



**PALMETTO INNOVATION CENTER
PROPEL BUSINESS LAB**

SESSION 6 PRODUCTS, SERVICES, AND PRICING



AGENDA

SESSION VI

6:00p.m. - 6:05p.m.: CEO and/or PROGRAM MANAGER COMMENTS (If Applicable)

6:05p.m. - 7:20p.m.: Products & Services *(10-minute break after this session)*

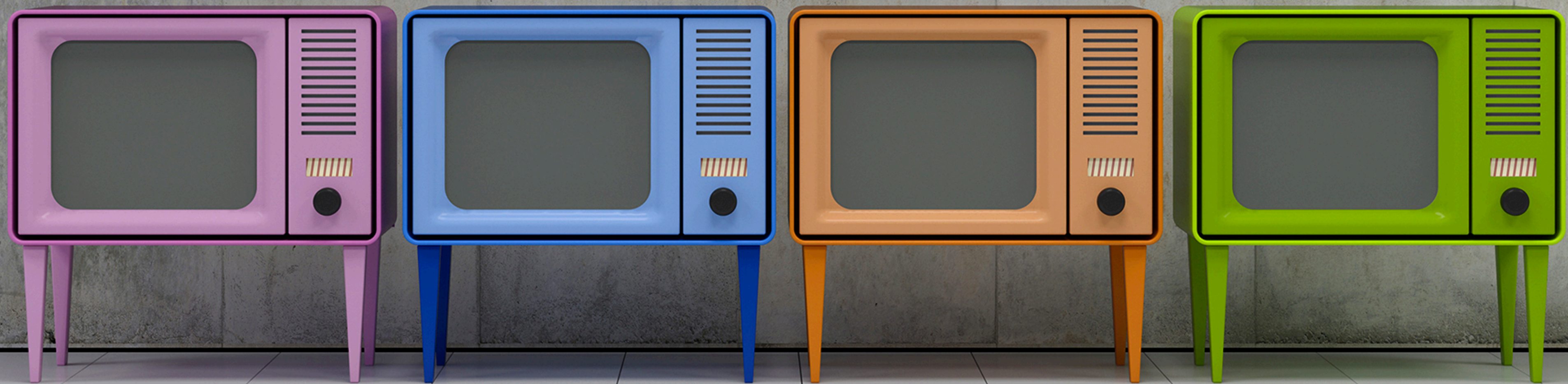
7:30p.m. - 8:30p.m.: Pricing Strategy

8:30p.m. - 8:55p.m.: Distribution Channels

8:55p.m. - 9:00p.m.: CEO and/or PROGRAM MANAGER COMMENTS (If Applicable)

“Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion.”

(Jack Welch)



PRODUCTS, SERVICES, AND PRICING



KEY TERMS

1. **Revenues**: Represents overall funds made by the company in the course of conducting business.
 2. **Expenses**: Represents money spent by the company in the course of conducting business.
 3. **Sales**: Represents funds made by the company in the course of selling goods and/or services.
 4. **Gross Margin**: Represents revenue minus the cost of goods sold.
 5. **Net Income/Profit**: Represents gross margin minus expenses.
 6. **Loss**: Occurs when the business has more expenses than revenues during one accounting period.
 7. **Overhead/Factory Burden**: Generally refers to indirect labor and indirect costs.
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PRICE SETTING: WHAT TO CONSIDER

Pricing decisions for products and services should first be based on how much it costs to make or how much time it costs to provide a service. After that, consider pricing of your competitors. If the pricing and quality of your offerings are better than your competitors, you could possibly increase your sales.



SUPPLY & DEMAND

Supply refers to the market's ability to produce a product or service. **Demand** refers to the market's desire to purchase the product or service. Supply and demand are often considered to be a concept that is used when setting prices.

DEMAND	SUPPLY	PRICE
	unchanged	
	unchanged	
unchanged		
unchanged		

PERCEIVED VALUE

Defined as the value which customers are willing to pay for a particular product or service based on their perception about the product. As the seller, it is your job to persuade the buyer that he/she needs your product or service.



$$\text{Perceived Value} = \text{Customer Perceived Benefit} - \text{Customer Perceived Cost}$$

WHAT DOES IT COST YOU?

