

Bucks County SCORE Sips & Tips Series

Money Matters - Pricing

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Pricing – Common Mistakes

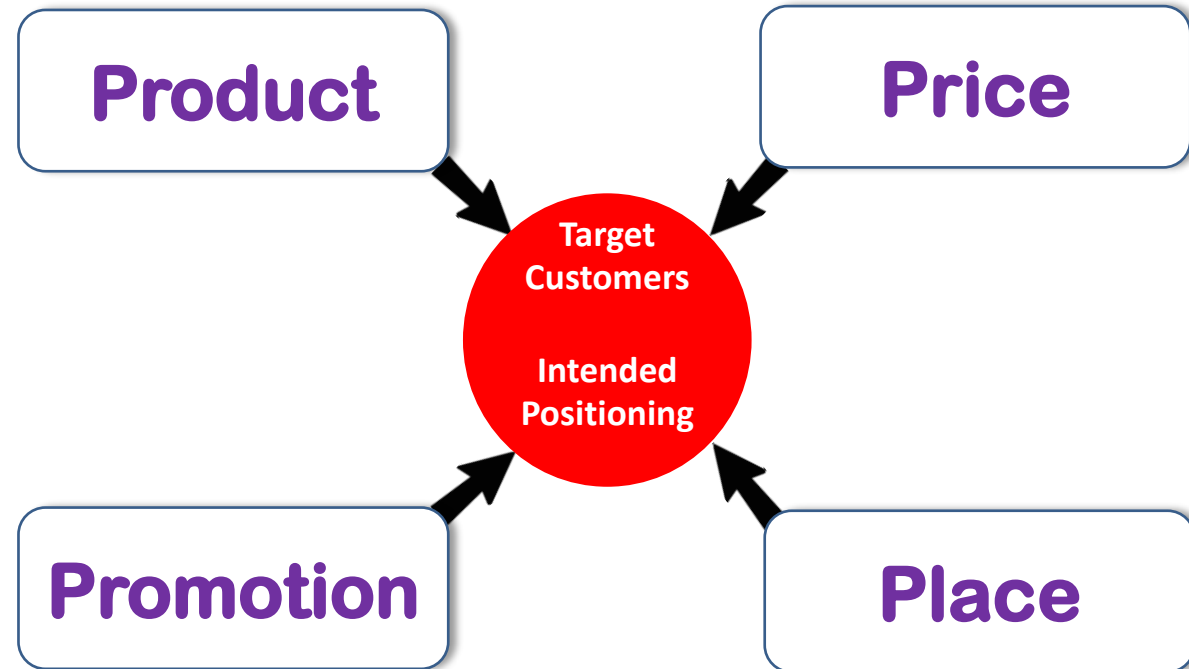
- Guessing at your pricing
- Not researching the market and competition
- Not having a clear understanding of own financials
- Pricing too low
- Pricing too high
- Not understanding the true value you're delivering
- Ignoring customer feedback

