BUILD A BETTER BUSINESS™

Pricing and Cash Flow Manual

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Build a Better Business Program
Pricing and Cash Flow Module
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Land Acknowledgement

Let us begin by taking a moment to reflect on the significance and the history of where we are gathered. A place thousands of First Nations people called home for generations. Community Futures is located on the traditional territories of the Anishinaabe, Cree, Oji-Cree, Dakota, and Dene peoples, and on the national homeland of the Red River Métis. We respect the treaties that were made on these territories, and we acknowledge that we are all treaty people. Community Futures is committed to move forward with Indigenous communities in the spirit of reconciliation and collaboration to make Manitoba an inclusive and accessible place for everyone.

1

Introduction

To some entrepreneurs, pricing can seem so simple. You pick a number and move on, right? But pricing is one of the most important choices you'll make as a business owner.

In this module we will look at:

- **Pricing and Perceived Value**
  - Pricing is both Art and Math
  - How Are Your Offers Different and Special?
  - What Do Others Charge (Competition)?
- **Calculating Costs**
  - Direct Costs
  - Operating Costs
  - Unpaid Time
  - Your Daily Overhead Number
  - Turning Big Numbers into Useful Numbers
- **Pricing Examples**
  - Rates for Billable Employees
  - The Real Cost of Office Staff
  - The Rate for a Solopreneur
  - The Break-even Rate for a Carpenter
  - Overhead Costs per Unit for Manufacturing
  - Minimum Markup to Cover Overhead for Retail Businesses
- **Simple Pricing Strategies**
  - Providing Options
  - When Should Discounts be Offered?
  - Using Bundles in Your Business
  - Considering Client Budgets and Taxes in Your Quotes
- **Cash Flow Basics**
  - Using a Cash Flow Worksheet as a Planning Tool
- **Do You Need to Charge More?**

The objective of this module is to provide you with information so you can price your products and services to cover costs, stay competitive and adjust for the value your products or services have in the minds of your customers. Your company's cash flow will be positively affected if you've spent time on this important decision - pricing!

1

Why Pricing Matters So Much

Let's start with a quick story.

Imagine Sam. Sam starts a small lawn care business. He really wants customers, so he sets his prices low. Very low. At first, customers come fast. But soon, Sam notices something. He's working long days. His bills keep coming. And there's not much money left in his bank account. Sam may have made one critical error. He may have priced too low. This happens a lot. If your price is **too low**, you won't make enough money to pay yourself or grow your business. If your price is **too high**, customers may walk away.

Most new business owners start too low. And raising prices later is much harder than starting at a fair price. That's why learning pricing early, before you open or while you're still starting, is so important.

Pricing is Both Art and Math

Pricing is part math, and partly a work of art.

In this section, we'll spend a little time on the art of pricing, which involves how customers perceive your value. This is about how your business is positioned. It's also about what customers believe your product or service is worth, and how you compare to others in your industry.

What Customers Are Really Paying For

Remember, customers don't just pay for a product or service. They pay for the value they feel they're getting. Think about a simple cup of coffee. You can buy a basic coffee at a gas station. Or you can pay more at a cozy café with comfy chairs and friendly staff. Both are coffee, but the quality and the experience you give your customer can make them feel very different.

So ask yourself are you offering a basic service that many people offer? Or are you offering something different and special? Customers may value the quality of what your business offers, the knowledge and skill you provide, how easy you are to work with, how fast you reply or how safe, friendly, or reliable your service is.

Different customers value different things. Your prices will be affected by that. So asking for feedback from your customer is very important. You might think customers choose you for your low prices, but they may really choose you because they trust you, for your product quality, or even because of the level of service you provide. This topic is covered even further in the Marketing module of the Build a Better Business Program.

1

Your Competition: What Are Others Charging?

Before setting your price, it's important to look around and ask, "What are other businesses like mine charging for similar products and services?" This is called **market research**.

If you plan to charge less than others, be careful. You'll want to think about your costs and whether your business can survive at these lower prices. We'll take a closer look at costs in upcoming sections of this module. For now, it's good to keep in mind that sometimes competitors charge more because they **have to**.

They may know something about costs that you don't yet. If you plan to charge more than your competition, you'll want to have a clear understanding of what makes your business different, and why customers would pay more. Customers may pay more for specialists, custom work, or services made just for them.

Knowing your competitors and their prices will help you understand where you fit in the marketplace.

Action Steps

1. Write down three reasons a customer might choose your business (or products and services) over one of your competitors.
2. Look up three competitors in your industry. Write down what they charge, their strengths and also their weaknesses.

2

Calculating Direct Costs

Small business owners often forget to include much beyond the immediate direct costs of the product or service they sell when setting their pricing, but there is a lot more to it than that!

Direct Costs

Let us start with the one most people understand, figuring out the direct costs tied to producing the product or providing the service you sell. While most small business owners include some of these, others are often missed and can dramatically reduce expected profits.

