

Advice on setting the price of your products/services

-Pricing-

December 2022

The logo for Onekin, featuring a stylized power button symbol (a circle with a vertical line through it) in red, followed by the word "nekin" in white lowercase letters, and an exclamation mark in red.

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 **Onekin!**

How should I set the prices of PRODUCTS and/or SERVICES?

Before answering this question we must be clear about the difference between the two concepts:

- **Product** is anything that can be offered on a market and is capable of fulfilling a wish or need
 - It is tangible - you can see and touch it.
 - It has a unit of measure: weight, volume...

- **Service** is the set of intangible elements, actions, attitudes and personal interactions which we design to fulfil the needs of Customers.
 - It is intangible, but can be enjoyed.
 - We can measure it in terms of usefulness, experience, satisfaction, emotions...



PRICING

Pricing is the strategy which serves to decide the price of a product or a service at each point in its commercial life.

And a distinction can be made between price and value:

PRICE

- what we pay for a product or service.
- simply the money exchanged for something we buy.
- this is what we pay, while value is what we would be prepared to pay.

VALUE

- what we receive through a product or service
- the degree of satisfaction generated by what we have purchased.

PRICING strategies

NEUTRAL:

The prices assigned are similar to those of direct competitors.

i! It is essential for the price to cover the costs and the margin required so we can sell just as others do.

PENETRATION:

Artificially low prices to break into a market.

i! They can only be applied for a limited time, with a plan to return to genuine retail prices.

SKIMMING:

Prices are set higher than those of direct competitors, because we have a distinct competitive advantage.

i! If there is no genuine advantage or we cannot convey this to consumers, this strategy is doomed to failure with no chance of recovery.

PSYCHOLOGICAL:

The aim is for potential consumers to understand that the price has connotations, such as: "cheaper", "better", "higher quality", "better image"...

i! The importance of communication: in packaging, with promotional activity and information and/or advertising actions.

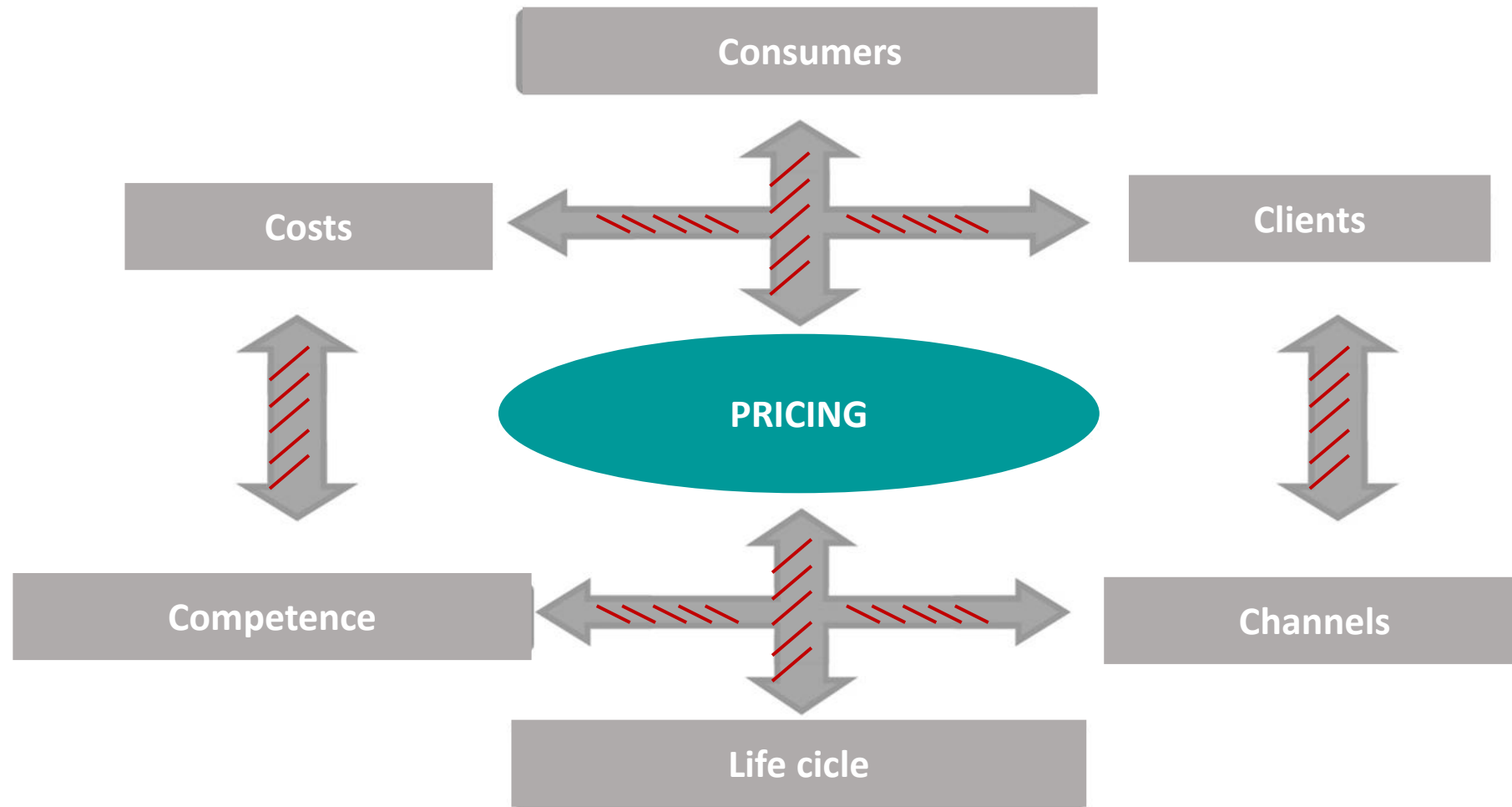
ECONOMIC:

These prices are based on commercial need.

i! They may arise only in exceptional circumstances, such as overstocking, substantial increases in competition or periods of crisis .

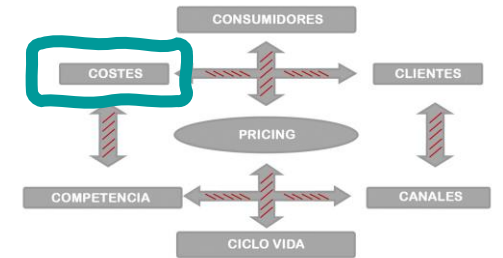


PRICING models



PRICING models

COSTS

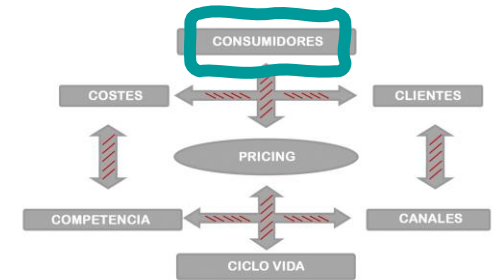


The aim is to achieve profitable prices.

- Understand our cost price in detail, taking into account the whole formation chain: raw materials, industrialisation, energy and fuels, ancillary products, packaging and labels, staff, certifications and consultancy, marketing network...
- Minimise costs and maximise economies of scale.
- Take into account the value of services related with the product that we can offer.
- Define the retail price for our customers, taking into account the sales channels we will use to bring our product to market.
- Propose our recommended retail price, setting an appropriate RRP for the consumers who will acquire our products at the different types of establishment.

PRICING models

CONSUMER

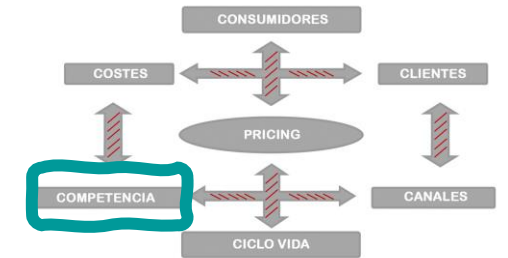


The aim is to showcase our brand in the eyes of consumers.

- Ensure that our brand is recognised by consumers, that it is:
 1. known.
 2. understood.
 3. valued.
 4. recognised.
- Control and maintain control over our brand's reputation.
- Successfully convey our brand values to potential customers.
- Act appropriately as regards our competing markets.

