

# GUYANA MARKETING CORPORATION

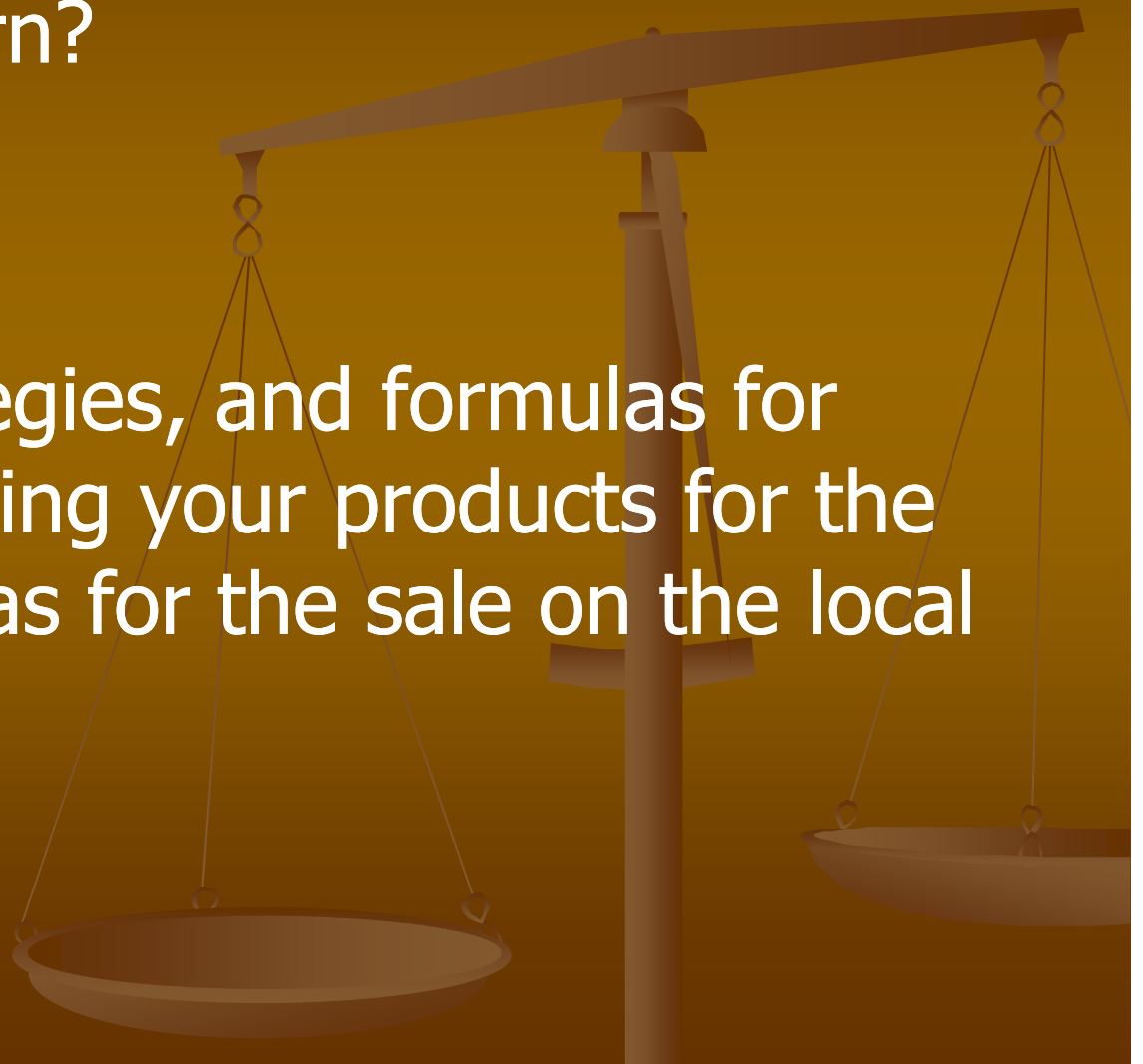
## PRODUCT COSTING AND PRICING TRAINING MODULE



# INTRODUCTION

What will you learn?

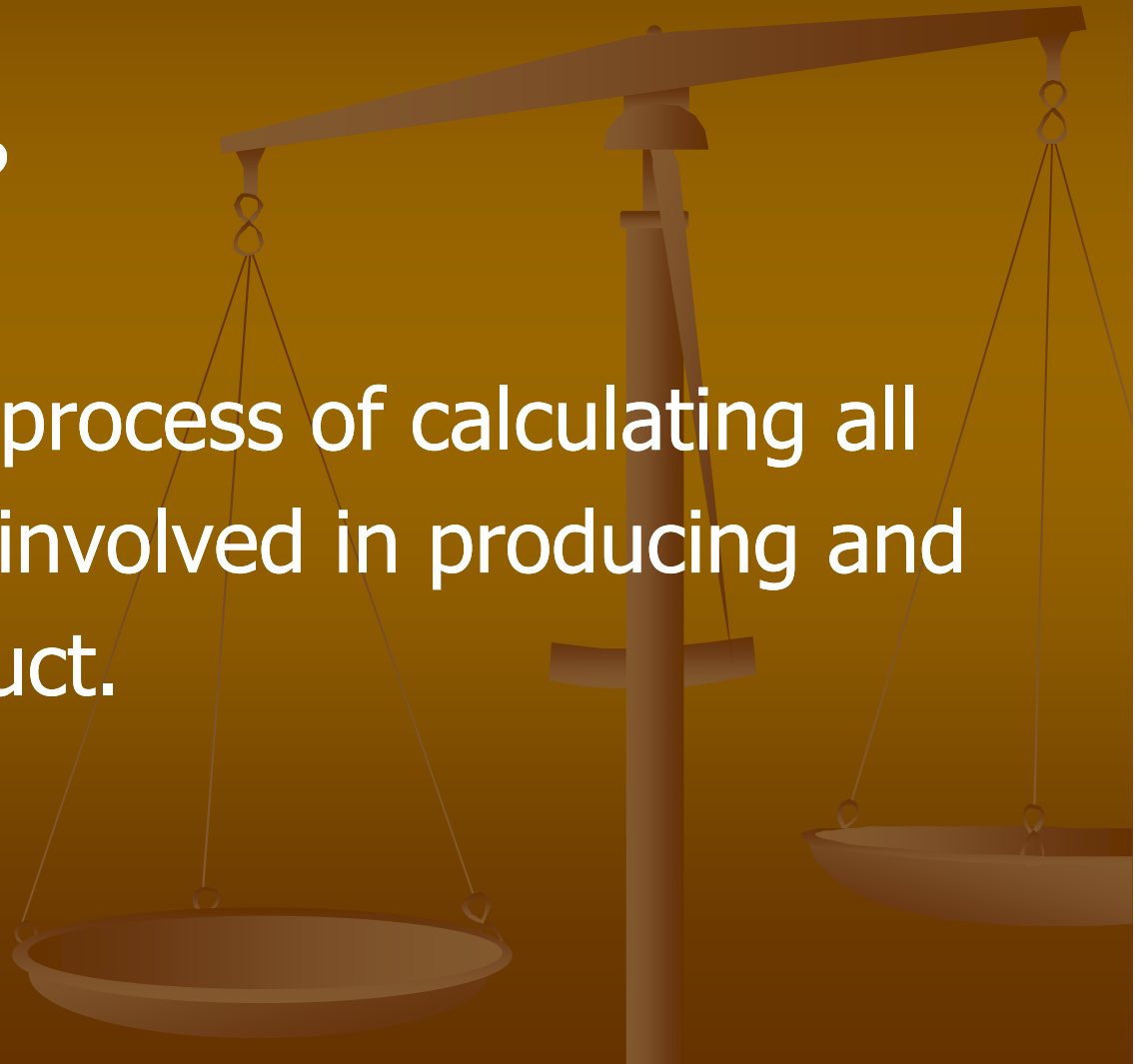
- Elements, strategies, and formulas for costing and pricing your products for the export, as well as for the sale on the local market.



# INTRODUCTION

What is costing?

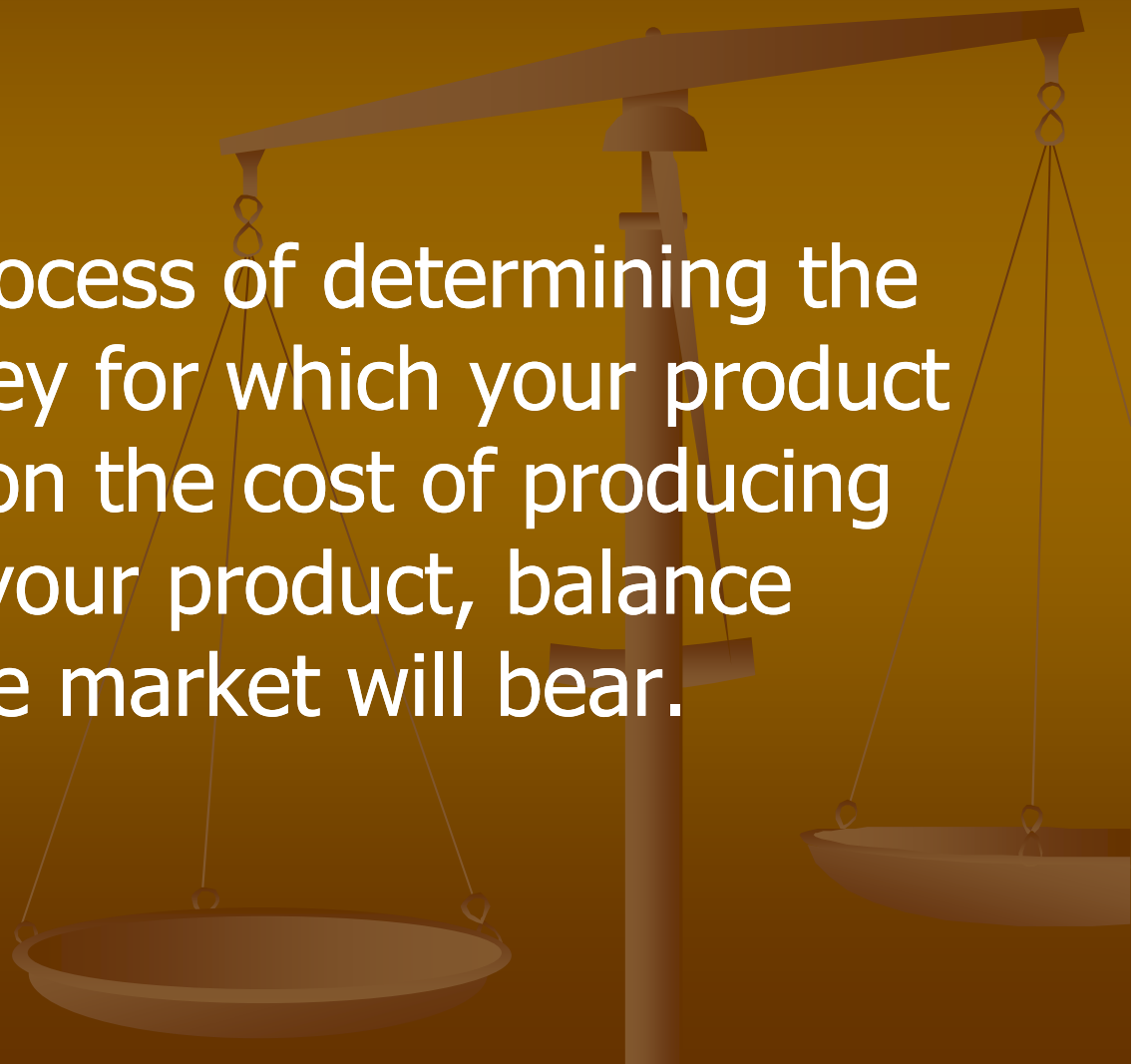
- Costing is the process of calculating all the expenses involved in producing and selling a product.



# INTRODUCTION

What is pricing?

