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U.S. Small Business Administration

☑ Worksheet - Pricing Models for a Successful Business

The concept of “price” is a topic many entrepreneurs ponder as they begin shaping their business ideas. In the *Introduction to Pricing* course, you learned about three pricing models—Cost-based Pricing, Customer-based Pricing, and Competition-based Pricing. This course explores those pricing models and discusses topics to help you adapt your pricing to your market.

Of the four “Ps” in the marketing mix, Price is the only component that generates revenue; Product, Promotion, and Place are all costs.

Use this worksheet to document your thoughts, ideas, and action items as they relate to developing a pricing model for your business. The questions below follow the topics discussed in the course. You can use the fillable PDF form fields or print the worksheet and write in the space provided.

Cost-Based Pricing Model

To implement a cost-based pricing model, you first need to calculate the costs incurred by producing, marketing, and distributing your product or service. Use the space below to calculate the different variable and fixed costs for your product or service.

Variable Costs: Write down the variable costs you have to produce your product or deliver your service. To make this easier, try to do this for an average year or month. For example, if you normally product 5,000 units a month use that as your basis to calculate these costs.

Item <i>(For example, Flour)</i>	Cost <i>(e.g., \$500.00)</i>	# of units produced <i>(e.g., 5,000)</i>	Cost Per Unit <i>(\$500.00/5,000 = \$0.10)</i>
TOTAL VARIABLE COST PER UNIT:			

Next, add up all of the costs in the “Cost Per Unit” column: _____
This is your total *variable cost* per unit.

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Fixed Costs: Now, write down all of the fixed costs you have. If you were able to calculate your variable costs based on your monthly production rate, use your monthly fixed costs here.

Item <i>(For example, Rent)</i>	Cost <i>(e.g., \$2,000.00)</i>	# of units produced <i>(e.g., 5,000)</i>	Cost Per Unit <i>(\$2,000/5,000 = \$0.40)</i>
TOTAL FIXED COST PER UNIT:			

Next, add up all of the costs in the “Cost Per Unit” column: _____
This is your total *fixed cost* per unit.

You can find your total cost per unit by adding your *variable cost* per unit and your *fixed cost* per unit:

$$\frac{\text{_____}}{\text{(Variable Cost Per Unit)}} + \frac{\text{_____}}{\text{(Fixed Cost Per Unit)}} = \frac{\text{_____}}{\text{(Total Cost Per Unit)}}$$

Adding Markup: Separating your costs into variable and fixed costs allows you to perform different calculations and play around with various factors to see how they influence your prices. By changing these factors, you can reduce costs to increase profits or decrease prices to increase sales and market share. What percent markup would you like to add to your product?

HINT: Your markup should allow you to make a reasonable profit. If your Total Cost Per Unit is more than your current price, your business is losing money.

To find your final price, first calculate your Markup Cost by multiplying your Total Cost Per Unit with the Markup % you chose. Convert your Markup % to a decimal (e.g. 5% = .05).

$$\frac{\text{_____}}{\text{(Total Cost Per Unit)}} \times \frac{\text{_____}}{\text{(Markup \% as decimal)}} = \frac{\text{_____}}{\text{(Markup Cost)}}$$

Then, add your Markup Cost to the Total Cost Per Unit for your final price:

$$\frac{\text{_____}}{\text{(Markup Cost)}} + \frac{\text{_____}}{\text{(Total Cost Per Unit)}} = \frac{\text{_____}}{\text{(Final Price)}}$$

Customer-Based Pricing Model

The Customer-based pricing model, also called value-based pricing, involves using information about your customers to set a price. To implement a customer-based pricing model, you need to study the market in order to understand how much your customers can and are willing to pay. Finding this out requires you to do some research.

Use the table below to write down your plan and results for different customer research ideas.

Research Idea	Execution Plan	Results
Perform Satisfaction Studies		
Research Customer Decision-making Process		
Measure Effect of Prices		
Monitor Social Media		
Research Customer Perception		

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Often times in the Customer-based pricing model, you will offer your product at different prices to different segments in your target market. These segments are divided based on the customers' requirements, attitudes, culture, and various other characteristics. Use the table below to identify market segments that you'll need to target and write down information about how you might do that.

Market Segment & Description <i>(e.g., France: This is the market I export to in France)</i>	Segment Size <i>~\$1,500,000 annually ~15% of my sales</i>	Segment Price Considerations <i>Less sensitive to price than my other segments – I could charge 10% more and not lose sales</i>	Segment Price <i>\$10/each</i>

Competition-Based Pricing Model

When using the Competition-based pricing model, a business sets its prices based on where its competitors set theirs. Like the Customer-based pricing model, the Competitor-based model relies heavily on research.

