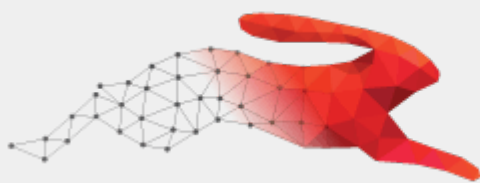


7 steps to price a product so it sells



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a product so it
sells



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7 steps to price a product so it sells

Reading time 9 mins

Key Points

- Finalising a price on a product so it sells requires careful consideration and the right balance between market fit and the value of work put into making it
- Determining your pricing strategy (e.g. cheaper than the competition or premium pricing?) early on is important as it will influence most of your decisions
- $\text{Selling Price} = \text{Cost Price} + \text{Profit Margin}$
- Best practice steps to price a product starts with calculating the direct costs, the costs of sales, the break-even point, and the markup
- Use online product pricing and profit margin calculators to help simplify the process when necessary, but ensure that you have a financial plan in place
- Know your competition and revisit your prices regularly so they remain adaptable to business environments that are constantly changing

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While the [insights gained from product testing surveys](#) will give you a general idea of the price range your product should fall into to [find the right market fit](#), finalising the price so your product sells requires careful consideration. On the one hand, it has to correspond with what customers are willing to pay, but on the other hand, it should reflect the value of the work you put into making it. In addition, your pricing strategy will further determine where on the price range spectrum you end up. Following these [best practices and steps](#) to price a product so it sells will help you find the right balance:

1. Calculate your direct costs
2. Calculate your cost of sales or cost of goods sold
3. Calculate your break-even point
4. Determine your markup
5. Determine your market positioning (i.e. niche or mass market)
6. Know the competition



Revisit your prices regularly

If the list above has you feeling overwhelmed by all the calculations to do and decisions to make, remember to take it one step at a time. For UK small businesses and entrepreneurs, [your local growth hub](#) – consisting of Local Enterprise Partnerships between regional authorities and private sector businesses – is a valuable resource and network for free business support. Simply [enter your postcode](#)

[to contact](#) the hub closest to you for advice – especially if the financial side of business management isn't your strong forte.

What's your pricing strategy?

Your pricing strategy relates to how you'll position your product on the market. Although it's associated with the fifth step on the list, it's arguably the most important as it influences most of the decisions you'll have to make. For example, if you've got a high-end niche product, the cost of your raw materials and expert labour costs, and the break-even point, will most likely be high. However, if you've got a mass-market product with a lot of competition to differentiate against, these costs might have to be lower to stay competitive.

In addition, your pricing strategy influences most of the decisions you'll make once you've completed the steps to price a product. For example, where and how you'll market and launch your product, your advertising budget, retail and points of sale. [Common pricing strategies](#) to consider include:

- **Competitive Pricing:** Focuses on the current market price and uses the competitor's pricing as a benchmark. This is primarily used for products that compete in a saturated marketplace where a slight difference in cost is a deciding factor for potential buyers.
- **Cost-Plus Pricing:** Focuses solely on adding a markup percentage to the cost of sales. Typically used by retailers who sell physical products and fix a final price depending on the profit they want to make.
Price Skimming Pricing: Setting your price as high as the market for it will allow and lowering it over time as the product becomes less popular. This is mainly used for technology devices that become cheaper once their novelty wears off.
- **Value-Based Pricing:** Fixing your price based on what customers are willing to pay.
- **Penetration Pricing:** Coming in at a much lower price than the competition to gain a foothold. This strategy isn't sustainable in the long run but can be useful for grabbing attention and making a strong impression in the hopes that it assists with customer retention when the prices go up.
- **Economy Pricing:** A popular strategy in the commodity goods market whereby prices are considerably lower than the competition, but money is made back by increased sales volume.
- **Premium Pricing:** Also known as prestige pricing, the high cost represents high-value, luxury, and premium products. This strategy is a direct function of brand awareness as the businesses that apply it (e.g. fashion and technology) are perceived to provide exclusivity and status.

Lastly, remember there's a difference between competitive pricing and unethical or illegal pricing. In the UK, Predator Pricing (substantially reducing the cost of a product to eliminate the competition) is unlawful. Other types of [anti-competitive pricing strategies to avoid](#), which could get you into legal trouble, include price fixing, market sharing, and abusing a dominant position (e.g. a business with over 40% of the market share forcing its customers to take warranties they don't want).

'Best Practice' steps to price a product right

In general, Selling Price = Cost Price + Profit Margin.

Product Pricing Step #1: Calculate your direct costs

The expenses that can be directly assigned to making the product. This includes raw materials, labour, packaging, shipping etc.

Product Pricing Step #2: Calculate your cost of goods sold (COGS)

COGS = raw materials + labour + [amortisation expenses](#) + overheads

Product Pricing Step #3: Calculate your break-even point

The point at which total costs and total revenue are equal: meaning there has been no loss nor profit made.

Product Pricing Step #4: Determine your markup

The value added to the total cost price of the product represented as a percentage. How much does it cost to make, and how much are you selling it for?

Gross profit per unit ÷ COGS per unit x 100

Product Pricing Step #5: Determine your market positioning

How much you can charge for a product depends on your pricing strategy and where your product is positioned on the market. If your competitors have lower profit margins and you sell your product at a higher price, you could lose sales. However, if you're an exclusive provider of a luxury product, you'll be selling at a lower volume but at a higher price.