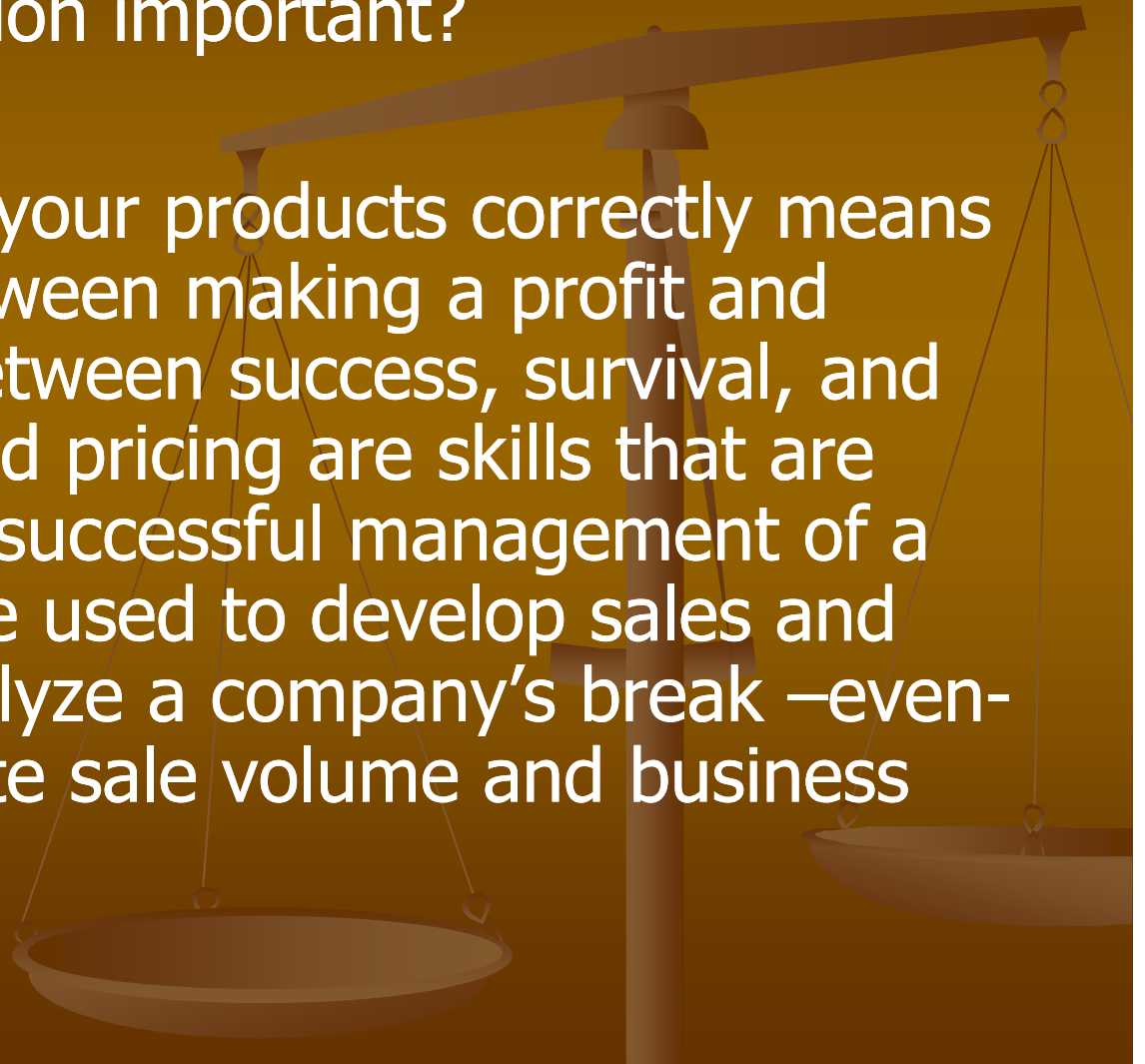
- Pricing is the process of determining the amount of money for which your product will sell, based on the cost of producing and marketing your product, balance against what the market will bear.



# INTRODUCTION

Why is this information important?

- To cost and price your products correctly means the difference between making a profit and losing money – between success, survival, and failure. Costing and pricing are skills that are necessary for the successful management of a business. They are used to develop sales and pricing terms, analyze a company's break –even- point, and calculate sale volume and business earnings.

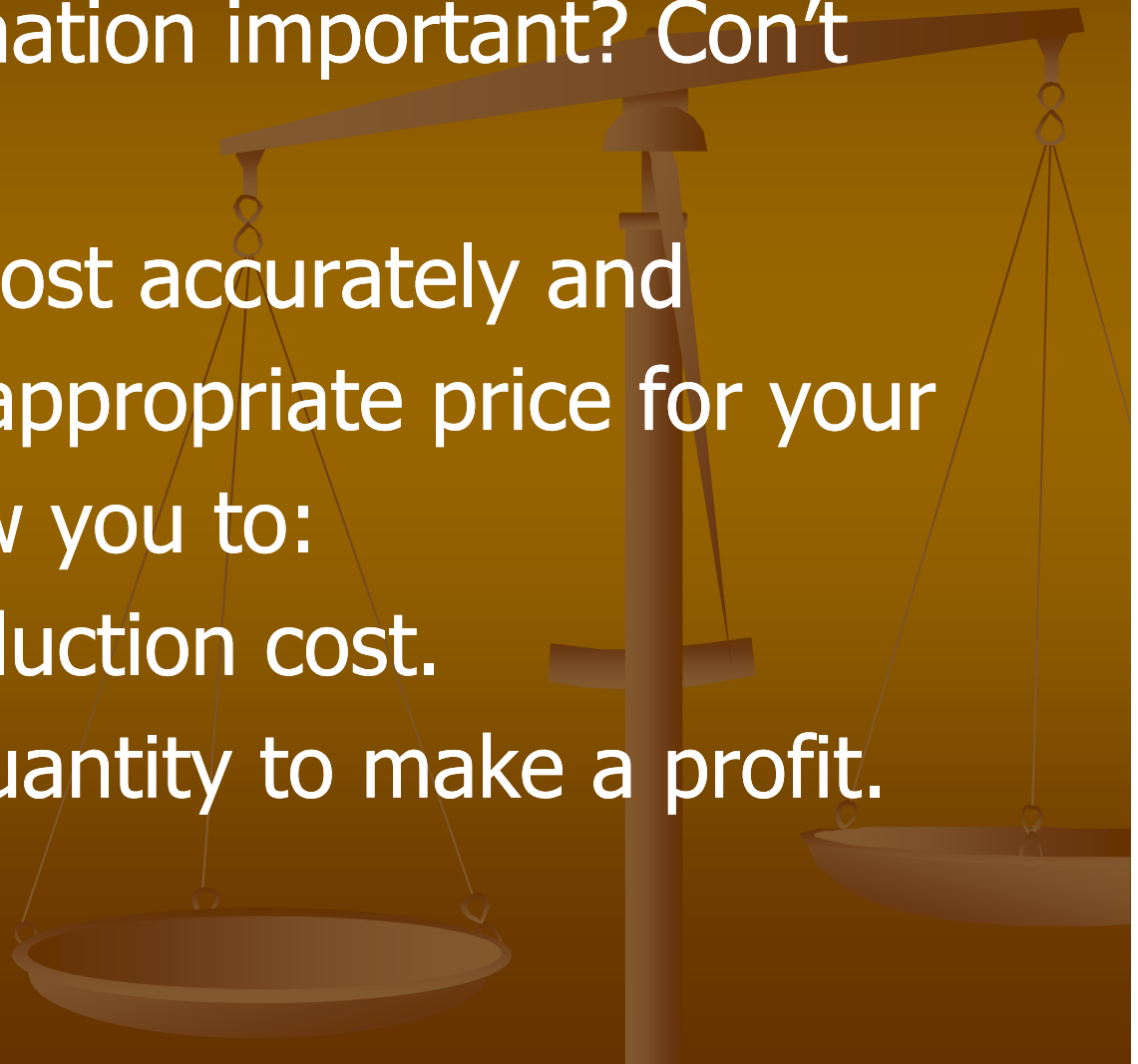


# INTRODUCTION

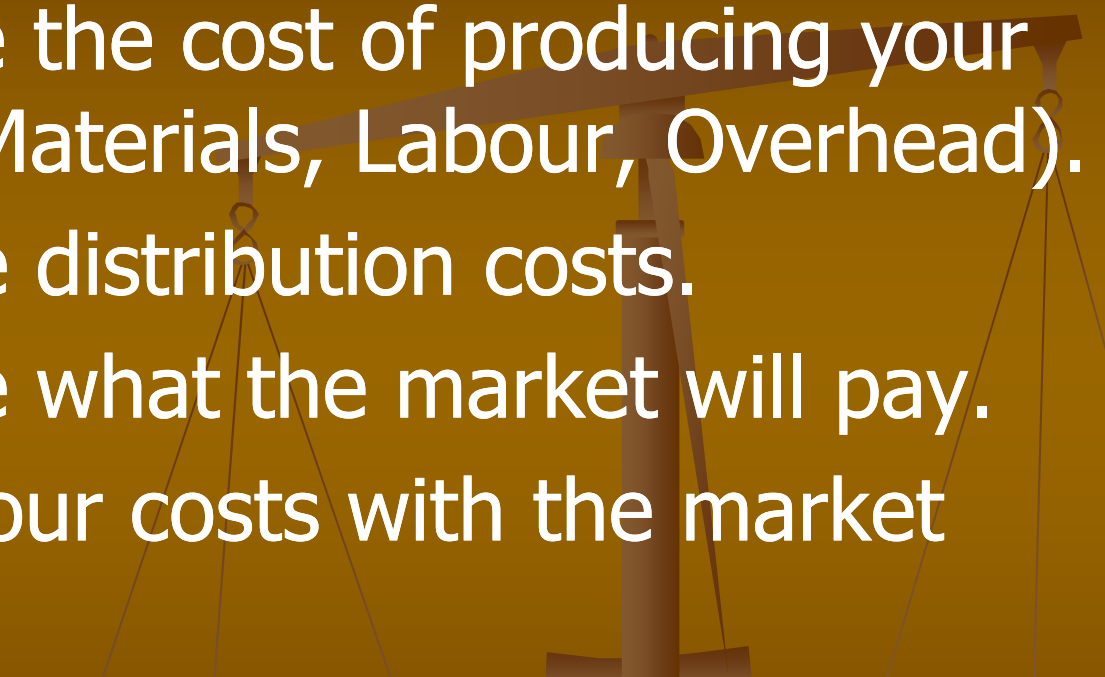
Why is this information important? Con't

Calculating your cost accurately and determining an appropriate price for your products will allow you to:

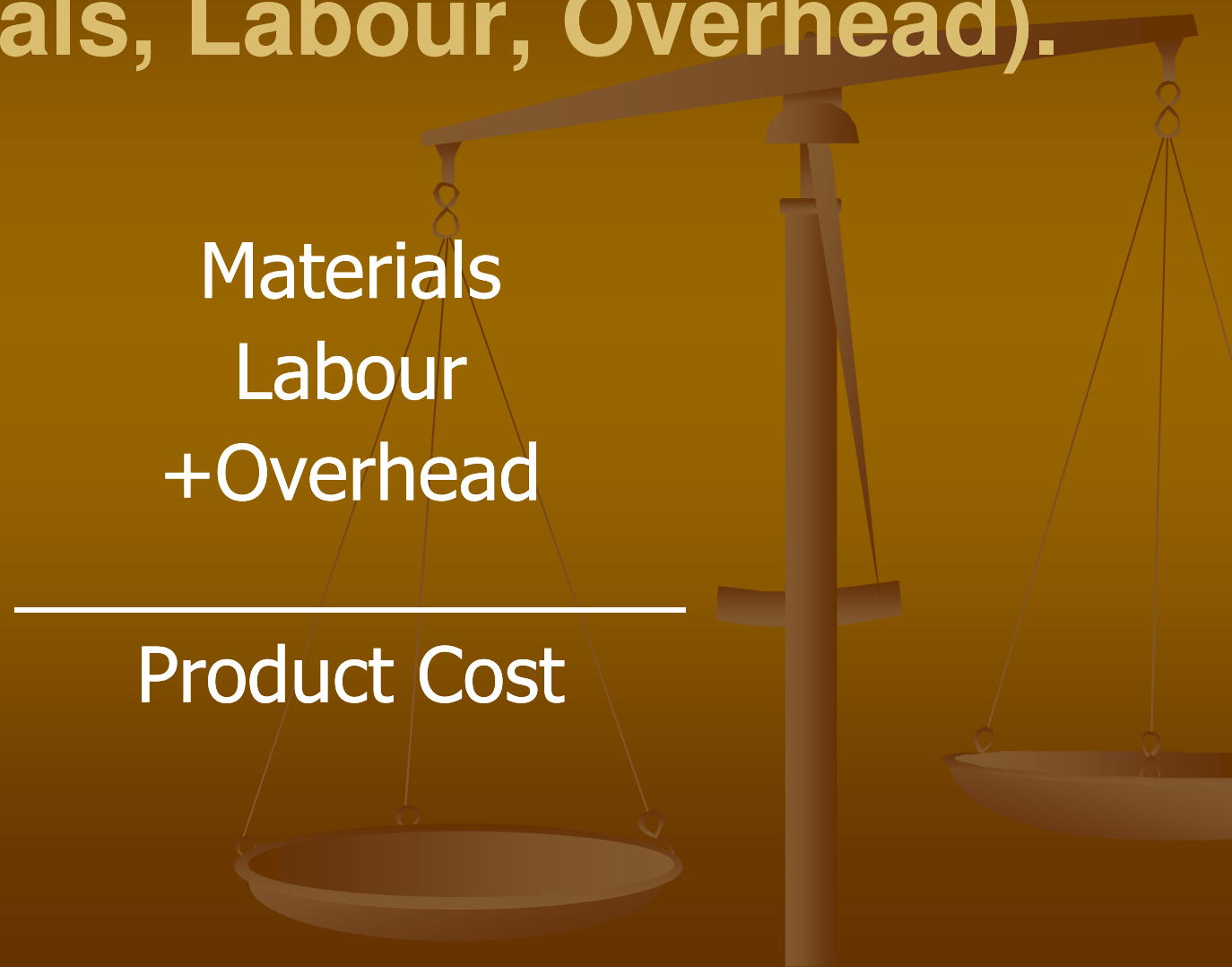
- Cover your production cost.
- Sell sufficient quantity to make a profit.