Price - very important and multi-faceted issue in business

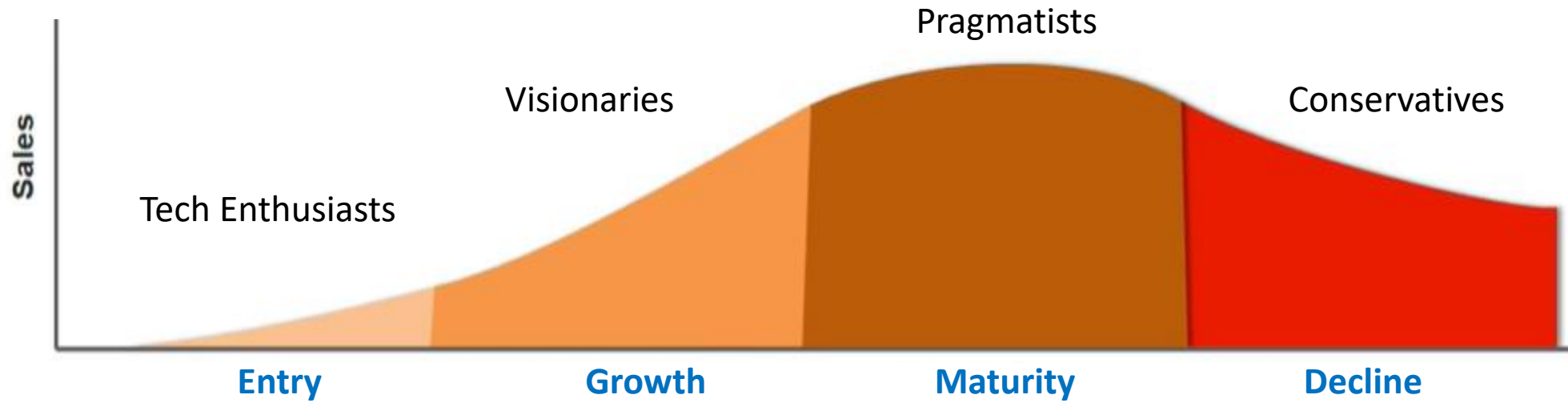
“Price is what you pay, Value is what you get”

- Price is the most important lever on profitability
- Price communicates many things:
 - ✓ Brand
 - ✓ Quality
 - ✓ Uniqueness
 - ✓ Value

Price one component of the Marketing Mix



Price varies depending on the Product Lifecycle Stage



Pricing Models

Cost-Based

- Intensive competition
- Slight product differentiation
- Usually commodity-based products

Market-Based

- Greater price flexibility
- More differentiation of products
- Ample competition
- Fluctuations depending on season

Value-Based

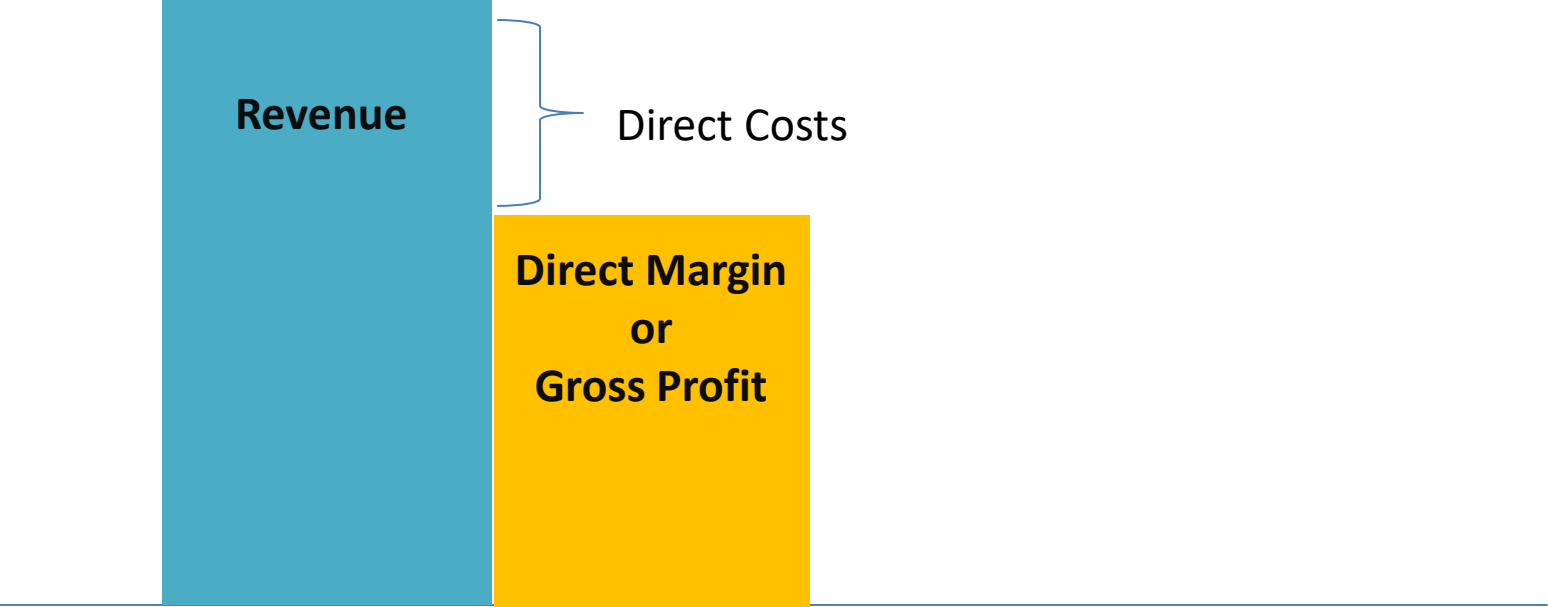
- Greatest price flexibility
- Unique products and services
- Nicely bundled
- Highly differentiated