Direct costs, also referred to as Cost of Goods Sold, include (but are not limited to):

Materials and Supplies

This is the obvious one, and the one most small business owners remember.

Employee Wages

These are employee wages directly related to producing the product or service you sell. This category includes the employees that do the actual work your company earns money doing and excludes office and support staff.

There is so much more to employee wages than just their hourly pay. You also need to factor in things like unbillable time, the employer portion of Employment Insurance (EI), Canada Pension Plan (CPP), Workers' Compensation (WCB) costs, vacation pay, stat pay, paid sick days, as well as any employee benefits that you pay for (health plans, RRSP matching, etc.). At a minimum employees may cost you 15-30% more than their earned wage, but could cost up to double what you are paying them!

Your Wage or Withdrawal as the Owner

Small business owners often think of profit as their wage. You should think of profit as the reward you get for the risks you take as a business owner, but not as your wage. You need to factor in an amount to cover your time, especially if you do the actual work your company is paid to do, when working out a price for your product or service.

Shop Supplies

These are the small materials needed to provide your products and services. Usually you buy them in bulk and then use them for many customers. For a coffee shop this might be cream and sugar. For a contractor this might be nails and screws. Traditionally, these expenses may go into overhead and are lumped together with general supplies for your business. Small business owners are often surprised at how high these costs are once they start tracking them as a Cost of Goods Sold, so it is worth putting them under direct costs instead.

Packaging
This is an expense small business owners often forget to consider. This can include retail packaging costs. If you ship your products, you also have to consider the boxes or envelopes needed to send them in, as well as the additional packaging materials you might need like bubble wrap, tape and labels.

Freight and Shipping
Shipping costs can be high and can quickly eat away at profits. You need to consider shipping costs to bring products or materials in, as well as shipping costs to send them to your customers.

Travel Time and Expenses
Service providers - do your customers come to you or do you need to travel to your customers? If your customers come to you, you can see a lot more people in a day than you can if you have to travel to your customers. If you travel to your customers, you need to make sure that you account for the travel time and expenses for you and your employees.

Merchant Fees
If you accept credit cards, PayPal, or most other electronic payments, you will pay fees for processing those transactions. E-transfers can be another form of payment and they typically don't carry a fee to your business when you receive payment that way. Basic Visa or Mastercard credit cards will have relatively low processing fees compared to premium reward credit cards. Debit cards may have even lower fees to process. It's important to check with your payment processor to find out rates.

Some businesses offer a discount for payment in cash or by debit card. Others—like contractors or car dealers—may not allow full payment with a credit card and only accept credit cards for smaller deposits, because the fees are so high.

Summary
Calculating the direct costs in your business is an eye-opening exercise for most small business owners because, while you may have considered a few of these expenses, you probably missed some.

Remember these direct costs can also be called your Cost of Goods Sold.
And your total Sales Revenue minus your Cost of Goods Sold equals a very important figure to a small business – your **Gross Profit**.

We'll talk about Gross Profit even further in the Bookkeeping Basics and Financial Statements modules of the Build a Better Business Program.

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Calculating Operating Costs

Operating costs are what it costs you to be in business. These are the expenses you have to pay whether you sell anything that day or not, and are not directly tied to producing your product or service. They include things like:

- Rent
- Utilities
- Phone and Internet
- Professional fees such as a bookkeeper, lawyer and accountant
- Professional subscriptions and association dues
- Computer program subscriptions, web hosting, etc.
- Insurance (liability, automotive, etc.)
- Small tools and equipment
- Repairs and Maintenance
- Office and/or retail staff (not direct costs of employees)
- Office supplies:
- Computers, printers, paper, ink, pens, pencils, paper, post-its
- Bank Fees
- Advertising
- Loan Interest
- Depreciation (on equipment, office supplies and vehicles)

The most notable item not on the list of operating expenses are loan payments. Loans are considered a debt (also known as a liability) so they do not show up in your expense list. Loan payment are connected to expenses through: the loan interest portion of the payment (expense), and a depreciation expense if you bought an asset with the loan funds.

In the Financial Statements module you learn how to create an Income Statement and Balance Sheet that includes these important items. Many small business owners find it helpful, when calculating operating costs, to leave out interest and depreciation expenses, and add the full amount of the loan payments including the interest and principal portion as that represents the real money being spent each month.

Overhead expenses are easier to list after you have been in business for a while.
When you are first starting out it can be harder to put together, but spend a bit of time including everything you can think of to try to cover overhead expenses as accurately as possible.

Business owners rarely consider overhead expenses when setting their prices! These costs can be significant, so if you are not factoring them into the prices for your products or services, then you are guessing at best, and depending on your profits to pay them. Since most business owners are also depending on their profits to pay themselves, you can see how people get themselves into trouble quickly.

3

Action Steps

1. Write down the direct costs tied to making your product or providing your service.
2. Research and write down as many of your operating expenses as you can think of.