Use the table below to write some information about your competitors:

Competitor	Description	Analysis	Price
<i>Eg: Acme Products</i>	<i>Online store that offers the same widgets that I sell</i>	<i>The widgets are the same but Acme Products doesn't offer a guarantee. However, they are considered the leader in the widget industry.</i>	<i>Acme price is \$5/widget I would probably need to sell at that price to bring in customers because they are so popular, even though I offer a guarantee.</i>

Break-even Analysis

Regardless of the pricing method you chose, a break-even analysis is essential to determine the volume of sales you need to achieve to recover your costs at a certain price. You will need the Variable and Fixed Costs you calculated in the cost-based pricing section as well as the price you plan to charge for your product.

To find the Break-even Quantity (BEQ) that you must sell each month to cover your costs use the following formula.

$$\text{BEQ} = \frac{\text{Fixed Costs Per Month}}{\text{Price per unit} - \text{Variable Cost per unit}}$$

Break-Even Quantity Calculator	
Variable Cost Per Unit:	
Fixed Cost Per Month:	
Price Per Unit:	
BreakEven Quantity:	

What is your BEQ for each month? _____

Do you think you can sell that many units each month at that price? Remember to set achievable goals. Then, track their progress and make adjustments based on results. How would changing your price affect the amount of units you need to sell?

Selecting Your Pricing Model

Now that you've analyzed the various pricing models for your business, which one is right for your business? Will you need to mix some aspects of each model? What do you think your final price will be?..

For example, you calculate your costs to be \$5/unit (Cost-based). You know your competitor sells a similar product for \$10/unit. So – you sell your product at \$9.50/unit (Competition-based). Knowing what your competitor sells for helped you decide what markup to add to your product.

Similarly, if you know your competitor sells for \$10/unit (Competition-based), but your customers are willing to pay a little more as long as you offer free installation (Customer-based), you may charge \$15/unit and offer free installation based on both your competitor's price and what your customer is willing to pay. Regardless of which model you use as the basis for your price, you should also consider your costs, customers, and competition to ensure you're offering the right price.

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RESOURCES:

This worksheet is intended to help you document your ideas and possible solutions to common challenges small businesses face daily. You are not alone! If you would like talk to someone about your business, the SBA has a broad network of skilled counselors and business development specialists waiting to help your business start, grow, and succeed. Below is a short description of our resource partners:

- There are more than 1,000 **Small Business Development Centers (SBDCs)** located around the country. SBDCs provide management assistance to current and prospective small business owners.
- **SCORE** is a powerful source of free and confidential small business advice to help build your business. More than 10,000 SCORE volunteers are available to share their experience in lessons learned in small business.
- **Women's Business Centers (WBCs)** assist women and men in achieving their dreams by helping them start and run successful businesses. Over 90 WBCs are located around the country.
- The **SBA** has over 60 **District Offices** located throughout the country to help you start and grow your business.
- The **SBA Learning Center** is a powerful virtual campus with online training, videos, tools and links to local resources.
- The SBA's **Office of Women's Business Ownership (OWBO)** serves as an advocate for women-owned businesses. The office oversees a nationwide network of 110 Women's Business Centers that provide business training, counseling and mentoring geared specifically to women, especially those who are socially and economically disadvantaged. The program is a public-private partnership with locally based nonprofits.
- The **Veterans Business Outreach Program (VBOP)** is designed to provide entrepreneurial development services such as business training, counseling and mentoring, and referrals for eligible veterans owning or considering starting a small business. The SBA has 15 organizations participating in this cooperative agreement and serving as Veterans Business Outreach Centers (VBOC).
- **Procurement Technical Assistance Centers (PTACs)** provide local, in-person counseling and training services for you, the small business owner. They are designed to provide technical assistance to businesses that want to sell products and services to federal, state, and/or local governments. PTAC services are available either free of charge, or at a nominal cost. PTACs are part of the Procurement Technical Assistance Program, which is administered by the Defense Logistics Agency.

Find all your local resources in one place using our handy zip-code tool: www.SBA.gov/local-assistance

For more information about SBA programs and services, please download the *2014 Resource Guide for Small Business*, available for download at the following URL:

http://www.sba.gov/about-sba/what_we_do/resource_guides