

## Price and Pricing Worksheet

No one can predict with exact certainty how successfully your product will compete in the marketplace. There are, however, some steps you can go through that will help you lay out your costs and select a pricing and production strategy that yields a profit. Determining your price and profit is a systematic process, but it is

also something of an art. It is usually necessary to repeatedly evaluate and revise your costs, the price you think the market will bear, and your production capacity. Read the *Food for Profit: Price and Pricing* fact sheet and then use the steps in this worksheet to determine your variable and fixed costs and your break-even point

based on a product price you think the market will bear. Then estimate how many units you must sell in order to achieve a profitable sales goal. The steps below will guide you as you go through the pricing and profit process.

### Step 1. Determine your variable and fixed costs.

Variable costs/unit			Fixed costs/month		
Item	Amount	Revised amount (see step 6)	Item	Amount	Revised amount (see step 6)
	\$	\$		\$	\$
	\$	\$		\$	\$
	\$	\$		\$	\$
	\$	\$		\$	\$
	\$	\$		\$	\$
	\$	\$		\$	\$
	\$	\$		\$	\$
<b>Total</b>	\$	\$		\$	\$

### Step 2. Determine the contribution margin by subtracting the variable costs/unit from your selling price/unit.

	Amount	Revised amount (see step 6)
Selling price per unit of your product (minus)	\$ _____ /unit	\$ _____ /unit
Total variable cost per unit (equals)	\$ _____ /unit	\$ _____ /unit
Contribution margin	\$ _____ /unit	\$ _____ /unit

### Step 3. Determine your break-even point by dividing your total fixed costs/month by the contribution margin.

	Amount	Revised amount (see step 6)
Total fixed costs/month (divided by)	\$ _____ /month	\$ _____ /month
Contribution margin (equals)	\$ _____ /unit	\$ _____ /unit
<b>Break-even point</b>	_____ units/month	_____ units/month



Most likely, you are not in business just to break even. You want to make a profit! First, write down your desired profit goal (the amount of

money you want to make each month over and above your break-even point). Then determine the number of additional units per month above

your break-even point that you will need to reach your profit goal. This is your sales goal.

**Step 4. Determine the number of units per month you need to sell over and above your break-even point to reach your profit goal.**

	Amount	Revised amount (see step 6)
Profit goal/month (divided by)	\$ _____ /month	\$ _____ /month
Contribution margin (equals)	\$ _____ /unit	\$ _____ /unit
<b>Units above break-even point necessary to reach profit goal</b>	_____ units/month	_____ units/month

**Step 5. Determine the total number of units you need to sell each month to reach your profit goal.**

	Amount	Revised amount (see step 6)
Units above break-even point necessary to reach profit goal (from step 4) (plus)	_____ units/month	_____ units/month
Break-even point (from step 3) (equals)	_____ units/month	_____ units/month
<b>Sales goal</b>	_____ units/month	_____ units/month

**Please note!** Before calculating your total sales goal, check your figures to make sure that increasing your production capacity has not had an impact on your fixed costs, such as

shared kitchen fees. If any of these costs of doing business change with greater volume (up or down), you will need to adjust your contribution margin accordingly in step 5 to make

sure you have a true picture of what will happen when you sell a specific number of units that you calculate in step 6.

**Step 6. Evaluate your results and make revisions if necessary.**

After determining your sales goal, ask yourself the following questions: Do I have the capability to make this many product units each month? Is there enough consumer demand for my product that I will be able to sell this many units each month? Am I expecting too much profit in the beginning stages of my business development?

If your sales goal seems more than you will be able to handle, consider:

- **Increasing your price.**  
If your sales goal is lower than what you think the market will bear, increase your price or produce more units.
- **Reducing your profit goal.**  
Most start-up businesses make only what it costs to produce the product for the first 2-4 years, due to investment in equipment and market introduction.

- **Cutting costs.**  
In business, it is important to keep expenses to a minimum, without sacrificing the quality of your product.

If your sales goal is **lower** than what you think the market will bear, you could increase your price or produce more units. Remember that adjusting production capacity may once again affect fixed costs—calculate accordingly.

Take some time to reevaluate your pricing and profit strategy and repeat steps 1 through 5 until you find a sales goal that meets your needs.

Collaboration of Penn State Extension, PENNTap, and Penn State Department of Food Science.

**extension.psu.edu**

Penn State College of Agricultural Sciences research and extension programs are funded in part by Pennsylvania counties, the Commonwealth of Pennsylvania, and the U.S. Department of Agriculture.

Where trade names appear, no discrimination is intended, and no endorsement by Penn State Extension is implied.

This publication is available in alternative media on request.

Penn State is an equal opportunity, affirmative action employer, and is committed to providing employment opportunities to minorities, women, veterans, individuals with disabilities, and other protected groups. Nondiscrimination: <http://guru.psu.edu/policies/AD85.html>

Produced by Ag Communications and Marketing

© The Pennsylvania State University 2008

Code UK178 1/15pod