Unpaid Time

If you are a professional, you may have to spend time each year attending conferences or other types of training to maintain your credentials. The costs of these events are included as part of your operating expenses, but the time you take to do the training, unless you are paid a predictable salary from the company, is not.

If you are not at the point where you can take regular pay from your business, make sure to factor unpaid time into your desired earnings for the year, so you can account for the expense accurately.

Breaking Down Your Overhead Number

Your total annual operating costs, as calculated on the Profit and Loss Statement from the Financial Statements module, is usually a pretty big number and it is hard to know what to do with that, especially as it pertains to accurate pricing. Figuring out what it costs you to run your business each day gives you a much easier number to work with. Again, this is not an exact science, but better than not factoring in anything.

Once you have an approximate total of your operating costs for a year divide that number by the number of days you will be working (or your business is open) during the year. The result of this calculation is how much it costs you just to open the doors each day. This is the amount of gross profit (sales minus cost of goods sold) you need to make each day to pay your bills and stay in business.

4

Pricing Examples

Let's breaking down overhead, with Odd Job Bob's Carpentry as an example. He bills customers in part based on the time it takes him and his employees to do the work. Rather than simply coming up with a Daily Overhead Number, since Bob needs to make sure he is charging the right hourly amount for his employees, it is important to know how much overhead to allocate to each employee per billable hour. His overhead cost per employee per billable hour is calculated.

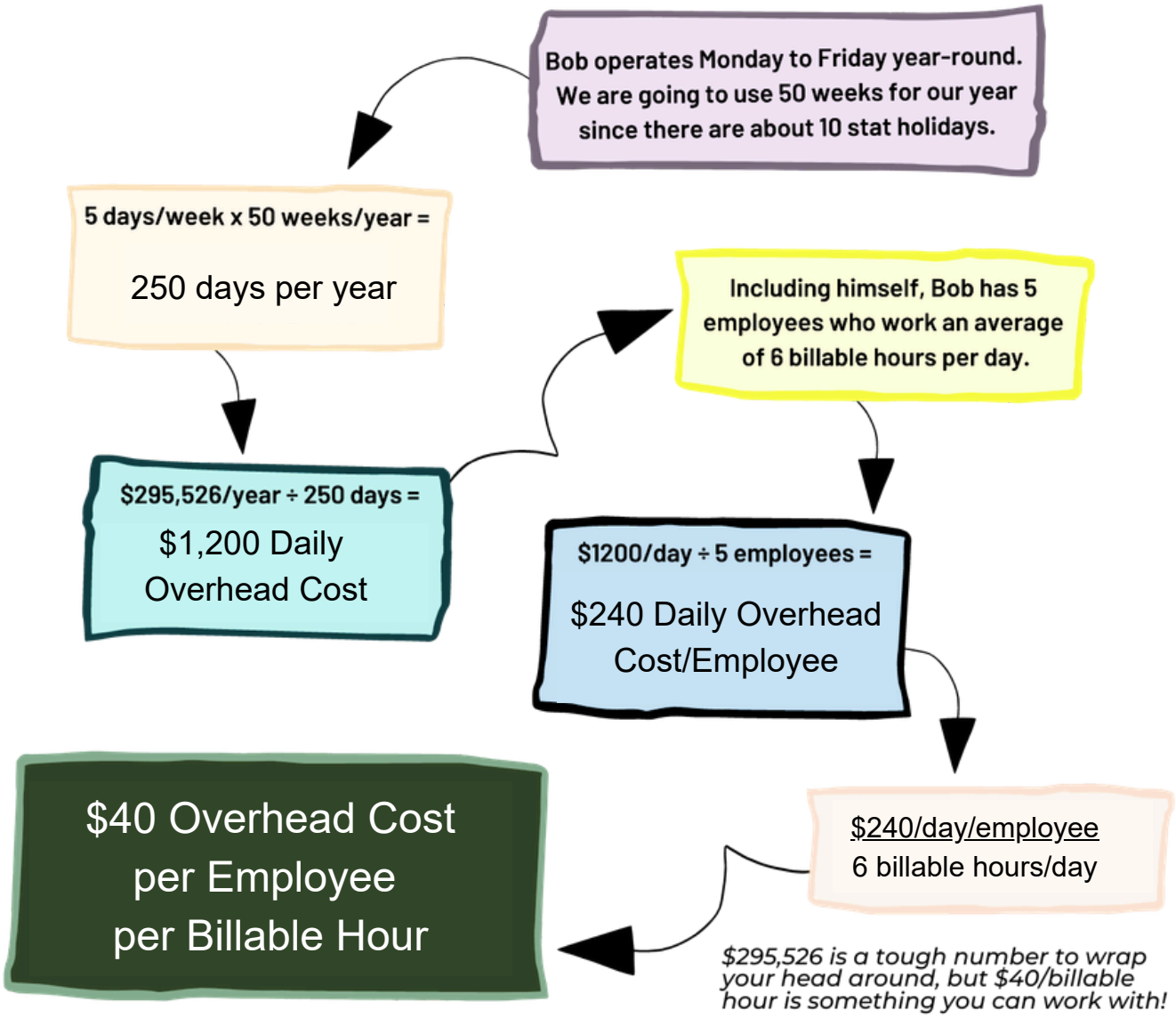
4

Daily Overhead Number

Odd Job Bob's Carpentry Example

The Daily Overhead Number is the amount of gross profit (sales - cost of goods sold) your company must earn each day to cover your operating expenses. Looking at the annual overhead cost of a business can be overwhelming because often the number is too big to be relevant.

