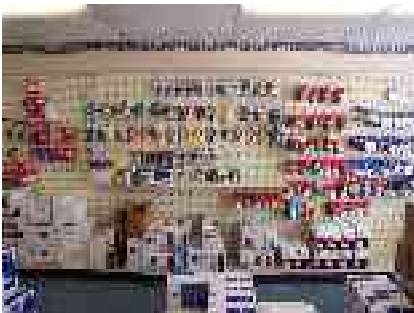

Guide to Pricing Models for Remanufactured Cartridges

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Four Pricing Models

There is no “one right way” to calculate the pricing of remanufactured cartridg important to consider all the various factors involved and to determine objectives for a pricing strategy. The following are four models to help calculate prices:

Cost-plus Pricing

Set the price at production cost, including both cost of goods and fixed costs at current volume, plus a certain profit margin. For example, a cartridge costs $20 in raw materials and production costs, and at current sales volume (or anticipated initial sales volume), the fixed costs come to $30 per unit. The total cost is $50 per unit. To operate at a 20 percent markup, add $10 (20 percent x $50) to the cost to come up with a price of $60 per unit.

Target Return Pricing

Set the price to achieve a target return-on-investment (ROI). For example, take the same situation as above and assume that $10,000 has been invested in the company. The expected sales volume is 1,000 units in the first year. To recoup all the investment in the first year, the company needs to make $10,000 profit on 1,000 units, or $10 profit per unit, which will add up again to a price of $60 per unit.

Value-based Pricing

Price the product based on the value it creates for the customer. *This is usually the most profitable form of pricing, if it can be achieved.* The most extreme variation on this is *"pay for performance"* pricing for services, in which customers are charged on a variable scale according to the results achieved. For example, if the $60 cartridge mentioned previously saves the typical customer $1,000 a year, then $60 seems like a bargain—in fact, it may be too cheap.

The challenge is to convince the customer that the cartridges are reliably producing significant cost savings. Once they are convinced, customers will gladly pay more if they see that they would get their money back in a matter of months.

Psychological Pricing

It is important to take into consideration the consumer’s perception of the price of a particular product. Psychological pricing is determined by several factors:

Positioning. If a company wants to be the “low-cost leader,” it must be priced lower than the competition. If company wants to signal high quality, it should probably be priced higher than most of the competition.

Popular price points. There are certain "price points" (specific prices) at which people become much more willing to buy a certain type of product. For example, “under $100” is a popular price point. “Enough under $20 to be under $20 with sales tax” is another popular price point, because $20 is one bill that people commonly carry. Meals under $5 are still a popular price point, as are entree or snack items under $1 (notice how many fast-food places have a 99-cent value menu).

Dropping the price to a popular price point might mean a lower margin, but more than enough increase in sales to offset it.

Fair pricing. Sometimes it simply does not matter what the value of the product is, even if there is not any direct competition. There is a limit to what consumers perceive as fair. If it is obvious that a cartridge only cost $20 to manufacture, even if it delivered $10,000 in value, it would be difficult to convince a customer to pay $2,000 to $3,000 for it. Customers would feel that they were being gouged. A little market testing will help to determine the maximum price consumers will perceive as fair.

To come up with a price, combine all of these calculations. Here are some basic guidelines:

- The price must be enough higher than costs to cover reasonable variations in sales volume. If the sales forecast is inaccurate, how far off can the estimate be and still be profitable? Ideally, a company wants to be able to be off by a factor of two or more (sales are half of the forecast) and still be profitable.

- The price must be at a point where the business will be profitable and employees will be able to make a living. Remember to figure salary into the costs. The profit has to be enough to live on and still have money to reinvest in the company.

- The price should almost never be lower than costs or higher than what most consumers consider “fair.” This may seem obvious, but many entrepreneurs seem to miss this simple concept, either by miscalculating costs or by inadequate market research to determine fair pricing. Simply put, if people will not readily pay enough more than the cost to make a fair profit, it may be wise to reconsider the company’s business model entirely. Is there a way to substantially cut costs? Or, can the product be changed to justify higher pricing?

Pricing is a tricky business. It is a delicate balance of providing value to customers while earning a profit. But remember, a product is ultimately worth only what someone is willing to pay for it.