



Market Plan - Price Background

Determining a Product Price

In helping to compare different pricing formulas, assume you have determined that a market exists for bulk packs of 12 meat pot pies. The cost of materials (ingredients and packaging) is \$8 per case. It takes one hour of labour to assemble the pies and the labour rate is \$10.50 per hour. Your overhead costs are calculated at \$2.00 per case.

Formula for Cost plus overhead plus profit

In the planning stage of your business, you determine that you would like to make \$4.00 per case in profit. That figure will be entered into your calculations.

Materials + overhead + labour + profit = selling price per case

Example: \$8.00 + \$2.00 + \$10.50 + \$4.00 divided by 1 case = \$24.50

This is the most individualized approach because a conscious decision is made about the profit you want from your business. You decide on a satisfactory wage and the amount of time you spend earning it. Profit and your labour rate are not the same thing. This is the pricing that you should use to ensure sustainability of your business. The profit is what you will use to grow the business for the future.

Wholesale Formula

For some products, selling wholesale and going through other retail outlets will be the way to get your product to the consumer.

Wholesale price X (1 + retail mark-up) = retail selling price per unit.

Example: \$24.50 wholesale price x 1.35% = \$33.08 retail price

This is a general distributor or retail pricing formula. When you decide to wholesale you must understand that the buyer will mark up your item a certain percentage. If you decide to use a broker or distributor, you will also need to account for their margin in your calculations, the same way you did above for retail margin.

If the broker charges you a 35% margin and the retail is going to mark the product up by 35%, then your price will be

$\$24.50 \text{ case price} \times 1.35 \times 1.35 = \$44.65 \text{ per case retail price}$

A broker can be expensive way to expand your business, but they can get you into sales locations you might not be able to access yourself.

Competitive Pricing

This is the most difficult retail price to construct, but it is usually the most successful and most profitable. In this case, you review all of your direct and indirect competition and what their pricing is. You then decide if your target consumer is likely to pay a premium, the same amount, or less for your unique benefits. You apply that assumption to the price to come up with your pricing position in the marketplace.

For example, let's say you are making meat pies that are made with locally sourced organic beef and you are doing home delivery of these pies. There are three competitors all of whom are sold in the grocery store.

Competitor A: Non-organic - \$5.00 per pie

Competitor B: Non-organic - \$4.00 per pie

Competitor C: Organic - \$6.00 per pie

You've done a little research and believe your customers, because the product is home-delivered, will pay a 20% premium. So you would set your retail price to be:

Competitor C: (closest match to your pie): $\$6.00 \times 1.2 \text{ (premium)} = \$7.20 \text{ per pie retail price.}$