When we created Bob's Combined Income Statement (Financial Statements chapter), we learned that Bob's total overhead costs for the year are $295,526. For simplicity all calculated numbers are rounded.



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Calculating Employee Costs

If you've had employees for any amount of time, you know that your employees cost you a lot more than what you pay them as a wage. Have you ever figured out how much more?

In addition to mandatory additional costs such as CPP, EI and WCB premiums, stat pay and vacation pay, you may also provide your employees with things like RRSP contribution matching, and extended health benefits.

Employees who are billed by the hour to your customers, will have unbillable time during the day, so you also need to factor that into the rate you bill your customers as best you can.
If you are manufacturing products, it is also a good idea to know how much your employees really cost you so that you can make sure to include enough to cover the real costs in your sale price.

Retail and office employees are usually included in your operating expenses, so their cost is already included as part of your Daily Overhead Number Calculation. It is still a good exercise to figure out what employees actually cost you because it is often a big eye opener for employers.

We are going to look at three more examples now. One, for the carpenters at Odd Job Bob's, so he can figure out their true cost per billable hour. Second, for Bob's office employee. Since their wage is included in Bob's operating expenses, this exercise is simply to see the difference between their earned wage and what they actually cost the company. The third example is for calculating the hourly billing rate for a solopreneur; someone who is self-employed, but does not have any employees.

4

Real Cost of Employee Wages

Odd Job Bob's Carpentry Example

Earned Wages versus Company Cost

Bob's carpenter employees earn a $70,000 salary per year.

- Bob's company is pretty new, so each employee is only entitled to 10 paid vacation days and Bob offers up to 10 paid sick days.
- Employer CPP, EI and WCB premiums, as well as a small RRSP contribution matching plan, cost the company an additional $9,000 per year.
- Extended health benefits for each employee are an additional $6,000 per year.

$85,000 Cost
for a $70,000 employee

Employee Wage Per Billable Hour

Extended health benefits are included with the Daily Overhead Number, so not included below.

8 hours/day x 5 days/week x 52 weeks/year =
2080 hours paid/year

$70,000 earned wage/2080 paid hours =
$33.65 earned/hour

The advertised rate when hiring.

Don't Forget:
Time Off
10 paid stat holidays
10 paid vacation days
10 paid sick days
30 Paid Days Off (6 weeks!)

+

Don't Forget:
When all is said and done, Bob's employees average 6 billable hours per 8 hour work day

6 hours/day x 5 days/week x 46 weeks/year =
1380 billable hours/year

$79,000 COST*
1380 Billable Hours

Note: Extended Health Benefits Aren't Included

BOB'S CARPENTERS COST HIM:

$57.25 per billable hour

Now that Bob knows what his employees cost per billable hour, he has a crucial factor for setting rates to bill his customers. He needs to combine this with his overhead cost per billable hour to figure out the break-even hourly rate.

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Hourly Billing Rate

Solopreneur Example

Earned Wages versus Company Cost

If you are a solopreneur service provider, meaning your company is you and only you, you need to find a billing rate that covers your overhead costs, unpaid time, and pays you the wage you want.

