

Your Target Market

Questions You Need to Answer:

- ? Are there enough people in the target market to make enough sales to generate a profit?**
- ? Does it have unique and definable characteristics that will let you develop marketing strategies for it?**
- ? Are there unmet or under-met needs within the target group that your product or service could fill?**
- ? Is there room for growth?**

Product Strategies

- **Understand the features and benefits of your products**
- **Determine product lines and appropriate product mix (depth and width)**
- **Position your product in the marketplace**
- **Package your products and your business**
- **Develop service enhancements**
- **Create a unique brand identity**

What Makes a Good Name?

Choose your business name wisely!

Guidelines:

- ☐ **Tells people what you do**
- ☐ **Easy to pronounce**
- ☐ **Not used by someone else**
- ☐ **No double or hidden meanings**
- ☐ **Be careful with acronyms**
- ☐ **Be creative, but not too cute**
- ☐ **Not too long**
- ☐ **Be cautious about using your last name or initials**
- ☐ **Develop appropriate logo or trademark**

Basic Pricing Concepts

- ❖ **VALUE** is what your customer believes your product is worth
- ❖ **PRICE** is the amount of money you charge your customers per sales unit of your product
- ❖ **COST** is what you spend to make your product or deliver your service
- ❖ **PROFIT** is what's left over after you subtract **COST** from **PRICE**

Pricing Considerations

- ❖ **What are your costs?**
- ❖ **What will your customer pay?**
- ❖ **What image do you want to convey?**
- ❖ **What does the competition charge?**
- ❖ **What will the market bear?**
- ❖ **Where do you want to be positioned?**
- ❖ **How does a service business determine price?**

You Must Understand Your Costs!

Variable Costs

Costs that go up or down in relation to sales volume.

Example: You sell personalized T-shirts for \$10.00 each.

Selling Price	\$10.00
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Variable Costs:

Raw material (t-shirt)	\$3.00
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Hourly labor	\$1.00
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Sales commission (10%)	\$1.00
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Shipping charge	<u>\$.50</u>
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Total Variable Costs	\$5.50
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Price minus Variable Costs	\$4.50
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The \$4.50 is called the *contribution margin* because it represents how much each unit of sales “contributes” towards paying for fixed costs and profits.

You Must Understand Your Costs!

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Fixed Costs

Costs that don't change regardless of sales volume.