# COSTING AND PRICING YOUR PRODUCT.

- STEP 1: Determine the cost of producing your product (Materials, Labour, Overhead).
- Step 2: Determine distribution costs.
- Step 3: Determine what the market will pay.
- Step 4: Balance your costs with the market price.
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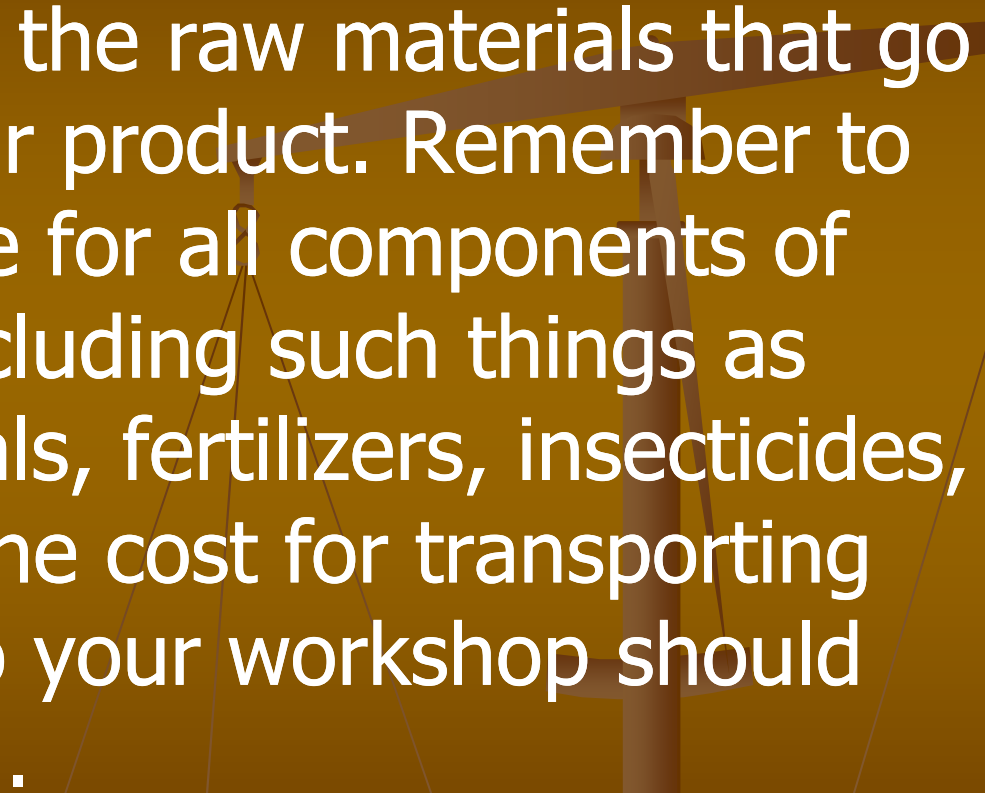
**STEP 1: Determine the cost of producing your product (Materials, Labour, Overhead).**





# A: MATERIALS

Make a list of all the raw materials that go into making your product. Remember to include the price for all components of your product including such things as planting materials, fertilizers, insecticides, pesticides etc. the cost for transporting raw materials to your workshop should also be included.



# EXERCISE 1: CALCULATING YOUR RAW MATERIAL COST.

List your Raw Materials With the cost next to it.

## Raw Materials.

Fertilizers

Insecticides

Transportation of RM

Seeds

## Cost.

\$50,000

\$ 20,000

\$ 10,000

\$ 20,000

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\$ 100,000

What is total cost of your raw materials? ...\$100,000.

## B: LABOUR

Labour is the time you and or your employees spend producing your product. To calculate the cost of the labour needed to produce your product, multiply the amount of time spent producing the product by the your desired hourly rate.

Production Time  
X Desired Hourly Rate

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Labour Cost



# DESIRED HOURLY WAGE



Your desired hourly rate is an hourly wage that allows you to cover all of your (and /or your family's) normal living expenses.

If you don't know your desired hourly rate, you can calculate your typical monthly expenses. Then divide your total monthly expenses by the number of days spent working per month, and divide that number by the average number of hours spent working each day.

# EXERCISE 2: CALCULATE YOUR DESIRED HOURLY WAGE

## EXPENSES

Rent

Food

Clothing

Medical

Transportation

Utilities

Home Repairs

## COST

\$ 5,000

\$ 30,000

\$ 10,000

\$ 10,000

\$ 10,000

\$ 15,000

\$ 10,000



# EXERCISE 2: CALCULATE YOUR DESIRED HOURLY WAGE

## EXPENSES

Recreation

Taxes

Parents

Savings

Insurance

TOTAL

## COST

\$ 10,000

\$ 5,000

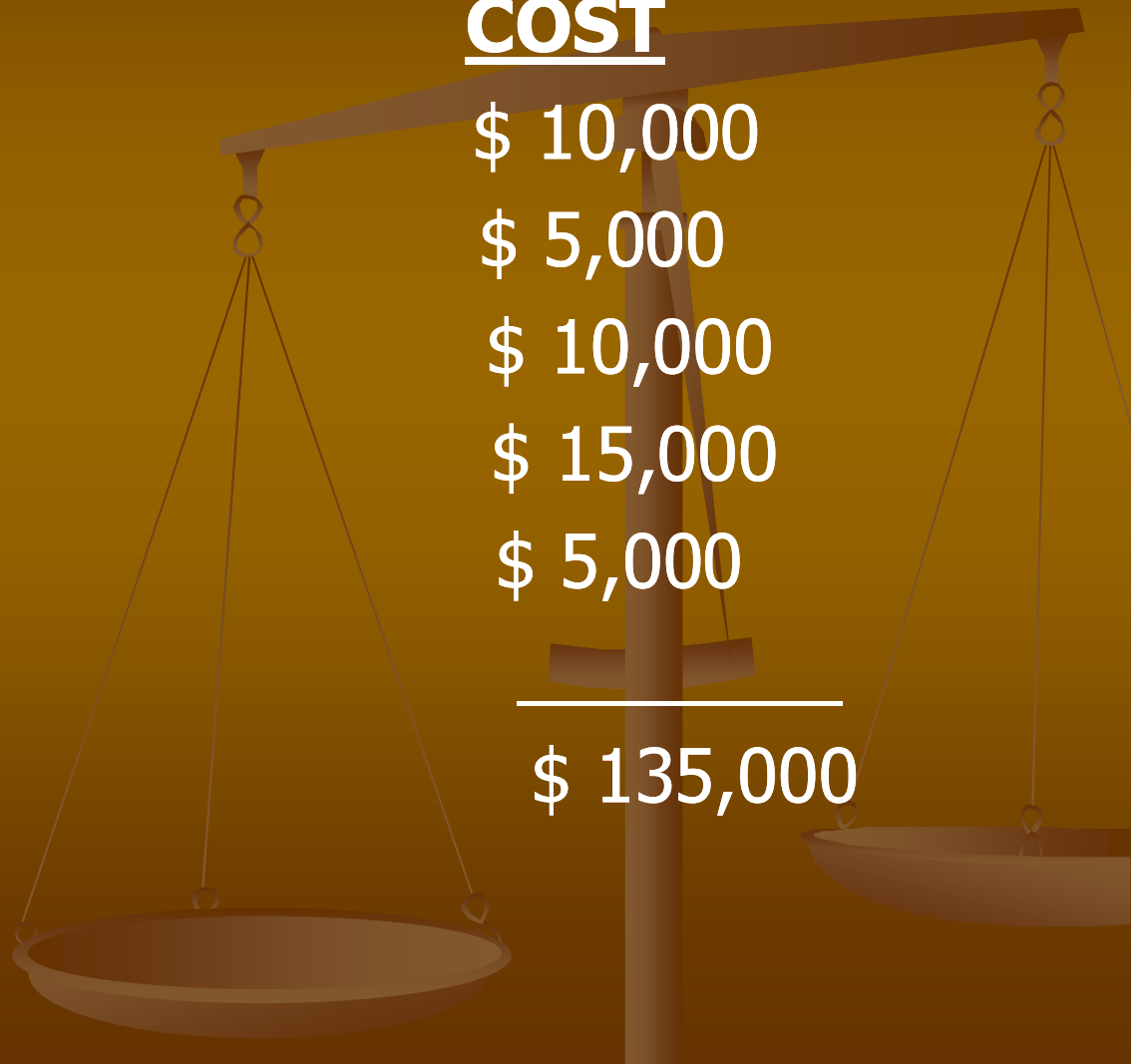
\$ 10,000

\$ 15,000

\$ 5,000

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\$ 135,000



## EXERCISE 2: CALCULATE YOUR DESIRED HOURLY WAGE

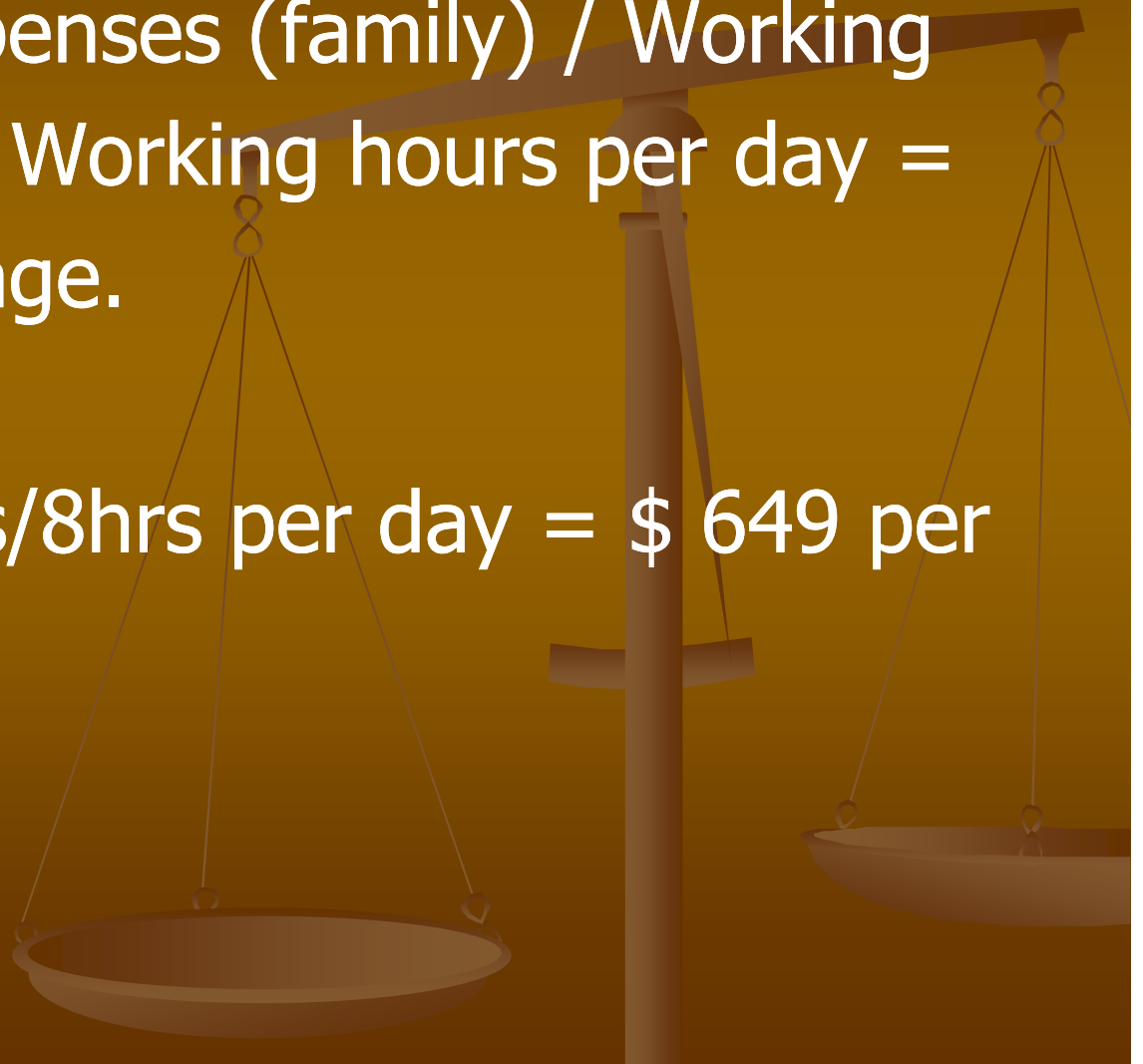
Assuming that you work a total of 26 days per month at 8 hours per day. Below is how you can calculate your hourly rate.