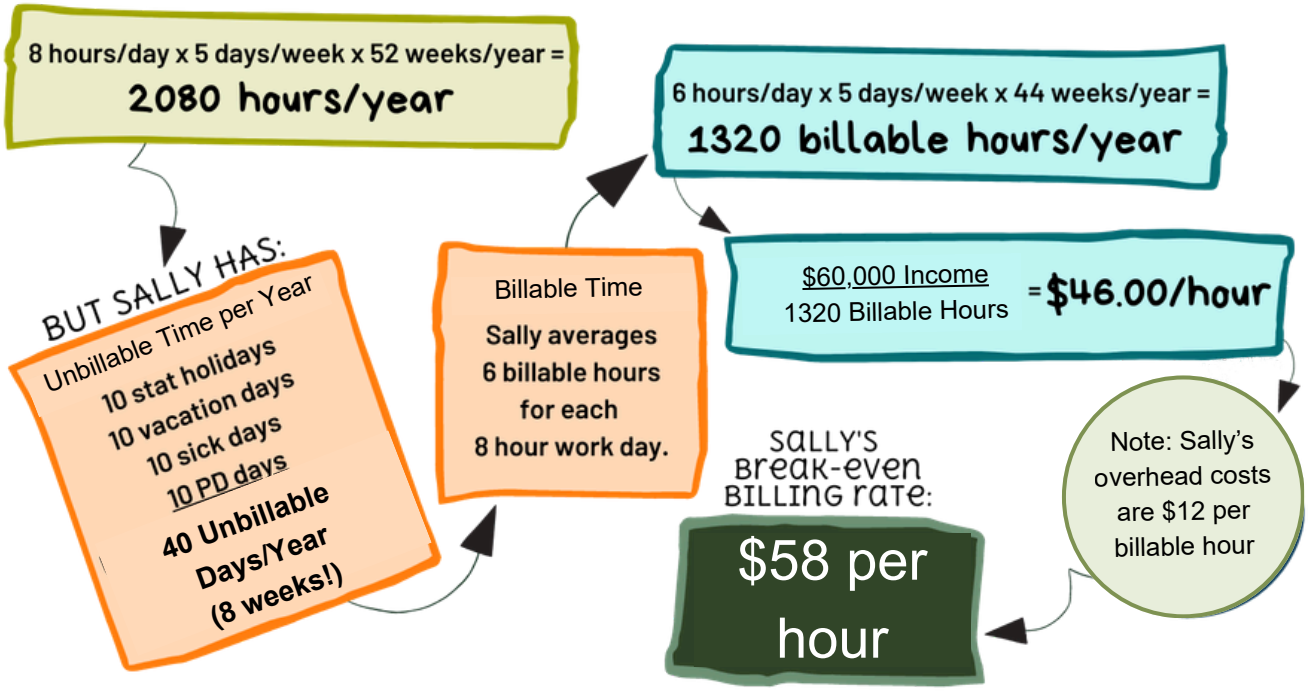
In this example, Sally, a marketing service provider, would like to earn $60,000 per year before deductions and taxes. She needs to find a rate that allows for 10 vacation days per year, 10 stat holidays and 10 sick days. Additionally, she will have 10 PD (professional development) days per year and needs to cover her overhead, too.

Overhead Details:

Sally's annual overhead costs are $16,560, which works out to $360 per week worked or $12 per billable hour.

Sally's Billing Rate Calculation

Sally is the only employee and she only earns money through hourly billing customers. She needs to make sure she covers her wage and all overhead costs with her billing rate.



Sally will need to bill about $60.00 per hour to cover overhead costs and achieve her $60,000 pre-tax income per year. Sally probably got the $60,000 number from a previous job. Now that Sally is self-employed, she needs to make the employer and employee CPP contributions, and has no RRSP matching plan or extended benefits unless she pays for them herself. Sally probably needs to think about increasing her $60,000 target earnings.

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How Do You Apply This?

This is a time consuming, but extremely valuable exercise. Often business owners realize they are significantly under pricing their product or service.

How you apply this information varies significantly depending on what type of business you have and the price of the individual products or services you sell.

We are going to take a look at three examples for how to apply this.

The first is for employees who are billed to customers by the hour, as with Odd Job Bob's carpenters. In this case you want to find your hourly break-even rate by combining the employee cost per billable hour with your overhead cost per billable hour.

The second is a manufacturing example, where you need to determine the cost you need to add to each unit produced to cover employee and overhead costs.

The third is a retail example, where we look at the average daily cost of goods sold and use the daily overhead number to determine the minimum markup required to make sure overhead costs are covered.

While we cannot cover all scenarios here, these are common ones.

Action Steps

After reviewing the next page of examples:

1. Calculate your own company's Daily Overhead Number.
2. Calculate the true cost of your employees.

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How To Apply These Numbers

Services Billed Hourly

Using the Odd Job Bob's example.

1: Daily overhead number ÷ number of billable employees = daily overhead/employee

2: Daily overhead/employee ÷ number of billable hours per day per employee = Overhead cost/billable hour/ employee

3: Add the overhead cost per billable hour to the employee cost per billable hour.

This is the minimum hourly rate you must charge to break even!

Example

1: $1,200/5 = $240/employee

2: $240/6 = $40/billable hour

3: $40 + $57.25 = $97.25

$97.25/hour Break-Even Rate

Manufacturing

Information

2000 units/day manufactured and used Odd Job Bob's office employee wage here

1: Daily overhead number ÷ number of units/day = overhead/unit

2: Number of units/day ÷ number of employees = # units/employee/day

3: # units/employee/day ÷ # hours worked per day= # units/employee/hour

4: Employee cost/hour ÷ # units/hour = Employee cost/unit produced

5: Overhead/unit + Employee cost/unit produced = Overhead and Employee cost/unit

Example

1: $1,200/2,000 = $0.60/unit

2: 2,000/5 = 400 units/employee

3: 400/8 = 50 units/employee/hour

4: $28.25/50 = $0.60/unit

5: $0.60 + $0.60 = $1.20/unit

Add $1.20/unit to cover overhead and employee costs

Retail

Information

Annual COGS $450,000

1: Annual Cost of Goods Sold ÷ # Days business is open/year = Average Cost of Goods Sold/day

2: Daily overhead number ÷ Average COGS/day x 100 = Overhead Markup

Retail wages are usually included in the daily overhead number, so they are not needed here.