Pricing strategy



“How to Create a Profitable Pricing Strategy”, Ken Burke

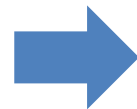
Know your margin



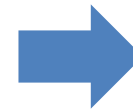
Pricing Profile Process

Variables

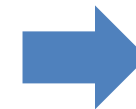
- Competition
- Demand
- First of a kind
- Uniqueness
- Scarcity
- Quality
- Margins
- Value



- Score each influencer worst (0) to best (10): f_i
- Add up
- Calculate sensitivity factor $S = \sum f_i / 80$

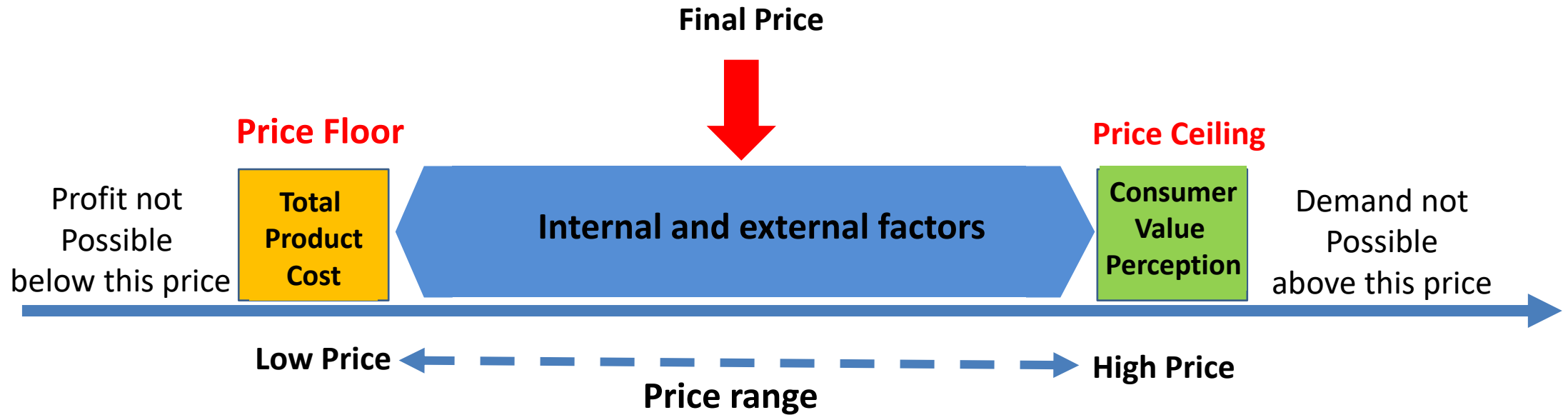


$S < 40$ low flexibility
 $S > 60$ high flexibility



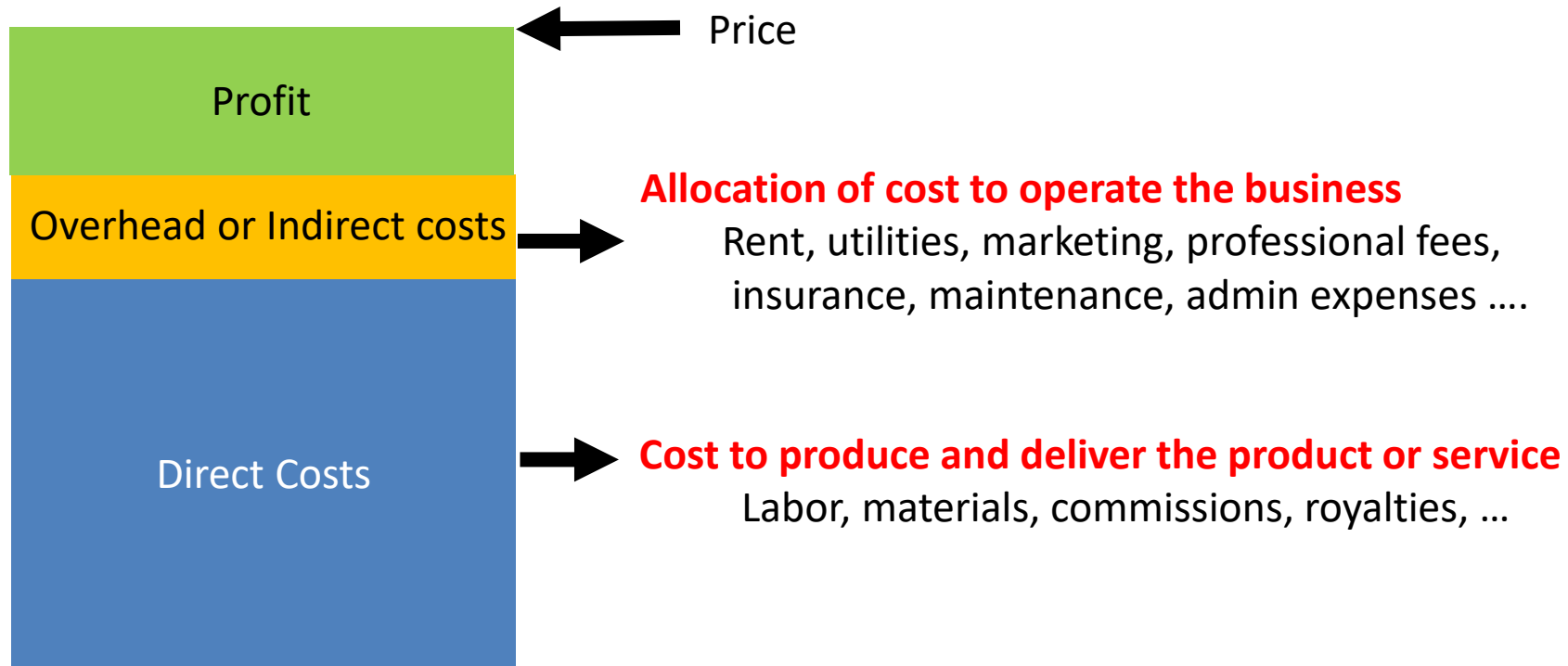
Pricing Model

Set the right price



Cost Based Pricing

- Price = (total cost) + profit



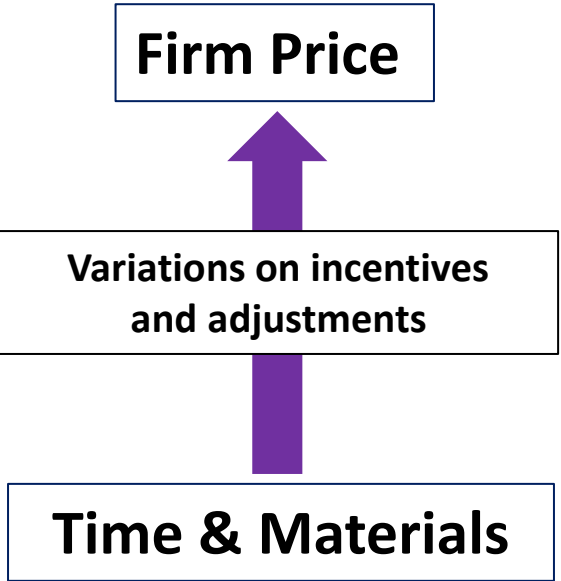
Value Based Pricing

- Value Based pricing is set based on the customer perception about the benefits