Total Monthly Expenses (family) / Working Days per Month / Working hours per day = Desired hourly wage.

# CALCULATE YOUR DESIRED HOURLY WAGE

Total Monthly Expenses (family) / Working  
Days per Month / Working hours per day =  
Desired hourly wage.

\$ 135,000 / 26 days / 8 hrs per day = \$ 649 per  
hour.





# EXERCISE 3: CALCULATE LABOUR EXPENSES

Labour expenses can be calculated by simply following the below stated formula.

Amount of time spent producing x Desired hourly rate = Labour Cost

8 hrs x \$ 649 per day = \$ 5,192

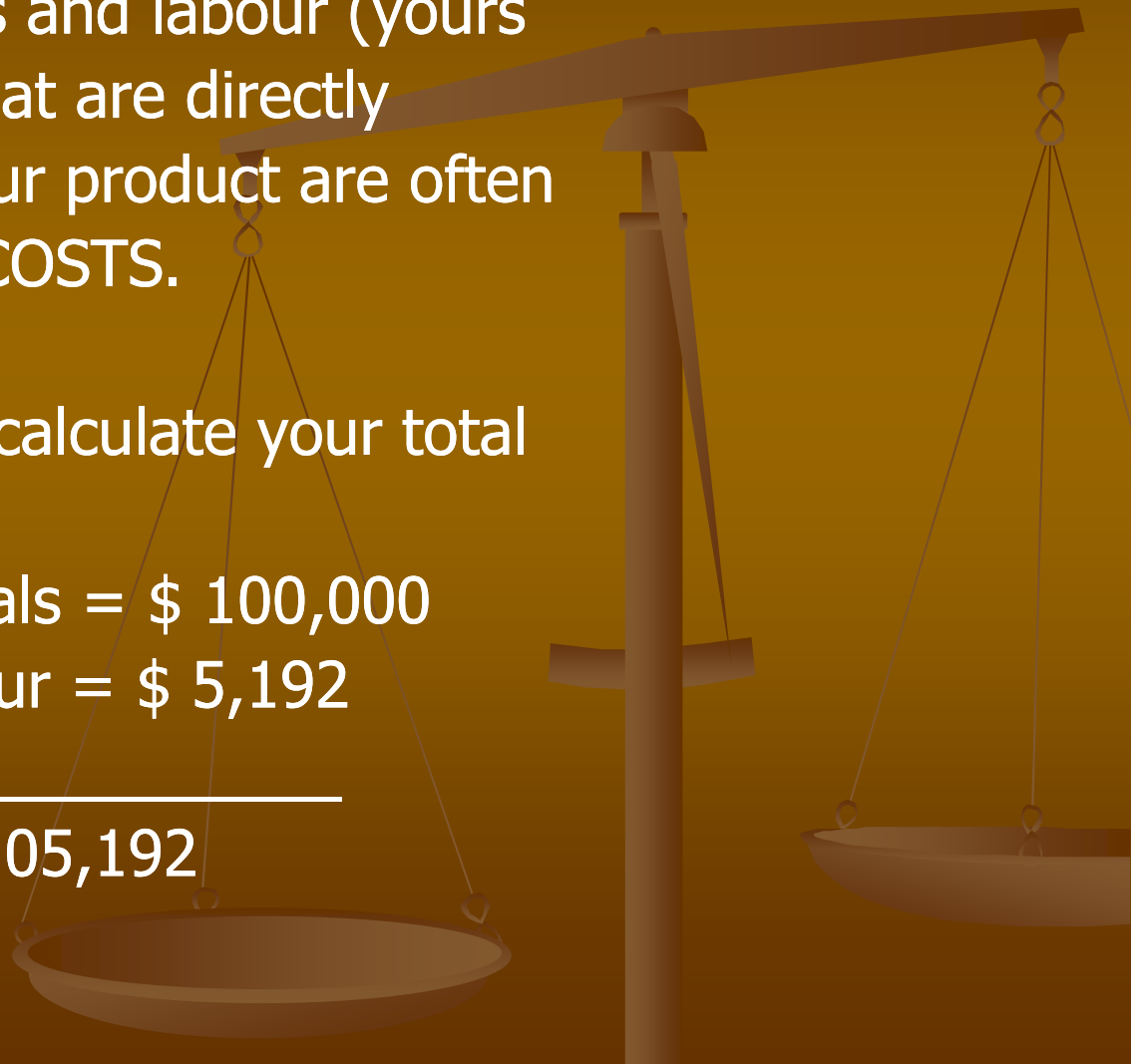
# EXERCISE 4: CALCULATE TOTAL DIRECT COST

Items like raw materials and labour (yours and your employees) that are directly related to producing your product are often referred to as DIRECT COSTS.

Using Exercise 1 and 2 calculate your total direct cost.

$$\begin{array}{r} \text{Materials} = \$ 100,000 \\ + \text{Labour} = \$ 5,192 \\ \hline \end{array}$$

Total Direct Costs = \$ 105,192



# C: OVERHEAD/INDIRECT COSTS.

**Overhead expenses** are all of the general costs of operating your business that are not direct inputs into the production of your product, but which are necessary to keep your business running. overhead costs are often referred to as **Indirect Costs**.

Examples: rent, telephone, fax, electricity, maintenance/repairs, taxes, selling and marketing expenses, and depreciation.

# EXCERISE 5: CALCULATE INDIRECT EXPENSES

## EXPENSES

Rent

Telephone

Fax

Electricity

Maintenance/repairs

Taxes

Selling and Marketing

Depreciation

Total Cost

## COST

\$ 5,000

\$ 3,500

\$ 2,000

\$ 10,000

\$ 15,000

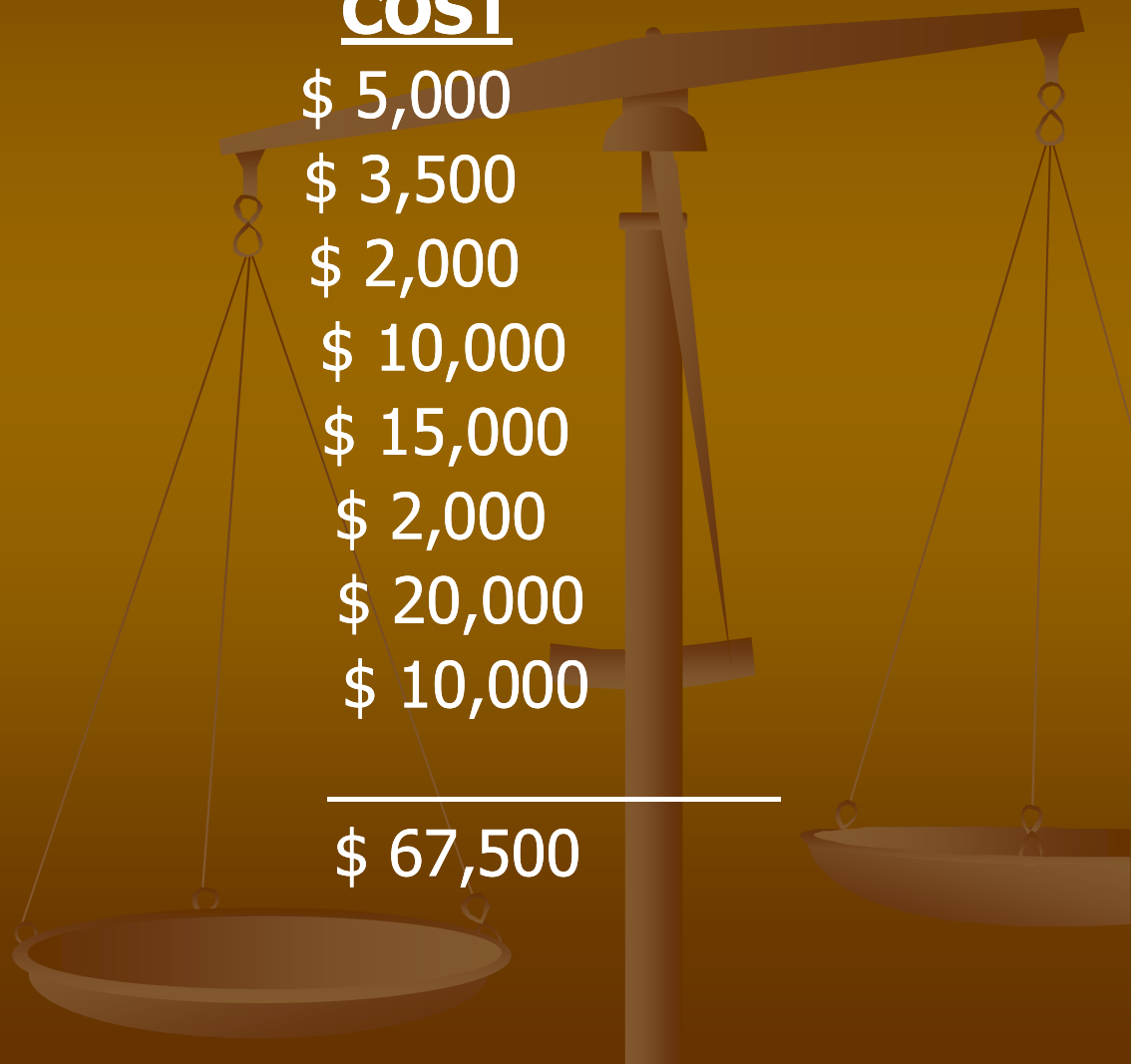
\$ 2,000

\$ 20,000

\$ 10,000

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\$ 67,500



# D: PROFIT



Profit is the money necessary to keep your production unit working and growing. Your company's profit can be used to:

1. Re – invest in the company by:
  - Purchasing new production equipment
  - Expanding your warehouse or workshop.
  - Participating in we trade shows or retail show.

# D: PROFIT



2. Create operating reserves for slow economic items.
3. Build inventory as business increases.
4. Finance accounts receivable.

Profit margins will vary, but will most likely be in the range of 10-20% of the total of your direct and indirect costs.

