PRICING YOUR PRODUCTS

Financial Management Series

Pricing Your Products replaces
Pricing Your Products and Services Profitably and
Pricing Checklist for Small Retailers

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INTRODUCTION

The primary goal of most businesses is to make a profit. There are many factors that affect the profitability of a business, such as management, location, cost of labor, quality of product or service, market demand and competition. In our free enterprise system the right to establish a price is yours. Market demand controls the response to your product or services.

You must understand the market for your product or service, the channels of distribution and the competition before you establish prices. You must know all costs and carefully analyze them. The marketplace responds rapidly to technological advances, international competition and a knowledgeable buying public. You must constantly keep abreast of all factors that will affect pricing and be ready to make necessary changes.

This publication covers retail pricing, pricing for services and pricing for a consulting service. Appendix A is a checklist to review pricing policies and strategies. Appendix B offers suggestions for other information resources.

RETAIL PRICING

Retail Costs and Pricing

In a successful business, prices are set to cover total costs plus some margin of profit. In a retail business, two costs are associated with the product: the cost of acquiring the goods, called cost of goods, and the costs of operating the business to sell the goods, called operating expenses.

The cost of goods includes the price paid for the merchandise plus freight, import duties and any handling costs. The cost of goods can be reduced by taking advantage of quantity discounts or time payment discounts (paying before a certain date).

Operating expenses include wages, advertising, management salaries, rent, utilities and office supplies. Most of these costs are not directly attributed to any one product item, such as a single purse; they must be spread out among all the items sold in a given time period.

General Pricing Techniques

Markup on cost is accomplished by adding some percentage of cost to the cost of goods (merchandise shipping).

Example:

Lisa's Purse Shop
Calculation of selling price

Cost of one purse $12.00
x Markup percentage 33%

= Markup amount $4.00

Cost of one purse $12.00
+ Markup amount $4.00

= Selling price $16.00 for one purse

The 33 percent markup must cover all operating expenses (wages, rent, advertising, etc.) and provide some margin of profit. For example, Lisa's Purse Shop may figure 10 percent for wages, 6 percent for rent, 4 percent for advertising and 13 percent for profit.

The markup is sometimes expressed as a percentage of selling or retail price instead of cost. Most retailers prefer to express their markup as a percentage of retail price. Using the example above you would determine the retail markup percentage as follows:

$$\frac{\$4.00 = \text{dollar amount of markup,}}{\$16.00 = \text{retail selling price,}} = 25\% \text{ retail markup}$$

A business might choose to use a standard markup percentage on all products, or it may have different markups for different goods. A problem with the standard markup is that it doesn't recognize cost differences in selling different products. If product A costs far more to advertise or sell than product B, a standard markup percentage may produce a loss on product A and a greater-than-average profit on product B.

It is important to maintain an overall or average percentage of markup to return the profit percentage you establish. You must also allow for markdowns. Therefore, you must establish an initial markup percentage, which becomes the average markup. The initial markup is figured as follows:

Initial markup percentage = Operating expenses + desired profit
divided by Net sales

Breakeven

Breakeven is simply the point at which all costs are recovered and you begin to make a profit.

Once you have established an average markup, the breakeven point can be determined. There are several formulas to use in determining breakeven. One simple formula is provided here, but we recommend that you check with your accountant or an accounting textbook to fully understand how best to figure a breakeven for your business.

Breakeven point = Operating expenses
Divided by Markup percentage

example:

$$\frac{\$50{,}000 = \text{operating expenses}}{30\% = \text{markup percentage (average)}} = \$166{,}666.67 \text{ breakeven sales}$$

The breakeven price is figured the same for a service business as it is for a product-based business. However, many business owners prefer to figure breakeven for individual products or services, so they know which products to promote or discontinue.

Suggested retail price. A common pricing practice among small businesses is to follow the suggested retail prices supplied by the manufacturer. This allows the business to avoid the decision-making process and the trouble of monitoring the competition. The suggested retail price is easy to use, but it can cause problems. It may create an undesirable price image, and it doesn't consider the competition.

