

## ENTREPRENEURSHIP OPERATIONS

# Making Pricing and Profit Decisions

*Detailed practice, calculation, decision-making, and assessment*

|                                                                                                                                                   |                           |                                      |                         |
|---------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------------------|-------------------------|
| <b>GRADES</b><br>9-12                                                                                                                             | <b>TIME</b><br>2 x 42 min | <b>GROUPING</b><br>I / pairs / whole | <b>PRODUCT</b><br>Brief |
| <b>YOUR CHALLENGE</b> Calculate unit costs, compare prices, test demand scenarios, and evaluate a fictional discount before recommending a price. |                           |                                      |                         |

## Strong Businesses Connect Prices, Promotion, Service, and Evidence

A price must cover costs and offer value to customers. A higher price raises revenue per sale but may reduce demand. A lower price or discount can increase sales while shrinking contribution per unit. Good pricing uses cost data and customer evidence together.

| Term                                                                                                                                                                                                               | Student-friendly meaning                                                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| Unit cost                                                                                                                                                                                                          | Cost connected to one unit.                                             |
| Fixed cost                                                                                                                                                                                                         | Cost that does not change directly with units sold during the period.   |
| Contribution                                                                                                                                                                                                       | Price minus variable cost per unit.                                     |
| Revenue                                                                                                                                                                                                            | Price multiplied by units sold.                                         |
| Profit                                                                                                                                                                                                             | Revenue minus stated costs.                                             |
| Demand                                                                                                                                                                                                             | Quantity customers are willing and able to buy under stated conditions. |
| <b>CLASSROOM USE</b> All people, employers, figures, brackets, and documents in this packet are fictional. Never place a real Social Security number, employer ID, bank number, or tax document in classroom work. |                                                                         |

## Part 1 - Calculate Unit Cost

A fictional snack-box business expects to sell 200 boxes monthly.

| Monthly or unit item | Amount      | Cost type | Cost per box |
|----------------------|-------------|-----------|--------------|
| Ingredients per box  | \$6.20      | Variable  |              |
| Packaging per box    | \$1.30      | Variable  |              |
| Payment fee per box  | \$0.50      | Variable  |              |
| Kitchen rental       | \$600/month | Fixed     |              |
| Insurance/software   | \$200/month | Fixed     |              |
| Marketing            | \$300/month | Fixed     |              |

Calculate variable cost, fixed cost, and allocated fixed cost per box at 200 boxes.

## Part 2 - Compare Three Price Choices

Assume 200 boxes sell at each price and the cost assumptions remain unchanged.

| Price | Revenue | Variable costs | Fixed costs | Projected profit | Profit per box |
|-------|---------|----------------|-------------|------------------|----------------|
| \$15  |         |                |             |                  |                |
| \$18  |         |                |             |                  |                |
| \$21  |         |                |             |                  |                |

Calculate each result. Explain why a projection is not proof that 200 boxes will sell.

### Part 3 - Test Price and Demand Together

Use fictional test results.

| Price | Expected units | Revenue | Total variable cost | Fixed cost | Projected profit |
|-------|----------------|---------|---------------------|------------|------------------|
| \$15  | 260            |         |                     |            |                  |
| \$18  | 210            |         |                     |            |                  |
| \$21  | 155            |         |                     |            |                  |

Which price produces the highest projected profit? Calculate rather than guessing.

## Part 4 - Evaluate a Promotion

At the \$18 price and 210-unit forecast, consider a 10% discount. The team predicts sales may rise to 235 boxes.

| Measure          | No discount | 10% discount |
|------------------|-------------|--------------|
| Price            |             |              |
| Expected units   | 210         | 235          |
| Revenue          |             |              |
| Total costs      |             |              |
| Projected profit |             |              |

Does the predicted sales increase cover the lower price? What evidence is missing?

## Part 5 - Write a Pricing Recommendation

The owners want profit, repeat customers, and a price students can understand.

| Decision check           | My evidence |
|--------------------------|-------------|
| Unit variable cost       |             |
| Monthly fixed cost       |             |
| Allocated cost           |             |
| Three price results      |             |
| Demand-test results      |             |
| Discount result          |             |
| Customer/value question  |             |
| Qualified recommendation |             |

Write 150-200 words using at least six figures and three next tests.