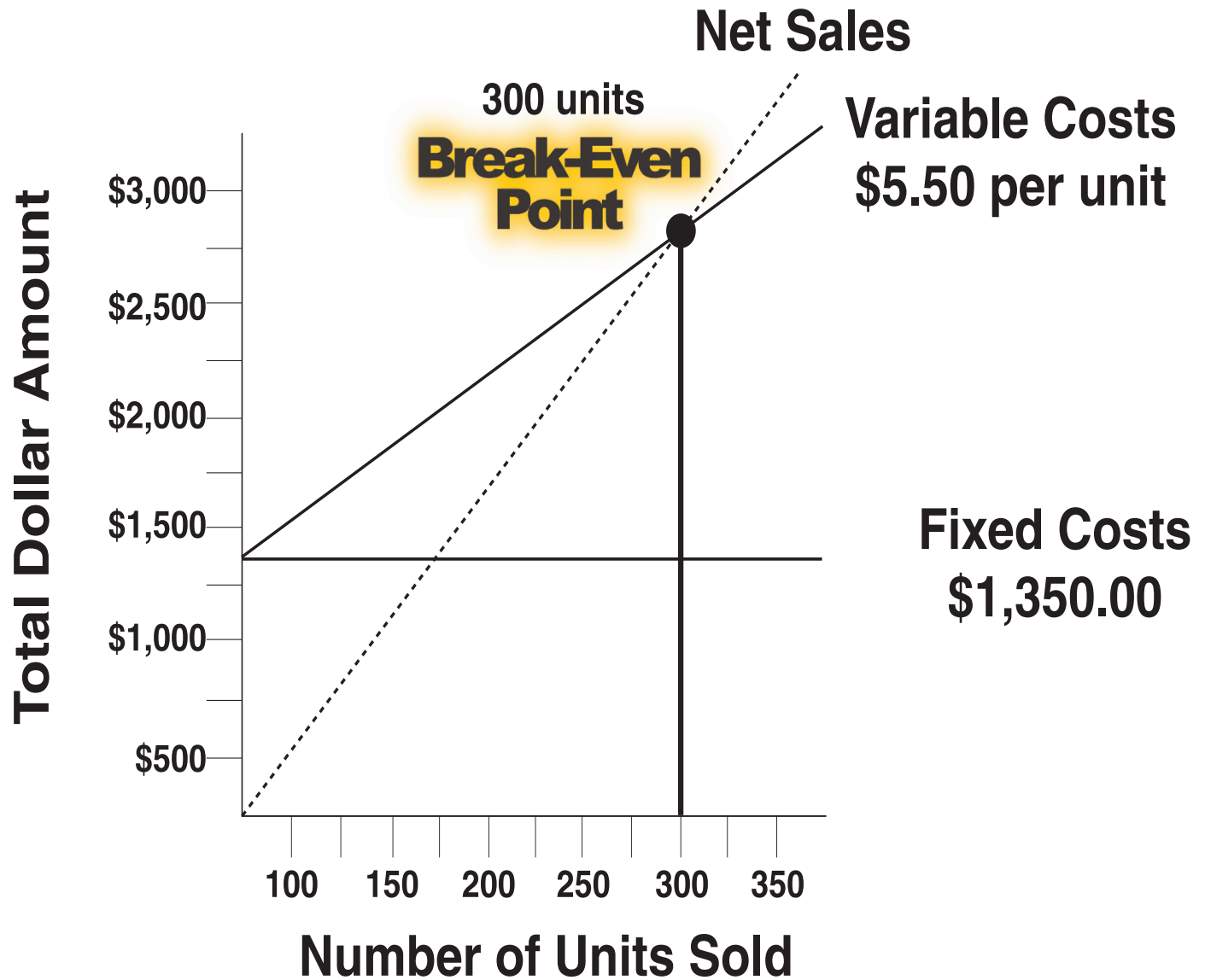
Example: Fixed expenses (per month)

Rent	\$ 800.00
Telephone	100.00
Insurance	50.00
Bookkeeping	100.00
Loan payments	<u>300.00</u>
Total Fixed Expenses	\$1,350.00

QUESTION:

How many t-shirts do you have to sell each month to pay for your variable and fixed expenses?

Break-Even Analysis



Your Break-Even Point

How many t-shirts do you need to sell each month before you pay for your variable and fixed expenses and start making a profit?

$$\text{Break-Even Units Volume} = \frac{\text{Fixed Costs}}{\text{Price minus Variable Costs}}$$

Example:

Selling Price	\$10.00 per unit
Variable costs	\$ 5.50 per unit
Contribution margin	\$ 4.50 per unit
Fixed costs	\$1,350 / month

$$\text{Break-Even Point in Units} = \frac{\$1,350.00}{\$4.50} = 300 \text{ t-shirts per month}$$

When you sell t-shirt #301, you will start making a profit *for that month*.

$$\begin{aligned} \text{Break-Even} &= \\ 300 \text{ t-shirts} \times \$10 &= \$3,000 \end{aligned}$$

Planning for Profit

- ? Can you sell 300 t-shirts per month?
- ? If it takes 300 t-shirts per month to break even, how many more can you sell to make a desired amount of profit?
- ? How much profit do you *want* to make?

Example: You want to make \$900 profit per month. How many more t-shirts per month do you have to sell?

1. It took 300 t-shirts to just break even
2. After the first 300, \$4.50 per t-shirt contributes to profit
3. $\$900.00 \div \$4.50 = 200$ t-shirts more to make \$900 per month profit.

- ? Can you sell 500 t-shirts per month?

Pricing Strategies

- ◆ **Cost-based pricing**
- ◆ **Competition-based pricing**
- ◆ **Value-based pricing**
- ◆ **Retail pricing**