Competitive position refers to a strategy in which a firm bases its prices on those of its competitors. A small retailer should compare prices with similar stores. Do not try to compete with the prices set by large stores they can buy larger volumes, so their cost per unit is less. Instead, look at nonprice issues. For example, compare the services offered by the competition. Often customers will pay more for merchandise to obtain the type of service that they seek.

Pricing below competition means beating the competitor's price. Many vendors have been very successful using this pricing strategy, because they have greatly increased sales. Because this pricing strategy reduces the profit margin per sale, a firm needs to increase its sales and reduce costs.

! Obtain the best prices possible for the merchandise.

! Locate the business in an inexpensive area or facility.

! Closely control inventory.

! Limit the lines to fast-moving items.

! Design advertising to concentrate on price specials.

- Offer no or limited services

Below competition pricing is a difficult pricing policy to maintain, because every cost component must constantly be monitored and consistently adjusted. It also exposes firms to pricing wars competitors can retaliate by matching the price cutter, leaving both parties worse off.

Pricing above the competition is possible when nonprice considerations are important to buyers. Nonprice considerations that may be important enough to customers to justify higher prices include

- service considerations, such as delivery, speed of service, satisfactory handling of customer complaints, knowledge of product or service, and a helpful and friendly attitude;

- a convenient or exclusive location; and

- exclusive merchandise. A store may carry lines of well-known or high-quality brand names that are not available elsewhere. A store might get particular brands for a given trade area. The use of exclusive agreements avoids competitive pricing.

Markdowns, or price reductions, are a necessary part of doing business because inventory levels may become too high as a result of overbuying, seasonal merchandise, shopworn merchandise, misjudged customer responses, poor personal selling, lack of promotion and advertising or the competition's lowering the price of the same merchandise.

There are a number of theories about when it is best to take markdowns. This is a decision that will vary greatly with the type of merchandise, amount of competition, season of the year and amount of stock on hand. Every business should try to avoid being left with a lot of dated merchandise that will be difficult to sell.

Price lining refers to a marketing strategy based on price. This strategy targets a specific segment of the buying public by carrying products only in a specific price range. For example, a store may wish to attract customers willing to pay over $50 for a purse. Price lining has many advantages, among them the following:

- reduced errors by sales personnel;

- ease of selection for customers;

- reduced inventory by limiting the number of items in a category;

- reduced storage costs as a result of smaller inventory;

! ease of merchandise selection; and

! merchandise targeted to clientele.

A disadvantage to price lining is that by focusing too much on price, the store may overlook issues of quality or consumer buying trends. It also limits the ability of the business to meet competitors' prices.

Odd pricing -- with figures that end in 5, 7 and most often 9 -- is used for psychological reasons. Consumers tend to round down a price of $39.95 to $39, rather than rounding it up to $40. However, this is not considered to be as effective today as it was in the past.

Multiple pricing is the practice of promoting a number of units for a single price. For example, two for $1.98. This is useful primarily in low-cost, consumable products such as shampoo or toothpaste. Many stores find this to be a desirable pricing strategy for sales and year-end clearances.

PRICING FOR SERVICES

Service business pricing is more complex than retail pricing; however, the price is reached the same way -- cost plus operating expenses plus the desired profit. Services are more difficult to price because costs may be harder to estimate and the competition might not be as easy to compare.

Service Costs and Pricing

Each service has different costs. Many small service businesses fail to analyze the costs involved in each service and therefore fail to price their services profitably. They may make a profit on certain services and lose money on others, not knowing which is which. By analyzing the costs associated with each service, you can set prices to maximize profits and eliminate unprofitable services.

Components of Costs for Services

The cost of producing any service is composed of three parts:

1. materials

2. labor

3. overhead

Materials cost is the cost of materials used directly in the final product, such as sparkplugs and gaskets in the repair of an engine. Supplies such as paper towels are part of overhead, not materials costs. Materials costs must be determined and updated frequently. A cost list must always be used in preparing a bid or quoting a job. If there are shipping, handling or storage costs for materials, they must be included in the total materials costs.