 - Quality and Safety
 - Convenience
 - Technology
 - Brand
- Examples: Rolex, Mercedes cars, Starbucks, Apple ...
- Marketing branding must be consistent – focused on benefits and differentiation

Contract Pricing

- **Time and Materials Basis**
 - Fixed profit based on total cost of work performed
 - Rates for engineering, labor, materials pre-approved
 - Customer requests work, and approves estimates
- **Fixed price**
 - Scope and requirements defined by client
 - Contractor prepares cost estimates for tasks, apply profit, and contingency
 - Requires good management of change control process
 - Contract must include commercial conditions that consider changes in laws and regulations that could impact requirements
 - Desirable to have a contract that include price adjustments and/or incentives

Contract Pricing



Rigorous change management control

Government contracts

- Doing business with the Government is more complex – an opportunity and a barrier
- There are targets business development involving small business and/or minorities. You need to understand the rules of the game:
 - Get proper registrations and ID for your business
 - Bid requirements
 - Pricing rules
 - Accounting and billing requirements
- Visit SBA website for more detailed information (<https://www.sba.gov/federal-contracting>)

Strategic alignment is important

Make sure that your pricing strategy is consistent with all other strategies

discussion

Do you know the price range for your products?
How often do you update prices?

key takeaways

Focus on the bottom line

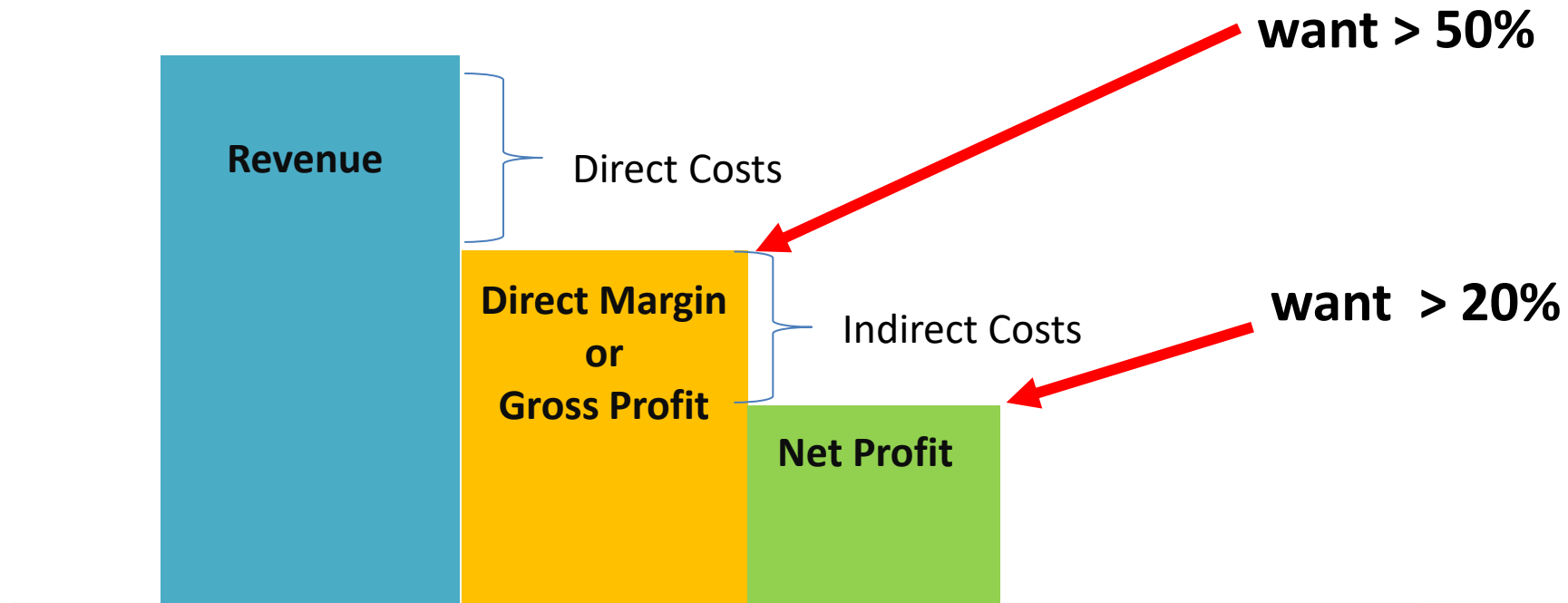
Follow the process to establish an ideal price

