

CHAPTER 11 The Price Strategy

SOFTWARE ACTIVITY

Spreadsheet Application

OBJECTIVE: Calculate cost, selling price, and markup for products.

One of the most important tasks facing entrepreneurs is establishing prices. The price must cover the firm's operating expenses while yielding the desired profit. The difference between selling price and the cost of the product is called the markup. Although it is important for entrepreneurs to know the dollar amount of a markup, it is usually more important to know the markup percentage. The Markup percentage is determined by dividing the dollar markup by the cost price. Usually, a firm's performance goals are presented in percentages. Percentages are usually much more meaningful when making comparisons.

The printout below shows 12 products sold by your firm. For some products you know the cost and desired markup and you must calculate selling price. For other products you know the planned selling price and you must calculate cost based on the desired markup. Finally, you will need to calculate the markup for some products when the cost and selling price are both known. For all products, you will need to calculate the markup percentage.

| Item | Cost | Markup | Selling Price | Markup Percentage |
|------|---------|---------|---------------|-------------------|
| 1 | \$10.45 | \$10.49 | | |
| 2 | \$72.16 | \$73.31 | | |
| 3 | \$.75 | \$.71 | | |
| 4 | \$4.35 | \$4.35 | | |
| 5 | | \$82.88 | \$166.00 | |
| 6 | | \$12.58 | \$25.75 | |
| 7 | | \$.51 | \$1.00 | |
| 8 | | \$2.56 | \$5.25 | |
| 9 | \$12.51 | | \$25.00 | |
| 10 | \$2.34 | | \$4.69 | |
| 11 | \$71.25 | | \$142.99 | |
| 12 | \$.25 | | \$.59 | |