

Pricing Tips and Tricks

What is the purpose of any business? To make money, right? Here, you're going to learn a few tips to help you understand how to better price items and make a profit. There are a couple questions you can ask yourself first:



- What are your customers willing to pay?
- What is the break-even point? Or, at what point would your profit margin even out to \$0?
- How much of a profit do you want to make? (within reason, of course).
- What is your competition charging for the same/similar item?

Consumer Psychology Toward Price

Most consumers develop attitudes about the price that they are willing to pay for a product or service. There are numerous price strategies used by businesses to take advantage of customer pricing psychology. The following are three of the more common strategies.

Multiple Unit Pricing

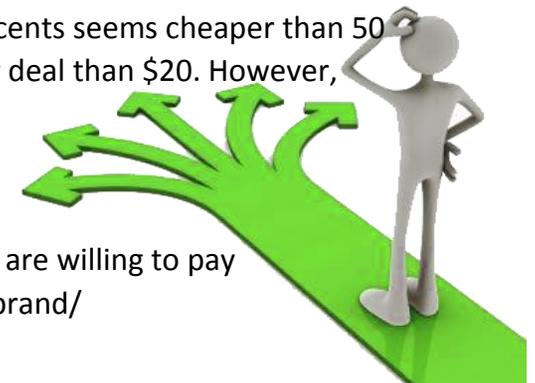
This technique is used when there is a discount applied if more than one unit of an item is purchased. For example, an item usually sold for 49 cents can be sold at two for 89 cents and three for \$1.39. Some things to remember: Multiple unit pricing works best for things that are more likely to be used quickly or sold in bulk; an item that lasts for months or years won't increase consumption.

Odd Number Pricing

People view numbers ending in nine as much cheaper than something ending in a zero. Example: 49 cents seems cheaper than 50 cents, and 99 cents seems much cheaper than \$1. An asking price of \$19.95 seems like a much better deal than \$20. However, when it comes to Prestige Pricing, high-end stores tend to go with whole numbers.

Prestige Pricing

Prestige Pricing refers to the technique used by high-end stores that markup their prices. Consumers are willing to pay more when they are under the impression that the product is made of a higher quality or possesses brand/manufacturer prestige. Example: a dress may be \$150 rather than \$149.95.



Product Pricing

First, in a Product-Oriented business, you must decide on a product price — which is the total cost of your item, including materials and labor as well as equipment costs.

There are different formulas that can be used to help you decide on a reasonable cost.

Basic Formula

Cost of materials + labor (production time X hourly wage) / (number of items made) = selling price per unit*

This approach is often used by beginners because it provides a basic selling price per unit. In this formula, there is no allowance for overhead costs, inflation, or profit.

**Note: If after figuring the selling price, you see that your price is noticeably higher than your competitors', you may decide to accept less profit or find a way to lessen the material costs by using off-brand products or shopping at discount stores.*

Service Pricing

Sometimes, providing good service is more important than the profit. In these businesses, the supplier should figure the operating costs and the variable costs needed to keep the business running. These costs are the same as in the Product-Oriented business. For a Service-Oriented business, the price should include:

- Variable costs (production-related costs such as materials and packaging)
- Fixed costs (equipment and labor costs)
- Profit

For a Service-Oriented business, labor is usually the major expense. Decide how much labor costs are involved and include that in your fixed cost price. You may change the hourly wage depending on the difficulty of the service required. If a special skill is required, the wage may be higher than a simple job. However, if the labor cost is too high, it may increase the selling price higher than a consumer is willing to spend.

A business cannot operate without a profit, which is why the profit needs to be included in the price. To find a profit amount, you may want to find a profit percentage that a competitor has and use that in your formula.

- First, decide on an hourly wage for your labor
- Second, determine variable expenses needed to create your product
- Third, decide what is a competitive profit amount

Formula

Labor (per hour) + variable expenses + profit = price per hour charged

Prepared by: Kimberly Phelan, Texas A&M student, January, 2016