

What Price Mark-up is Needed?

Many consumers are surprised at the (profit) margin that some retailers make on their sales. However, they do need fairly large margins to cover their significant rent and staff costs that they incur.

In this activity, your task is to determine what average prices will need to be charged by these small retailers, so they end up making a good weekly profit.

What price for chocolate?

1. Rent (per week)	\$1,000
2. Staff costs (4 staff X \$12.50 p/hr X 50 hrs pw)	\$2,500
3. Depreciation of store fit-out pw (over a 5 year lease)	\$1,000
4. Total Weekly Fixed Costs	?
5. Forecasted Weekly Sales	1,000 chocolate units
6. Average chocolate unit cost	\$3
7. Total Weekly Costs (Fixed and variable)	?
8. Weekly profit Target	\$1,000
9. Total Revenue Required	?
10. What average chocolate unit price would you set?	?
11. Therefore, what % mark-up should you use?	?

What price for a haircut?

1. Rent (per week) in a major shopping center	\$1,500
2. Staff costs (5 staff X \$14 p/hr X 50 hrs pw)	\$3,500
3. Depreciation of store fit-out pw (over a 5 year lease)	\$1,000
4. Total Weekly Fixed Costs	?
5. Forecasted Weekly Sales	500 haircuts
6. Commission paid to hairdresser per haircut	\$2
7. Total Weekly Costs (Fixed and variable)	?
8. Weekly profit Target	\$2,000
9. Total Revenue Required	?
10. What average haircut price would you set?	?

Student Discussion Questions

1. Complete the above tables.
2. If the retailer sets the price too high, will they be able to achieve their expected sales?
3. Would they be better off to try and increase sales volumes in other ways so that they could be more price competitive?
4. What costs could they look to better control?
5. Do you think that they will be competitive at the price that you have determined?