

Value Pricing – A Tough Decision

This activity requires you to determine a price solely based on what value your product generates for the customer. As there are only insignificant variable costs involved, what price would you set?

Pricing a Sales Training Program

Assume you are the marketing manager for a large sales training company. Over many years, your firm has developed a unique set of sales training techniques. They make their income by sending in sales trainers to firms (like insurance companies and real estate agencies) to help train their salespeople.

Your firm typically runs three day courses and charges the client \$1,000 per attendee. Most firms send around 15 salespeople to each course. This gives the firm revenue of \$15,000 for a three-day training course.

The associated variable costs are \$5,000 for the trainer and \$1,000 for the training manuals that are provided to the participants. Of course, a proportion of the revenue needs to be allocated to fixed costs (of office rent, computers, communication, support staff, promotion, and so on).

Therefore, as a rough estimate, each three-day training session would generate around \$5,000 gross profit. However, you now have a new pricing dilemma. A major firm has approached you to license (hire/rent) your training materials for a year to train their own staff. That means that they just want a copy of your training booklets/materials – they would then use their own training staff and produce the training manuals themselves.

The firm plans to train around 100 of their sales staff (using your training materials) over the next 12 months and they want to know what your licensing fee would be.

Clearly there is little cost involved. It's almost like 'money for nothing', as you will simply send them the training manuals along with an invoice. Therefore, your decision is what fee to charge. You need to price it as a win-win situation - low enough so the client receives value (and you don't lose their business), yet high enough to maximize the income from this opportunity.

Student Discussion Questions

1. What would be the minimum you could charge to cover costs?
2. What could be the income/profit you would receive if your firm did the full training for the client (like your firm normally does)?
3. Do you need to be concerned with what price potential competitors might charge?
4. Therefore, given your responses to the above questions, what might be an appropriate licensing fee?