Price Calculation: Target Profit Pricing

As the term suggests, target profit pricing is designed to determine how many units we will need to sell to both cover costs AND achieve a set profit. In some firms, marketers are allocated a profit contribution goal/target for the year, and they will use this approach to estimate the required sales volume.

Work through the following two examples to gain a better understanding of this approach.

Using Target Pricing analysis:

1. How many units need to be sold to generate a $30,000 profit if the price is $30?

2. How many units need to be sold to generate a $30,000 profit if the price is $20?

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. Why would this pricing approach be particularly important to a marketer? Why?
3. Does this approach take into account likely market demand?