Do some research in your industry. Retail businesses often double or triple the cost of products they sell to cover overhead and profit. Make sure it does!

Example

1: $450,000/300 = $1,500 cost/day

2: $1,200/$1,500 x 100 = 80%

80% markup needed just to cover overhead costs

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Simple Pricing Strategies

Now we're going to look at pricing strategies that can affect customer demand and therefore, our bottom line profit. Let's start with a discussion about options.

Options are Important

As consumers, we all have to decide how to spend our money and the things we value will greatly affect the decisions that we make.

There is a lot to be said for offering your product or service at different price points. Providing options of products and services at different prices create trust. Customers want to feel like they have some control over their purchases. And by offering more than one option, you reduce the stress involved with making a buying decision.

There is strength in asking your customers to make an either/or decision, over a yes/no decision. In a yes/no situation, subconsciously, customers will go with the safer option, which is usually no. When you provide options, you create an either/or situation. Some customers will still say no, but often, customers will decide between which version of your product or service they would like. The fact that you offered options will also give customers the confidence to talk to you about further modifications to make your product or service work for them, at a price they are prepared to spend.

Important: Customers will almost always choose the middle option.

Some people will always buy the least expensive thing, some people will always buy the most expensive thing, but most people fall somewhere in the middle, most of the time.

The optimal number of options for a small business is three.

Many business owners go to great lengths to come up with creative names for these options, but if your customers do not have a lot of experience with your industry, you will confuse them so keep it simple.

A Note About Discounts

A mistake small business owners often make is offering discounts when they do not make sense. Of course there are times when discounts may make sense.

Some examples of discounts that make sense include:

- Volume discounts (a discount offered when a customer buys more of your product or service),
- Discounted prices during a sale or on clearance items,
- Discounts during a special event, and
- First time buyer discounts.

Simply discounting products or services when asked diminishes the value of what you are selling and actually reduces your customers' trust in you, so try not to do that. Customers think, "If you can do this for $20,000 why did you quote me $25,000?" Now they are skeptical of you.

Note: seniors expect discounts. If seniors form part of your target market, make sure you factor that into your price!

Examples of Options

In some industries options are easy to imagine. Electronics is an obvious one. 55" TVs from a single manufacturer can have significantly different price points depending on features. Coffee is another product with many options. Most coffee shops have a wide range of options from gourmet varieties to just a regular cup of drip coffee.

Buying vehicles and houses require many choices, adding or taking away options to make something fit your budget. Even when buying fuel for your vehicle, you are presented with two, sometimes three options to choose from at the pump. If you had not noticed them before, now you will be seeing options everywhere! Here are three examples of how options can work in less obvious situations.

Example One:

This is an example of a contractor quoting a bathroom renovation. The majority of new business for construction trades come from client referrals. This means that a contractor is most likely to quote a bathroom job because someone the homeowner knows, likes and trusts, has referred them.

This means the homeowner is less likely to shop around simply based on price.
However, homeowners are often hesitant to provide a contractor with their budget ahead of time. This puts the contractor in an uncomfortable position because s/he does not know what the homeowner is expecting to pay, and the homeowner likely has no idea what their expectations are going to cost. What usually happens next is that the contractor talks to the homeowner, comes up with a plan, puts together a design and provides them with a quote. If the contractor gets lucky, their quote comes in at, or under the homeowner's budget. If not, as is often the case, the quote comes in higher than the homeowner is expecting. Suddenly, the trust the homeowner felt with the contractor is gone, through no fault of the contractor.

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If the contractor had offered options in their quote, this would maintain the homeowner's trust and left the line of communication open with the homeowner. Also, by using options, the contractor is adding or removing value with the change in price as opposed to arbitrarily changing the price but supplying the same end product. By adding or removing value, the homeowner provide options, and keep prices reflective of the work that is provided.

This does not have to be complicated. The contractor can put together a quote using standard quality supplies that the contractor would use in their own home (unless the client requests otherwise). At the end of the quote they can provide two potential changes to the homeowner. Change #1 can provide money saving options. Items they can change or eliminate if they want to save money.

Change #2 can provide options that increase the cost of the quote. Items the homeowner can add or upgrade if their budget is higher than the standard quote or if they want some higher end finishes.

Even if the initial quote is not perfect (and it rarely is), by giving options to the homeowner, the contractor has left trust intact and the line of communication open. The homeowner, who may renovate one or two bathrooms in their lifetime, will appreciate the options and view the contractor as an expert and very professional.

Example Two:
In service-based businesses this looks different, and options are typically related to time.
Let's look at an accounting office for this example.

Package #1 is the least expensive: Annual bookkeeping review and tax preparation. Any calls to the accountant during the year will be for an additional hourly fee.

