



# Pricing Lesson

## Introduction

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**The Bottom Line for any retail business is to create a Net Profit from your operations. How is this done?? Check out these formulas.**

**Total Sales – Sales Returns & Allowances = Net Sales**

**\*\* Net Sales – Cost of Goods Sold = Gross Profit  
(or Gross Margin)**

**Gross Profit – Operating Expenses = Net Income before  
Taxes**

**Net Income before Taxes – Taxes = Net Income**

**It looks and sounds easy on paper, but for many retailers, making money is a struggle.**



# Pricing Strategy

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**There are a number of factors that will influence your business when it comes to setting retail prices. A few of the major factors include:**

**Costs and Expenses**

Shipping Costs, Advertising Costs, Equipment Required, Shrinkage

**Economic Conditions**

Supply and Demand, Economic Climate in your area, Taxes +/-

**Competition**

Surrounding Retailers, Other school vendors, Web and Catalog vendors  
Services and Uniqueness of your Products

**Supply and Demand**

Is the demand great and supply short?



# Ensure your Profits

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## How POSitive POS can help ensure your store will be profitable?

Margins % can be preset for a Category and not by each individual item.

i.e. A blue hooded sweat priced at 35% margin and a red hooded sweat priced at 20% margin just doesn't work.

A general category margin of 30 – 35% is much more acceptable.

Any retail business needs a “System” to price.

There are averages for any industry – match competitors.

Suggested margins are not set in stone – they are just guidelines to follow. When a cost is entered for an item a suggested price (by guideline) pops up. The store can then adjust the actual price up or down, odd or even, psychological or prestige, etc.

When costs rise from the supplier, retail prices can easily be adjusted to reflect the cost increases.

i.e. Jansport raises sweatshirt costs + 10%. What will happen to your retail price to reflect this?? Let POSitive do the math for you and maintain your profit goal.



# Otis Cookies Analysis Part 1

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Cost per case of Chocolate Chip = \$ 55.00

240 cookies per case, 3 sold per bag = 80 bags per case

Cost per bag  $\$55.00 / 80 = .69$  per bag

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At \$ 1.00 per bag – What is the \$ mark-up?

At \$ 1.25 per bag – What is the \$ mark-up?

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Compute the % Margin for each  
(\$ mark-up / retail price)

At \$ 1.00 retail \_\_\_\_\_ %

At \$ 1.25 retail \_\_\_\_\_ %

Is having a higher price (and margin) always the best pricing strategy to follow?? Why or Why not?



# Otis Cookies Analysis Part 2

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Assume at \$ 1.00 per bag – your demand is 150 bags sold each day.

Assume at \$ 1.25 per bag – your demand drops to 100 bags sold each day.

Using the margins computed for each, what is the total \$ sales for each price level \* and the \$ gross profit (margin) created.

At \$ 1.00 retail \_\_\_\_ \$ Sales \_\_\_\_\_ \$ Gross Margin

At \$ 1.25 retail \_\_\_\_ \$ Sales \_\_\_\_\_ \$ Gross Margin

Assume you actively promote the cookies at the \$ 1.00 price and your sales increase to 200 bags a day. What gross margin can be created?



# Pricing Conclusion

**When working with percentages. You must convert the decimal to a percentage.**

$$.40 = 40 \%$$

$$.25 = 25 \%$$

$$1.00 = 100\%$$

**The % MU on Cost will always be a greater % than the % MU on Retail.**

**Remember also the Economic Factors that might influence your retail price setting.**

**And Finally— – Who is the Largest Retail Corporation in the World..?**

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**Remember, a successful retailer has good profit margins, and the great sales and stock turnover. Many bankrupt retailers wish they had used a better marketing, pricing strategy.**