

● **SESSION 5: SETTING YOUR PRICE**



(Total time: 3 hours)



Price means how much you will charge your customers for your goods or services. A successful business is one that sells something customers need or want at a price they are willing to pay while ensuring that this price is higher than your costs to provide the product.

To set your prices you have to:

- Know how much your potential customers are willing to pay
- Know your competitors' prices
- Know your costs

This next session of the training will demonstrate how to calculate whether your business will make a profit or a loss. The group will work through different activities to estimate a competitive price, predict monthly sales and production, and break down the different business costs.

○ **Activity 5A: Customers and Competition**



(30 min)



- 1) As a group review Miss Koodo's product pricing research of how much customers are willing to pay and what prices are offered by competitors. Discuss how she may have collected this information and what you can do to collect this type of information when planning your own business **(5 min)**
- 2) Next, support each other to complete a product pricing research table for your own business ideas (Table#1). It is important to be realistic about these prices. If you do not know what price your customers are willing to pay, ask other members of the group what they would pay **(15 min)**
- 3) Take turns presenting your product pricing research table to the group. Group members will provide feedback and helpful comments to strengthen these tables before moving on to the next activity **(10 min)**

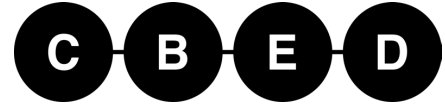
Sample Table: Miss Koodo's Product Pricing Research (Breads)

Product range (goods or services)	Average market price	Competitor highest price	Competitor lowest price	My price
Bread loaves	\$3.50 /loaf	4 /loaf → from bakery in neighboring village	\$2 / loaf → from local 711	\$3.00 /loaf

Table 5.1: Product Pricing Research for your Business

Product range (goods or services)	Average market price	Competitor highest price	Competitor lowest price	My price





Once a competitive price has been identified, the next step towards setting your price is to estimate how much you can sell each month and how much you should be producing to meet this demand. This information will allow you to determine how much you can expect to earn based on your proposed price.

○ Activity 5B: Estimating Monthly Production and Sales



(30 min)



In this activity we will learn about a way to calculate monthly production and sales. To do this we must have a realistic idea about how much we can sell as a new business. In this training, group members will help each other to predict realistic sales figures but those entrepreneurs who are serious about launching their business should redo this activity using information collected in one or more of the following ways:

- 1) **Compare** with similar businesses through observation or asking business owners.
- 2) **Conduct market research** by surveying potential customers about what products, how much they would pay, and how much and how often they would buy your product.
- 3) **Experiment** with your sales by starting your business on a very small scale to assess what your customer will pay and how much you can sell.
- 4) **Advance orders** are a method to get commitments from future customers to purchase your products before they are produced. Remember that a written commitment to buy is usually better than a verbal agreement.

Next, the group reader will read through all the following instructions before the group starts the activity at Step #1. Remember, another member of the group should take responsibility for monitoring the groups time and reminding the group when to move on to the next step.





- 1) As a group read through the estimated production and sales table for Miss Koodo's business. Because her business is a start-up she has only made estimates for 6 months. Discuss how she has calculated her monthly average and what she could do with her excess production if there are no damaged products or higher demand **(10 min)**
- 2) Work together in pairs to complete an estimated monthly sales and production plan for your businesses in Table 2 **(15 min)**
- 3) As a group, present the estimates for each business and discuss the percentage used for predicting damaged products or higher demand - Did everyone use the 20% figure like the example? What can you do to be sure you have used an appropriate percentage for your business? **(10 min)**

Sample Table: Miss Koodo's Estimated Monthly Sales and Production Plan

Products (goods / services)		Month of sales/production						Total produced	Average per month
		1	2	3	4	5	6		
Predicted bread loaves that can be sold to individuals through the market stall	Estimated sales	100	150	150	200	200	250	1050	175 loaves per month