Labor cost is the cost of work directly applied to a service, such as a mechanic's work. Work not directly applied to the service, such as cleaning up, is an overhead cost. Direct labor costs are derived by multiplying the cost of labor per hour by the number of hours required to complete the job. Use a time card and clock to determine the number of hours of labor involved in each service. Remember to include not only the amount paid directly to the worker, but also all fringe benefits. These include social security, workers' compensation, unemployment compensation and any other benefits such as insurance and retirement benefits.

Example:

Graham's Garage
Labor cost per hour

Hourly wages = \$10.00/hr
Fringe benefits = \$3.00/hr (or 30%)*

Total costs = \$13.99/hour

*30% is a common benefit percentage.

Overhead cost includes all costs other than direct materials and direct labor. Overhead is the indirect cost of the service. Usually there are people on a company's payroll who perform support services that are not charged to direct labor but must be included as a cost. Some examples of these services are clerical, payroll, legal, janitorial and supply. Insurance, taxes, depreciation, rent, accounting, advertising, office supplies, utilities and transportation are also part of the overhead cost.

A reasonable amount of the overhead cost must be allocated to each service performed. The overhead rate can be expressed as a percentage or as an hourly rate.

In many businesses, more expensive equipment is used by higher paid employees; thus, overhead cost is more closely related to labor cost than to labor hours. In this situation, the overhead cost is allocated on the basis of direct labor cost and expressed as a percentage as follows:

$$\text{Overhead rate} = \frac{\text{Total overhead cost}}{\text{Total direct labor cost}}$$

This format is most commonly used in businesses such as machine shops, automotive repair shops, and job shop production. When there is relatively little difference between the hourly wages for employees, or little relationship between worker skill and equipment used, the following hourly rate formula is followed:

$$\text{Overhead rate} = \frac{\text{Total overhead cost}}{\text{Total direct labor hours}}$$

The following examples show the two types of overhead rate calculation:

Graham's Garage
Calculation of overhead rate

$$\underset{\text{(percentage)}}{\text{Overhead rate}} = \frac{\text{Total overhead costs}}{\text{Total direct labor costs}}$$

$$= \frac{\$40{,}000.00}{\$50{,}000.00}$$

$$\text{or} = 0.8 \text{ or } 80\%$$

$$\underset{\text{(hourly rate)}}{\text{Overhead rate}} = \frac{\text{Total overhead costs}}{\text{Total direct labor hours,}}$$

$$= \frac{\$40{,}000.00}{4{,}000 \text{ hours}}$$

$$= \$10.00 \text{ per direct labor hour}$$

In developing overhead costs it is important not to depend on last year's costs. Charges must be revised to reflect current costs, including inflation and higher benefit rates. It is best to project the costs for the current six-month period and include increased executive salaries as well as any other projected costs.

Examples of a Cost Calculation

Here is an example combining the components of costs to determine the total cost of a single job:

Graham's Garage
Total cost to fix Mr. Rhodes' car:

Material cost	=	material used + shipping cost
	=	$18.00 + 2.00
	=	$20.00

Labor cost = Direct labor cost per hour x hours required
= $13.00 per hour x 3 hours
= $39.00

Two types of overhead rate have been discussed. We will use both to calculate overhead cost for the example:

Overhead cost = Direct labor cost x overhead rate
= $39.00 x 80%
= $31.20

or

Overhead cost = Direct labor hours x overhead rate
= 3 hours x $10.00 per hour
= $30.00

Because Graham's Garage usually uses the percent of cost overhead rate, we will use the $31.20 figure instead of $30.00 as the overhead cost. The total cost of the repair is tallied below.

