Price Calculation: Cost-plus Pricing

Cost-plus pricing is a very simple form of pricing - probably the simplest approach. This approach was once fairly common, but is less widespread today, except perhaps in large retailing chains.

Your task for this activity is to work through the following two examples to gain a better understanding of this approach.

Using cost-plus pricing to:

1. Set the price if you expect to sell 1,000 units and you want a 50% mark-up:
2. Set the price if you expect to sell 2,000 units and you want a 33% mark-up:

No. of Units	Allocated Fixed Costs	Variable Cost/Unit	Total Production Cost	Average Unit Cost	Unit Price	Total Sales Revenue	Gross Profit
500	$10,000	$10					
1,000	$10,000	$10					
1,500	$10,000	$10					
2.000	$10,000	$10					
2,500	$10,000	$10					

Student Discussion Questions

1. Start by completing the above table.
2. For which types of business would this pricing approach be the most suitable?
3. What concerns would you have with using this pricing approach?