



New Developments:

- Established relationships with the Brooklyn Economic Corporation and the St. Nicholas Brooklyn Business Center
- Facilitated two presentations on product pricing methodologies
- Consulted with a Connecticut Asset Management Company about developments in the processing services space
- Kevin Howell, Principal, now lectures Organizational Theory at Monroe College

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Small Business Corner

Selling Price = Production Costs Plus A Mark-up

The conventional formula used to calculate revenue is price multiplied by the quantity of products produced or service rates multiplied by number of service hours. Price can be defined as the cost incurred to manufacture/source a product or render a service plus a mark-up determined by management. At first glance, this appears to be a digestible concept. However, very quickly business owners will realize that a number of factors will weigh in when they attempt to determine the price to charge customers for goods or services.

How Do You Determine the Right Price for a Product?

The right or optimal price to charge customers for a product should be based on a thorough market analysis that is compared to the total cost of production. The market analysis will help business owners to:

- Determine competitors' prices
- Assess the average price that a consumer is willing to pay for the value being offered

These two factors will help managers determine a reasonable production cost before starting the production process; thereby ensuring better management of production inputs and invariably the final cost of production.

Illustration of Product Pricing

	Notes to table	
Market/Competitor Prices:		
Average price	1	\$ 300
Highest price		500
Lowest price		200
Number of hats in production		
		1,000
Cost of production:		
Direct material		100,000
Labor		75,000
Factory overhead	2	40,000
Total cost of production		215,000
Indirect costs/overhead	3	95,000
Total costs		310,000
Cost per hat		
Mark-up	4	310
		45%
Price per hat	5	450

Based on the table, the final price for the hats is higher than the average price in the market, but still below the highest prices being charged by some of the competitors. Once the manufacturer is confident in the relative quality of their hats and the market for their specific design, they should have no reason to sell their hats for less than \$450.

Notes to table:

- 1 This represents the average of the high-end hat prices being charged by competitors.
- 2 Factory overhead may be comprised of set-up costs, rent, utilities, depreciation of equipment and other costs incurred in the production facilities.
- 3 These costs may include salaries and wages for office and administrative employees, office rent, marketing and sales costs, professional costs and other office expenses.
- 4 This was calculated by dividing total costs by number of hats produced.
- 5 This was calculated by adding cost to produced and bring each hat to market and the company's mark-up.

Other than times when one decide to set prices at or below cost for a temporary, specific purpose, such as gaining market entrance or clearing inventory, an owner should refrain from selling its products below the costs incurred to bring it to market. Doing this, will be a sure way to go out of business.

Coming Next Month

1. Research paper on "The financial impact of Going Green on Manufacturing Companies in the US"
2. Brokers Tips to a Solid Due Diligence Process

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