To avoid:

- Guessing at your pricing
- Not knowing your margin
- Pricing your product below costs
- Forgetting to add value
- Underestimating direct costs
- Pricing too high



Profitability also requires managing costs



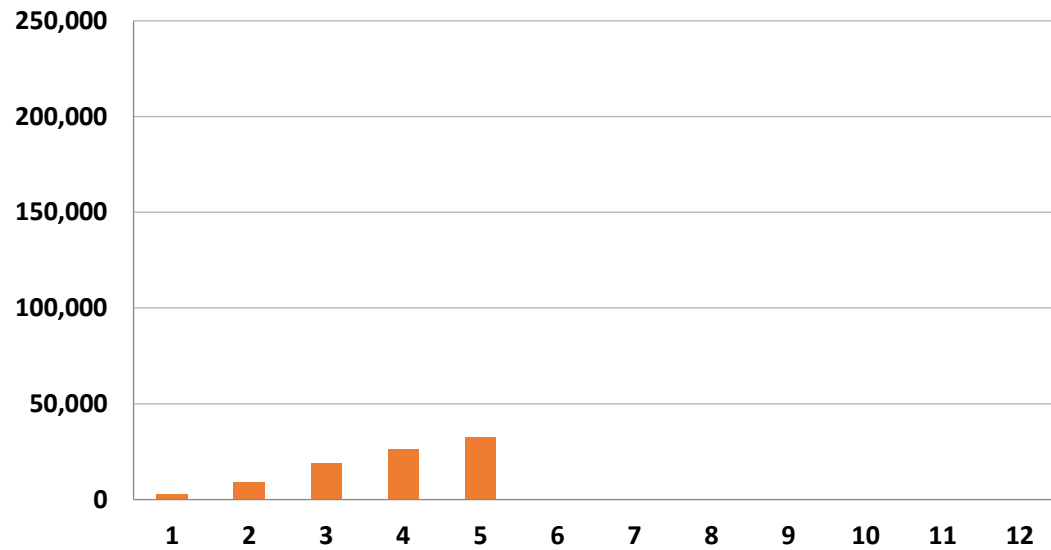
This is basically your Profit & Loss (or Income) Statement, do this review every month!

