

Pricing for Small Business Profitability in partnership with NJSBDC NJCU and HCEDC



Pricing for Small Business Profitability in partnership with ...



NJSBDC at New Jersey City University

Pricing for Small Business Profitability in partnership with...

Presented in partnership with...



HCEDDC

Hudson County
Economic Development
Corporation

A Non-profit Economic Development Corporation



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Loans up to
\$250,000

Thanks to our Community Advantage 7a program.

Are you ready to apply?



LOANS

Small business financing for start-up and growing businesses

TRAINING

Entrepreneurial seminars and free business skills workshops

GOV'T CONTRACTING

Free counseling, training and support to get you going and winning



Pricing for Small Business Profitability

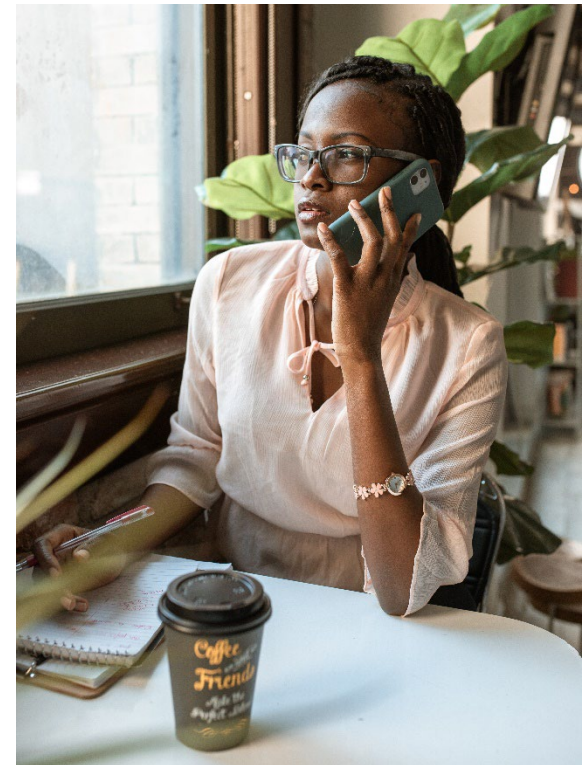
www.ucedc.com



Lending

Your business is more than a credit score to us

- Community Development Financial Institution (CDFI)
- US Small Business Administration (SBA) lender
- Microloans – up to \$50,000
- SBA 7a Community Advantage loans – up to \$250,000
- SBA 504 Commercial Real Estate & Major Equip. loans – up to \$5mil.



Training & Technical Assistance

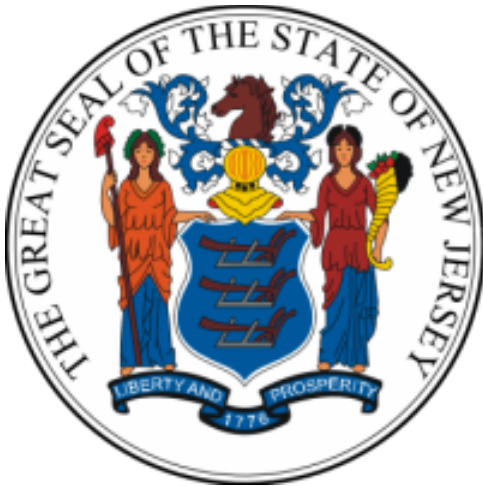
Get the business skills you need to start, grow and thrive



- Free workshops
- Business Basics
- Entrepreneurship Training Courses
- Business Mentoring (one-on-one counseling)
- Special Programs
 - Entrepreneurship as a Second Chance (ESC)
 - Virtual Incubator Program (VIP)

APEX Accelerator

APEX Accelerator is your gateway to Government Contracts



- Free seminars
- One-on-one counseling
- Registrations & Certificates
- Identifying bid leads
- Marketing to purchasing agents
- Proposal development
- Regulations & Military Specifications
- Subcontracting assistance
- Government Services Administration (GSA)

