

5 steps to help you work out your prices

How much can you charge? How much should you charge? Use these examples to work out your own profitable prices.

1 Household and personal overheads per year

Food, clothes, mortgage, holidays, lighting, heating, rates, telephone, tax, National Insurance and other expenses. £10,000

2 Business overheads and costs per year

Your salary (household and personal overheads)	£10,000
Rent and rates	£ 3,000
Heating and lighting	£ 800
Wages	£15,000
Advertising	£ 500
Stationery	£ 200
Interest on bank loan or overdraft	£ 6,000
Materials	£ 5,000
Other expenses, such as legal and accounting fees	£ 2,000
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	£42,500

3 Estimated number of sales during the period = 8,500

$$\text{Cost per item} = \frac{\pounds 42,500}{8,500} = \pounds 5$$

4 Profit you would like, say 50% of cost =

$$\frac{\pounds 5 \times 50}{100} = \pounds 2.50$$

5 Price per item, therefore = £5 + £2.50 = £7.50

The following points will help you think about how to promote your product or service.

- What features of your business can you use to offer people a better deal?
- Where can you advertise? You could try Yellow Pages, The Thomson Directory, newspapers, local radio and cinema, or handbills and business cards,
- Your customers are not just the people who pay for the product, for example, with children's toys.
- Think of an eye-catching campaign to advertise who you are and what you sell. Make it easy to remember.
- Make sure you can support your claims about your product and you keep in line with the Trade Descriptions Act and Advertising Standards Authority Code of Practice. Your local Trading Standards Office can help.
- Measure the success of your advertising by asking new customers where they heard about you. Change where you advertise and your message if necessary.
- Remember the power of signs.
- Think of ways to reach people when they need your product or service.
- What public relations activity could you do?
- How can you encourage the most powerful advertising of all - word of mouth?