KNOW YOUR NUMBERS

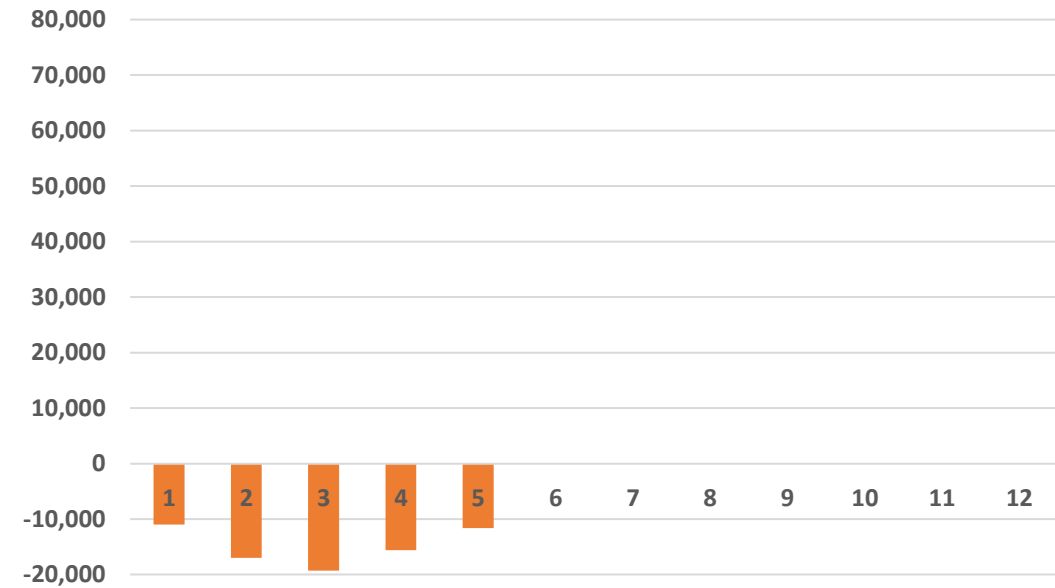
Monthly review of your financial is fundamental to “Know your Numbers”

GOOD PRACTICE

Revenue

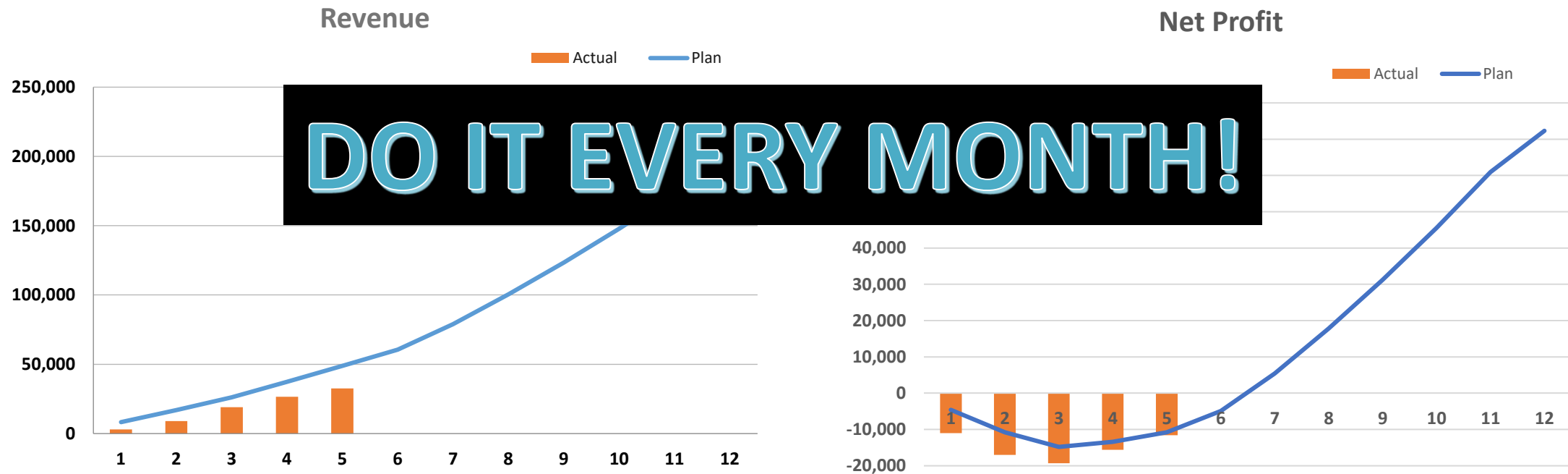


Net Profit



Monthly review of your financial is fundamental to “Know your Numbers”

BEST PRACTICE



thank you!

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