Pricing for Small Business Profitability

Workshop Objectives

- Pricing models
- Understand the need of financial forecasting
- Assumption creation
- Market Forecasting
- Cost forecasting
- Financial statements forecast



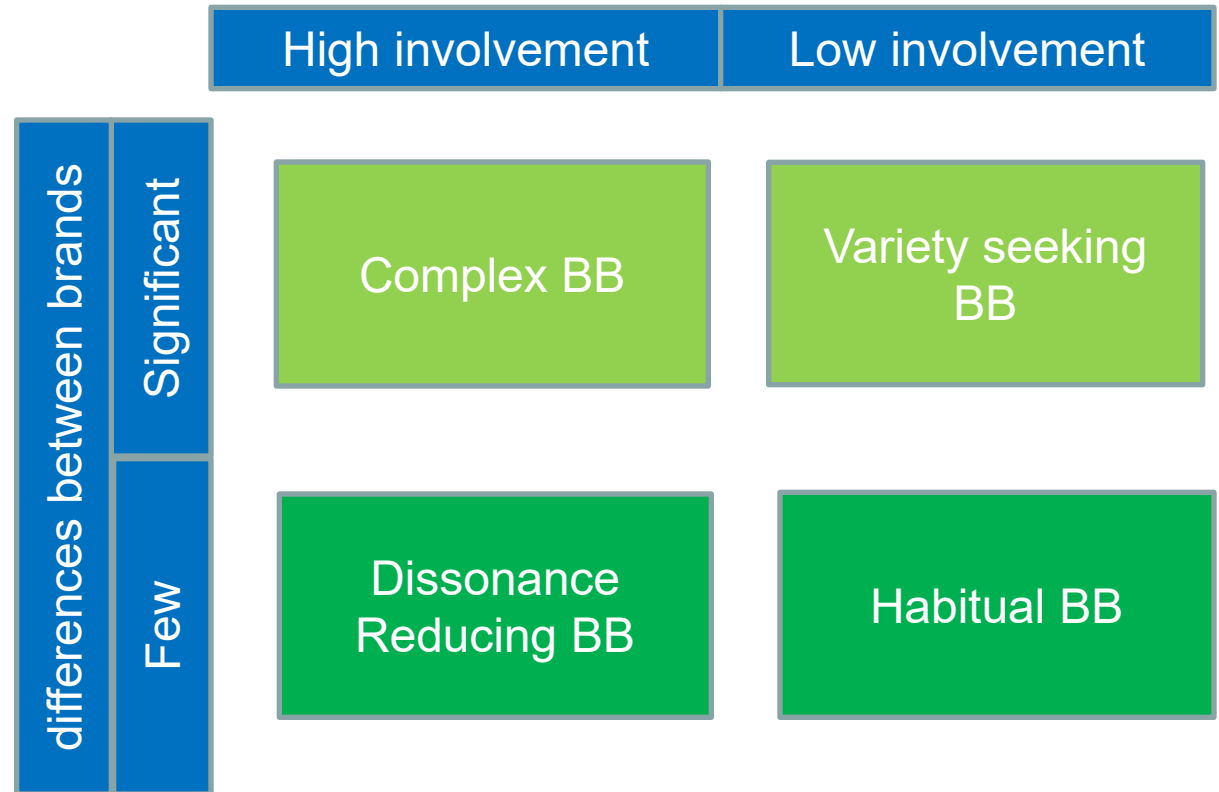
Pricing for Small Business Profitability



Pricing for Small Business Profitability

What can I learn from my own buying decisions?

(What motivates me to buy?)



BB = Buying Behavior

Profitability

Pricing involves assessing:

- Revenue
- Fixed Costs
- Variable Costs
- Consumer Demand



Profitability

Revenue Management

- Collecting and analyzing data from customer, calendar and market
- Analyze competition
- **Forecasting** and budgeting your revenue stream and expenses
- Planning and executing



Profitability

Fixed costs:

- Costs that are independent of volume
- Set for a specified period and do not change despite a change in production levels.

Variable costs:

- Expense that changes in proportion to how much a company produces or sells.

