

How to cost your product or service

Step 1

Consider your production costs. These costs consist of both the fixed and variable expenses to manufacture or offer your product or service. Fixed costs include rent, salaries and any expense that do not change often. Variable costs fluctuate depending on the amount of goods produced or services provided. They include raw materials, hourly wages and sales commissions.

1. Draw up a list of items and their costs
2. Calculating
 - What will each unit cost?
 - How much you will charge your customers?
 - How many you must sell in order to: (a) break even? (b) make a satisfactory profit?
 - Make sure you understand how your Company finances will work.

Step 2

Analyse your market. How much are customers willing to pay for your product? Conduct market research to test your pricing strategy. See what competitors are charging. You may price your product higher than the competitors if you offer better service.

Step 3

Evaluate your product's uniqueness. See how closely your product resembles a competing product. Consumers will be reluctant to pay higher prices for your product if they can pay less for a competing brand.

Step 4

Determine your product's price elasticity. This elasticity is determined by whether price changes result in changes in demand. For example, if slight changes in price results in significant changes in demand, your product is considered to be elastic. However, if there is little change in demand even with significant price changes, your product is inelastic. The greater the price elasticity, the closer you should price your products to your competitors' products.

Step 5

Set a price. Take all these factors into consideration before making a final decision.