Presented by Julie Wright
julie@tallycreative.com

Hosted by Pete Upton
(308) 850-0303
pete@native360.org

SETTING YOUR PRICES FOR PROFIT

1 Finding the Ideal Price for Your Products

One of the key components of running a successful business is finding the right price for your products. If your prices are too high, customers will go elsewhere; if they're too low, you may end up eating your profits.

2 Understanding Mark-Up Vs. Margin

Mark-Up: Profit % on Sales

Mark-Up is the increase added to the cost of a product to arrive at the selling price.

$$\frac{\text{profit}}{\text{cost}} = \text{mark-up}$$

Mark-Up: Profit % on Cost

Margin is what is left over from the sale of the product after accounting for the cost.

$$\frac{\text{profit}}{\text{retail price}} = \text{mark-up}$$

BEST PRACTICE TIP:
Determine your gross profit margin goal first and mark-up the cost of your product accordingly.

3 Understanding Gross Profit Margin

Gross Profit = **Revenue** - **Cost of Goods Sold**

Gross Profit: The profit a company makes after deducting the costs associated with making and selling its products, or the costs associated with providing its services.

Revenue: The income generated from normal business operation.

Cost of Goods Sold: The direct expense related to producing the goods sold by a company. This may include the cost of the raw materials and amount of employee labor use in production.

4 Calculate Your Selling Price

Retail Pricing

Retail pricing allows you to mark up the prices of individual products based on factors such as supply, demand and competitor pricing.

$$\left[\frac{\text{cost}}{100 - \text{mark-up percentage}}\right] \times 100 = \text{retail price}$$

Retail Price Formula Example

How much would you list a product if it cost you **$10** and you want to mark it up by **30%**?

$$\left[\frac{\$10}{100 - 30}\right] \times 100 = \text{retail price}$$

$$\$.14 \times 100 = \$14$$

5 3 Main Types of Price Strategies

Bundle Pricing

With bundle pricing, you "package" multiple products together and sell them to the customer at a lower price than what they'd cost separately.

PROS:
- It helps to sell products with a low demand.
- It adds value to the customer's buying experience.

CONS:
- It might discourage those buyers who want individual items.
- It may result in reduced profits.
- It only works in combination with other strategies.

Discount Pricing

With bundle pricing, you "package" multiple products together and sell them to the customer at a lower price than what they'd cost separately.

PROS:
- It will attract a lot of traffic to your business.
- It can help you to offload out-of-season inventory.

CONS:
- It could reduce your profit margin and eventually your cash flow.
- Customers may, over time, perceive you as a "bargain brand," and your products as being inferior in quality.

Psychological Pricing

Psychological pricing (also known as "charm pricing") is when your prices end with an odd number, usually 5 or 9. For instance, instead of selling your product for $10.00, you sell it for $9.99.

PROS:
- It helps to play on customer emotions (they feel like they're getting the best deal on the product).
- It's very effective when used in tandem with price anchoring (when you compare both the original price of a product and the discounted price, side by side).

CONS:
- It can seem gimmicky and manipulative to customers.
- It has limited use in most industries.

7 Understanding Costs

Understanding how costs behave in your business is an important step to setting your prices for profit.

Business Expenses

With bundle pricing, you “package” multiple products together and sell them to the customer at a lower price than what they’d cost separately.

FIXED EXPENSES:
Costs that do not fluctuate with changes in production level or sales volume.

- rent
- insurance
- subscriptions
- salaries

VARIABLE EXPENSES:
Costs that respond directly and proportionately to changes in activity level or volume.

- raw materials
- inventory
- hourly wages
- shipping costs

8 Reaching Your Profit Goal

If you’re finding that reaching a profit is difficult, there are a few ways that you can reevaluate your process besides just increasing the price:

1. **Increase Sales Volume**
   Each additional unit of sales volume increases your gross profits and your net income.
2. **Decrease Variable Costs**
   Reducing variable costs can be done by spending less on raw materials, spending less on labor, and reducing the cost of distribution of your product.
3. **Decrease Fixed Costs**
   Make a list of all of your fixed costs and look at strategically reducing them such as reducing rent or mortgage and get new quotes on insurance and vendor purchases.

Recommended Initiate Resources

Finding the Ideal Price For Your Products
Mark-Up vs. Margin Calculator
Break Even & Target Profit Calculator