
6. Figure out how many customers would have to buy your product to keep the business open.