

PRICING FOR PROFIT INSPECTION GUIDE

START HERE

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

Great! You're probably **maintaining pricing properly.**

PROFIT TIP

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

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

NO YES

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

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

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

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

YES NO

Is the model being **followed?**

YES

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

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.**

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.

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

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

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?

