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THE PLACE TO START & GROW YOUR BUSINESS

BUSINESS PLAN WORKSHEET

PRODUCT/SERVICE PRICING

STEP ONE: DETERMINING VARIABLE COSTS

How much will it cost me to produce my product or service? You can answer this question by determining your **variable costs**:

Item	Material Cost	Labor Cost	Commission	Shipping/ Packaging	Other	TOTAL COST

For example: I sell t-shirts. I purchase them wholesale for $7.00 each. Then I paint a design on them. I have figured out that the amount of paint I use for each t-shirt costs 50 cents. It takes me ½ an hour to paint each t-shirt and I value my time at $10.00 per hour. I hang them on hangers that cost 25 cents each and deliver them to the store that sells them for me. My delivery cost is 31 cents per mile. It is 5 miles to the store and I usually deliver 10 t-shirts at a time, so my delivery cost per t-shirt is about 16 cents. I determine my variable cost like this;

Item	Material Cost	Labor Cost	Commission	Packaging/ Shipping	Other	TOTAL COST
T-Shirt	$7.00+0.50	$5.00		$0.25+0.16		**$12.91**

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STEP TWO: DETERMINING MARKUP

How much above this cost can I can price my product or service?

Item: _____ Variable Cost Total (from p. 1): _____

- What prices are my competitors charging?
- Can I offer advantages that would allow me to charge a higher price?
  - Advantage: More products/services than competition Price: _____
  - Advantage: Finer quality Price: _____
  - Advantage: I'm the only one that sells this product Price: _____
  - Advantage: Better terms (credit, etc) Price: _____
  - Advantage: _____ Price: _____
  - Advantage: _____ Price: _____
  - Advantage: _____ Price: _____
  - Advantage: _____ Price: _____
- Can I offer a lower price to attract more business but still make a profit?

I have decided to sell my t-shirts to the public at $25.00 or almost double what they cost. Is this the right price? **Read on.**

STEP THREE: DETERMINING FIXED COSTS

How much will it cost to run my business whether or not I have any sales? You can answer this question by determining your **fixed costs**: (Do this on a monthly basis.)

Rent	Utilities	Phone	Loan Payment	Insurance	Salaries	Advertising	Legal/ Accounting	Other	TOTAL COST

For example: Here are the fixed costs for our hypothetical t-shirt company:

Rent	Utilities	Phone	Loan Payment	Insurance	Salaries	Advertising	Legal/ Accounting	Other	TOTAL COST
$100		$25	$135	$50		$30	$50		**$390**

STEP FOUR: BREAK EVEN ANALYSIS

How much do I have to sell to **make a profit** or to **break even**? There are two ways to answer this question. One is to figure out how many dollars worth of your product or service to sell each month. The other is to figure out how many items of your product you need to sell each month.

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A. Determining break-even in terms of dollars

Price of Product/Service – Variable Cost = Gross Profit
Gross Profit ÷ Price of Product/Service = Gross Profit Margin
Total Fixed Costs ÷ Gross Profit Margin = Dollar Sales needed each month to break even.

For example, the numbers for our t-shirt company would look like this:

- $25.00 (price) - $12.81 (variable cost) = $12.19 (gross profit)
- $12.19 (gross profit) ÷ $25.00 (price) = 49% (gross profit margin).
  - This means that for every dollar of sales I have 49 cents of profit that I can use to pay my fixed costs.
- $390 (fixed costs) ÷ 49% (gross profit margin) = $796.00.
  - This means that I need to have sales of $796 every month to break even.

B. Determining break-even in terms of number of items

Item Selling Price - Item Variable Cost = Item Contribution
Total Fixed Costs ÷ Item Contribution = Number of Items needed to break-even

For example, the numbers for our t-shirt company would look like this:

- $25.00 (price) – 12.81 (variable cost) = $12.19 (gross profit)
- $390.00 (fixed costs) ÷ $12.19 (gross profit) = 32 t-shirts.
  - This means I have to sell 32 t-shirts every month to break even.

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