

# Intro to Cost-Plus Pricing

## A Beginners Guide

# Introduction

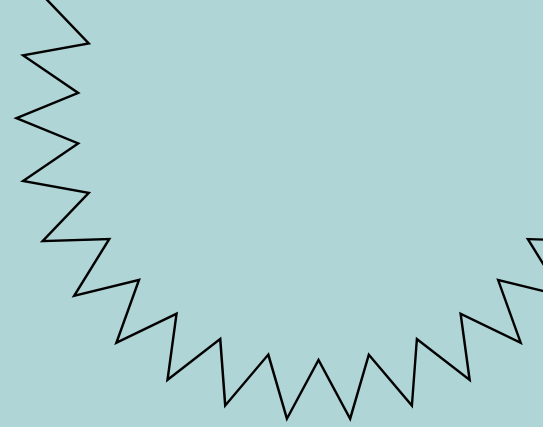


Over the years, cost-plus pricing has proven to be a reliable tool for businesses navigating the evolving landscape of commerce. It's a model that has stood the test of time, offering a practical, straightforward approach to setting prices. However, in the fast-paced world of today's global economy, understanding its intricacies and implications is more critical than ever.

In this guide, we'll take a look at:

- Cost-plus pricing and what it means for companies that want to get ahead
- Benefits and challenges associated with implementing cost-plus pricing
- Five areas to focus on when getting started with cost-plus pricing

# What is...



## WHAT IS COST-PLUS PRICING?

Cost-plus pricing is a method of setting prices for goods or services based on the cost to create and deliver them. Companies use this approach in order to cover their costs and make a predetermined profit margin. This type of pricing model divides costs into three categories: direct costs, like the cost of materials; indirect costs, like overhead and administrative fees; and selling expenses.

## BENEFITS

Cost-plus pricing is the most common form of pricing used by companies of all sizes. There are a few reasons for this. First, it's simple. You take your costs which is a data point relatively easy to gather and calculate. Second, cost-plus pricing is designed to prevent unprofitable sales. Lastly, it is simple enough that most companies don't have to think about pricing again.

## CHALLENGES

Many companies do not understand the intricacies of their costs which results in pricing that is constructed with incomplete – and worst cases incorrect – data and less profit generating than originally assumed. The second disadvantage of this approach is potentially under-valuing – and under-pricing – the product because it does not account for the customer's perception and willingness-to-pay. Finally, cost-plus pricing does not explicitly account for market and competition dynamics. While this is assumed in the margins set, this is difficult to account for and more difficult to replicate when inevitable competitive shifts occur.

# 5 Areas of Focus

To get started with cost-plus pricing, focus on accounting all costs of producing your product or service, including direct and indirect costs. Decide how much profit you want to make on each item you sell. Research the market in order to set appropriate prices. Use analytics to track customer demand and make adjustments as needed. Finally, monitor costs and market changes and adjust accordingly.

- ACCOUNT ALL COSTS
- SET A PROFIT MARGIN
- ANALYZE THE MARKET
- TRACK YOUR SALES
- MONITOR PRICES

# Closing

Cost-plus pricing is a popular approach to setting prices because it allows companies to break even on costs while still making a profit. While cost-plus pricing has its benefits, it can also present challenges if market conditions change or costs are not properly accounted for. By following the tips outlined in this beginner's guide to cost-plus pricing, business owners can use cost-plus pricing to their advantage and find success in the market.

