

A woman with dark, curly hair is smiling while sitting at a desk and working on a laptop. She is wearing a light-colored, patterned blouse. The background is a blurred office environment with a plant visible on the right. Two white circles are overlaid on the image: one on the left containing the text, and another on the right framing the woman's head and shoulders.

Defining your pricing strategy

Three Major Components of Product Cost

Direct materials

This includes cost of raw materials or parts that go directly into production.

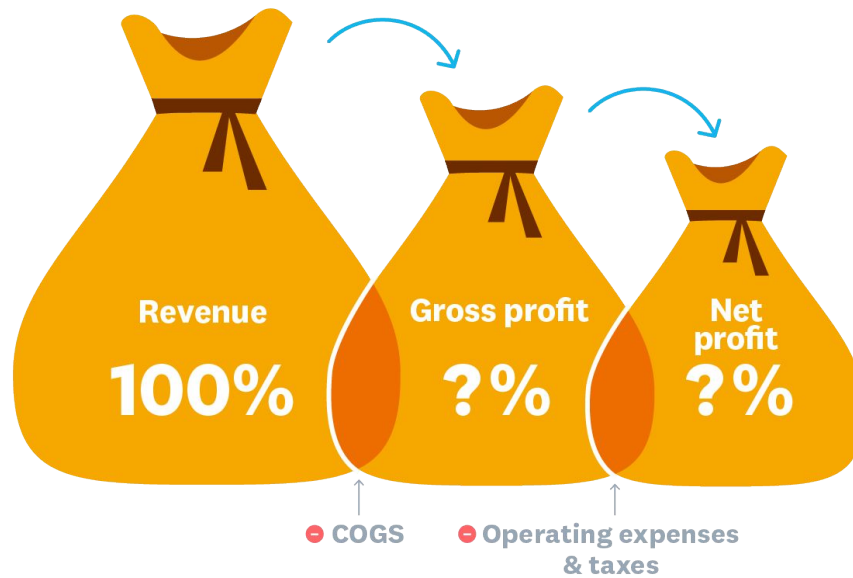
Direct labour

This includes wages, benefits paid to employee directly involved in manufacturing/production.

Overhead

Typical overhead costs are production facility rent, electricity, equipment depreciation.

Three Types of Margin



Net profit margin
Comprehensive measure,
which subtracts all expenses
from sales including taxes

Gross profit margin
Measures basic profitability
by deducting cost of
production from sales

Operating profit margin
Shows income left after all
operating expenses are
deducted

How to Fix Your Pricing

The right price will always be the price that the customer is willing to pay for a product or service, but it is not always the price that is advertised.



SEGMENT THE PRICING STRUCTURE:

- On products to build a range effect
- On usage :
 - To generate loyalty - e.g. premium/freemium or discount on X purchases
 - To encourage acquisition - e.g.: free 1st use
- According to channels - e.g.: web price versus store price
- According to user category - e.g. sponsorship, beta user pool...

=> Always opt for a logical, simple and comprehensible segmentation for the customer