# Cost & Revenue Analysis

## Cost Considerations

The cost mix includes:

- fixed costs: do not vary with changes in output
- variable costs – do not vary with changes in putput
- marginal costs – variable costs expressed in cost per extra unit of production
- share costs – costs shares across products

price floor

- a aminimum price that must be charged to cover costs
- is this a long term approach?
- Psotitiong conflicts

Price leader

A high volume product prices near cost to attract customers into the store, where it is expected they will buy other, normally prices, products

Loss leader

A high volume product priced below cost to attract customers into the store, where it is expected they will buy other, normally prices, products

## Break-even analysis & contribution margin

Break-even and target analysis

An analysis designed to estimate the volume of unit sales required to cover total costs

Qty = (profit + FC) / (Price – VC)

Contribution margin

The difference between the price and the variable cost per unit

### *Marginal analysis*

An analysis designed to determine the effect on costs and revenue when an organisation produces and sells one more unit of product

Cost must be examined in terms of:

- average costs – total cost divided by volume of production
- marketing cost – cost to product and sell one more unit of output

Revenue must be examined in terms of:

- average revenue (total revenue divided by unit sales volume)
- marginal revenue (revenue obtained by selling one more unit of the product)

## Pricing based on costs

Cost based pricing

An approach to pricing in which a percentage or dollar amount it added to the cost of product in order to determine its selling price

- cost-plus pricing
- mark up pricing
  - price = (1 + markup rate) x average cost

## Competition considerations

## Competition based pricing

An approach to pricing based on the prices charge by competitors or on the likely response of competitors to the organisation's prices

It is undesirable unless seller has cost advantage, which arises through

*Economies of scale*: as the amount of units produced increases, the cost to product each unit decreases

*Low-cost production*: often based on country of origin

- price compeotion
- price wards
- oligopolies

*Oligopoly*:
Where the market is dominated by a small number of large suppliers.

*Monopoly*:
Where there is only one supplier who can determine price without regard for competition, i.e. electricity and gas markets.

*Perfect competition*:
A large number of buyers and sellers sell undifferentiated (commodity) products.

*Monopolistic competition*:
Markets characterized by numerous competitors whose product offerings are differentiated by design, quality, brand image and product features

## Alternatives to competing on price

*Non-price competition*

- an approach to competiion based on factors other than price
- product differentiation

## Businesss-to-business Pricing

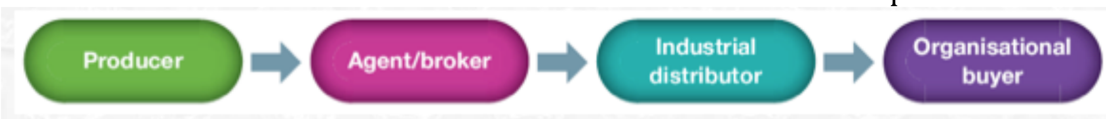
### *Buisness markets*

- consists of buyers purchasing products for use in the production of other products, for resale, or for use in daily business
- Business-to-business marketing relationships between suppliers and organisational buyers tend to be close, long-term and formal in nature
- Pricing is more complex in business markets

### For intermediaries

Intermediaries in the distribution chain for consumer products


Intermediaries in the distribution chain for business-to-business products




### *Discounts*

- A reduction in price in return for some other benefit.
- Various discounts apply in business markets,  including;
  - functional (trade) discounts
  - quantity discounts
  - seasonal discounts
  - cash discounts.

### Pricing for Distrbution

### *Geographic pricing*

- a pricing strategy that include price differentials based on those costs that vary with distance between the buyer and seller
- seller may charge;
  - freight on board desitantion price, or
  - freight on board (FOB) orgin price