Product Pricing Step #6: Know the competition

Scan your competitors closely, as their prices will impact what you can charge. Not only will this give you a better idea of the going rate, but also where and how you can differentiate. Perhaps your closest competitor can offer a lower price because they've paid off all their equipment. Do you have different/better/unique product features to use to your advantage?

Product Pricing Step #7: Revisit your prices regularly

While there are steps to price a product, the process isn't linear. Just because you've set a price on your product doesn't mean you're committed to it. Markets change and fluctuate, so your business goals and margins are expected to vary too. However, if you're increasing prices, explain to

customers which costs (e.g. energy, labour, taxes, interest rates) have increased and motivated the change.

[Online product pricing and profit margin calculators](#) can also help you take some guesswork out of calculations. However, having a financial plan – and understanding it – is essential. It inspires confidence from your business partners and employees and will also help attract investors further down the line. [Read our post on how to develop a financial plan](#) to get started with the basics.

Final thoughts on product pricing

While the business environment can be so competitive that one can feel forced to do whatever it takes to increase sales, remember there's not much point in having off-the-charts sales if your business is running at a loss.

We hope that following the above steps to price your product helps you reach a figure that promotes sales and achieves business growth.

If you found these suggestions helpful, please feel free to share them. Join our mailing list for more business tips, tools and free templates and let us know if there's anything, in particular, you're looking for.

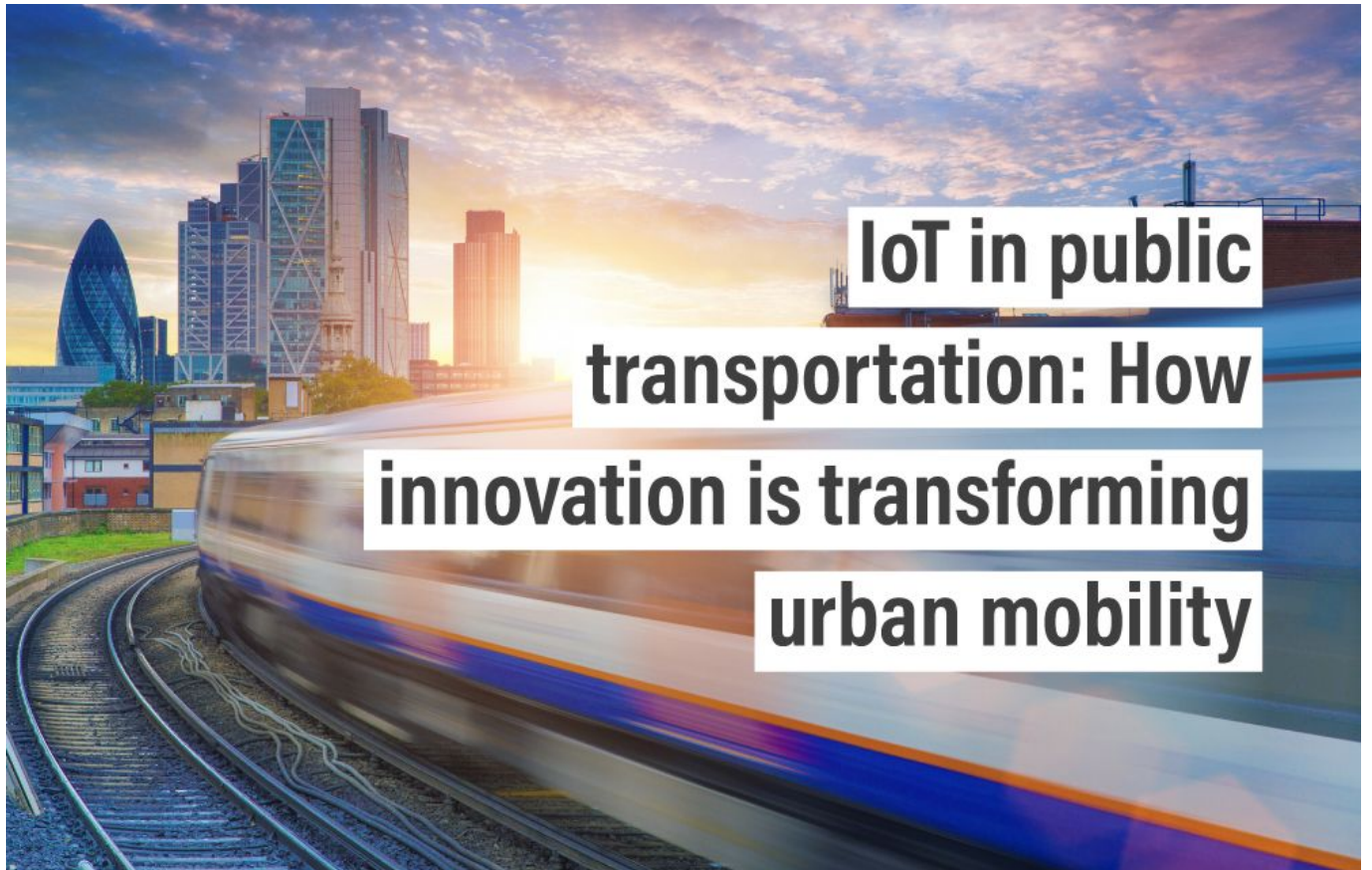
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