



The anatomy of a price tag: How to price products

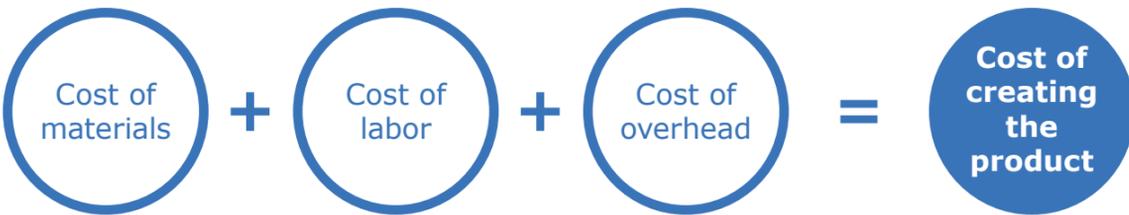
While there's no universal pricing blueprint for all services, products, or industries, there are some key things to keep in mind. Check out two methods that can help you make your pricing decisions.

Method one: The general formula



This formula can help you create your pricing model. Count up every production cost and then add in the profit you aim to make.¹

Step one: Add up the costs of creating your product.



Step two: Factor in your desired profit per one product sold.



Terms:

Material costs: The prices of raw ingredients — plastics, textiles, and more — that make up the product.

Labor costs: Workers' wages and benefits as well as payroll expenses.

Overhead costs: The payments you must make regardless of revenue: rent, utilities, insurance, office supplies, shipping, and more.

Method two: Working backward from target revenue



Begin by setting a goal for the amount of revenue you want to make from your product, then divide by the number of products you expect to sell.²



Term:

Target revenue: The amount of money you aim to make from selling the product, regardless of the cost of producing it.

When to adjust your pricing

Instead of treating one formula as fail-safe, use both as tools to generate potential prices, and then refine them based on internal and external factors that can shape your pricing. Be ready to re-examine your pricing when:

- You improve existing products.** That's added value you should recognize by potentially raising prices.
- The state of the economy changes.** If the market moves up or down, your prices might have to move with it.
- Competitors update their prices.** Be aware of the adjustments your competition makes, and be ready to adjust accordingly.
- Your production costs increase.** If suppliers hike their rates or the cost of a certain material increases, you may not be able to keep your prices the same.

Sources:
¹"Pricing a Product." Entrepreneur. (2014) <http://www.entrepreneur.com/encyclopedia/pricing-a-product>
²"How to Price Your Products." Inc. (2010) <http://www.inc.com/guides/price-your-products.html>