# EXERCISE 7: CALCULATE PRODUCER'S PRICE

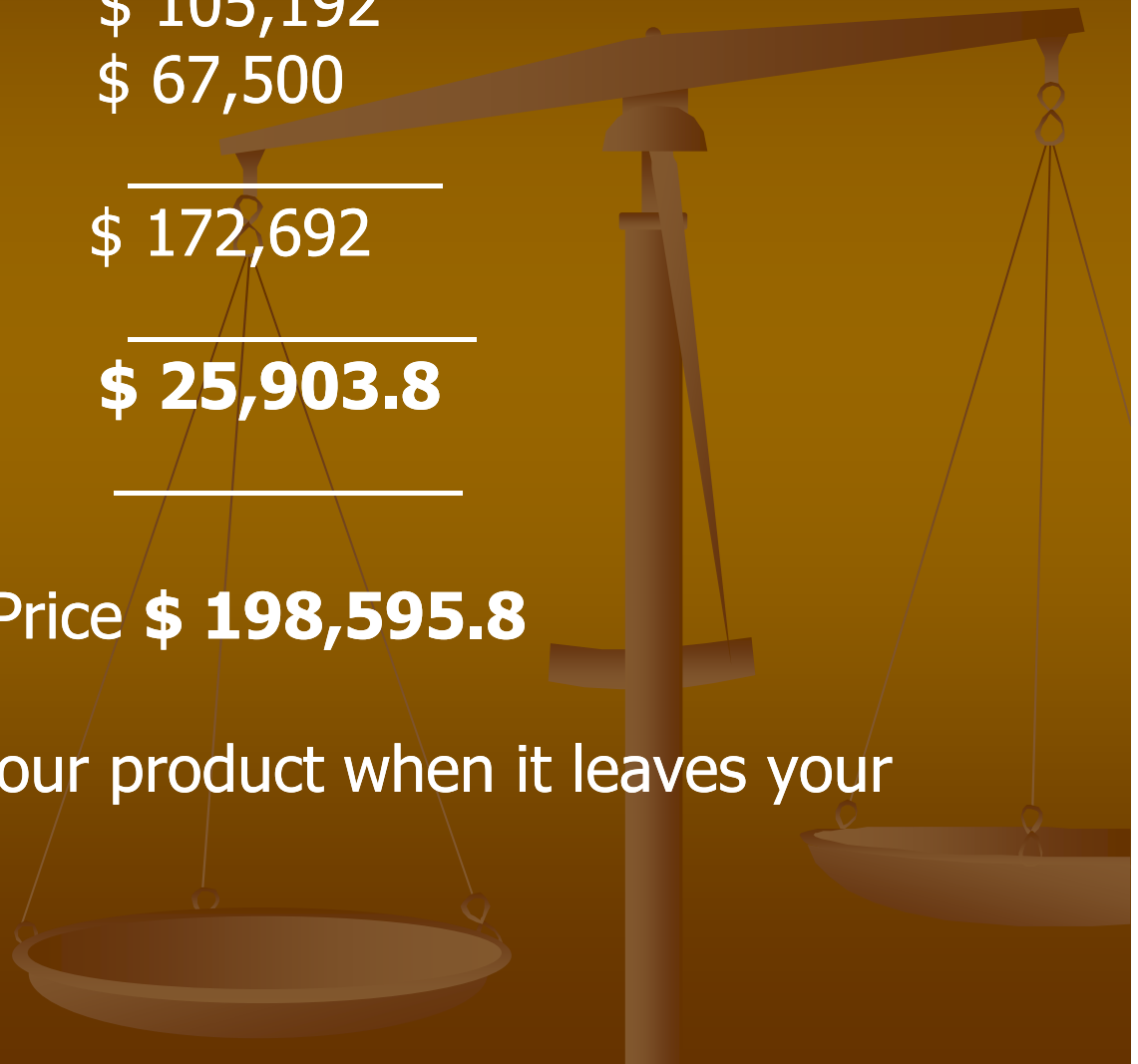
Direct Cost \$ 105,192  
+ Indirect Cost \$ 67,500

Total Product Cost \$ 172,692

Profit Margin (15%) +  
(\$172,692 x 15 / 100) **\$ 25,903.8**

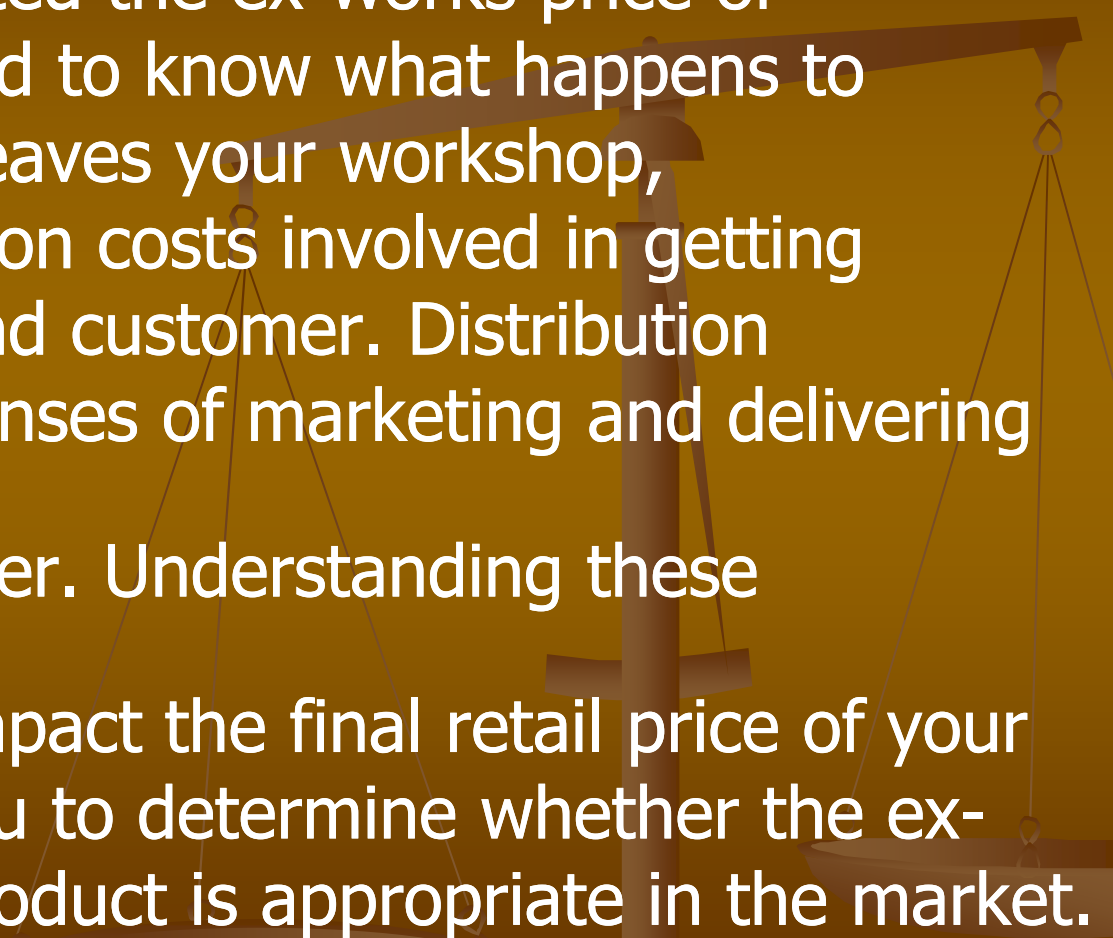
Producer (Ex – Works) Price **\$ 198,595.8**

This price the price of your product when it leaves your workshop.



## STEP 2: DETERMINE DISTRIBUTIONS COSTS

Now you have calculated the ex-works price of your product, you need to know what happens to your product after it leaves your workshop, including the distribution costs involved in getting your product to the end customer. Distribution costs include the expenses of marketing and delivering the product to the customer. Understanding these distribution costs and how they impact the final retail price of your product will enable you to determine whether the ex-works price of your product is appropriate in the market.

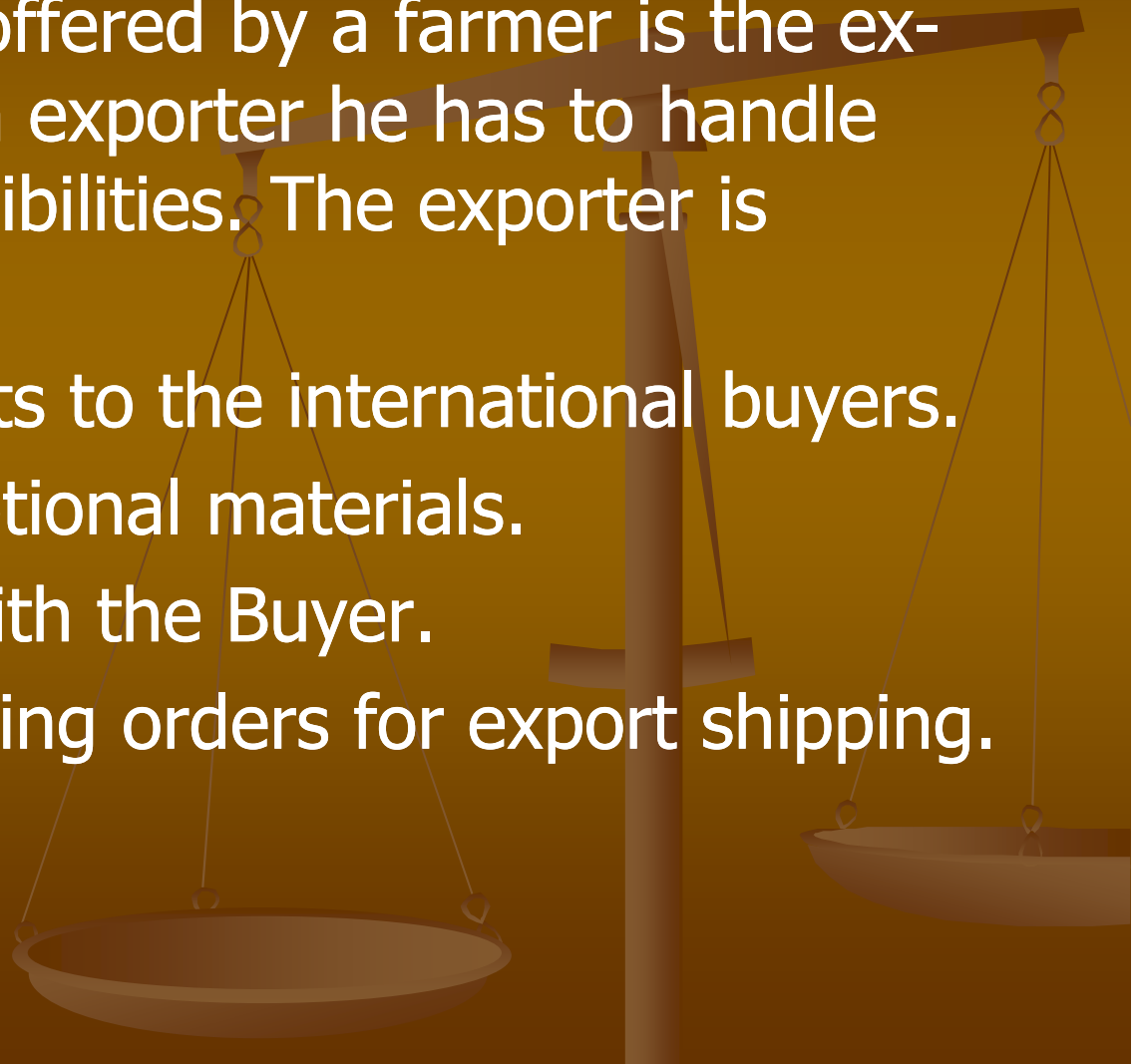





# A: IF YOUR TARGET MARKET IS THE EXPORT MARKET

Generally the price offered by a farmer is the ex-works price. As an exporter he has to handle additional responsibilities. The exporter is responsible for;

- Promoting products to the international buyers.
- Developing promotional materials.
- Communicating with the Buyer.
- Packing, and labeling orders for export shipping.




# IF YOUR TARGET MARKET IS THE EXPORT MARKET

- Preparing all exports documentation, including paying any export taxes and other related fees.
  - Arranging internal transportation of orders from the workshop to the port of exist.
  - Arranging international shipping.
  - Collect payment from the buyer and distributing other payments involved in the chain.
- 

# FREE ON BOARD (FOB) PRICE

The FOB price is the price at which the exporter sells your product to an importer. The FOB price is what your product costs when it is put on the ship or airline at the port of shipment. Most importers will ask for prices to be quoted in FOB terms.



