MAKING SURE THE PRICE IS RIGHT
KNOWING YOUR COSTS

Fixed & Variable costs
VARIABLE COSTS

Anything that changes based on the unit sold

- Commission per unit
- Direct material per unit
- Shipping per unit
- Supplies per unit
FIXED COSTS (OVERHEAD)

Things that stay the same regardless of volume

- Communications
- Tax
- Licenses
- Administrative staff
- Rent
- Utilities
Break-even point = \frac{\text{Fixed costs}}{(\text{unit selling price} - \text{variable costs})}
In a month, company sells 1,200 widgets for $10 each. Fixed costs total $5,000, with a cost of $5 per widget.

Break-even point = $5,000 / ($10-$5) = 1,000

At 1,000 widgets, the company covers costs. Additional 200 widgets is profit.
If you aren’t happy with your profit:

- Increase sales
- Lower costs
  - Fewer employers
  - Less rent
- Raise your price

BUT I WANT MORE...
HOW DO YOU CHARGE MORE?
WHAT YOU NEED TO KNOW

- Who is buying your product?
- Who are your competitors
- How, or will, negotiations occur?
- What do customers think of your product?
  - Capabilities
  - Quality
PRICING PYRAMID

- Objective
- Strategy
- Model
- $
PRICING OBJECTIVES

What does your price need to accomplish?
WHAT SHOULD YOUR PRICING DO?

- Maximize Profits
- Maximize Revenue
- Maximize Market Share
- Reinforce brand perception
- Stabilize the market
- Achieve return-on-investment
- Become the price leader
- Create product interest
- Discourage entry of new competitors
PRICING STRATEGY

How are you going to accomplish the goal?
HOW DO YOU REACH YOUR OBJECTIVE?

- Cost Plus
  - Based on understanding measurable costs, plus profit
- Competition-based
  - What your competitors are doing
- Value-based
  - Price in relation to what product delivers
  - Hardest to quantify
  - Requires ongoing work
PRICE/QUALITY DIFFERENTIATION

<table>
<thead>
<tr>
<th>Quality/Differentiation</th>
<th>Low</th>
<th>High</th>
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<td>Economy</td>
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FACTORS IN PRICING (1 OF 2)

- Market maturity
  - Younger market = more flexibility
  - Mature markets = more pressure, limited flexibility

- Product category
  - Highly innovative products have limited barriers

- Demand
  - High demand = higher pricing
  - Lower demand = lower price

- Competition
  - Don’t be highest or lowest
Value
- Price = what buyer pays
- Value = what buyer receives
- Set by image, word-of-mouth

Quality/Perception
- Higher prices tend to signal higher quality
- Customer ultimately decides

Differentiation
- Highly differentiated products = less price sensitive

Brand Premium
- High brand equity = higher prices
How is it sold?

PRICING MODEL
COMMON PRICING MODELS

- Per unit
- Per user
- Per usage
- Per unit of infrastructure
- Subscriptions
ART OF PRICING

What feels right?
FINDING BALANCE

- No 100% correct answer
- Difficult to optimize for all segments
- Find the equilibrium
  - Don’t leave money on the table
  - Don’t lose deals to competitors
NOW WHAT?

Factors to keep in mind
Keep an eye on the competition
  - Pricing should align with positioning and functional differences
Educate your sales team
  - Make sure they understand the differences and how they factor into pricing
Make sure your market “gets it”
  - It needs to be easy to explain and understand
Review regularly, adjust as needed
It's time for questions.

ASK AWAY