

Pricing/Costs

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Why are you here?

- What to make a leaving?
- Be a billionaire?
- Side business/Hobby?



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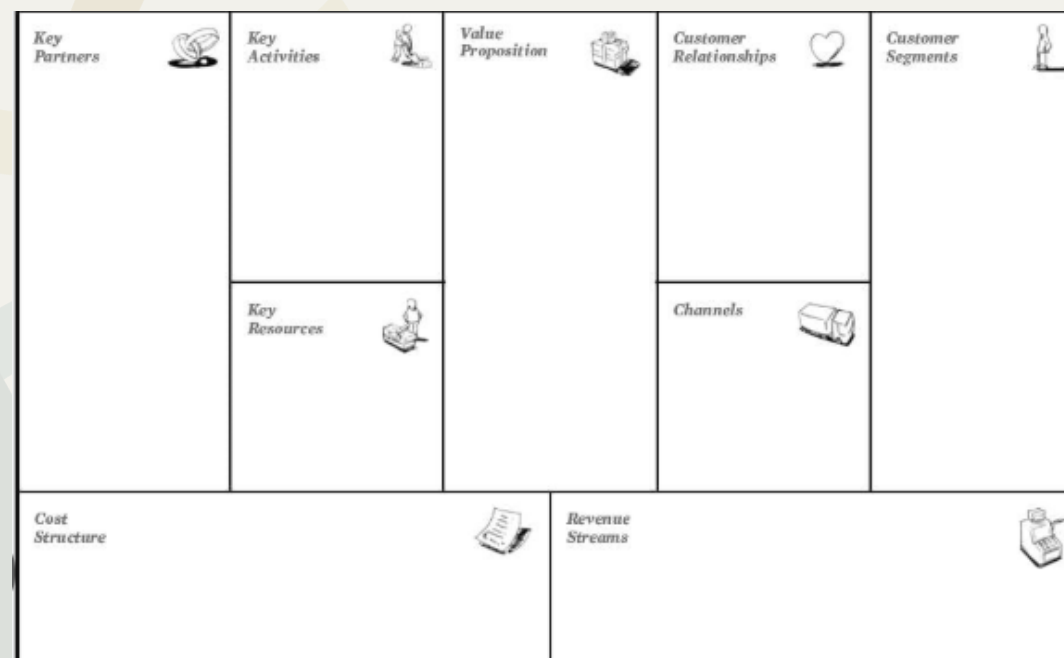


Goal is to make 100.000€/a year

- Product price is 6€ (e-book)
 - Coast 1€
 - Profit 5€
- Statistically:
 - 1 customers / 100 users
→5€
- To reach 100.000€ in sales, with 1 paying customer per 100 users at 5€ each, I need
**2 million users to get
20 000 customers**
- Storytell ? Bookbeat?

Pricing as a part of your business canvas

- **Ingvar Kamprad (IKEA)**
Pushed prices down through smart cost control and volume sales → low prices but high profitability.
- **Jeff Bezos (Amazon)**
Low prices and thin margins initially to gain market share → long-term dominance.





Why pricing strategy matters?

- Choosing the right pricing strategy can make or break your business. It's not just about covering your costs—it's about:
 - Positioning your product in the market
 - Attracting the right customers
 - Communicating your product's value
 - Staying competitive
 - Ensuring long-term profitability

1€



10€

What makes you different? product value

- <https://www.youtube.com/watch?v=ea1wpfyNYfE> (4:11)
 - Hand made garments

The True Cost of Clothing

Total: \$ _____

Fabric:	\$ _____
Notions:	\$ _____
Labor/hr:	\$ _____
Time:	_____
Total:	\$ _____
+ 50% mark-up:	\$ _____
VS. Industry Standard	
of 150% mark-up:	\$ _____

Staying competitive

- Highlight your USP (Unique Selling Proposition)
- Know Your Market and Competitors
- Understand Your Costs
- Customer perception



Long-term

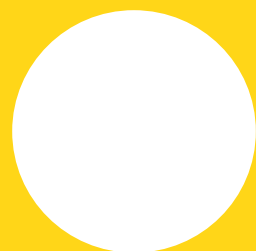
- loyalty program
- Discount cards
- Other offers



- How to get them to stay longer, re-visit or just buy again.