# CALCULATING FOB PRICE

## EXPENSES

Ex- Works Price  
Packing  
Internal Transport  
Documents  
Overhead

## COST

\$ 198,595.8  
\$ 40,000  
\$ 20,000  
\$ 8,000  
\$ 15,000

+

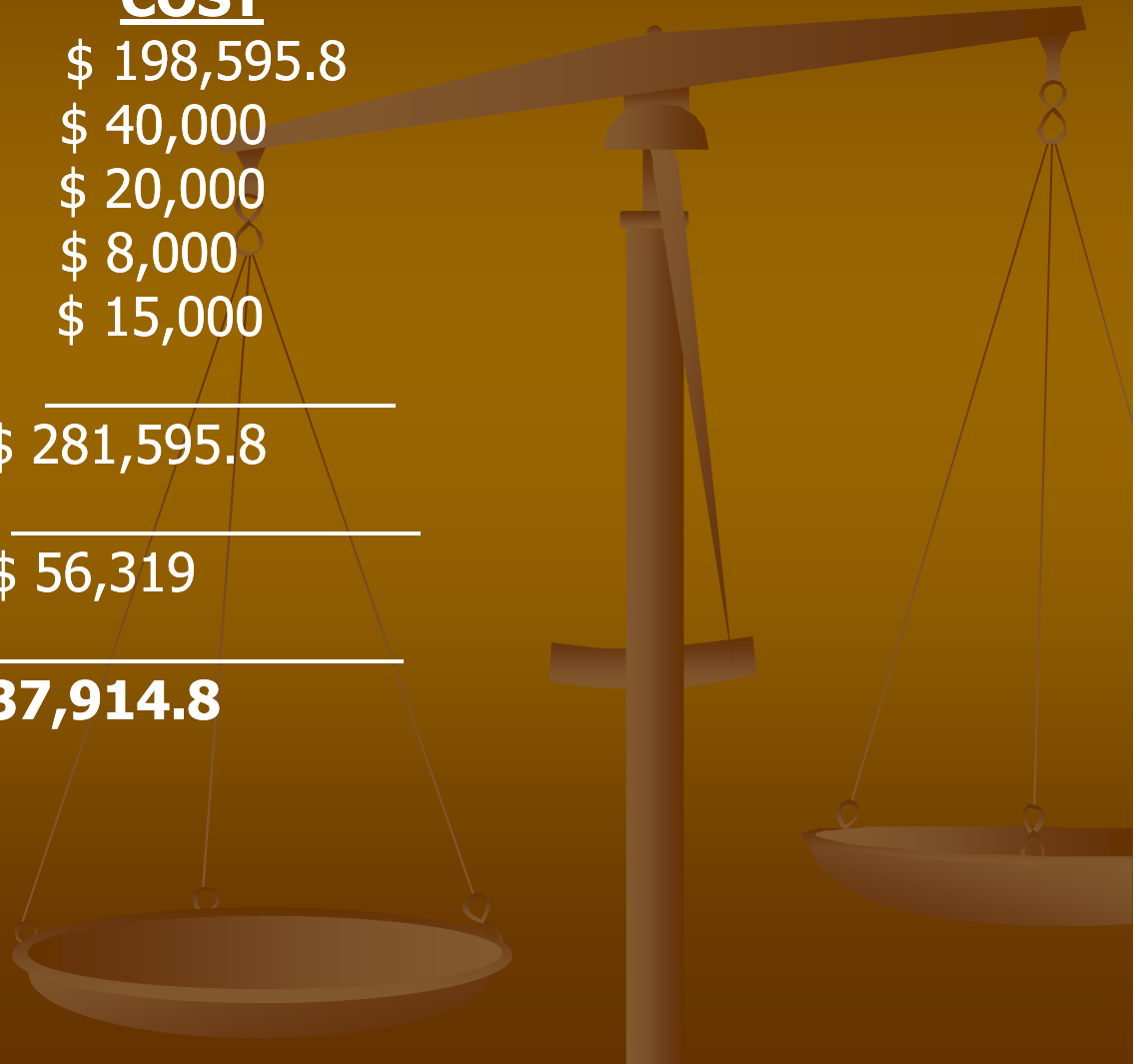
\$ 281,595.8

Profit (20%)

\$ 56,319

**FOB Price**

**\$ 337,914.8**



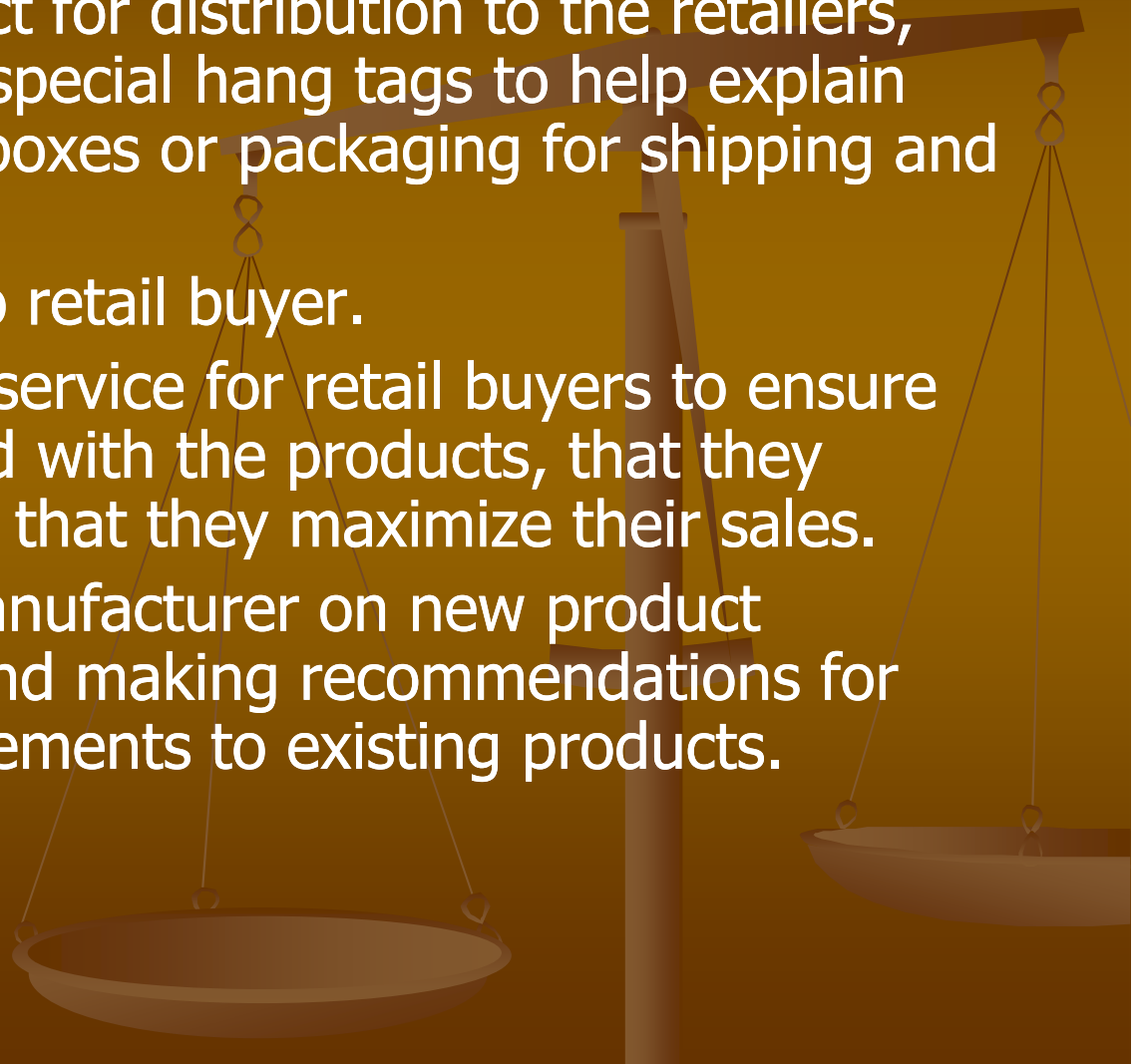
# IMPORTER/WHOLESALER

The importer/wholesaler is responsible for:

- Paying the FOB price of the product to the exporter.
  - Paying for international shipping costs and insurance.
  - Handling all customs and landing logistics and costs with the importing country.
  - Warehousing the products.
  - Promoting and marketing the products, including exhibition in the wholesale trade shows, printing catalogues, and all sales marketing to buyers.
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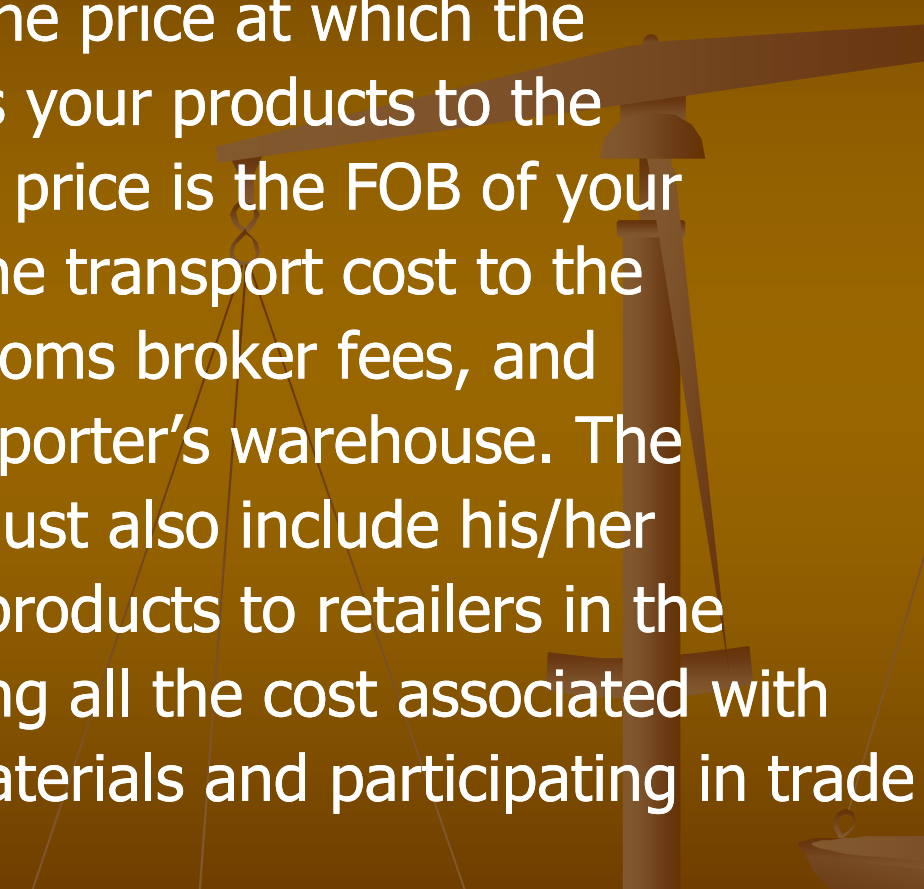
# IMPORTER/WHOLESALE

- Packaging the product for distribution to the retailers, which might include special hang tags to help explain the product, special boxes or packaging for shipping and display.
- Arranging shipping to retail buyer.
- Providing customers service for retail buyers to ensure that they are satisfied with the products, that they receive re-order, and that they maximize their sales.
- Providing input to manufacturer on new product development ideas and making recommendations for revisions and improvements to existing products.



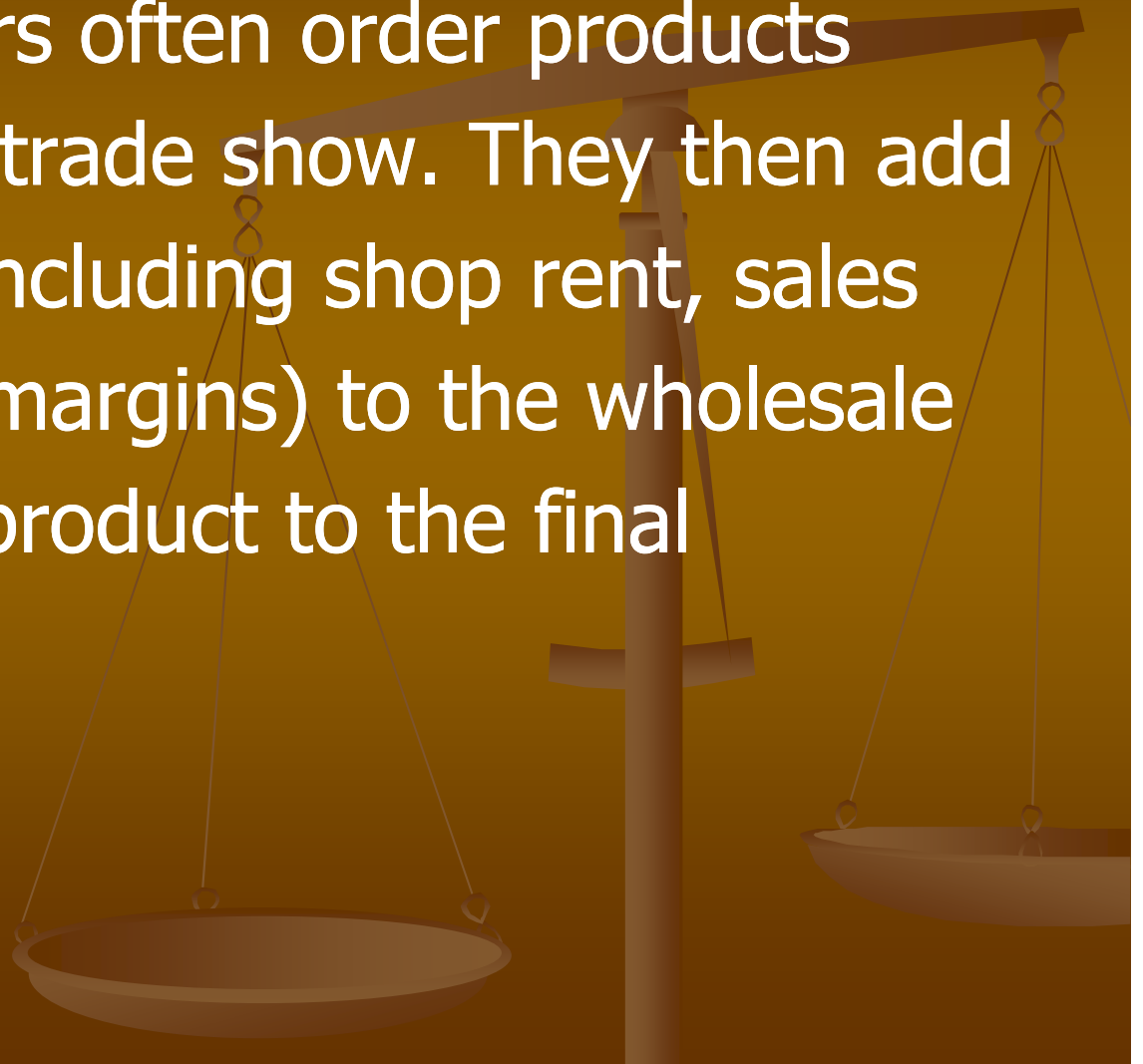
# WHOLESALE PRICE

The wholesale price is the price at which the importer/wholesale sells your products to the retailers. The wholesale price is the FOB of your product, increased by the transport cost to the port of destination, customs broker fees, and transportation to the importer's warehouse. The importer / wholesaler must also include his/her costs of marketing the products to retailers in the wholesale price, including all the cost associated with producing marketing materials and participating in trade shows.