Package #2 is the mid-range package: Monthly bookkeeping by the accountant's in-house bookkeeper and annual personal/business tax preparation. Again, any calls to the accountant during the year will be for an additional hourly fee.

Package #3 is the high end package: Bi-weekly payroll, and monthly bookkeeping by the accountant's in-house bookkeeper, monthly financial review by phone with accountant and business owner, annual personal and business tax preparation, annual in-person financial review and planning session with accountant and business owner. Additional calls to the accountant during the year will be for an additional hourly fee.

The mid range package will be what the accountant has learned most potential clients are looking for and will adjust the others up and down to potentially meet the needs of others.

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Example Three:
If your business does not lend itself well to options at different price points, then another good pricing tactic is to consider bundles. You see this all the time, too. The more you buy, the more you save! There are a lot of good reasons to give someone a discount if they are buying more of something.

It is a lot less work to sell one person three things than it is to sell three people one thing. And it's a lot less work to sell more to existing customers, rather than attracting new.

As a new business owner, you have likely looked at the price of flyers, marketing materials or business cards. 250 business cards are only slightly less expensive than 500. This is a great example of the more you buy, the more you save. Why does it work this way? Well, because the majority of the cost for the printer is in the set up time and not the actual printing. Paper and ink are relatively inexpensive.

Hopefully you now have some ideas of how this could work in your business.

Action Step: Products and Services Options

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Brainstorm three options for a product or service in your own business.
Start with your mid-range offer first, then figure out what you could remove to offer a lower price version, and add to offer a higher priced version.

Mid-Range Product or Service: _____

Features and Benefits of this Mid-Range offer:

Lower Price Changes:

Higher End Changes:

Working With Budgets, Retail Sales Taxes and GST

Many of you will have to come up with a price to match your customer's budget. One thing that is often missed is accounting for tax in your quote. Your customer's budget is a total of the funds they have available to purchase from you. This will include the cost of the products or services and also the Retail Sales Tax and GST. You may think about your quotes as the price before taxes, especially when you provide a verbal quote. But your customer considers those taxes as part of their budget number (not in addition to their budget they provide to you).

A useful skill is to understand how to **work backwards** from your customer's budget to figure out the price you need to be at before retail sales tax and GST. This is a great skill to develop because it will help you when considering whether or not you can work within your customer's budget.

Work Backwards for Taxes

If your customer has a $2,000 budget including tax – what does that mean for you? The easiest way to show this is by an example:

Currently GST is 5% and Manitoba Retail Sales Tax is 7%.

GST & Retail Sales Tax	GST only	Retail Sales Tax only
$2,000 ÷ 1.12 = $1,785.71	$2,000 ÷ 1.05 = $1,904.76	$2,000 ÷ 1.07 = $1,869.16

When you have a total budget including tax, and you want to deduct the tax quickly, you divide by 1 plus the tax percentage in decimal format.
If you charge GST & Retail Sales Tax, a $2,000 budget means your price to the customer needs to be $1,785.71 before tax or less if you are going to meet their budget.

If you charge GST only, a $2,000 budget means your price to the customer needs to be $1,904.76 before tax or less.

If you charge Retail Sales Tax only, a $2,000 budget means your price to the customer needs to be $1,869.16 before tax or less.

Adding Taxes Quickly

Likewise, you may have figured out a price for your customer and need to quickly calculate what your customer's final cost will be including tax. This calculation is the opposite of how you work backwards. Instead of dividing by the tax rate, you multiply by 1 plus the rate in decimal format.

GST & Retail Sales Tax	GST only	Retail Sales Tax only
$2,000 x 1.12 = $2,240.00	$2,000 x 1.05 = $2,100.00	$2,000 x 1.07 = $2,140.00

© 2026 Community Futures Manitoba Pricing and Cash Flow Module

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Cash Flow Basics

Let's take an introductory look at Cash Flow for our small business.

Cash Flow is quite simple really, it's the amount of cash that comes into your business and flows out of your business in a given time period.

The Business Planning module of the Build a Better Business program includes a **Startup Business Planning Workbook**. That workbook contains a simple cash flow worksheet that you are encouraged to use. It's a great tool that can help you map out the cash coming in and going out of your business.

When you're planning out your company's cash flow, you'll need to watch for two important factors. Accounts receivable, which are customer purchases that they have not paid for yet and accounts payable, which are purchases your business made but you haven't paid for yet. For the purposes of this section, we are going to assume you receive money from customers immediately and that your business also pays for your expenses immediately.

Cash In

When you're planning out your company's cash flow, you'll want to make sure you're updating your cash flow projection worksheet monthly. You'll want to keep an eye on:

- How much were you expecting to come in during the month?
- How much actually came in?
- If your company's cash flow was lower than expected, why was that?

It's important to stop and think about the reasons if your plans didn't work out as you expected.

Cash Out

You'll also want to review that cash flow worksheet every month to see if:

- Your expenses are still accurate.
- You missed any important costs.
- There are any adjustments to your plans needed.