Material cost =	$20.00	
Direct labor	=	$39.00
Overhead cost	=	$31.20
Total	$90.20	

Figuring Profit

Profit can be figured several ways. One way is to add a percentage to each of the cost factors, for example,

	Material		Labor		Overhead		Total
Cost	$20.00	$39.00	$31.20		$90.20		
x percent	x 15%	x 25%	x 25%				
----------	-------		-------		-------		
profit	$3.00		$9.75		$7.80		$20.55
Cost	$20.00	$39.00	$31.20		$90.20		
+ profit	3.00		9.75		$7.50	$20.55	
-------- ------		------		------		------	
= charge	$23.00	$48.75	$38.70		$110.75		

Another way is to decide that you wish to make a 20 percent profit. Then you can simply add all of the costs plus 20 percent of the total ($90 cost 20% = $18; $90 $18 = $108 = price). There may be times when you purchase materials at a lower price and can therefore add a higher percentage of profit.

Figuring Costs and Profits for a Consulting Service

Pricing consulting services, where primarily one's own labor or expertise is used, is somewhat different from pricing a service that uses materials and the labor of others. Most consultants price their service by the hour. If they are senior consultants they will charge more for their own time than for the use of a junior or less experienced consultant. The rate varies depending on the nature of the assignment and the individual's expertise. However, it is very important that one charge for an adequate number of hours. Travel time must also be included; usually the travel expense is an extra charge. Sometimes a consultant is asked to price a service on a contract basis. The contract should take into account professional time, clerical support, computer or other special services (such as printing) and overhead expenses (rent, utilities, equipment, supplies, sales and marketing expenses, insurance and fringe benefits).

The following is an example:

Law Firm of Dixon & Wesley
Charges for services in month of August

Professional charges:				
Senior consultant	10 hours	$75.00 =	$750.00	
Junior consultant	15 hours	$35.00 =	$525.00	
Clerical	7 hours	$18.00	=	$126.00
Total	32 hours			$1401.00

Overhead rates: $10,300 Overhead expense per year

1,030 Chargeable hours per year

= $10.00 per hour

Overhead charge rate = chargeable hours x overhead
$10 = $320.00

Travel: ,

Airfare at $275.00 x 2 trips = $550.00
Per diem at $120.00 per day x 3 days = $375.00
Contract total = $2646.00

In selling consulting and other professional services it is unlikely that 100 percent of spent time will be billed to clients. Therefore, hourly or contract fees must be substantial enough to cover costs during slow periods. It is for this reason that one-half of the total normal yearly work hours is used in figuring overhead rates. It is desirable to obtain a long-term, monthly or contract assignment whenever possible.

A common mistake of many new or inexperienced consultants is to underestimate the number of hours and additional charges or expenses that they may incur. If the policy is to charge only an hourly rate plus travel expenses, be sure that the hourly rate will cover salary requirements, operating expenses and the profit percentage you desire.

Checklist for Pricing Policies and Strategies

The following list of questions will help you select the pricingpolicies and strategies that will best suit your business, allowing you to remain competitive and providing you with the profit you want.

1. Do you price all items at a level that provides an adequate profit margin? If not, why?

2. Do you constantly monitor costs and make price changes to provide for continued profitability, particularly in periods of rapid inflation?

3. Do you price to cover your variable costs and fixed costs?

4. Is your goal to find the price-volume combination that will maximize profits?

5. When setting a price strategy, do you consider these factors:
   a. channels of distribution?
   b. competitive and legal forces?
   c. annual volume and life-cycle volume?
   d. opportunities for special market promotions?

6. Is your price consistent with the product image?

7. Because customers often equate the quality of unknown products with their price, do you adjust prices accordingly?

8. Do you reduce prices whenever the added volume resulting from the reduction produces sufficient sales revenue to offset the added costs of increased production?

9. When reducing prices, do you consider your competitors' probable reactions?

10. Do you want your firm to be a price leader?

11. Do your initial markups cover
    a. operations, particularly selling expenses?
    b. profit?
    c. subsequent price reductions?

12. Does your company break down costs by product to price effectively?

13. Does your company practice price lining?

14. Does your company practice odd pricing?

15. To avoid retaliation by competitors, have you tried adding extra services, providing warranties or paying transportation costs rather than lowering prices?

16. Do you realize that facilities have certain costs whether you use them or not?

Use the next few blank lines to write in question that may be of specific concern to your business's pricing structures.