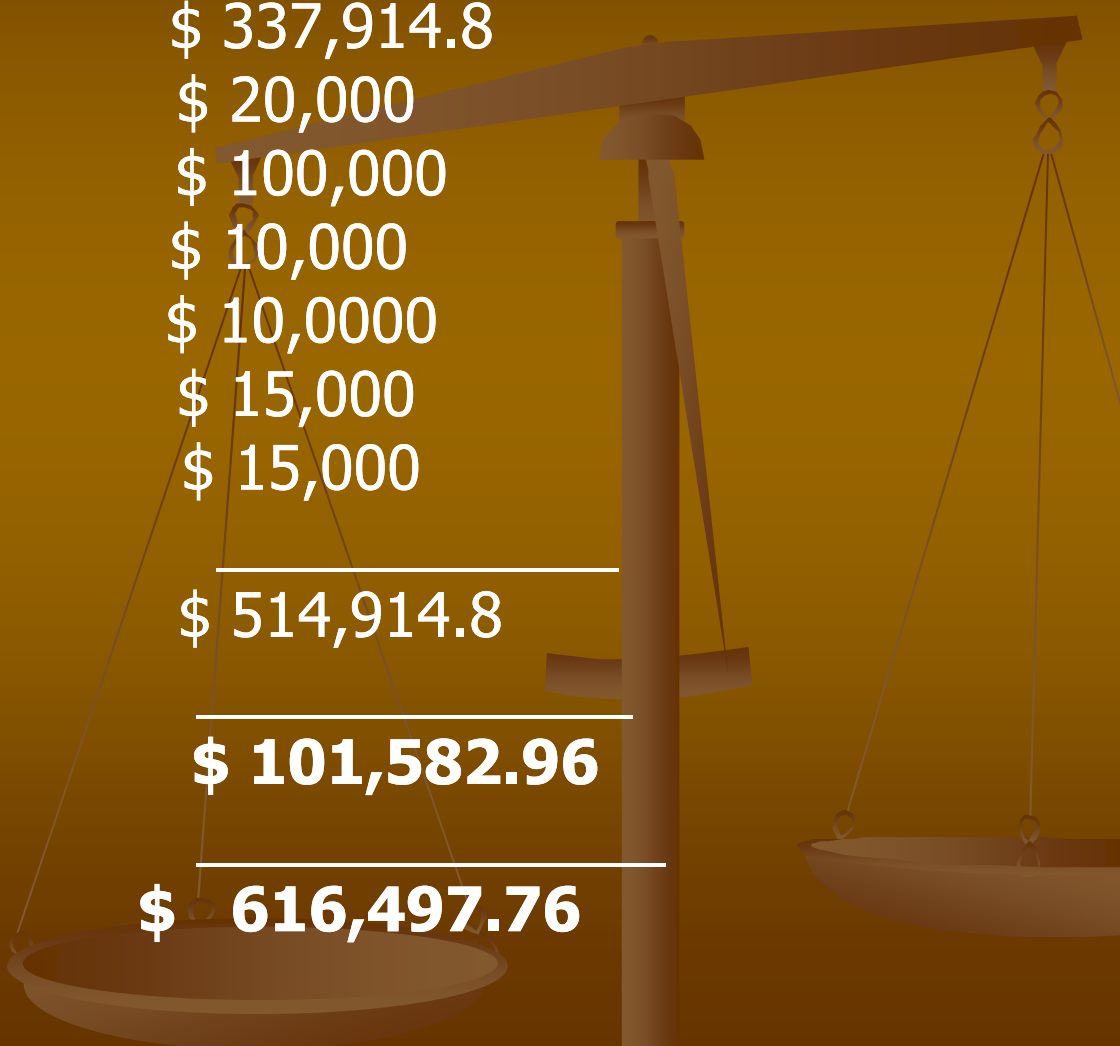
# WHOLESALE PRICE

Retail store owners often order products from a wholesale trade show. They then add their expenses ( including shop rent, sales staff, and profits margins) to the wholesale cost and sell the product to the final consumer.





# CALCULATING WHOLESALE PRICE



FOB Price	\$ 337,914.8
Insurance	\$ 20,000
Freight	\$ 100,000
Internal Transportation	\$ 10,000
Warehousing	\$ 10,000
Marketing Expenses	\$ 15,000
Overhead Expense	\$ 15,000
	<hr/>
	\$ 514,914.8
	<hr/>
+ Profit (20%)	<b>\$ 101,582.96</b>
	<hr/>
<b>Wholesale Price =</b>	<b>\$ 616,497.76</b>


# RETAILER



After purchasing the product from the importer / wholesaler, the retailer is responsible for:

- Paying for shipping from the wholesaler's warehouse to his/her retail store.
- Promoting and selling the product in his/her store, include specials display and promotion of specials products.

# CALCULATING RETAIL PRICE



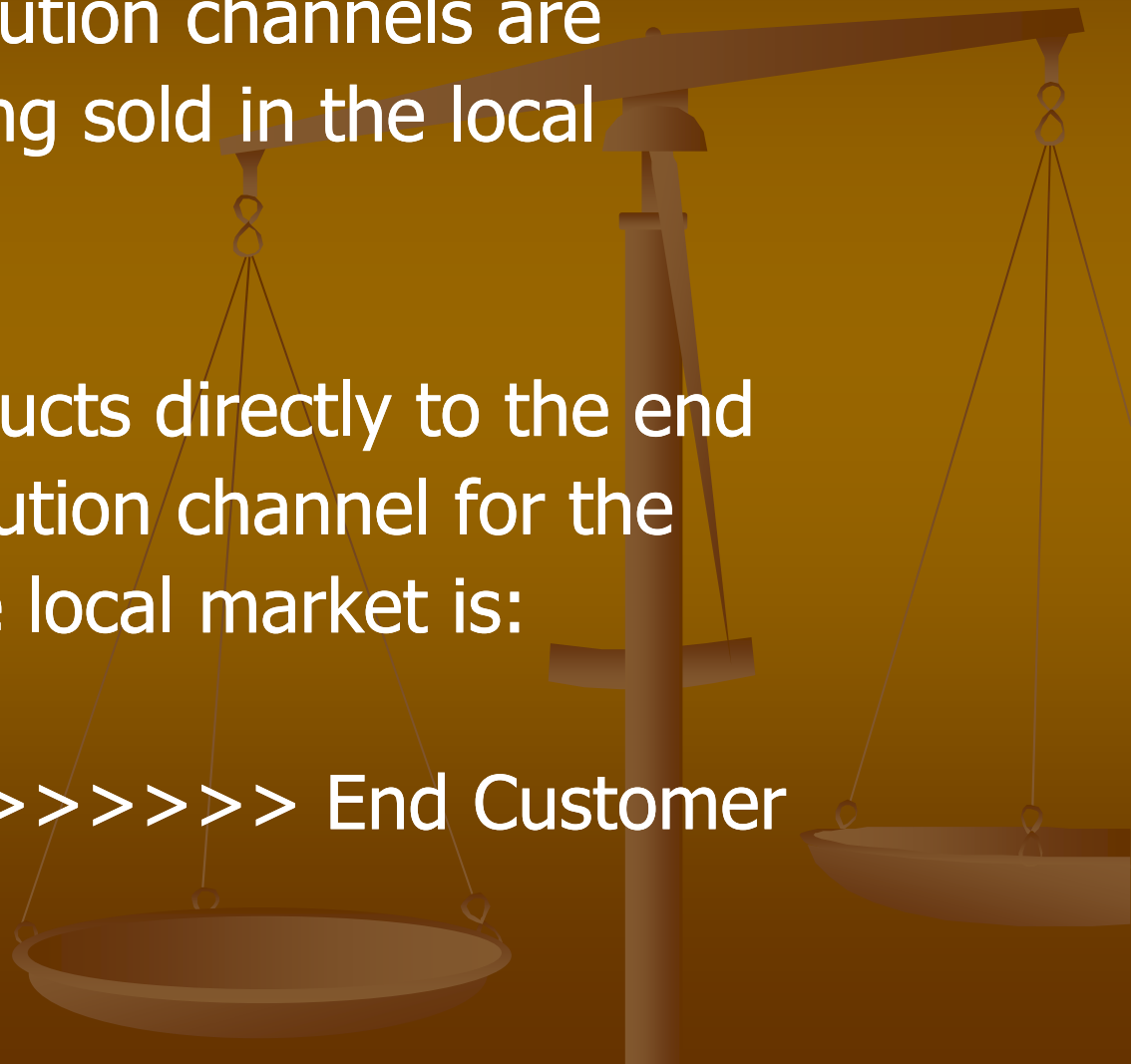
Wholesale Price	\$ 616,497.76
Shipping	\$ 20,000
Overhead	\$ 20,000
	<hr/>
	\$ 656,497.76
	<hr/>
+ Profit (25%)	<b>\$ 164,124.44</b>
	<hr/>
<b>Retail Price</b>	<b>\$ 820,622.2</b>

# B: IF YOUR TARGET MARKET IS THE LOCAL MARKET

At least three distribution channels are common for the being sold in the local markets.

If you sell your products directly to the end customer the distribution channel for the product to reach the local market is:

Manufacturer >>>>>>>>> End Customer



# IF YOUR TARGET MARKET IS THE LOCAL MARKET

If you sell directly to or put your products at a local retail store then your distribution channel is:

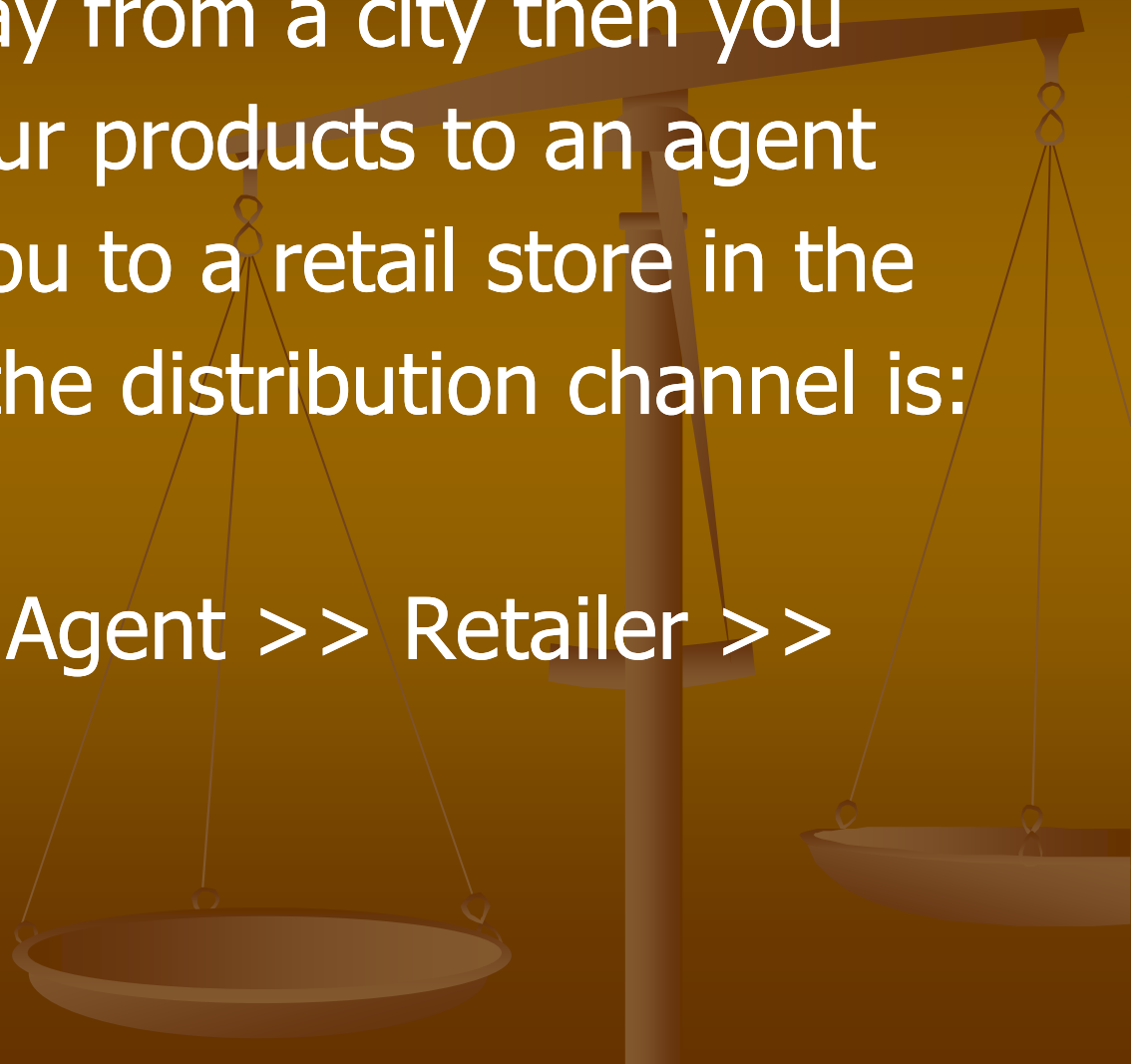
Manufacturer >> Retailer >> End Customer