PRICING models

COMPETITION

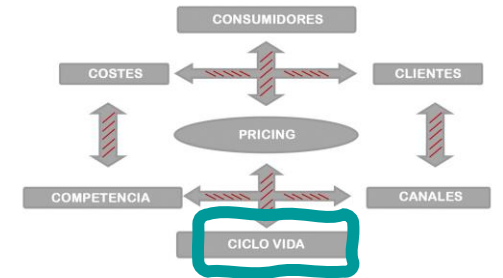


The aim is to achieve successful positioning with regard to our market competitors

- Understand in detail our competitors' retail prices.
- Base these RRP's on objective volume criteria (kilo, litre...) and not simply by pack (125 g, 200 ml...) to allow rigorous statistical comparison.
- Understand their sales channels.
- Monitor their promotional actions.
- Keep tabs on their positioning, the breadth and depth of their implementation at points of sale.
- Avoid price wars.

PRICING models

PRODUCT LIFE-CYCLE



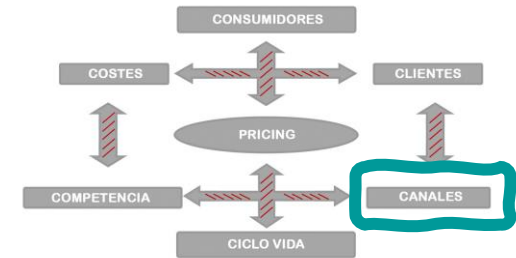
The aim is to adapt our price in each life-cycle of our products

The commercial life-cycles of a product are:

- Introduction:
define the positioning, research the response and refocus strategies.
- Growth:
underpin the positioning and adapt it to growing demand.
- Maturity:
seek out new propositions to maintain sales.
- Decline:
define innovations to refocus again.

PRICING models

SALES CHANNELS

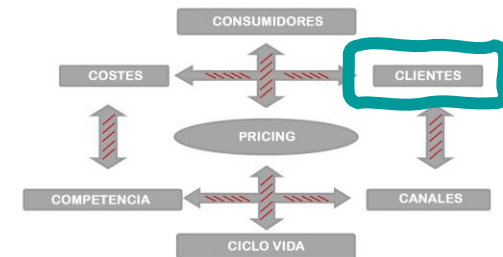


The aim is to determine how we reach consumers

- Define who our potential consumers are.
- Segment our desired target consumers.
- Determine our sales channels (retail, distributors, stores, markets, online...).
- Establish how many sales channels we will need.
- Identify how we reach them.
- Define and oversee the task of "*intermediaries*".
- Set joint targets with our channels.
- Demand sales data and monitoring of our products, brand and prices.

PRICING models

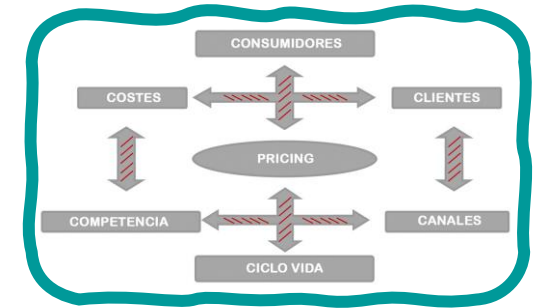
CUSTOMERS



The aim is to turn consumers into customers.

- Remain aligned with our brand values.
- Be consistent with our manufacturing and competing markets.
- Obtain data about our category, analyse them and compare them against our products.
- Understand that we must present customers with ordered and organised communication.
- Convey trust.
- Establish well-structured and enduring promotional campaigns.
- Win captive customers for our brand.

Key aspects



- i!** A company's pricing policy must be properly thought out and analysed, and defined according to product, market and competition criteria.
- i!** Depending on where our brand or our product is right now, we will need progressively to adapt our pricing models and strategies.
- i!** A company's pricing policies must not be calculated according to one single model, but by adapting each of our products to the model demanded by the market.
- i!** It is advisable to conduct a systematic review of our strategic pricing criteria.
- i!** There are numerous factors, criteria and stimuli which will each exert an influence over the course of a product's life:

 - Internal: our own decisions, attributable to our own company.
 - External: decisions enforced by sales channels or the competing market
- i!** We will at all times need to set our prices in consideration of the customers, but in particular the consumers who will perform the act of purchasing our products.



MARGIN

The margin is the percentage profit we have left after selling our products or services.