Pricing Models

- Cost-plus
- Market-based (competitive)
- Premium (perceived value)



Pricing Models

Cost-based pricing

Cost of materials



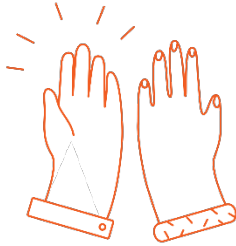
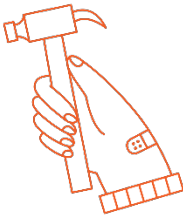
Cost of labor



Desired profit



Customer price



Pricing Models (Cost of Materials)

Material	Cost per item	Quantity	Total
Strips of leather	\$10	10	\$100
Belt buckles	\$2	10	\$20
	Total materials cost		\$120



Appropriate Competitive Pricing

EXAMPLE:

Waxed denim tote with leather handles

- \$40 materials
- 2 hours to make

**Materials + Labor + Desired profit =
Retail Price**



All categories

- Bags & Purses
- Craft Supplies & Tools
- Home & Living
- Electronics & Accessories

+ Show more

Special offers

- On sale

Shop location

- Anywhere
- United States
- Custom

Enter locati

Item type

- All items
- Handmade
- Vintage

Price (\$)

- Any price
- Under \$25
- \$25 to \$50
- \$50 to \$100
- Over \$100
- Custom

Low to High

Color

- Brown
- Black
- Gray
- Blue
- Green

+ Show more

Ordering options

- Accepts Etsy gift cards
- Customizable

All categories > "waxed canvas tote" (2,488 Results)

Sort by: Relevancy



Waxed Canvas Tote Bag with Leath...
RiegelGoodsCompany
★★★★★ (78)
\$229.00



Waxed Canvas Tote Coal, Waxed Ca...
PegandAwl
★★★★★ (3,408)
\$240.00



Waxed Canvas Tote Bag, Canvas To...
WoodandSpoolStudio
★★★★★ (194)
\$76.00



Waxed canvas tote bag with leather...
treesizeverse
★★★★★ (1,186)
\$149.00
Only 1 available



Convertible Waxed Canvas Tote wit...
MondayMorningStudios
★★★★★ (1,061)
\$135.00



Waxed Canvas Cross Body Bag, Cro...
RedHouseVT
★★★★★ (145)
\$150.00



Convertible Waxed Canvas Backpa...
MOOIStudio
★★★★★ (132)
\$122.00



Waxed canvas tote / Carry all Leath...
ikabags
★★★★★ (3,763)
\$149.00
Only 1 left



Waxed canvas tote bag with leather...
treesizeverse
★★★★★ (1,187)
\$119.00
Only 1 left



Handmade Waxed Canvas Tote Bag...
BattleAx2013
★★★★★ (59)
\$154.00
Only 1 left



Black Waxed Canvas Tote Bag Black...
metaphore
★★★★★ (348)
\$95.00



Waxed Canvas tote, Small zipper p...
inblue
★★★★★ (12,804)
\$80.00



WoodandSpoolStudio



Metaphore



MondayMorningStudios



RiegelGoodsCompany

\$

\$\$\$

Most comparable to the \$135 bag than the other totes



RiegelGoodsCompany

Appropriate Competitive Pricing

Profit and labor margins

Price of similar bag \$135
- Cost of materials (\$40)

Profit and labor margin = \$95



COGS

COGS importance

- Accurate pricing
- Better decision making
- Improved tax preparation
- Future growth potential

COGS Formula

- Materials
- Direct labor
- Expenses related to creation of product or service



Pricing for Small Business Profitability

Revenue Management



- What is my cost structure?
- How much do I want to make?
- How do I determine my breakeven point?

Projecting Financial Results (Scenario Analysis)

- What is the issue that we are trying to assess?
- How far out are we trying to predict?
- What are the major external factors likely to impact on our scenarios?
- Do we have the right data, technology, bandwidth and skills to develop and maintain scenario plans?

