MAKING SURE THE PRICE IS RIGHT
KNOWING YOUR 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
Number of units that need to be sold for total revenue to equal total costs (fixed and variable)

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

$
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

- Economy (Low Price, Low Quality/Differentiation)
- Skimming (Low Price, High Quality/Differentiation)
- Penetration (High Price, Low Quality/Differentiation)
- Premium (High Price, High Quality/Differentiation)
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
FACTORS IN PRICING (2 OF 2)

- **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
Pricing Model

How is it sold?
COMMON PRICING MODELS

- Per unit
- Per user
- Per usage
- Per unit of infrastructure
- Subscriptions
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
YOU SET YOUR PRICE. NOW WHAT?

- 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
ASK AWAY

It’s time for questions.