Do you have any big equipment purchases or expenses coming up that are not a monthly cost, but need to be accounted for? You can plan for those payments too, by including them on your cash flow worksheet, in the month that they will be paid.

Your **Small Business Startup Workbook** comes in very handy to monitor your plans against what is actually happening in your business. You are encouraged to use that workbook and update it as needed.

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Do You Need To Charge More?

If you find your cash flow is always in a negative position, meaning you're always tight on cash, you may need to revisit the prices you charge. If you have a lot of repeat customers, this can be easier said than done. That said, your business cannot be in a consistent cash crunch and survive very long. Try to get the price right as soon as possible.

If your business is struggling to keep a positive cash flow that means it may be struggling with profitability too. If you have a profit problem, take a closer look at your prices. The issue may lie in one or a combination of these factors.

Accurate Pricing

You may have just learned that you are not charging enough. This is a problem. If you have many repeat customers raising prices quickly, especially if the price increase is significant, could scare them away. Here are two possible solutions:

- Consider charging new customers more and ease your existing customers into the new pricing.
- Ask yourself: Can I add value to existing products or services and charge more without adding significant costs to the business?

Be Efficient (the biggest one)

- Can you find a faster way to do what you do, so you can serve more people each day?
- Are there tasks you can eliminate?
- Can you better utilize the people you already employ instead of hiring more staff?

Control Costs

Spend money only when necessary.

- Are there 'nice to have' expenses that you can reduce or eliminate?
- Are there ways to package and/or ship your products in a less expensive way?
- If you carry inventory or supplies, could you carry less than you are, so the expenses, when you incur them are smaller or spread out over a longer period of time?

If you currently have a profit problem and do not know where to start, start by looking at your operating costs and eliminate anything that is not absolutely necessary.

Action Step

Review your cash flow worksheet with a focus on your prices and how they impact your cash flow at the end of every month. Review the **Cash Flow Supplement** resources for more help on this topic.

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Action Steps - Pricing and Cash Flow Module

- Write down three reasons a customer might choose your business (or products and services) over one of your competitors.
- Look up three competitors in your industry. Write down what they charge, their strengths and also their weaknesses.
- Write down the direct costs tied to making your product or providing your service.
- Write down as many of your operating expenses as you can think of.
- Calculate your own company's Daily Overhead Number.
- Calculate the true cost of your employees.
- Brainstorm three options for a product or service in your own business.
    - Start with your mid-range offer first, then figure out what you could remove to offer a lower price version, and add to offer a higher priced version
- Review your cash flow worksheet with a focus on your prices and how they impact your cash flow at the end of every month.
- Review the **Cash Flow Supplement** resources for more help on this topic.

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Module Resources

Contact your local Community Futures office to request a suitable cash flow projection worksheet for your needs. www.cfmanitoba.ca

The **Startup Business Planning Workbook** includes a simple cash flow worksheet that can be used for cash flow planning.

This module is based, in part, on the ProfitAbility A-B-C program.

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The Build A Better Business Certificate (BABB) program consists of ten business modules designed for Service Provider Organizations (SPO) to improve business supports by offering a variety of customization in training.

Summary of healthy business skill building:

- Strategic critical thinking and business planning,
- Understanding of business concepts, and
- Introduction to:
  - General business management
  - Operation performance
  - Financial literacy
  - Cash flow objectives
  - People and time management, and
  - Marketing and communication approaches.

The modules are offered in both English and French, providing participating organizations access to educational materials, training tools and resources that are designed and enhanced to make them usable across a wide range of learners, e.g., closed captioning. It will prepare, coach and train future and existing entrepreneurs to articulate their vision and business intentions while learning and developing their personal and business roadmap, knowledge, and skills.

The video narrators have been generated with the use of AI.

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Build a Better Business Program

Program Modules

Business Startup

This introductory module is for new or potential business owners, providing business start up information.

Business Planning

This extensive module will help you plan your life and finances so you can become a small business owner, and reviews parts of a business plan.

Credit and Financing

Does your business need to borrow money? Learn crucial information in this module so that you know what to expect when borrowing.

Pricing and Cash Flow

Here you will learn the art and science of pricing. Discover how cash flow and profit are different and how they work together.

Marketing

Create a basic action marketing plan, learn about branding components, and create new marketing ideas in this hands-on module.

Human Resources (HR)

A brief introduction to employee management and basic HR terms, the 11-step hiring process, and when to speak to a professional.

Insurance and Legal

A brief introduction to help you understand the basics to avoid costly mistakes and understand the importance of using professionals.

Bookkeeping Basics

To be profitable, small business owners need to understand some bookkeeping basics such as record keeping and common transactions.

Financial Statements

Learn how to read and interpret the three main financial statements so you can make better, more informed business decisions.

Taxes and Other Fees

Personal and corporate tax basics, payroll, WCB, RST and GST. This module also briefly covers levies, fees and other taxes.