17. ______________________________

18. ______________________________

19. ______________________________

20. ______________________________

21. ______________________________

Summary

Remember, although it is your right to establish prices for your products and services, it is your customers who will decide whether they are willing and able to pay your price, and your competitors will influence your customers' buying decisions. We recommend that you do extensive research on your industry or business, your products or services, your customers and your competition. This publication is intended to be an overview; we advise that you check with local bookstores, libraries and universities for additional sources of information on pricing and profits. Accounting textbooks are often helpful. You may also want to obtain other U.S. Small Business Administration publications (see Appendix B: Information Resources).

It is difficult to say which component of pricing is more important than another. The key to success is to have a well-planned strategy and established policies and to constantly monitor prices and operating costs to ensure a profit. It is very important that you project the percentage of markdowns anticipated and build them into your initial price to obtain the projected profit. For a consulting business, you should project how many hours of your services you will need to bill.

It is important to remember that the image of your business is crucial to obtaining and keeping the clientele and that your pricing structure and policies are a major component of your image.

APPENDIX A: PRICING CHECKLIST FOR RETAILERS

These 52 questions probe the considerations -- from markup to pricing strategy to adjustments -- that lead to correct pricing decisions. You can use this checklist to establish prices in your store or to periodically review your pricing policy.

Price influences the quantities of various items that consumers will buy which in turn affects total revenue and profit. Thus correct pricing decisions are a key to successful retail management. The checklist has been developed to help smaller retailers make systematic informed decisions on pricing strategies and tactics.

This checklist should be especially useful to a new retailer who is making pricing decisions for the first time; however established retailers can also benefit. They can use it as a reminder of all the individual pricing decisions they should review periodically. It can also be used to train new employees who will have pricing authority.

The Central Concept of Markup

A major step toward making a profit in retailing is selling merchandise at a retail price called markup (or occasionally markon). From an arithmetic standpoint markup is calculated as follows:

Dollar markup = Retail price minus Cost of the merchandise

$$\text{Percentage markup} = \frac{\text{Dollar markup}}{\text{Retail price}}$$

If an item cost $6.50 and you believe consumers will buy it at $10 the dollar markup is $3.50 ($10 $6.50). The percentage markup is 35 percent ($3.50 divided by $10). Anyone involved in retail pricing should be as knowledgeable about these two formulas as about the name and preferences of his or her best customer!

Two other key points about markup should be mentioned. First the cost of merchandise used to calculate markup consists of the base invoice price for the merchandise plus any transportation charges minus any quantity and cash discounts given by the seller. Second retail price rather than cost is ordinarily used to calculate percentage markup. The reason for this is that when other operating figures -- such as wages advertising expenses and profits -- are expressed as a percentage all are based on retail price rather than cost of the merchandise.

Target Consumers and the Retailing Mix

In this section your attention is directed to price as it relates to your potential customers. These questions examine merchandise location promotion and customer services that will be combined with price to attempt to satisfy shoppers and make a profit.

		Yes	No
1.	Is the relative price of this item very important to your target consumers?	_____	_____
	The importance of price depends on the specific product and on the specific individual. Some shoppers are very price conscious; others want convenience and knowledgeable sales personnel. Because of these variations you need to learn about your customers' desires in relation to different products. Having sales personnel seek feedback from shoppers is a good starting point.		
2.	Are prices based on estimates of the number of units that consumers will demand at various price levels?	_____	_____
	Demand-oriented pricing is superior to cost-oriented pricing. In the cost approach a predetermined amount is added to the cost of the merchandise whereas the demand approach considers what consumers are willing to pay.		
3.	Have you established a price range for the product?	_____	_____
	The cost of merchandise will be at one end of the price range and the level above which consumers will not buy the product at the other end.		
4.	Have you considered what price strategies would be compatible with your store's total retailing mix including merchandise location promotion and services?	_____	_____
5.	Will trade-ins be accepted as part of the purchase price on items		

such as appliances and television sets? _____ _____

Supplier and Competitor Considerations

This set of questions looks outside your firm to two factors that you cannot directly control -- suppliers and competitors.