TRADE MARGIN vs MARGIN ON SALES.

Let's focus this by looking at a "mathematical curiosity":

- ✓ We have a product which costs us 100, and we want to make a 10% profit, so we add the 10% to 100, giving us 110.
- ✓ But what would happen now if we take 10% off the 110? Well, the result will be 99 (not 100).



We have just discovered the difference between trade margin and margin on sales:

- We calculate the trade margin by adding our percentage profit to the cost price (excluding taxes).
- The margin on sales is the percentage we earn from the difference between the retail price and the cost price (excluding taxes).

CALCULATE an RRP based on a COST PRICE and a MARGIN on sales.

Here is an example of calculating the retail price of a product which costs us 4.96 euros to manufacture, has a VAT rate of 21%, and for which our customer asks us for a 40% margin on sales:

- COST: €4.96
- VAT: 21%
- Margin requested: 40%

Calculation

- COST with VAT = COST multiplied by (1+0.%IVA)

$$4.96 * 1.21 = 6.00$$
- RRP = COST with VAT divided by (1-0.%margin on sales)

$$6.00 / 0.60 = €10.00.$$

CALCULATE a PURCHASE PRICE from an RRP and a MARGIN on sales.

Here is an example of calculating the price that our customer must pay us for a product that they want to sell at their establishment for 10 euros, earning a 40% margin on sales, where the VAT rate is 21%:

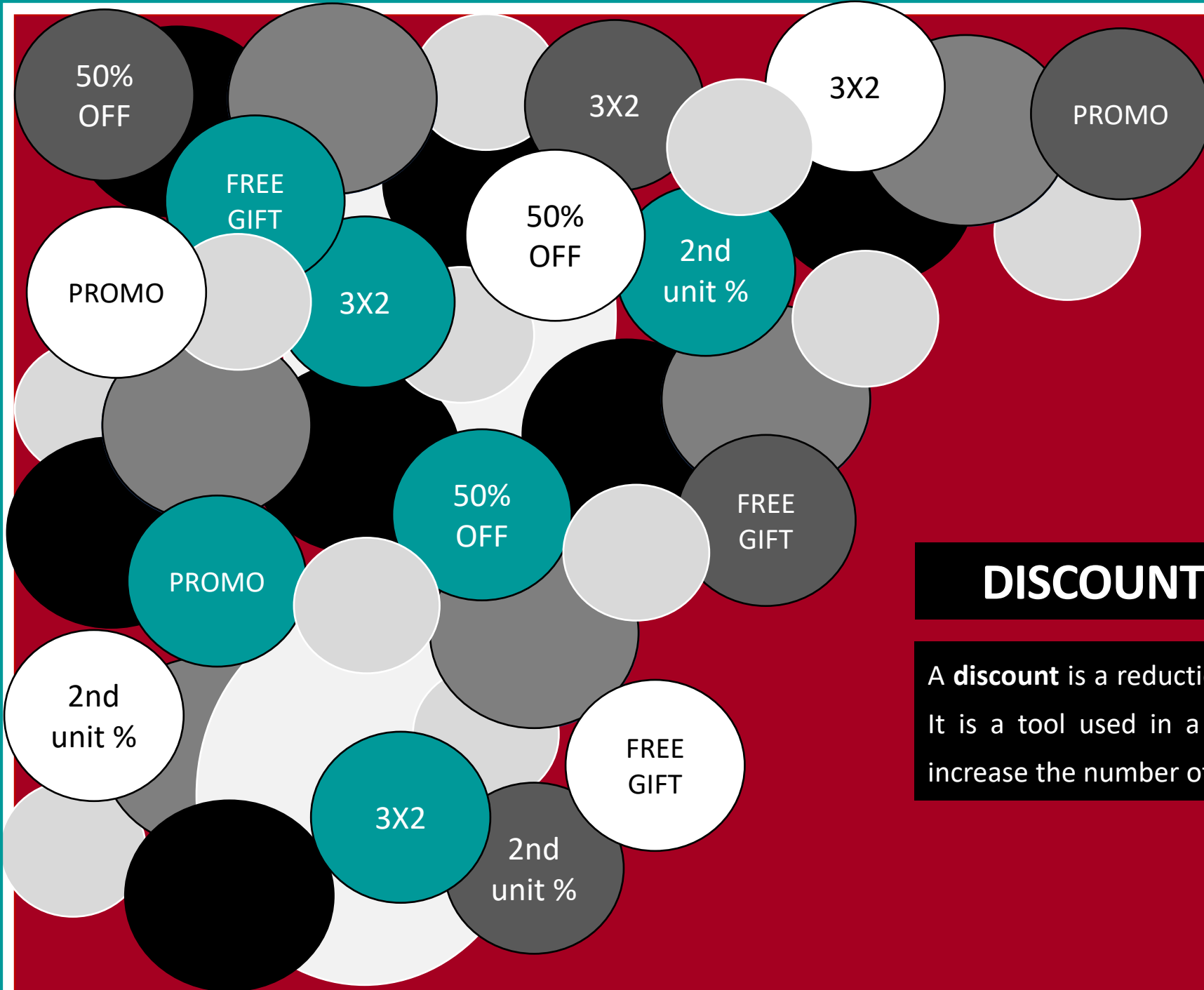
- RRP: €10
- VAT: 21%
- Margin requested: 40%

