

Objectives:

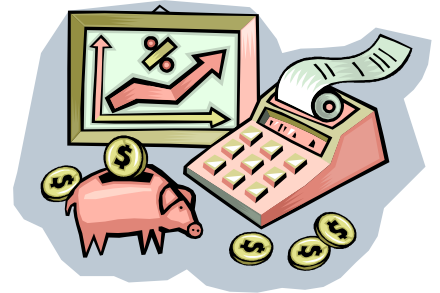
Carry out a break-even analysis

Apply formulas used in calculating markup and markup percentages

Use markdown formulas to determine sale price

Employ formulas used to compute discounts

Lost considerations for updating the price strategy



Definitions of key terms:

Break-even point – sales equal the costs and expenses of making or distributing a product

Selling price – actual or projected price per unit

Markup – amount added to the cost of an item to cover expenses and ensure a profit

Markdown – amount of money taken from the original price

Short Answer:

1. How do you calculate break-even point?

$$\frac{\text{Fixed cost}}{\text{Unit selling price} - \text{variable costs}} = \text{Break-even point (units)}$$

2. What is the formula to calculate:

Markup $\frac{\text{Markup}}{\text{Cost}} = \text{Percentage Markup on Cost}$

$$\text{Price} - \text{Markup} = \text{Cost}$$

Markdown $\text{Price} \times \text{Markdown\%} = \$ \text{ Markdown}; \text{ then}$
 $\text{Price} - \$ \text{ Markdown} = \text{Sale Price}$

3. What two factors should be considered when adjusting prices to maximize profit?

1. Are your products' prices elastic or inelastic?
2. What are your competitors' prices?