

What's the Minimum Price?

By Idun Sophia

1

Contents

- Ways of pricing
- Pricing in manufacturing
- Pricing a service
- Digital Assets
- Over to you
- Product-Customer-Pricing

© byidunsophia.com

2

Ways to price: Like everyone else

- ★ Quick
- ★ Easy
- Encourages price competition
- What if products are not identical
- Allows fuzzy niching

© byidunsophia.com

3

Ways to price: What I need

- ★ Relatively quick
- Underprice
- Internally focussed pricing

© byidunsophia.com

5

Ways to price: What the products costs me

- ★ More accurate
 - ★ Forces knowledge about the industry and business
 - ★ Ensures prices can be justified
-
- More time consuming



© byidunsophia.com

7

Pricing in manufacturing

Tables, tables, here and there....



© byidunsophia.com

8

Activity 1: Identify the costs

.... When manufacturing a table

© byidunsophia.com

9

Pricing in manufacturing: Cost types

**Variable costs - Increase as more
units produced**

**Fixed costs - don't change with no.
units produced**

© byidunsophia.com

11

Pricing in manufacturing: Cost types

**Variable costs -
Increase as more
units produced**

- Wood
- Varnish
- Wood processing time
- Assembly time
- Selling costs?

**Semi-Variable costs - a dash of
both!**

-
-
-
-

**Fixed costs -
don't change
with no. units
produced**

- Rent
- Light and heat
- Selling costs?

© byidunsophia.com

13

© byidunsophia.com

Pricing in manufacturing: Calculating your costs I

Calculate **per group of items** and divide by **number of items?**

	£	£
Wood	x	
Varnish	x	
Assembly time	x	
Wood cutting time	x	
Variable costs		x
Fixed costs (selling and rent)		x
Total costs		x

15

Pricing in manufacturing: Calculating your costs II

- Cost identification chaos
- Underestimating costs
- Missing costs
- Underestimate profit needs
- Lack of monitoring

© byidunsophia.com

16

Pricing in manufacturing: Calculating your price

	£	%
Sales (balancing figure)	x	125
Total Costs	(x)	(100)
Profit	x	25

Selling price = Total costs * (1 + profit%)

© byidunsophia.com

17

Activity 2.1: Chloe

Chloe makes wedding dresses. Each dress uses \$30 of fabric, \$2 of thread, \$10 of lace and \$10 of lining. Each year, the rent on her studio is \$600, electricity and heating are \$200 and service charge for the studio is \$100. She figures she will make 52 dresses a year.

What are her total costs per dress?

If her annual living expenses are \$26000, so she wants her profit per dress to be \$500. How did she calculate her profit per dress? What is her selling price?

© byidunsophia.com

18

Activity 2.2: Calculate total costs and profit

© byidunsophia.com

19

Activity 3.1: Henry and his tables

Henry manufactures tables for fun. He manufactures about 100 tables per year just for the hell of it. He spends \$20 on wood, \$2 on varnish, \$5 on fabric and \$6 on nails. Then every year he spends \$2,000 on rent and 25% relates to his workshop. Light and heat costs \$600 per year. Council tax for this main house (not used in production) is \$1,200 and selling costs are \$100 per month. He makes 100 tables per year.

His mate says tables have a profit on markup of 30%. What is his selling price?

© byidunsophia.com

22

Activity 3.2: Calculate total costs and profit

© byidunsophia.com

23

Over to you 1

- Calculate the total costs for your product.
- What is the minimum price you would accept for your product?

© byidunsophia.com

26

Pricing in service industries

© byidunsophia.com

Consider the hairdresser's salon



27