Projecting Financial Results –Scenario Analysis-

- **Realistic case scenario** – This is the average scenario, based on management assumptions.
- **Worst case scenario** – considers the most serious or severe outcome that may happen in a given situation.
- **Best case scenario** – This is the ideal projected scenario and is almost always put into action by management to achieve their objectives



Scenario Analysis

- **Future planning** – gives investors a peek into the expected returns and risks involved when planning for future investments.
- **Proactive** – You can avoid or decrease potential losses that result from uncontrollable factors by being aggressively preventive during worst-case scenarios by analyzing events and situations that may lead to unfavorable outcomes.
- **Avoiding risk and failure** – Scenario analysis takes the best and worst probabilities into account so that investors can make an informed decision.
- **Projecting investment returns or losses** – The analysis makes use of tools to calculate the values or figures of potential gains or losses from an investment. This gives concrete, measurable data that investors can base the approaches they take on, for (hopefully) a better outcome.

Revenue Forecasting Methods

- Quantitative Forecasting
- Judgement Forecasting

The first method involves using intuition and past experiences as a business owner to forecast.

The second method uses actual data.

What method should I use?

Creating Assumptions

- Potential Market (#) – the number of prospects with sufficient interest, income, and access to your product
- Target Market – the part (segments) of the Potential Market that your company decides to pursue
- Total Addressable Market (\$) – the total number of target prospects times estimated average annual \$ revenue per customer
- Obtainable Market – the number of annual customers your company expects to actually obtain (often arrived at by taking a % of total target prospects)

Market Forecasting

Ask the following:

1. Who has the need for my product/service, the financial ability to purchase it, and the ability to find it?
2. How many of these people or businesses exist today?
3. How much money does each person/business spend every year on the problem my product/service solves?
4. Who else do I share this market with?

Example 1: Fitness Center

Potential Market:

- A hair salon in a small city (population 120,000 people)
- Provides high-end salon services
- Average haircut and style is \$65
- Majority of clients are women
- Potential market = women aged 18-55 = 35,000

Source: "How Big is Your Market Potential, Really?" Caroline Cummings

Market Forecasting

Target Market

- Target women **aged 25 - 55** = 35,000



Source: "How Big is Your Market Potential, Really?" Caroline Cummings

Market Forecasting

Total Addressable Market

Assume:

- Average annual revenue per customer = \$450
(approx. 7 visits per year)

Total Addressable Market =
 $(35,000 \times \$450) = \$15,750,000$



Source: "How Big is Your Market Potential, Really?" Caroline Cummings

Market Forecasting

Obtainable Market

Assume: Your salon will capture approx. 1% of Total Addressable Market over the first 2 years of operation

- $35,000 \times 1\% = 350$ customers
- $\$15,750,000 \times 1\% = \$157,500$ in revenue

	Revenue Per Customer/Year	# of Customers Y1	# of Customers Y2
Assumptions	\$450	135	215
	Revenue		
Year 1	\$60,750		
Year 2	\$96,750		
Totals	\$157,500		