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Contribution costing

This dissertation focuses on the question of what are the complementary factors conditioning an individual's productivity when the individual conducts mainly information processing tasks with the help of IT systems. One of the theories that have been proposed in the last few decades to address this question is the complementarity theory. It states that a number of factors need to be synchronized in order to obtain aspired performance targets. However, very little is known about the configurations of these factors at individual level. To investigate this gap, we have designed a new research model of an information worker's individual productivity when a more aligned IT system is used in a synchronized manner with both individual and organizational factors. The formulated model was tested in two independent empirical studies – a longitudinal quasi-randomized field experiment and an online experiment – conducted to investigate configurations of complementary factors that increase productivity when a new, more aligned IT system is used.

Together, these two studies shed important light on configurations of complementary factors and the improvement of the research design to study their impact on IT-enabled productivity. The present dissertation contributes to the understanding of the factors that condition an information worker's productivity and to a further extension of the complementary theory as such.



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Information Worker Productivity Enabled by IT System Usage

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A Complementary-Based Approach

Natallia Pashkevich



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Key questions

Some key questions for a business:

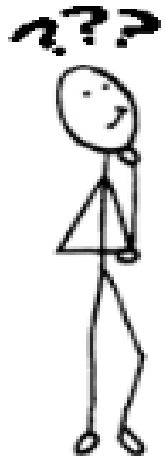
How many and which products/services must the company produce and sell to avoid a loss (capacity and capacity utilization)?

What contribution does a business deal generate?

Which costs are incurred or eliminated if the company changes production technology or strategic focus?

What are the unique costs associated with a specific order?

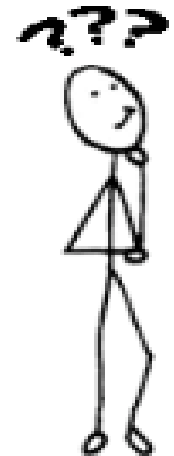
What are the economic consequences of a decision?



Key questions for SMEs on islands



- Should we create a cheaper "island resident" price in our restaurant? Will it bring in enough new customers to be worth it?
- Should we offer special island lunch in our restaurant?
- Is it profitable to list our guesthouse on a booking platform or keep direct booking?
- Is it better to fill boat/tour/restaurant with a discounted group or wait for fewer full-price customers?



Common and incremental costs

Common costs when they are shared and cannot be directly attributed to a single decision or product.

Incremental costs, differential costs, or relevant costs in decision-making contexts. They are the costs that differ between alternatives.

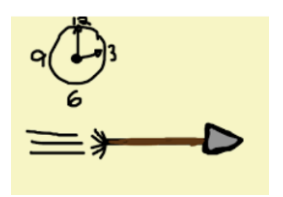
Example in use:

"When deciding whether to accept a special order, we ignore the **common costs** (like factory rent) because they won't change. We only consider the **incremental costs**, such as additional materials and labor, that result from accepting the order.

*Common costs, unless otherwise stated, are fixed costs
Incremental/differential costs are variable costs*



History



- During the first half of the 20th century, there was a debate about which costing philosophy – full costing or contribution margin costing – was best.
- By the 1950s, the discussion had taken on a more balanced structure.
- ABC has not changed the direction of this discussion in any way.
- Currently, there is a need for all three costing philosophies.

Common product costing methods

The Cost-Plus Calculation / Full costing – Allocation

"Complete" cost allocation

Involves allocating indirect costs/overheads to the cost object

Different methods for allocating these costs

Provides a comprehensive view of the cost structure

Provides a stable foundation for pricing

Long-term perspective



The Contribution Margin Calculation – Decision-Making

"Incomplete" cost allocation (since common costs are not allocated to the object)

Internal financial control

No allocation keys are needed

Incremental revenue - incremental cost = contribution margin

Involves calculating the "coverage" of common costs

Simple and quick cost allocation

Used in most companies for more everyday production and pricing decisions

Enables flexible pricing

Short-term perspective

Key Performance Indicators



Key KPIs



- **Contribution Margin** = Sales Revenue – Incremental Costs
- **Contribution Margin** tells you *how much each sale contributes* to your fixed costs and profit.

- **Contribution Margin Ratio** = (Contribution Margin / Sales Revenue) × 100%
- **Contribution Margin Ratio** tells you *how efficient* your pricing and cost control are.

Both help you make smarter pricing, product, and cost decisions.

Especially important in seasonal industries like island tourism and food service.