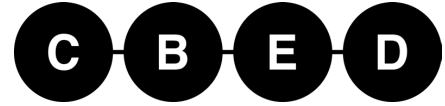
To account for damaged products or higher demand, produce 20% more than estimated sales (this percentage calculated for damaged products or higher demand can be changed to one you believe is more reasonable for your business)

Bread loaves that will be produced to sell to individuals through the market stall	Quantity to be produced	120	180	180	240	240	300	1260	210 loaves per month
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Table 5.2: Your Estimated Monthly Sales and Production Plan

Products (goods / services)	Month of sales/production						Total produced	Average per month
	1	2	3	4	5	6		
Estimated sales								
Estimated sales								
Estimated sales								
Quantity to be produced								
Quantity to be produced								
Quantity to be produced								





We have now identified a competitive price for our products, estimated how much we can sell, and calculated how much we should produce to meet this demand. Already you may have some idea about the income your business can generate from sales but to understand how much of this will be profit you first need to calculate your business costs.

Activity 5C: Know Your Costs



(1 hour and 15 min)



A business has many different types of costs that can be classified in different ways.

1) **Variable costs**

Variable costs change with the amount of goods or services produced and usually concern things like raw materials or labour.

- **Raw materials**

The basic materials used to make the final product or service. Example variable costs in a hair salon business would be shampoo and hair gel, or the utilities like water and electricity. These are variable costs because they will change based on the amount of goods or services produced.

- **Labour costs**

These costs are the amount of wages you pay your employees, as well as the amount of money you earn from your business as owner. These are variable costs because the amount of money you pay your employees and yourself changes with the amount of goods/services produced.

2) **Fixed costs**

Fixed costs are the same regardless of the amount of goods and services produced and usually concern things like location and equipment.

In the next activity you will work through the different steps to breakdown and calculate your different monthly business costs. Remember to work together as a group one step at a time to complete the activity.



- 1) Read through the sample table of raw materials for Miss Koodo's business and discuss how each calculation has been made **(15 min)**
- 2) Support each other to complete a raw materials cost breakdown for one good or service to be produced in each business idea **(10 min)**



- 3) Read through the sample table of labour materials for Miss Koodo’s business and discuss what an appropriate salary or income for business owners should be (5 min)
- 4) Support each other to complete a labour cost breakdown for one good or service produced in each business idea (5 min)

Sample table: Miss Koodo’s Variable Costs: Raw materials

Materials	Quantity needed per product	Unit price	Cost per product
Yeast	0.1 kg	1 dollar per kg	\$0.10
Salt	0.5 kg	2 dollar per kg	\$0.01
Oil	0.5 ounces	10 cents per ounce	\$0.05
Eggs	3 eggs	10 cents per egg	\$0.30
Flour	0.5 kg	1 dollar per kg	\$0.50
Total cost for product	\$0.96 dollars/loaf		
Total production per month*	210 loaves/month		
Total cost per month**	\$201.60/month		

* This value is from the Sample Table in Activity 5B.

**To calculate total cost per month, multiply total cost for a loaf by production per month.

Sample table: Miss Koodo’s Variable Costs: Labour

Person	Time per month (in hours)	Cost per hour	Cost per month
Miss Koodo	120	\$2	\$240
Total cost per month	\$240/month		

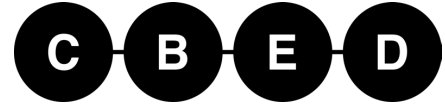


Table 5.3: Your Monthly Costing Sheet for Variable Costs: Raw Materials

Materials	Quantity needed per product	Unit price	Cost per product
Total cost for product			
Total production per month*			
Total cost per month**			

* This value is from the Sample Table in Activity 5B.