Source: "How Big is Your Market Potential, Really?" Caroline Cummings

Projecting Your Cash Flow

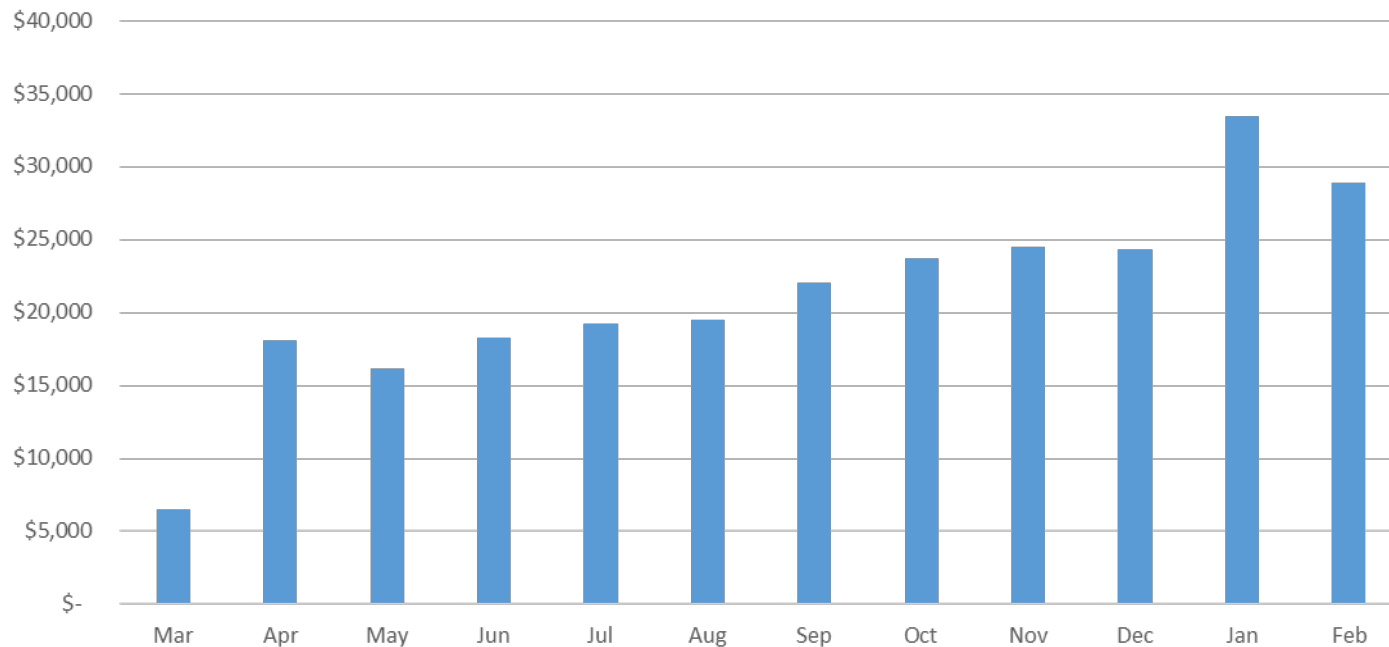


Projecting Your Cash Flow

Joe's Fitness Center (JFC) -
A startup with one location in Hudson County, NJ

Preparing Sales Projections

Total Sales by Month in Year 1



Preparing Sales Projections

Marketing Budget

	<u>Startup</u>	<u>March</u>
Advertising		
Online ads	\$2,000	500
Email	600	300
Direct mail	1,150	683
Brochures	2,408	0
Events	1,312	0
Website	0	350
Other Marketing		
Signage	8,345	0
Dues & Subscr	<u>1,000</u>	<u>75</u>
Total	\$16,815	\$1,908



Preparing Sales Projections

Sales Revenue Support

	<u>Startup</u>	<u>March</u>
General Fitness		
Membership		
Enrollment	\$3,719	3,849
Monthly Fee	2,790	4,365
Personal Training		
Training Sessions	<u>0</u>	<u>2,100</u>
Total	\$ 6,509	\$10,314



Expense Projections



Expenses

1. Start with expenses not revenue, much easier to forecast expenses than revenues.
 - Fixed costs/overhead:
 - Rent, utilities, Accounting/bookkeeping Legal, Wages, Postage
 - Variable costs
 - Costs of good sold
 - Materials and supplies
 - Packaging
 - Direct Labor Costs
 - Customer service
 - Direct Sales, Direct marketing



Expenses Projections

When you're in the startup stage, it's much easier to forecast expenses than revenues:

Start with most common categories as:

- **Fixed Costs:** Salaries, utilities, insurance, rent, phone/internet, accounting, advertising
- **Variable costs:** COGS, materials, packaging, marketing

Source: "How Big is Your Market Potential, Really?" Caroline Cummings

Expense Projections

Forecasting expenses:

- Double your estimates for advertising and marketing costs since they can escalate beyond expectations.
- Triple your estimates for legal, insurance and licensing fees since they're very hard to predict without experience and almost always exceed expectations.

Keep track of direct sales and customer service time as a direct labor expense even if you're doing these activities yourself during the startup stage because you'll want to forecast this expense when you have more clients.