# IF YOUR TARGET MARKET IS THE LOCAL MARKET

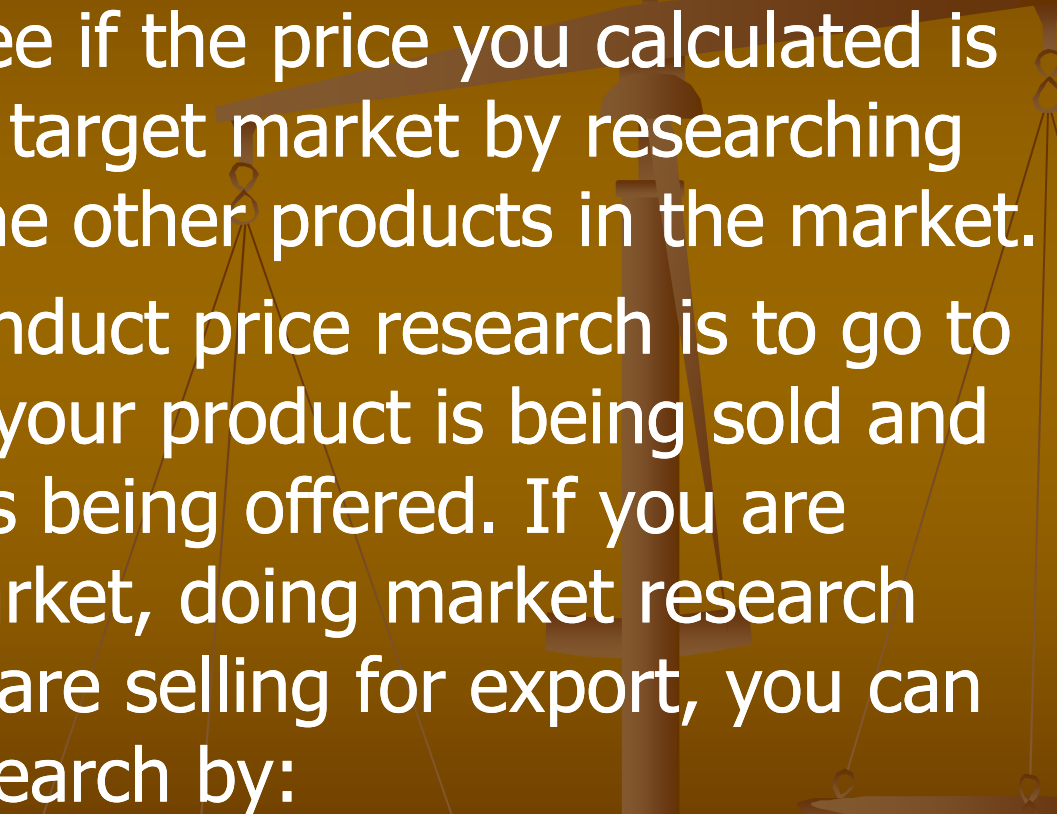
If you live far away from a city then you may be selling your products to an agent who represents you to a retail store in the city. In this case the distribution channel is:

Manufacturer >> Agent >> Retailer >>  
End Customer

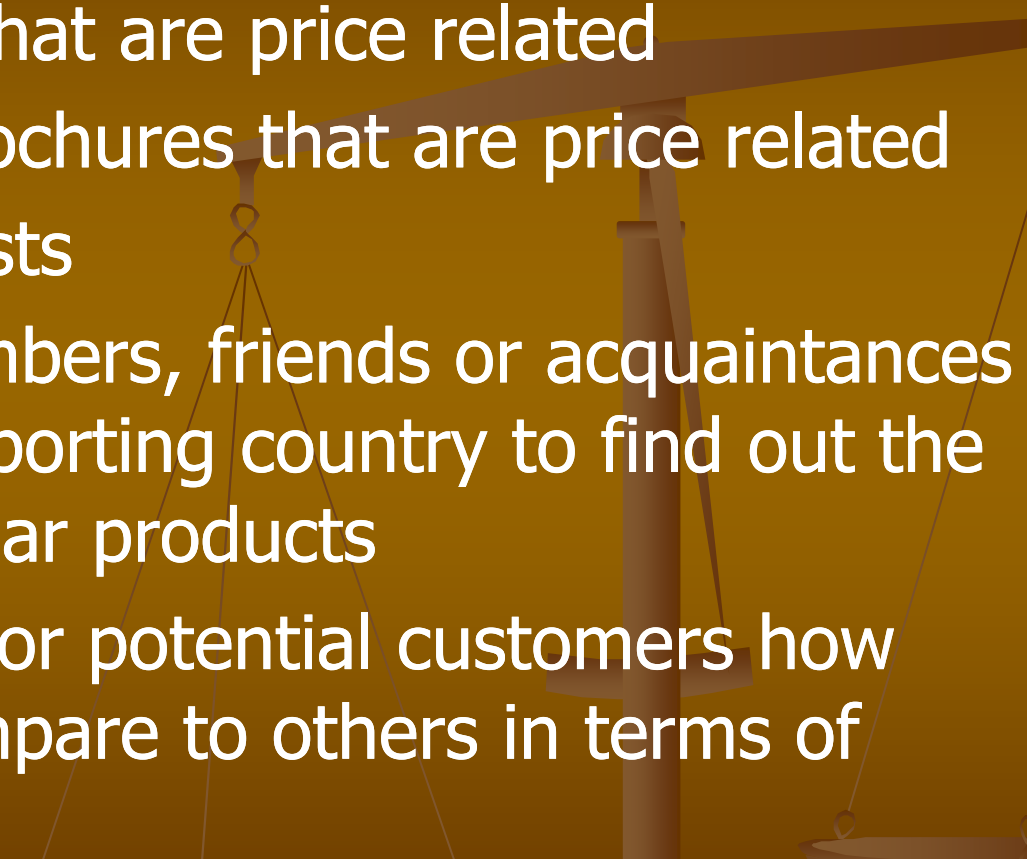


## **STEP 3: DETERMINE WHAT THE MARKET WILL PAY FOR SIMILAR / IDENTICAL OR RELATED PRODUCTS.**

Now you need to see if the price you calculated is competitive in your target market by researching the retail price of the other products in the market. The best way to conduct price research is to go to the location where your product is being sold and look at similar items being offered. If you are selling in a local market, doing market research will be easy. If you are selling for export, you can conduct market research by:



## DETERMINE WHAT THE MARKET WILL PAY FOR SIMILAR / IDENTICAL OR RELATED PRODUCTS

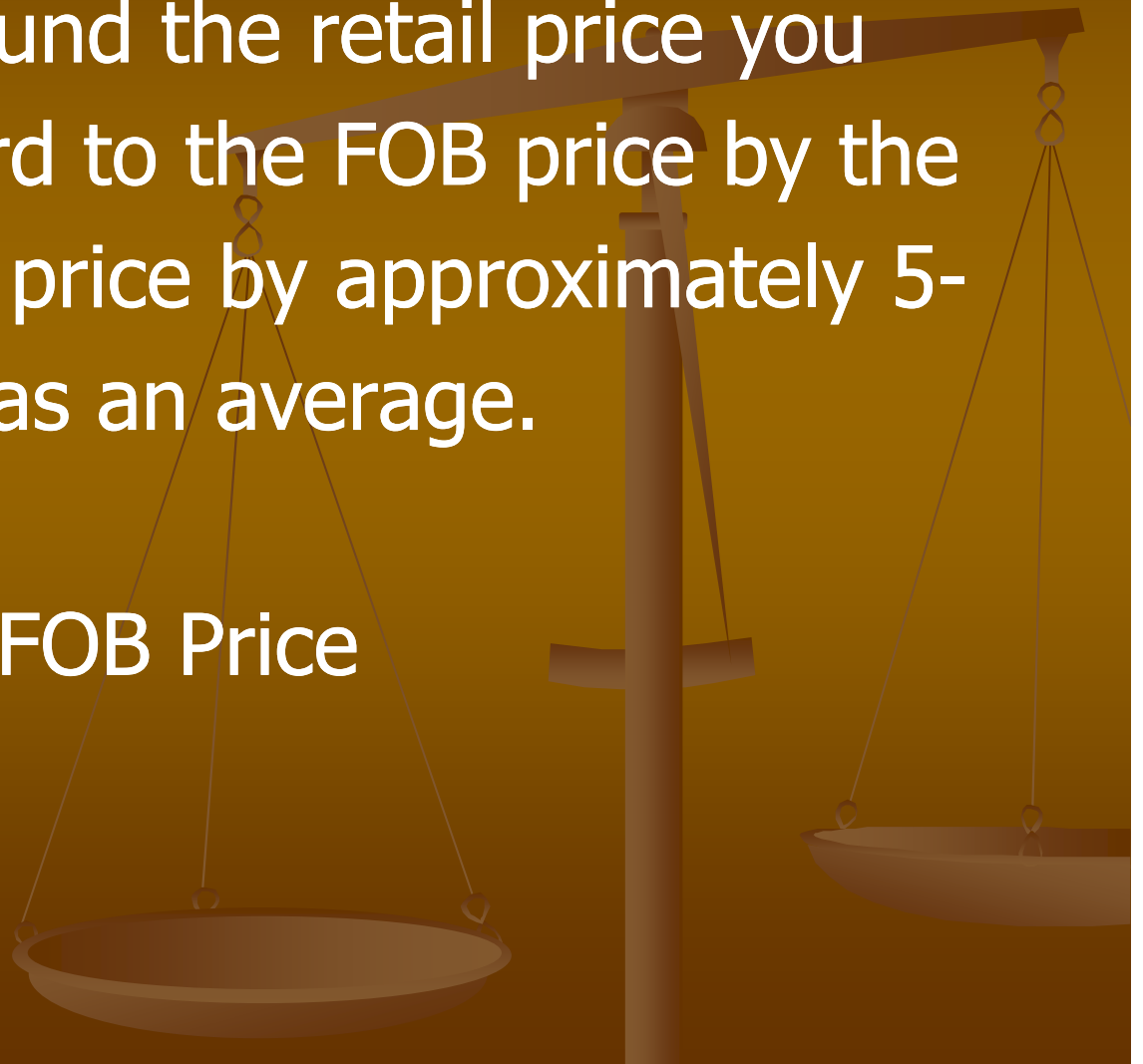
- Visiting websites that are price related
  - Magazines and brochures that are price related
  - Interviewing tourists
  - Asking family members, friends or acquaintances who live in the importing country to find out the retail price of similar products
  - Asking customers or potential customers how your products compare to others in terms of price.
- 



## DETERMINE WHAT THE MARKET WILL PAY FOR SIMILAR / IDENTICAL OR RELATED PRODUCTS

Once you have found the retail price you can work backward to the FOB price by the dividing the retail price by approximately 5-7. You can use 6 as an average.

$$\text{Retail Price} / 6 = \text{FOB Price}$$



# STEP 4: BALANCE THE PRICE OF YOUR PRODUCT WITH THE MARKET PRICE.

They are either two scenarios that will appear, either the price is too high or it is too low.

What can you do when the price is too low?

- Double check that you did your costing correctly.
- Raise your profit margin.

What can you do when the price is too high?

- Re- design your product.
- Reduce indirect cost.
- Reduce labour cost.
- Decrease your profit margin.

