Pricing Products & Services

Your Pricing Strategy is your method for setting product/service prices, aiming for profitability, market share, and customer satisfaction.

- The Goal is to identify optimal price point balancing revenue, demand, and competition.
- Includes production costs, competition, market conditions, brand positioning, and perceived value.

In this worksheet, you will establish pricing and estimate profitability for your company.

Pricing Ensures Profitability

A thoughtful pricing strategy empowers a business to be profitable.

Profit is the fuel of every successful business.

- **Profit fuels purpose.**
- **Profit fuels growth.**
- **Profit fuels prosperity.**

Definitions

$Price	This is the amount of money charged for a product or service. In essence, it's what customers pay to acquire what you're selling.
$Revenue	Revenue is the total amount of money a company receives from its activities, primarily through sales of goods and services, before any expenses are subtracted. It's often referred to as the "top line" because it appears at the top of the income statement. Price and Revenue are related: Price multiplied by the quantity sold equals revenue; they're directly linked as price influences the total revenue generated.
$COGs	**Cost of Goods Sold –** The cost for making, acquiring, producing, or delivering your products or services.
$Gross Profit	Gross profit is calculated by subtracting the Cost of Goods Sold (COGs) from Revenue. It shows how efficiently a company is producing its goods or delivering its services. It's a measure of the company's manufacturing and distribution efficiency during the production process.
$Gross Profit Margin	This is a ratio that shows the percentage of Revenue that exceeds the Cost of Goods Sold. It's calculated by dividing Gross Profit by Revenue and is expressed as a percentage. This metric is crucial because it reveals how much a company earns taking into consideration the costs that it incurs for producing its products or services.

Common Pricing Methods

Here are a few common approaches to pricing you might consider:

- **Cost-Plus Pricing**: Adds a markup to production cost.
- **Value-Based Pricing**: Prices based on customer perceived value.
- **Competitive Pricing**: Pricing in line with competitors.
- **Penetration Pricing**: Low initial price to enter market.
- **Premium Pricing**: High price for high-quality or exclusive products.

The important thing is to make sure your pricing is both profitable (on a long-term basis) and competitive (a price that sits well to your Authentic customers, relative to the market).

Consider Your Income Statement

An income statement is a financial report that shows a company's revenues, expenses, and profits over a period.

It's related to your pricing strategy because the price you set for products or services directly impacts your revenue and profitability, which are key elements of the income statement.

Higher prices can increase revenue and potentially profits, if costs are managed effectively.

- **Revenues** come from the sales of your products and services.
- **COGs** are the costs to produce, acquire, or deliver your products and services.
- **Gross Profit** is what remains after COGs of your Revenue.
- **Gross Profit** fuels the operations, growth, and prosperity of your company.
- The more **Gross Profit** you have, the more you can invest in purpose, operations, growth, and pay shareholders.

INCOME STATEMENT

For the Years Ending December 31, 2017

REVENUES:	
Sales Revenue	$500,000
Other Revenue	$0
(Less Sales Returns & Allowances	0
TOTAL REVENUES	**$500,000**
Cost of Goods Sold	150,000
GROSS PROFIT	**$350,000**
EXPENSES:	
Accounting	$2,500
Advertising	25,000
Amortization	0
Bad Debt	1,000
Depreciation	50,000
Employee Payroll Tax	15,000
Employee Wages	100,000
Entertainment	0
Insurance	2,000
Interest Expense	12,000
Miscellaneous	5,000
Rent	24,000
Software	0
Telephone	2,500
Utilities	7,000
Web Hosting	500
Vehicle Expense	12,000
-	0
-	0
-	0
-	0
TOTAL EXPENSES	**$258,500**
NET INCOME BEFORE TAXES	**$91,500**
Less Income Tax Expense	0
NET INCOME	**$91,500**

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Your Break-Even Point

The break-even point is when a business's total revenues equal its total costs, resulting in no profit or loss. It's the point where the business neither makes money nor loses money from its operations.