Calculation

- RRP without VAT = RRP with IVA divided by (1+0.%IVA)

$$10 / 1.21 = €8.26$$
- Purchase price without VAT = RRP without VAT multiplied by (1-0.%margin on sale)

$$8.26 * 0.60 = €4.96$$



DISCOUNTS

A **discount** is a reduction applied to the price of a good or service. It is a tool used in a host of commercial strategies in order to increase the number of sales of a given product.

DISCOUNTS

Our sales channel customers will typically ask for certain discounts for different reasons when marketing our products.

There are two such discount types:

- On invoice: the percentage discounts applied as part of the invoice.
- Off invoice: also known as atypical discounts, applied as a percentage or value, off the invoice.

When calculating our pricing proposal it is essential to understand that we may be asked for such discounts, and so before offering a price to a customer we need to ask during the negotiations what discounts they want to be applied either on or off invoice.

Details are given below of the most typical discounts in retail and major retail channels, on or off invoice, and in value or percentage terms.

Types of discount

VOLUME DISCOUNT

- ✓ This is a discount applied to obtain an objective, normally to achieve a volume of sales.

LOGISTICAL DISCOUNT

- ✓ Also known as a centralisation discount, this is requested when the goods are delivered to a platform, with the customer itself then transporting them to the points of sale.

Types of discount

LOYALTY CARD

- ✓ Retail companies operate with loyalty cards for their customers, and they will typically ask suppliers for the corresponding discount, which is normally divided into 2 parts: a percentage for administering the card, and another to apply direct discount points to their customers.

NO RETURNS

- ✓ The no returns discount is applied in exchange for not accepting any returned goods for any reason, whether expiry, breakage or theft.

Types of discount

OPENINGS

- ✓ This discount is requested when a major retail company opens up a new site or performs a major refurbishment of a site already in operation.

CENTRALISED PAYMENT

- ✓ This is the discount applied in exchange for payment guaranteed via centralised payment (one single invoice for all deliveries).
- ✓ Normally, aside from the discount the documentation must also be sent via certified channels, mainly EDI.

Types of discount

INTRODUCTION

- ✓ It tends to be standard practice that when products are first registered they request a contribution from the manufacturer.
- ✓ This is normally an amount per SKU registered and point of sale.
- ✓ In this case, provision is made to allow this discount to be credited on goods without a charge.

ANNIVERSARY

- ✓ This discount is requested as a contribution to major events in which our products will play a commercially active role.

Types of discount

MERCHANDISING

- ✓ When our products need to be restocked more than once per day, they may ask us for a discount to pay an outside agency to provide restocking services with the establishment open.

Types of discount

DEVELOPMENT

- ✓ This is the discount to make an offer.
- ✓ It is applied to reduce the price that customers pay for the products, for a specific period. There must always be a start and end date.
- ✓ It is advisable to negotiate that our customer would also contribute the same discount that we ourselves apply, to achieve a significant price reduction, thereby making the offer more effective and generating more sales for us.
- ✓ This promotional discount can be applied in 3 ways:
 - On invoice: percentage discount.
 - On goods: the product is sent without a charge for the negotiated value.
 - On redemption: an amount is deducted from the invoice according to the sales achieved during the offer period.

