

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	

Spreadsheet Directions

1. Start your spreadsheet software program.
2. Recreate the table from the previous page using your spreadsheet program.
3. Calculate the following:
 - Find the selling price by adding cost and markup.
 - Find the cost by subtracting markup from selling price.
 - Find the markup by subtracting cost from selling price.
 - Find the markup percentage by dividing markup by cost.
4. After completing your calculations, save your work.
5. Print out a copy of your work if your teacher has instructed you to do so. Then answer the following questions.

Interpreting Results

1. Which product will have the highest markup? Which the lowest?

2. Which product will have the highest markup percentage? Which the lowest?

Drawing Conclusions

3. How will entrepreneurs typically mark products with the selling price calculated for items 1–4? Explain.

4. Will the products that have the highest markups necessarily produce the greatest profit for the entrepreneur?

5. What kind of impact will market prices have on the selling price an entrepreneur establishes for his/her products? Why?
