



Minimum Selling Price

When you are selling a product, the situation may become more speculative, than for an hourly rate. The first thing you need to forecast is the number of units you will sell in a year. Once you have completed a sales forecast for the year, you must then calculate your annual overheads and a minimum survival income. Assuming you know how much you will be buying the product or its' components in for, you are now ready to calculate a minimum selling price. Consider the example of a sole trader who proposes to sell shirts.

- They will work from home buying and selling shirts. They know that wholesalers charge £5 per shirt and our trader wants to know how much they should charge when selling them on.
- They have prepared a sales forecast and estimate that 2000 shirts can be sold in the first year of trading.
- The survival income has been calculated to be £30,000 including tax & NIC
- The overheads have been calculated as follows:

Overhead	Amount
Broadband & Phone	£600
Insurance	£750
Administration	£350
Motor Expenses	£6,400
Advertising	£900
Utilities	£1,000
Total costs	£10,000

The break-even figure is therefore £40,000

Minimum selling price for our trader's shirts

Breakeven £40,000

Predicted Unit Sales for the Year	2000 units
Cost per unit	£5
Total Cost of Sales	£10,000

Total Costs = £40,000 + £10,000 = £50,000
Predicted Unit Sales for the Year 2000 units
Minimum Selling Price = £50,000 / 2000 = £25.00

On first examination this looks like quite a hike in price from the £5 purchase price. The problem with this particular scenario is that sales are not sufficient to cover the overheads and his drawings, hence the high price. Now that you understand the principles it should be possible to work out the selling price for almost any product or service.