It is the moment when your business becomes self-sustaining.

Break-Even:

Gross Profit
=
Operating Expenses

Every unit you sell beyond break even generates bottom line profit.

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Worksheet Objectives

In this worksheet, you will do the following:

1. **Build Your Pricing Model:** Set the price, COGs, and gross profit for the products/services you sell.
2. **Estimate Operating Expenses:** Write down what you estimate it costs to run your business over the next three years.
3. **Calculate Break-Even:** Discover how many units you would need to sell to break even over the upcoming three years.
4. **Observations, Analysis, and Strategy:** Analyze your data and craft a strategy going forward.

PART ONE – BUILD YOUR PRICING MODEL

A product or service offering refers to the specific goods or services that a company provides to its customers.

On the next page:

1. **Core Product & Services –** List your products and services.
2. **For Each Product & Service:**
   - **Unit Price ($) –** Enter the price you charge per unit.
   - **Unit Cost ($) –** Enter the estimated cost per unit.
   - **Unit Gross Margin ($) –** Calculate the gross margin for each unit:

     Unit Price ($) – Unit Cost ($) = Gross Margin ($)
3. **For Each Product & Service Look at Historical Sales.** Here you will look at the last twelve months – **trailing-twelve months or TTM**:
   - **TTM Units Sold (#) –** Calculate the number of units sold for each product or service in the last twelve months.
   - **TTM Customers (#) -** Calculate the number of customers who purchased the units sold in the last twelve months. In most cases, you have customers who purchased multiple units.
   - **TTM Revenues Booked ($) –** Calculate the actual revenue booked for each product/service sold. Sometimes it is not as simple as Unit Price ($) multiplied by TTM Units Sold (#), because we often give discounts and giveaways. Make sure the revenue is what was actually booked to your financials.
   - **TTM Avg Sale Per Customer ($) –** Calculate the average dollar sale per customer:

     TTM Revenues Booked ($) ÷ TTM Customer (#) = TTM Avg Sale Per Customer ($)
   - **TTM COGs ($) –** Calculate the actual cost of goods for the last twelve months.
   - **TTM Gross Margin ($) -** Calculate the gross margin for the last twelve months:

     TTM Revenues Booked ($) - TTM COGs ($) = TTM Gross Margin ($)
   - **TTM Gross Profit Margin (%) -** Calculate the profit margin ratio:

     TTM Gross Margin ($) ÷ TTM Revenues Booked ($)

Pricing & Break-Even

Your Pricing Model

Core Product & Services	Unit Price ($)	Unit Cost ($)	Unit Gross Margin ($)	Unit Gross Margin (%)	TTM Units Sold (#)	TTM Customers (#)	TTM Revenues Booked ($)	TTM Avg Sale Per Customer ($)	TTM COGs ($)	TTM Gross Margin ($)	TTM Gross Profit Margin (%)
				TOTALS:							

PART TWO – ESTIMATE OPERATING EXPENSES

A product or service offering refers to the specific goods or services that a company provides to its customers.

Operating expenses are the costs associated with running a business's day-to-day activities, excluding the cost of goods sold.

Typical operating expenses for a business include:

- **Rent or lease** payments for office or retail space
- **Utilities** like electricity, water, and internet
- **Salaries** and wages for employees
- **Benefits and payroll taxes** for employees
- **Insurance premiums** for property, liability, and health insurance
- **Marketing and advertising** costs
- **Office supplies** and equipment
- **Maintenance and repairs** of equipment and facilities
- **Travel expenses** for business activities
- **Professional fees** for lawyers, accountants, and consultants
- **Software subscriptions** and **IT support**
- **Depreciation** of long-term assets
- **Research and development** expenses for product innovation

Instructions:

1. Expense Types. List all of your expense types.
2. TTM Costs. Enter the actual cost for each expense type for the last twelve months.
3. Year 1. Project the expected annual cost for each expense going forward (Year 1).
4. Year 2. Project the expected annual cost for each expense in Year 2.
5. Year 3. Project the expected annual cost for each expense in Year 2.
6. Assumptions. List your assumptions for any projected additions or adjustments you make in Years 1, 2, and 3.

