



## Pricing Your Product Or Service

The price you charge for your products or services depends on the following:

- The cost to make the product or deliver the service
- The amount of profit you need to maintain your business
- The price your competitors are charging for similar products or services
- The price customers are willing to pay.
- The perception of customers about value for money

Pricing a product or service too low may mean your customer see your product or service as cheap and therefore perceive it to be of poor value or quality. But setting the price too high may mean you miss out on business because customers think you are too expensive.

Often when pitching a price for the first-time businesses set it too low. But make sure you do not undersell your skill, effort and time and make sure you cover your costs. You may be able to check competitors' prices but permanently undercutting them may reduce the value of your product or service in the long run as it could reduce the amount customers are prepared to pay for what becomes seen as a low value product.

Considerations for working out a price include:

- Going Market Rate
- Manufacturing or Development Costs
- Wages and Staff Costs

### Going Market Rate

Find others that are selling the same or similar products or services and work out the average price. This will help as a starting point for pricing, but it is not the final answer. Bear in mind local, regional, national and international variations. A product or service may be cheaper in Dumfries and Galloway because the market cannot afford to pay or it may be more expensive because it has to come a long way from the supplier.

### Manufacturing Or Development Costs

You need to determine how much your product costs to make or your service to be developed. This includes materials, equipment, taxes, and other variable costs. You may also have fixed costs such as rent, utilities, and storage.



## Wages And Staff Costs

How much time and cost are associated with making a product or developing a service and delivering it? How much an hour do you cost if you were to charge out your skill and expertise? This all needs to be built into the price.

### What's the difference between price and costs to my business?

Remember: price and cost are different.

The price is how much you sell your product or services for to your customers. The cost is how much it costs the business to make, market and distribute the product or deliver the service.

Costs can be:

- variable – costs increase or decrease dependent on the quantity being made
- fixed costs – costs do not change with an increase or decrease in the amount of goods or services produced.

### Pricing for wholesale

A rough calculation is (Wages/Staff Costs + Variable costs) x between 2 & 2.5

By multiplying by 2 to 2.5 this takes into account your profit and your fixed costs (overhead)  
The considerations as to whether to multiply by nearer to 2 or 2.5 are:

- High quality or up market products or services are likely to be closer to 2.5.
- Lower quality or lower end products or services are likely to be closer to 2.
- What competitors are charging for their products or services need to be compared too

### Pricing for retail

Retailers will usually mark up your wholesale price by a multiple of 2.

A rough calculation is Wholesale Price x between 2 & 2.5

For example, if your product costs £40 to make (wages + materials) then wholesale that is likely to be priced at £80 to £100 and retail (i.e., sold in your shop or online) at between £160 and £250. If other suppliers are charging £90 (wholesale) and £190 (retail) it gives you additional information on where to pitch your price.

These calculations also allow you to add a slight mark up above x 2 that you may be prepared to offer as discount to make the customer more satisfied. So if you are happy to receive £80 you may offer £10 off a list price of £90.



## Activity



It would be a good idea to start calculating your expected costs as well as researching the market rates for your proposed products.

### Other related information

SEDG Resource - Understanding Your Market

### Need help?

You can contact at us and arrange a call at: [sedg@tsdg.co.uk](mailto:sedg@tsdg.co.uk)