Yes No

6. Do you have final pricing authority? _____ _____
With the repeal of fair trade laws yes answers will be more common than in previous years. Still a supplier can control retail prices by refusing to deal with nonconforming stores (a tactic that may be illegal) or by selling to you on consignment.

7. Do you know what direct competitors are doing price-wise? _____ _____

8. Do you regularly review competitors' ads to obtain information on their prices? _____ _____

9. Is your store large enough to employ either a full-time or part-time comparison shopper? _____ _____

These three questions emphasize the point that you must watch competitors' prices so that your prices will not be far out of line -- too high or too low -- without good reason. Of course there may be a good reason for out-of-the-ordinary prices such as seeking a special price image.

A Price Level Strategy

Selecting a general level of prices in relation to competition is a key strategic decision perhaps the most important.

Yes No

10. Should your overall strategy be to sell at prevailing market price levels? _____ _____
The other alternatives are an above-the-market strategy or a below-the-market strategy.

11. Should competitors' temporary price reductions ever be matched? _____ _____

12. Could private-brand merchandise be obtained to avoid direct price competition? _____ _____

Calculating Planned Initial Markup

In this section you will have to look inside your business taking into account sales expenses and profits before setting prices. The point is that your initial markup must be large enough to cover anticipated expenses and reductions and still produce a satisfactory profit.

	Yes	No
13. Have you estimated sales operating expenses and reductions for the next selling season?	_____	_____
14. Have you established a profit objective for the next selling season?	_____	_____
15. Given estimated sales expenses and reductions have you planned initial markup?	_____	_____

This figure is calculated with the following formula:

$$\text{Initial markup Percentage} = \frac{\text{Operating expenses + reductions + profit}}{\text{Net sales + reductions}}$$

Reductions consist of markdowns stock shortages and employee and customer discounts. The example uses dollar amounts but estimates can also be percentages. If the retailer wants a $4000 profit initial markup percentage can be calculated as follows:

$$\text{Initial markup percentage} = \frac{\$34000 + \$6000 + \$4000}{\$94000 + \$6000} = 44\%$$

The resulting figure 44 percent in this example indicates the markup needed on the average to make the desired profit.

	Yes	No
16. Would it be appropriate to have different initial markup figures for various lines of merchandise or services?	_____	_____

You should seriously consider different markup figures when some lines have very different characteristics. For instance -- a clothing retailer might logically have different initial markup figures for suits shirts pants and accessories. You may want those items with the highest turnover rates to carry the lowest initial markup.

Store Policies

Having calculated an initial markup figure you could proceed to set prices on your merchandise. But an important decision such as this should not be rushed. Instead you should consider additional factors that suggest what would be the best price.

	Yes	No
17. Is your tentative price compatible with established store policies? Policies are written guidelines indicating appropriate methods or action in different situations. If established with care they can save you time in decision making and provide for consistent treatment of shoppers. You should consider the following policy areas:	_____	_____
18. Will a one-price system under which the same price is charged to every purchaser of a particular item be used on all items?	_____	_____
The alternative is to negotiate price with consumers.		
19. Will odd-ending prices such as $1.98 or $44.95 be more appealing to your customers than even-ending prices?	_____	_____
20. Will consumers buy more if multiple pricing such as two for $8.50 is used?	_____	_____
21. Should any leader offerings (selected products with quite low less profitable prices) be used?	_____	_____
22. Have the characteristics of an effective leader offering been considered?	_____	_____
Ordinarily a leader offering needs the following characteristics to accomplish its purpose of generating shopper traffic: used by most people -- bought frequently very familiar regular price and not a large expenditure for consumers.		
23. Will price lining -- the practice of setting up distinct price points such as $5.00, $7.50 and $10.00 and then marking all related merchandise at these points -- be used?	_____	_____
24. Would price lining by zones (such as $5.00, $7.50 and $12.50-$15.00) be more appropriate than price points?	_____	_____
25. Will cents-off coupons be used in newspaper ads or mailed to selected consumers on any occasion?	_____	_____

