

How Smart ARE You Really? Pricing Through Profit Planning

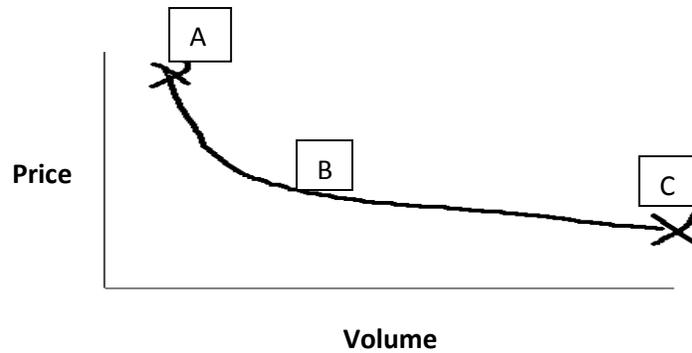
Workshop Quiz

1) On the price/volume curve below, where would you place each of these businesses and why.

WalMart **C**

Rolls Royce **A**

Your business **B**



2) Characterize the following costs:

Cost:	Variable Cost	Fixed (overhead) Cost
Rent	X	
Repairs	X	
Heating	X	
Hourly Labor	X	
Property taxes		X
Potting soil	X	
Seeds	X	
Fertilizer	X	
Tractor repairs	X	
Goods purchased for resale	X	
Family living expenses		X
Shrink	X	

3) The breakeven point is where:

- a. All variable costs are covered, but there is no contribution to overhead expenses nor profits.
- b. Variable costs cannot be covered.
- c. When both variable costs and overhead are covered but there is no contribution to profits
- d. When both variable costs and overhead are covered and there is contribution toward profits.

- 4) To determine how much each product should contribute to overhead, we calculate:
 - a. the markup of the product, or the percentage we will mark up each product
 - b. the margin we need to charge to cover overhead and attain profit
 - c. Look at what neighbors are charging for their products

- 5) Based on a variable cost of \$2.50 per dozen of sweet corn and a margin of 40%, what does your price calculate to be:
 - a. \$3.50
 - b. \$4.16
 - c. \$4.00

- 6) Complete the following chart to determine what price to sell a product once your price calculations are complete. Take into account price points and price sensitivity of each product.

Product	Price Calculation	Retail Price *	Price Sensitive (yes or no)
Sweet corn	\$3.75	\$3.99	Yes
Grass fed beef	\$5.49/lb	\$5.49 - \$5.99	No
Pack of flower seedlings	\$1.79	\$1.99	Yes
Maple Syrup	\$4.76	\$4.79 - \$4.99	No
Apple Pie	3.79	\$3.99 - \$4.99	yes

- Correct answers could be variable

- 7) If you are selling tomatoes at \$4.00 per quart and another farmer in you market is selling them for \$3.00 per quart, should you reduce your price? Why or why not?

No, my price reflects my farm needs to cover costs and make a profit. Also, my price reflects the quality of my product.

- 8) Bundling can be an effective strategy to increase the volume of sales per customer. What things should you be concerned about when contemplating a bundling program?
 - a. Bundled products should increase the sale of each component, not merely provide discounts on products people are already buying
 - b. When calculating the discounted price of the bundle, the full, accurately calculated price of each component should be considered.
 - c. The amount of the discount should not exceed the total of the rounding used to determine final price
 - d. All of the above
 - e. None of the above

- 9) Dumping is a practice of removing a product from your store or market table where you might consider either composting it or giving to a food bank. When should you utilize this practice?
 - a. When the product will cannibalize another product you are selling.
 - b. When the quality compromises your reputation

- c. When a competitor drops their price below what you are willing to sell for.
- d. When the season has been long and you are too tired to care anymore.