

# training on price setting of an item

**Factors to consider when setting a price are very varied depending on the relationship / detail / scale of opportunity / timing of the client needs and a myriad of forces that come into play....**

ALL PRICING CONSIDERATION SHOULD HAPPEN BEFORE YOU CONSIDER PRODUCT DEVELOPMENT COSTS OF MAKING A PRODUCT. Clearly these are estimates but without careful attention to all the costs involved many companies develop and then fail to sell products because the client is simply unwilling to pay the price you need to make money.

**Ultimately remember this: A price is set according to the value that someone / a company / person will pay for it. It is not a mathematical margin fix application if you wish to make best profit.**

**The sales price gives you the return on your investment (profit) having covered ALL COSTS. (fixed and variable expenses that contribute into your being able to make or buy and sell on the product.)**

[Enter your company name] may be local or a global provider. The price you sell at is impacted numerous factors some of which will change. The price you sell at having taken into consideration all other factors that follow.

YOU QUOTE / SELL AT A PRICE YOU FEEL CONFIDENT THE CLIENT WILL PAY. (If you can with a bit more room for negotiation.)

\*\*\* See costing sheet Template for a product costing broken down into all the components that influence the cost before margin setting?

## Pricing a product for

- what you think it is **worth**
- what the client can **afford** - which you should establish as you have conversations about budget, current spend, comparison items they might have tried in the past for the same intent, the price of other items that they might be considering, their own personal feeling about what something might be worth



- You can price an item at any price over our minimum approved x% profit....YOU never have to set a price as per an exact price list if you can get more. Of course we must meet the licensees control but if you can get a BIG price and have convinced the product is worth it - ask for it!!!

## Other considerations

- a. Meets the ability to **(globally) compete** (bearing in mind this sometimes means some markets are very much subject to expensive prices set by global head office which makes it difficult for them to comply)
- b. Means we are establishing a **fair and honest trading reputation**
- c. Assures that we are not **mixed standard setting** as customers travel and then inconsistent / irregular pricing will always come back to haunt...

## 1) Market place knowledge

- Current market price of the item
- Budget of the customer: as long as you can still make a profit, it is better to sell an item at a lower price to a client with a restrictive budget rather than not selling it at all. Conversely, if a customer has a bigger budget, you can price the item higher.
- market information of competitors: it is crucial to know what sort of prices your competitors are going to be charging for the same item. In most cases, a customer will choose the supplier that offers the lowest price (therefore, although customer service and quality are important factors for a customer to consider... the final price is usually the deciding factor).
- what's happening from a competition point of view/ perspective: outside political/environmental factors could greatly affect the price of an item and this needs to be taken into account when setting a price.
- what's it worth to the client: if you know that a client really likes the product and really wants it .... Then you can get away with charging more for it and thus setting the price higher.



## 2) Options

Always give a customer options so that if they are not satisfied with the initial price they have other options to consider and therefore they do not disregard the item altogether.

Whenever you are quoting a price it is IMPERATIVE that you quote prices in the range of GOOD, BETTER, BEST. Most likely when given the opportunity of choosing between a good, better or best option, the customer will choose the better (middle) option.... Therefore, if you don't mention this in the first place then you'll never know how much more you could have sold them. The good, better, best theory can be seen in just about any sales setting. In the grocery store you can often find items that are offered in a good, better, best format. For example, a grocery store may offer the following pricing incentives:

Good: you can buy one Coke for \$1.00.

Better: you can buy a package of 6 Cokes for \$5.00.

Best: you can buy a package of 24 Cokes for \$12.00.

**3) Never quote the lowest price that you can offer** – because once you have quoted the lowest price you have automatically put a ceiling cap on how high you can set the price of that item. Always set a price much higher than the lowest price you can offer and bargain from there.

## 4) Volume vs. Risk

if the item that you are setting a price for is in a low volume but has a high risk associated with it..... set a high price on it.

if the item that you are setting a price for is in a high volume but has either a low/high risk associated with it.... Set a lower price on it.

Lower risk can be explained in simply things like direct large drops to the client / payment in advance / very prestigious client that we need to get into on a sprat to catch a mackerel item / an item that we produce all the time and has little / almost no risk on quality control – or production problems experience tells us no buffer for problems needs to be applied.



## 5) Tactical pricing policy / decision

- Profit possibility of the client: sometimes it is better to set a lower price on an item if you know that the you stand to make a large profit on other items. For example, quote a client a low price for a shower cap (lower than you might usually) if you know that you will be able to make a huge profit off the toiletries that the client is buying from you.

Often a specific product X should be tactically priced in many deals as this is the key volume spend area in the range and often other amenities are left out of the comparison allowing for extra margin impact on these things ...

IF and it is a big IF, you know your competition well you can tactically price into their weaknesses....henceforth the power of the knowledge of the competition

## 6) Market Entry Placement

You always want to enter the market at the top so that you can sell your product.

My previous company started with The Dorchester and we have worked down the market.

In a very new market you should be aiming to supply something (almost anything) to the best target clients in town to shortcut the build to credibility and easy other door opening for pitches. .

## 7) Strategic decision

In some cases you may want to set a price substantially lower than normal for the sheer strategic reason of keeping your competitors out and not getting your client.

This would be a management approved tactic, very rare and not advisable unless for very specific reasons with considerable foundation.