26. Would periodic special sales combining reduced prices and heavier advertising be consistent with the store image you are seeking? _____ _____

27. Do certain items have greater appeal than others when they are part of a special sale? _____ _____

28. Has the impact of various sale items on profit been considered? _____ _____

Sale prices may mean little or no profit on these items but the sale may contribute to total profits by bringing in shoppers who may also buy some regularly priced (and profitable) merchandise and by attracting new customers. You should avoid featuring items that require a large amount of labor which in turn would reduce or erase profits. For instance according to this criterion shirts would be a better special sale item than men's suits that often require free alterations.

29. Will rain checks be issued to consumers who come in for merchandise that is temporarily out of stock? _____ _____

Rain checks are required in some situations. Consult your lawyer or the regional Federal Trade Commission office for specific advice regarding whether they are needed in the sale you plan.

Nature of the Merchandise

In this section you will be considering how selected characteristics of particular merchandise affect planned initial markup.

Yes No

30. Did you get a "good deal" on the wholesale price of this merchandise? _____ _____

31. Is this item at the peak of its popularity? _____ _____

32. Are handling and selling costs relatively great due to the bulkiness of the product its low turnover rate or its requiring much personal selling installation or alterations? _____ _____

33. Are relatively large reductions expected due to markdowns spoilage breakage or theft? _____ _____

With respect to the preceding four questions "yes" answers suggest the possibility of or need for larger than normal initial markups. For example very fashionable clothing often carries a higher markup than basic clothing such as underwear because the particular fashion may suddenly lose its appeal to consumers.

34. Will customer services such as delivery alterations gift wrapping and installation be free to customers? _____ _____

The alternative is to charge for some or all of these services.

Environmental Considerations

The questions in this section focus your attention on three factors outside your business: economic conditions laws and consumerism.

Yes No

35. If your state has an unfair sales practices act that requires minimum markups on certain merchandise do your prices comply with this statute? _____ _____

36. Are economic conditions in your trading area abnormal? _____ _____

Consumers tend to be more price-conscious when the economy is depressed suggesting that lower than normal markups may be needed to be competitive. On the other hand shoppers are less price-conscious when the economy is booming which would permit larger markups (on a selective basis).

37. Are the ways in which your prices are displayed and promoted compatible with consumerism one part of which has been a call for more straightforward price information? _____ _____

38. If yours is a grocery store is it feasible to use unit pricing in which the item's cost per some standard measure is indicated? _____ _____

Having answered these questions you are ready to establish retail prices. When you have decided on an appropriate percentage markup 35 percent on a garden hose for example the next step is to determine what percentage of the still unknown retail price is represented by the cost figure. The basic markup formula is simply rearranged to do this:

Cost	=	Retail	-	price markup
Cost	=	100%	-	35% = 65%

The dollar cost say $3.25 for the garden hose is plugged into the following formula to arrive at the retail price:

Retail price	=	Dollar cost	=	$3.25 = $5.00

----------	------
Percentage cost	65% (or .65)

One other consideration is necessary:

39. Is the retail price consistent with your planned initial markup? _____ _____

Adjustments

It would be ideal if all items sold at their original retail prices. But we know that things are not always ideal. Therefore a section on price adjustments is necessary.

Yes No

40. Are additional markups called for because wholesale prices have increased or because an item's low price causes consumers to question its quality? _____ _____

41. Should employees be given purchase discounts? _____ _____

42. Should any groups of customers such as students or senior citizens be given purchase discounts? _____ _____

43. When markdowns appear necessary have you first considered other alternatives such as retaining price but changing another element of the retailing mix or storing the merchandise until the next selling season? _____ _____

44. Has an attempt been made to identify causes of markdown so that steps can be taken to minimize the number of avoidable buying selling and pricing errors that cause markdowns? _____ _____

45. Has the relationship between timing and size of markdowns been taken into account? _____ _____
In general markdowns taken early in the selling season or shortly after sales slow down are smaller than late markdowns. Whether an early or late markdown is appropriate in a particular situation depends on how many consumers might still be interested in the product the size of the initial markup and the amount of merchandise remaining in stock.

