Pricing for Profit Inspection Guide

Compare the company's sales growth to net income growth over a period. **Is net income growing at the same rate as sales?**

- **NO**
- **YES**

Compare gross margin on financial statements to the target gross margin in unit economics. **Does reported gross margin match the target?**

- **NO**
- **YES**

Does a model for setting prices exist?

- **NO**
- **YES**

Ask person responsible for price-setting model how prices are determined. **Based on unit economics?**

- **YES**
- **NO**

Determine how sales team is pricing. **Are they using a markup/margin number?**

- **YES**
- **NO**

Is the model being followed?

- **YES**
- **NO**

Educate on the company's unit economics & **develop a pricing model.**

Do they understand the difference in markup/margin to properly cover overhead and protect net income?

- **NO**
- **YES**

Educate on the company's unit economics & develop a pricing model.

Something is probably wrong with execution of the target unit economics. Check with operations.

Find out why. **Educate the sales team on how the model works and its importance.** Provide deliverables that they can fall back on when talking to customers.

**PROFIT TIP**
See if you can achieve a 0.5% - 1.0% pricing increase. This is often a feasible way to **improve net income.**

Can you raise prices? Improve costs? Increase volume? The solution could be one or a combination of these options.

Re-work the pricing model with this person and sales team. Educate so that everyone buys in.

Something is probably wrong with the execution of the target unit economics. Check with operations.

**Watch out for...**
- "Margin" and "markup" being used interchangeably.
- Claims that low prices will be "made up on volume." Is the company generating enough volume for this to be legitimate?

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