**To calculate total cost per month, multiply total cost for a loaf by production per month.



- 1) As a group, read through together the sample calculation costs for Miss Koodo's business and discuss how each calculation has been made **(5 min)**
- 2) Support each other to complete a Fixed Costs breakdown for one good or service produced by each business idea **(5 min)**

Sample table: Miss Koodo's Total Cost Calculations (to make a load of bread)

Type of cost	Cost per month
Variable raw materials costs	\$201.60
Variable labor costs	\$240
Fixed costs	\$78.75
Total cost per month	\$520.35



In this activity of this session, we learned how to estimate our monthly costs for a business producing one good or service by calculating for raw materials, labour, equipment, and location. Before entrepreneurs put their business plans into action, it is important that these calculations have been made for each good or service and the TOTALS clearly identified (table below).



Table 5.6: Your Total Costs for One Product, Good or Service

Name of the product, good or service	
Type of cost	Cost per month
Variable raw materials costs	
Variable labor costs	
Fixed costs	
Total cost per month	



Activity 5D: Making a Profit



The final step in setting the price of your product is determined if you will make a profit or a loss given your estimated price, sales, production, and costs.

You make a **profit** when income from sales is greater than costs.
 You make a **loss** when costs are greater than income from sales.

If you find out that you are making a loss, you will need to take another look at one of the following to see if you can change it:

- **Price:** Can you charge a higher price?
- **Sales:** Can you sell more? Are there promotions that will help you to sell more?
- **Costs:** Is there a way to reduce your costs?

If you are unable to make changes, or you do and you are still making a loss, it may be a good idea to consider another business idea. To calculate your profit, you will need to compare what the customer will pay and with the sales and cost for the business. This next activity will show you how to do this using what you learned in Activity 5A, 5B and 5C.



- 1) As a group, read aloud the sample profit sheet for Miss Koodo's business and discuss how the calculation has been made **(10 min)**
- 2) Work in pairs to complete profit sheets for each group member's business idea using the calculations developed in the previous activities **(15 min)**
- 3) Reform as a group and share each group member's profit or loss calculation. Discuss what each individual has learned from this session and what changes might be made to the business plan with this new knowledge? **(10 min)**

Sample Table: Profit Sheet for Miss Koodo's Business

Step 1			
Price (Miss Koodos price from activity 5A)		Monthly average (Miss Koodo's sales from activity 5B)	Monthly sales
\$3.50 / Loaf	X	175 Loaves	= \$612.50

Step 2

Monthly sales		Cost (Miss Koodo's costs from activity 5C)		Profit
\$612.50	-	\$520.35	=	\$92.15

Handwritten Description	Handwritten Unit/Rate	Handwritten Unit/Rate	Handwritten Amount
Handwritten text	1 kg / 1 kg	1300 / 1 kg	9,100 f
Handwritten text	26 kg / 1 kg	700 / 1 kg	18,200 f
Handwritten text	1 kg / 1 kg	600 / 1 kg	1200 f
Handwritten text	2 kg / 1 kg	1500 / 1 kg	3,000 f
Handwritten text	0.05 / 1 kg	1000 / 1 kg	100 f
Handwritten text	3000 f / 1 kg	17000 / 1 kg	500 f
Handwritten text	200 f / 1 kg	5000 / 1 kg	200 f
Handwritten text	30,000 f / 3 kg	7000 / 1 kg	30,000 f
Handwritten text	9000 / 3 kg	1500 / 1 kg	9000 f
Handwritten text			100 f
Handwritten text			100 f

Handwritten notes on the right side of the table include: 7500/1000, 1000/1000, and other calculations.

Table 5.7: Your Profit Sheet

Step 1			
Price		Monthly average	Monthly sales
	X		=
Step 2			
Monthly sales		Cost	Profit
	-		=



The Setting Your Price session has presented the different tools and strategies entrepreneurs can use to set an appropriate price for their products. It is important to remember that your business costs and what your competition is offering will influence how much you can charge your customer. Before launching a new business, entrepreneurs should take the time to gather information and calculate the costs of each good or service they will offer, making a profit though is not the only indicator of business success.