46. Would scheduled or automatic markdowns at specified intervals be appropriate? _____ _____

47. Is the size of the markdown just enough to stimulate purchases? _____ _____

This question stresses the point that you have to observe the effects of markdowns so that you know what size markdowns are "just enough."

48. Has a procedure been worked out for markdowns on price-lined merchandise? _____ _____

49. Is the markdown price calculated from the off-retail percentage? _____ _____

This question gets you into the arithmetic of markdowns. Usually you first tentatively decide on the percentage amount price must be marked down to excite consumers. For example if you think a 25 percent markdown will be necessary to sell a lavender sofa the dollar amount of the markdown is calculated as follows:

Dollar markdown - Off-retail percentage
x Previous retail price
Dollar markdown - 25% (or .25) x 500 = $125

The markdown price is obtained by subtracting the dollar markdown from the previous retail price. The sofa would be $375 after taking the markdown.

50. Has the cost of the merchandise been considered before setting the markdown price? _____ _____

This is not to say that a markdown price should never be lower than cost; on the contrary a price that low may be your only hope of generating some revenue from the item. But cost should be considered to make sure that below-cost markdown prices are the exception in your store rather than being so common that your total profits suffer.

51. Have procedures for recording the dollar amount percentages and probable cause of markdowns been set up? _____ _____

Markdown analysis can provide information to help calculate initial markup to reduce errors that cause markdowns and to evaluate suppliers.

52. Have you marked the calendar for a periodic review of your pricing decision? _____ _____

This checklist should help you avoid making careless pricing decisions and lay a solid foundation of effective prices to build retail profits.

APPENDIX B: INFORMATION RESOURCES

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- *SCORE: Counselors to America's Small Business*, a national organization sponsored by SBA of over 11,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people. Free online counseling and training at www.score.org.

- *Small Business Development Centers (SBDCs)*, sponsored by the SBA in partnership with state governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.

- *Women's Business Centers (WBCs)*, sponsored by the SBA in partnership with local non-government organizations across the nation. Centers are geared specifically to provide training for women in finance, management, marketing, procurement and the Internet.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722) or visit our website, www.sba.gov.

Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the bookstore heading. Find a "Catalog of Government Publications at http://catalog.gpo.gov/F

Many federal agencies offer Websites and publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

Federal Citizen Information Center (FCIC)

Http://www.pueblo.gsa.gov
1-800-333-4636
The CIO offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC)
Publications Request
Washington, DC 20207
http://www.cpsc.gov/cpscpub/pubs/pub_idx.html
The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)
12th Street and Independence Avenue, SW
Washington, DC 20250
http://www.usda.gov
The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)
Office of Business Liaison
14th Street and Constitution Avenue, NW
Washington, DC 20230
http://www.osec.doc.gov/obl/
DOC's Business Liaison Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

U.S. Department of Health and Human Services (HHS)
Substance Abuse and Mental Health Services Administration
1 Choke Cherry Road
Rockville, MD 20857
http://www.workplace.samhsa.gov
Helpline: 1-800-workplace. Provides information on Employee Assistance Programs Drug, Alcohol and other Substance Abuse.

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury
Internal Revenue Service (IRS)
1500 Pennsylvania Avenue NW
Washington DC 20230
http://www.irs.gov/business/index.html
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
1200 Pennsylvania Avenue NW
Washington, DC 20480
http://epa.gov/sbo
Hotline: 1-800-368-5888
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
5600 Fishers Lane
Rockville MD 20857-0001
http://www.fda.gov
Hotline: 1-888-463-6332
The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- **Trade association information**
  Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.

- **Books**
  Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check Books In Print, a directory of books currently available from publishers.

- **Magazine and newspaper articles**
  Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

- **Internet Search Engines**

In addition to books and magazines, many libraries offer free workshops, free access to computers and the Internet, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.