Key KPIs



- **Contribution Margin Ratio (some statistics)**
- Retail trade $\approx 30 - 50\%$
- Casual dining $\approx 35 - 45\%$
- Café/ bakery $\approx 40 - 55\%$
- Room sales $\approx 60 - 80\%$
- Guided tour $\approx 60 - 75\%$

Example: Island Café – Should we offer a lunch special?

Business: Small island café

Scenario: Owner Maria is considering adding a fixed-price "Island Lunch Special" to attract more customers during midday.

Question: *What should the minimum price be to ensure the special is profitable, and how much will each sale contribute to covering monthly fixed costs?*

Item	Details	Amount (€)
Sales Revenue (per lunch special)	Proposed menu price	€15.00
Variable Costs (per meal)	- Local fish: €3.50 - Rice & vegetables: €1.50 - Sauce & herbs: €0.80 - Plate & napkin: €0.20	€6.00
Contribution Margin (CM)	€15.00 – €6.00	€9.00
Contribution Margin Ratio (CMR)	$(€9.00 / €15.00) \times 100\%$	60%

Insight: Each lunch special sold contributes **€9.00** toward Maria's fixed costs (rent, utilities, staff). If Maria needs to offer a discount, she must keep the price **above €6.00** to maintain a positive CM.

Example: Resident Discount

Business: Island Restaurant

Scenario: Owner is considering a "Resident Discount" to attract more locals during off-peak hours.

Question: Will the discounted price bring in enough new customers to make up for lower profit per meal?

Item	Regular Dinner	Resident Discount
Price	€50.00	€35.00
Food/Drink Cost	€15.00	€15.00
CM per person	€35.00	€20.00
CMR	70%	57%

Insight: The discount reduces profit per customer by €15.

Bad: If 2 regulars switch to discount, you lose €30 profit.

Good: To recover that loss, you need **1.5 new residents** ($€30 \div €20 = 1.5$).

Decision: Only offer if most buyers are **new customers**, not regulars switching from full price.

Example: Guesthouse – Is it profitable to list on a booking platform?

Business: Family-run island guesthouse

Scenario: The owners pay a 15% commission to a booking platform for each reservation.

Question: *How much does each booking really contribute after commission and variable costs? Should we try to get more direct bookings?*

Item	Details	Amount (€)
Sales Revenue (per night)	Room rate	€120.00
Variable Costs (per booking)	- Cleaning supplies: €3.00 - Toiletries & mini-breakfast: €5.00 - Booking platform commission (15%): €18.00	€26.00
Contribution Margin (CM)	€120.00 – €26.00	€94.00
Contribution Margin Ratio (CMR)	$(€94.00 / €120.00) \times 100\%$	78.3%

Insight: Even with the high commission, each booking contributes **€94.00** toward the mortgage, utilities, and receptionist salary. The owners might still encourage **direct bookings** (where CM would be €112.00), but they now know the **minimum profit contribution** when using the platform.

Example: Group Discount or Full Price

Business: Island Boat Tour

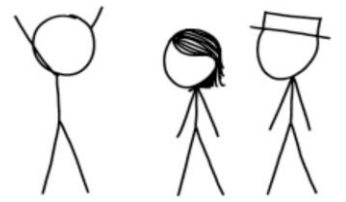
Scenario: A group of 15 wants 30% discount. Boat holds 20 people. Price 80 euro, variable costs per person (fuel, guide, snack) 25 euro.

Question: Should we fill it with discounted group or wait for full-price customers?

Option	Customers	Price	Variable Cost	CM per Person	Total CM
Group Offer	15	€60	€25	€35	€525
Full Price - Good Day	15	€80	€25	€55	€825
Full Price - Average Day	10	€80	€25	€55	€550
Full Price - Bad Day	6	€80	€25	€55	€330
Best Combo	15 group + 5 full-price	€60/€80	€25	€35/€55	€800

Insight: The discounted group guarantees €525 in profit, which is better than having fewer than 10 full-price customers. You should accept the group on days when you expect less than 10 regular bookings but wait for full price on busier days.

When?



- **Excess capacity** or **Idle capacity** (when there is more capacity than needed for current demand)
- **Bottleneck** (the stage in a process that limits overall capacity/throughput)
- **Two bottlenecks** (when there are multiple limiting factors)
- **Make-or-buy decision** (the classic management decision to produce in-house or outsource)
- **Discontinuation decision** or **Shutdown decision** (the decision to stop producing a product, closing a department, or shutting down a facility)

Thank you!