

Marketing Decision Analysis

Week 8 Sample Problem - Solution

This question concerns pricing analysis

- a) A manufacturer of leather shoes pays \$20 for the leather (to produce one pair), and sells the shoes to a wholesaler, who applies a 20% margin and in turn sells the shoes to retailers, whose margin is 50%. The shoes retail for \$120. Calculate the manufacturer's selling price.

Manufacturer's selling price = Retailer's selling price * (1-retailer margin) * (1-wholesaler margin) = $120 * (1-0.5) * (1-0.2) = \48 .

- b) If the manufacturer's variable cost is \$10 per shoe, and total fixed costs are \$400,000, calculate the break-even volume and break-even revenue.

Contribution per unit = $\$48 - \$20 - \$10 = \18 .

Break-even volume = $\$400,000 / \$18 = 22,222$ units.

Break-even revenue = $22,222 * \$48 = \$1,066,667$

- c) The manufacturer is considering cutting their selling price by \$10 to see if that can stimulate sales. Under this scenario, what will be the retail selling price?

Manufacturer's new selling price = \$38.

Retailers selling price = $\$38 / (1-0.5) * (1-0.2) = \95 .