A close-up photograph of a hand balancing a stack of wooden blocks on a wooden surface. The top block is red and labeled "PRICING". The other blocks are light-colored wood and labeled "COST", "MARKET", "QUALITY", "DEM", "COMPE", "POSITI", "REALISTIC", and "PROFITABILITY". A black text box is overlaid on the right side of the stack, containing the text "TRENDS" and a paragraph about pricing trends for local producers.

PRICING

COST

MARKET

QUALITY

DEM

TRENDS

COMPE

POSITI

REALISTIC

PROFITABILITY

As PRODUCERS of LOCAL PRODUCE we need to pay close attention to the PRICING TRENDS in operation on our markets

LOCAL COMMITMENT

PROXIMITY:

Local products are increasingly valued: anything that is produced nearby, products "like the old days", but produced with "modern quality".

NATURALNESS:

We need to produce "natural products", products "without" any unnecessary addition, and only "with" the added value of being "properly made", natural.

EMOTIONAL:

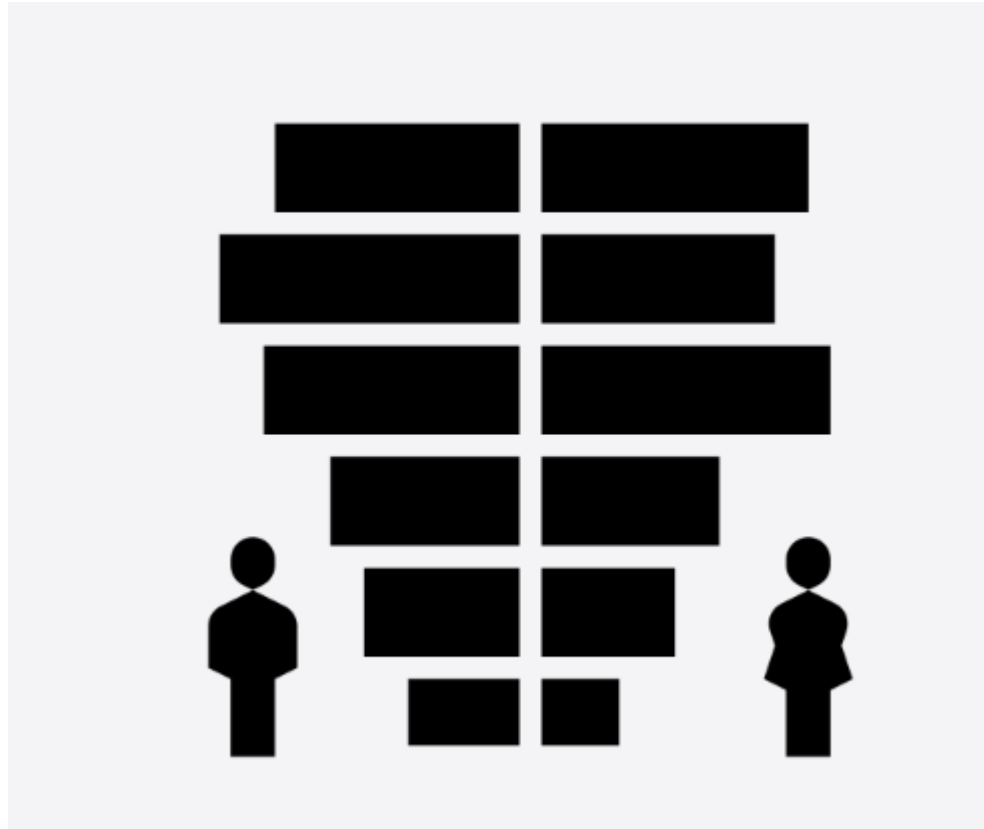
- An appropriate price is absolutely essential for our products to sell.
- Our products must trigger emotions so as to improve our image.

SOCIAL AWARENESS:

Products produced, prepared and marketed with an "awareness" of what we are doing, "convinced" of our commitment to what our consumers want.



POPULATION PYRAMID



GREATER PURCHASING POWER:

We are increasingly able to choose the "what", "why" and "what for" of our purchases.