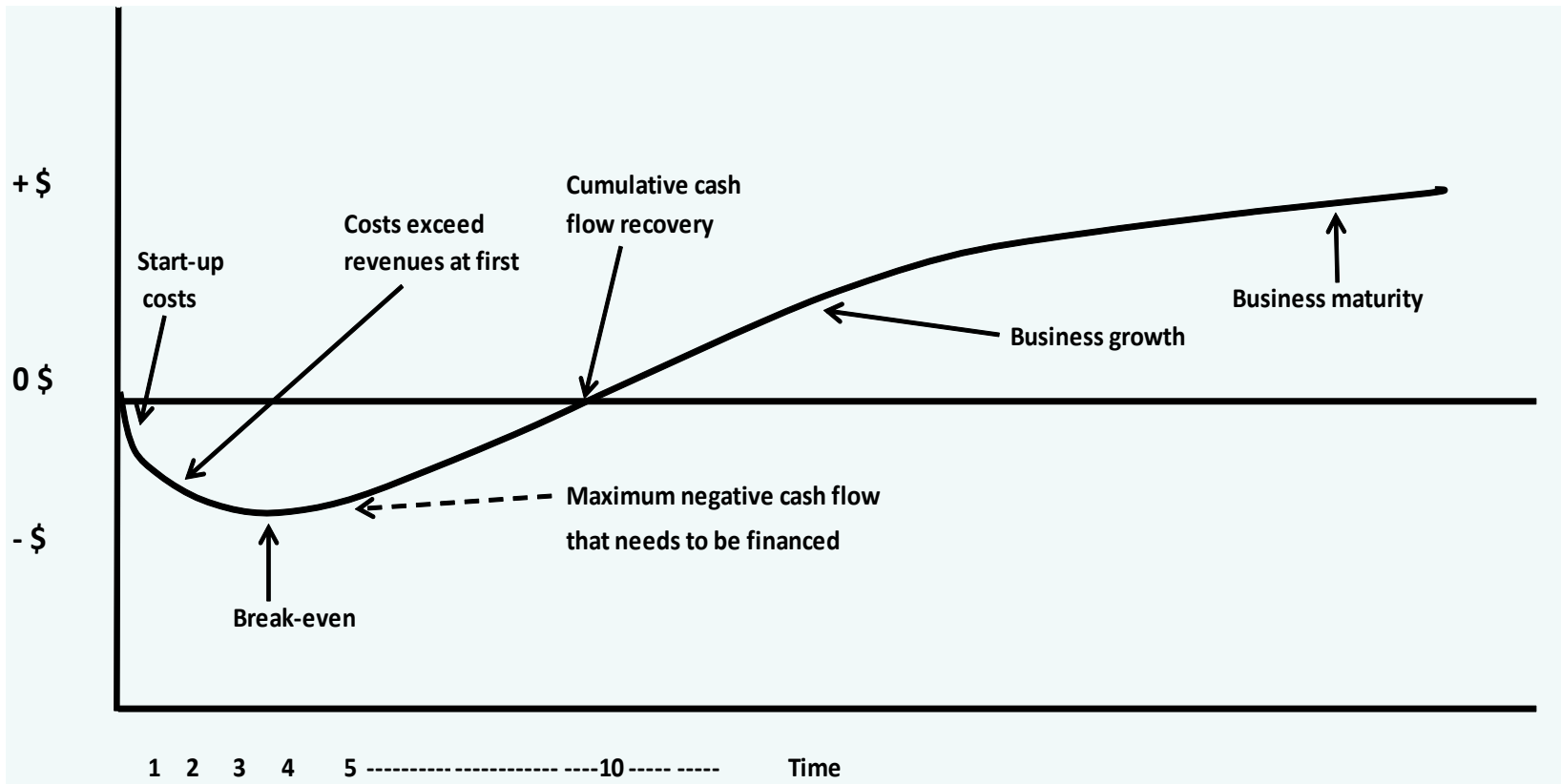
Expense Projections

Staffing Expenses



Projecting the Cash Flow Deficit

Cash Flow



Filling the Gap with Startup Capital

Sources of Capital

Owner's Investment

Joe (100%) \$20,000

Bank Loans

SBA Loan \$50,000

Other Loans

Joe's parents \$75,000

Additional Income

Pre-opening sales \$ 6,509

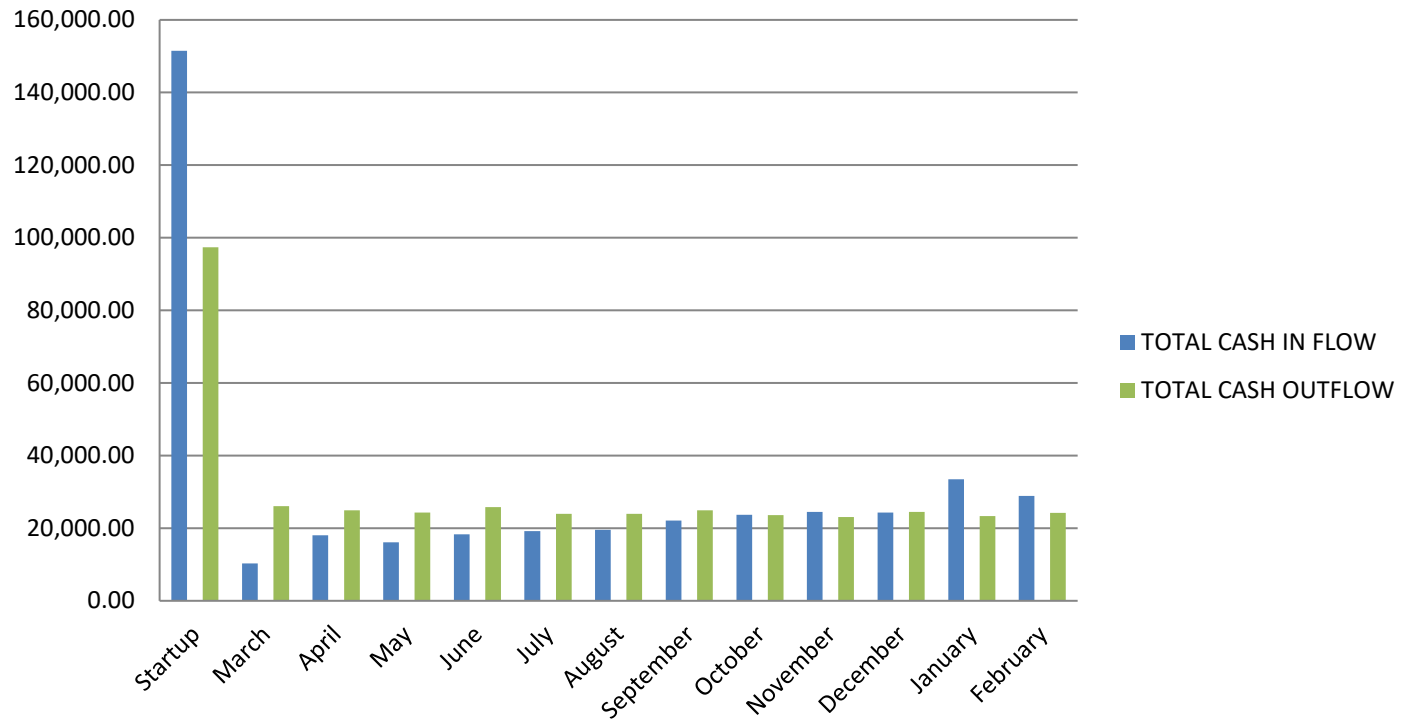
Total \$151,509



Year 1 Cash Flow Projection

Joe's Fitness Center

Cash flow projection



Year 2 Financial Projections

Joe's Fitness Center

- Expected growth of the industry is 2.22% until 2025
- JFC expects to capitalize on its experience and growth at a rate of 3% for the next 2 years
- This minimum wage rate is greater than the federal minimum wage of \$7.25 per hour. Employers are required to pay their employees the higher state minimum wage, which, in this case, is \$15.13 per hour.



Questions? Comments?

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