Pricing & Break-Even

Expense Categories	Actual: TTM Costs ($)	Projected: Year 1 Costs ($)	Projected: Year 2 Costs ($)	Projected: Year 2 Costs ($)
TOTAL EXPENSES				

Assumptions:

PART THREE – CALCULATE BREAK-EVEN POINT

Now that you have a projection of annual expenses, both in the past and in the next three years, you can calculate how many units of product/service you need to sell in order for your company to be at 'break-even.'

Every product/service unit you sell after break even can be invested in purpose, growth, impact, people, systems, improvements, or paid-out to shareholders. The choice is yours.

Instructions:

1. **Total Expenses.** From Part Two, write down the total expenses for the last twelve months (TTM), along with projected expenses for Year 1, Year 2, and Year 3.
2. **TTM COGs ($).** From Part One, write down the TOTAL TTM COGs (get from the last line in Part One). This is the total cost of goods sold (COGs) for the last twelve months.
3. **TTM Total Units (#).** From Part One, write down the TOTAL TTM Units sold (get from the last line in Part One). This is the total number of units sold, across all your products and services, in the last twelve months.
4. **TTM Avg Cost/Unit ($)**. Calculate the average cost of all units sold, across all products and services, over the last twelve months.

   TTM COGs ($) ÷ TTM Total Units (#) = TTM Avg Cost/Unit
5. Break-Even Units. Calculate that number of units you need to sell of products/services based on your annual expenses.

   Total Expenses ($) ÷ TTM Avg Cost/Unit = Break-Even Units (#)

	TTM	Year 1	Year 2	Year 3
Total Expenses ($)				
TTM Total COGs ($)				
TTM Total Units (#)				
TTM Avg Cost/Unit ($)				
Break-Even Units (#)				

PART FOUR — OBSERVATIONS, ANALYSIS, AND STRATEGY

Congratulations! You've done a ton of work to figure out pricing, COGs, gross profit, expenses, and break-even point!

Now it's time to see the power of the choices you can make. Write your reflections on these questions and consider any strategic choice you might make going forward.

1. What is the product or service that has the most traction? Look at your Pricing Model. For which product/service are you are selling the most units?

2. Which product or service is most profitable per unit? Look at your Pricing Model. Which product or service generated the most **Unit Gross Margin ($)**?

3. Which product or service is generating the most profit to your business? Look at your Pricing Model. Which product or service generated the most **TTM Gross Profit ($)**? It is the product that is selling the most? Is it the product with the highest gross profit per unit?

4. What has driven results over the last twelve months? Look at your Pricing Model. Is there a connection between marketing efforts? Sales efforts? Or product/service availability? What have been the factors and drivers of your results?

5. What is your strategy going forward? What marketing or sales strategies would you like to use? Which products/services would you like to focus attention? What are ways you could drive down costs? How can you fuel more gross profit to get you past break even?

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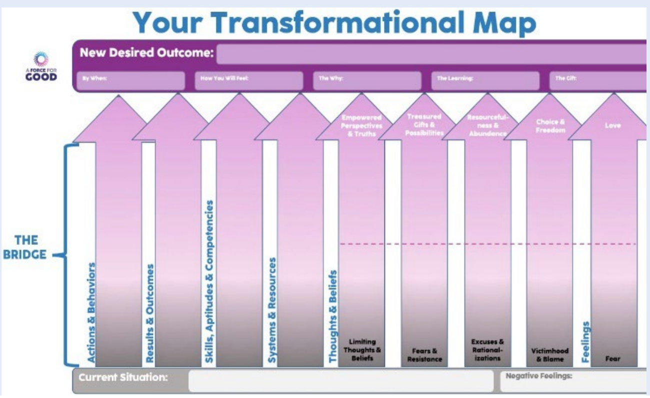

- **Your Transformational Map** helps teams grow – from inside out.
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