VARIABLE COSTS

Defined as a cost that varies in total with the level of output. The cost per unit remains the same while the overall prices change in proportion to the activity base.

(Examples: Wages, direct materials, units produced, etc.)

FIXED COSTS

Defined as costs that are constant without regard to the level of output.

The price per unit changes in proportion to the activity base while the overall amount remains the same.

(Examples: Rent, mortgage, salaries, straight-line depreciation, etc.)

COSTS: INDIRECT...DIRECT...OVERHEAD

	DIRECT COSTS	INDIRECT COSTS	FACTORY OVERHEAD
DEFINITION	Costs that can be linked directly back to a product or service.	Costs that cannot be linked directly back to a product or service.	Costs that are involved in operating the production facility. This also includes all items that are indirect.
EXAMPLES	Direct labor, direct materials, fuel for machines, supplies, etc.	Production supervisor salaries, insurance, depreciation, etc.	Factory rent, utilities, fringe benefits, production supervisor salaries, etc.

MOST COMMONLY OVERLOOKED COSTS



- 1. Direct Labor**
- 2. Office Supplies**
- 3. Travel Costs (Gas and/or mileage costs)**
- 4. Shipping Costs**
- 5. Packaging Costs**
- 6. Administrative Costs**
- 7. Overhead Costs**

GROSS PROFIT PER UNIT

Defined as the difference between the cost of goods sold and the total revenues the business generates. The higher the gross profit, the higher the overall net income. Net income represents the revenue the company has remaining after all expenses are deducted.



ESTABLISHING THE PRICING STRATEGY

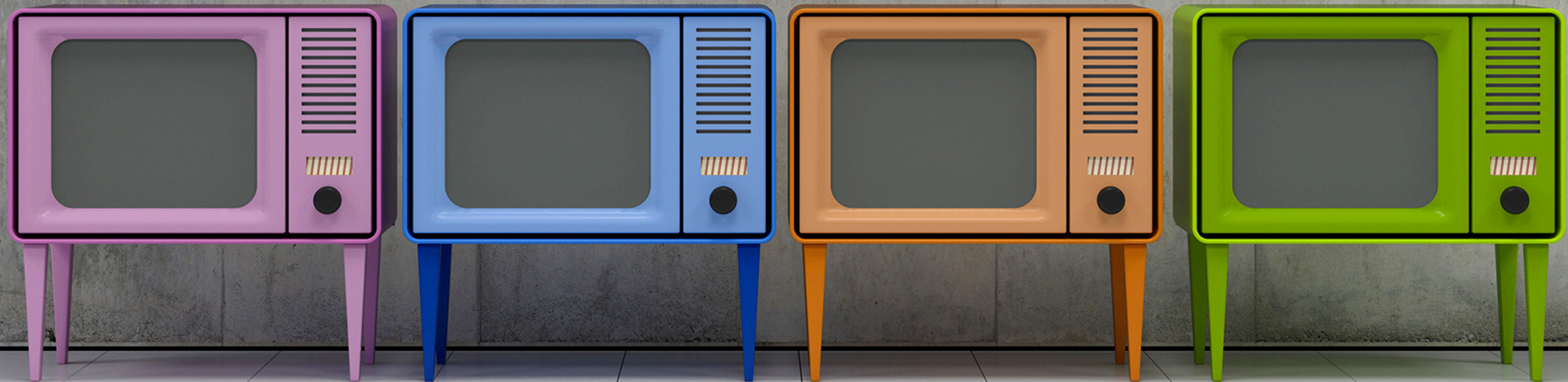
- 1. CALCULATE YOUR COSTS**
- 2. EXAMINE THE MARKET**
- 3. KNOW YOUR CUSTOMERS**
- 4. CONSIDER YOUR TIME INVESTED**
- 5. ESTABLISH YOUR DESIRED PROFIT MARGIN**
- 6. DECIDE HOW YOU WILL CHARGE YOUR CUSTOMERS**



LET'S REFLECT...

Reflect on the factors we discussed pertaining to your pricing strategy.

How often do you think a business should adjust prices for its goods and/or services?



PRE-WORK FOR SESSION VII



ASSIGNMENTS

SESSION VI

1. Read through the Session VII Presentation.
2. Read the additional resources provided in the program outline for Week #7.