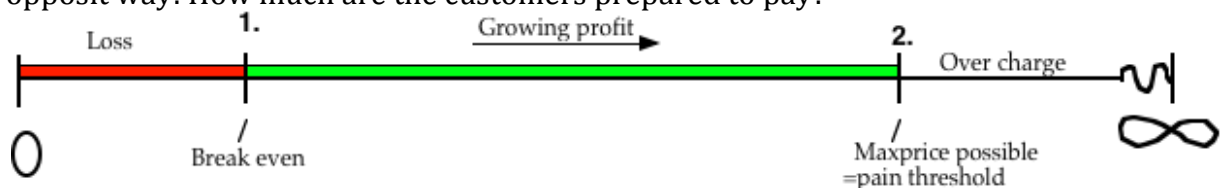


Start up program

Step 6. Pricing – how to get a good price

How much can You get paid for Your products and service? And where can You find the answer on that question?

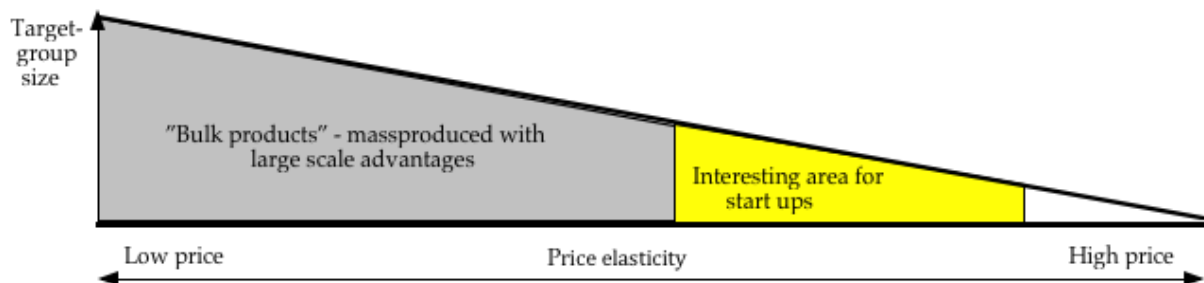
The traditional way to set a price is to calculate how much it cost to produce (cost price). And then add a reasonable profit. A more modern way to set price is the opposite way: How much are the customers prepared to pay?



For a start up this last method is the best! And to get well paid it's necessary for the new entrepreneur to have a close contact with the potential customers to find out what kind of values that increases their willingness to pay more.

There is a word for this: price elasticity. And this means that the same product and service can have a very different price depending on packaging.

The research about pricing is very important – if You do it well you can find a way to get vary much better profit margin.



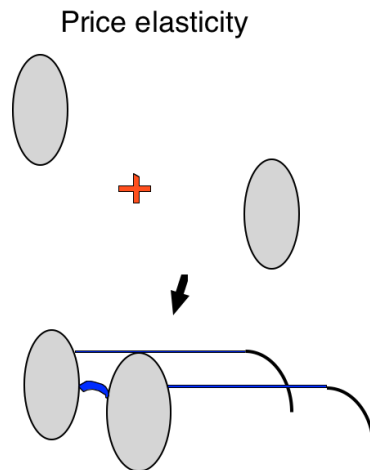
If You set Your price to low You will sell a lot but earn a little.
But if You price Your offer to high You can't sell anything!

As You can see in the figure above we don't think You – as a start up – should try to compete with the "big elephants" with "bulk products". On this market there is only one factor of competition: low price. And that is nothing for a new business to challenge! Find Your target groups in the yellow field! And compete with an unique solution! And high performance, quality and service!

Price elasticity – some examples:

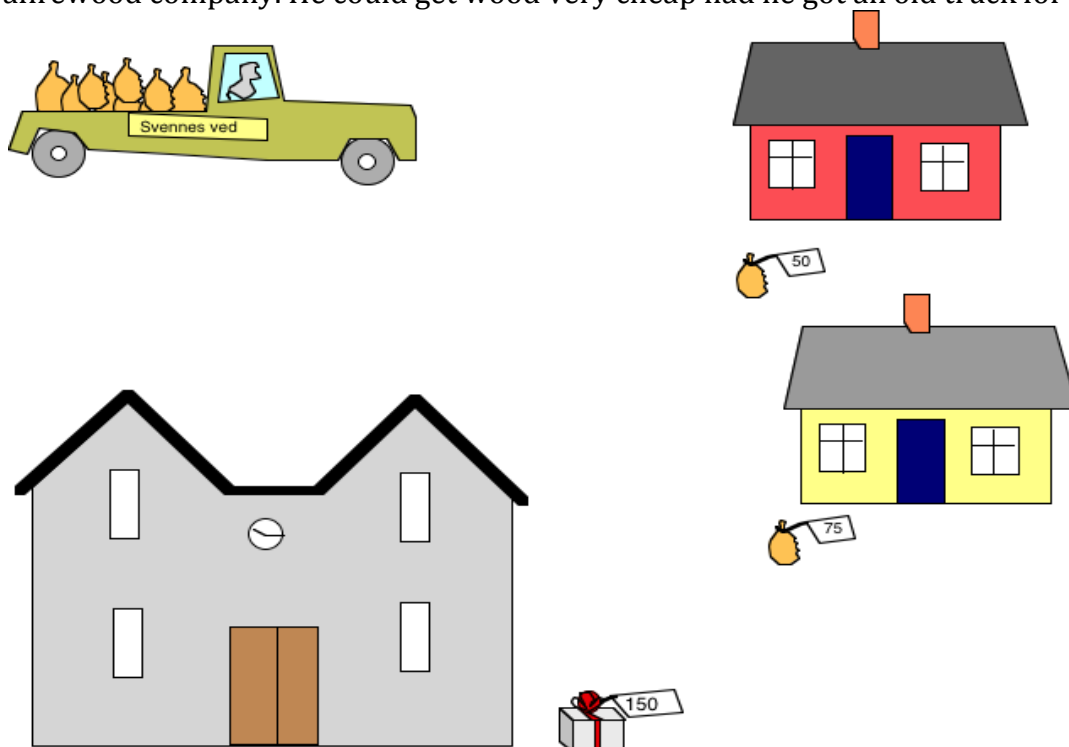
At the optician

This is a short story: A girl goes to the optician to buy new glasses. The optician have a model for finding out how much the customer is prepared to pay. So when the girl ask for the price he says: 50 dollars (he carefully watch her face) "for each glass" (still no reaction) "and one hundred for the spectacle frames"!



"Svennes ved" – firewood dealer

In the 80-th there were a lot of old industries in Sweden that went bankrupt. Many people in the forest area lost their job and many tried to start up new businesses to be able to stay and live in the small villages. One of them – Sven – decided to try to set up a firewood company. He could get wood very cheap and he got an old truck for



distribution. But Sven didn't know what price he could get. So one of my consultant colleges helped Sven to research the price elasticity for firewood in the city of Karlstad.

In the first residential district they sold a sack of firewood for 50 kronor. Pice of cake!

In the next district they sold a sack for 75 kronor. Still no problem. But in the third district they tried to get 100 kronor for a sack but no one was interested. Butt hen they tried with a different package: in a nice box with red rosette as a give away present for 150 kronor. And that was no problem!

Learning: The price elasticity for firewood is in the gap 50 – 100 kronor but extends to 150 kronor when sold as a give away box!

How to make the customers decision to buy easier

When You start up a new business the most important thing is to get customers. And the first customers are most important of course.

When You are new as a businessman and the company is new adn – maybe – Your products and services are new to. Then You have a great deal of resistance to overcome to get the customers desicion to buy! So if You can find a way to reduce the threshold to make his first order you have finda big advantage!

Find a way that makes it less dangerous for Your customers to try You! Reduce the risks!

Give Your customers a "start offer" with a reduced price.

And take very good care of those first customers!

Give guarantees for funcion or quality.

Think about Your own new business: How can Your start up offer look like? How can You make Your customers decision to buy easier?

This is my offer:

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There are two different ways to do calculations for pricing: Prime cost and Contribution.

The Prime Cost calculation gives a price to customer based on the actual costs to produce a product or service.

The Contribution calculation is based on the fact that there is over capacity that's not used. By using these resources, already partly paid, we can sell more for a reduced cost. We get "contribution" to the cash flow.

Prime cost calculation

This is a way to exactly find how much a product or service costs.

This is the model of calculation:

Direct costs for (raw) material:
+ Labour cost:
+ Other direct cost:
= Prime cost:
+ Over head cost:
+ Profit margin:
= Price to customer

Contribution calculation

Possible price to customer:
- extra cost:
= contribution:

Now to Your new business:

This is my thoughts about pricing:

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