We place as much importance, or more, on the "reasons" and "arguments" prompting us to purchase a product, as we do to the

MORE TIME TO UNDERSTAND:

We like to "know" and "understand", and spend more and more time to develop that understanding, which allows us to prioritise products or services that will make us much more satisfied consumers.

APPRECIATION OF "THE GOOD STUFF":

We have information, and people talk about "the good stuff": "this one is better than that one", "this will be better for what you want".

We always want to choose "the good stuff"... and even "show off and tell people about it".

INNOVATION



NEW PRODUCTS AND FORMATS

Local produce can also be innovative. Our obligation is to bring to market the goods we know how to make, and to do so constantly, through new products and new formats.



SUSTAINABLE

We must accept an obligation to produce and prepare our goods sustainably, with a commitment to the world around us. We aim for a good present and a better future.



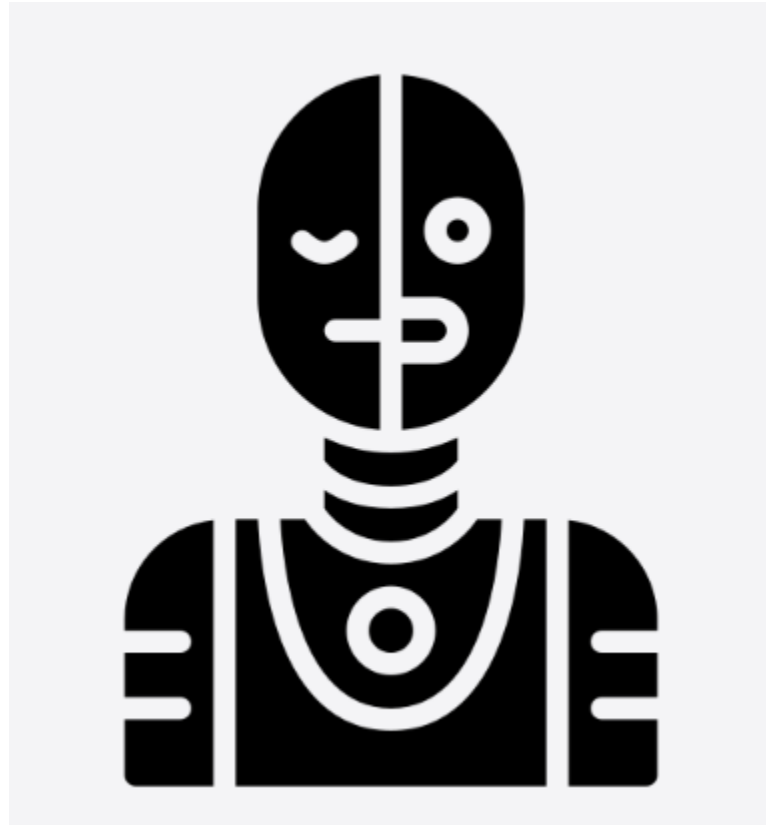
HEALTHY

We must establish the manufacturing criteria and quality certifications needed for our products to be healthy. This must be an unquestionable commitment. We must be committed to the well-being of our consumers. We must accept advice and trust in certification bodies.

TECHNOLOGIES

OMNI-CHANNEL AND MULTI-CHANNEL APPROACH

We must aim to be present in all channels at once. Our online strategy is essential in capturing potential customers and building the loyalty of those we already have.



SOCIAL MEDIA, APPs

It is vital for us to communicate with our customers in a constant, organised process, "talk to them" and "explain to them" what we do and how we do it.

Social media gives us that immediacy and ease to connect with consumers.

PLATFORMS AND MARKETPLACES

Marketing our products via marketplaces or a sales platform may be highly beneficial for our brand, bringing us not only sales but also improved image and positioning.

This document is meant simply to serve as a guideline containing recommendations and general advice for companies in pricing their products or services. The advice contained in this guide is based on HAZI Fundazioa's own experience, standard practice in the sector, the opinions of experts in the field, and a range of other external studies and sources, which may not necessarily have a scientific or proven basis.

This guide should thus be seen as purely an instructive, general document, to be used or adapted according to the needs of each case, on the basis of such various factors as the nature of the product or service, the general market positioning, etc. HAZI Fundazioa declines all liability regarding any use that may be made of the advice contained in this guide.



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