

**GCSE BUSINESS STUDIES 3132, AQA SPECIFICATIONS A: ENTERPRISE
PROJECT**

PRICING

Price is one of the main factors consumers take into account when they decide to buy a product. This means that price is a very important part of the marketing mix. My firm will have to be very careful when deciding at what price to sell our product. If price is too high consumers do not buy the product, if it is too low my company may not make any profits.

Another important part of my firm's financial balance is identifying fixed and variable costs.

Fixed costs: Fixed costs are those costs or expenses that are expected to remain fairly constant over a reasonable period of time. These costs are relatively unaffected by changes in output or sales.

Variable costs: Variable costs are those costs or expenses that vary or change directly with output. These costs are associated with production and/or selling and are frequently identified as "costs of goods sold." As compared with the fixed costs, which continue whether the firm is doing business or not, variable costs do not exist if the firm is not doing business.

Fixed Costs

Fixed costs are important as they always have to be deducted from your sales revenue. My firm must always keep in mind its fixed costs as if we do not make enough to pay fixed costs we are making a loss.

My fixed costs are

- **Rent** – My business needs an area to manufacture the new product.
- **Business rates**- It is a government requirement to pay these rates
- **Salaries**- Directors need to be paid
- **Equipment maintenance**- Equipment needs to be maintained for good quality and health and safety reasons
- **Marketing** – Product must be promoted to make people aware of my product.
- **General office expenses**- Administration and paperwork is needed.
- **Research and development.** - This is needed to improve and increase target markets and product features.

My variable costs are

- **Factory labour wages**- Workers on factory have to be paid.
- **Raw materials (Velcro, cotton, leather, pvc, plastic)**-needed to make product being sold
- **Utility bills .e.g. gas electricity**-needed to run machinery and factory.

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Costing Statement

Adidas Trainers 2005

Fixed Costs

Rent	£100,000.00
Salaries	£120,000.00
Machinery	£50,000.00
General office expenses	£25,000.00
Insurance	£3,000.00
Marketing	£500,000.00
R&D	£2,500.00
Business rates	£4,000.00

Total Fixed Costs **£804,500.00**

Variable Costs per trainer

Wages	£1.00
Utilities (Gas, Electric)	£1.00
Raw materials, e.g.	
Plastic	£1.00
Leather	£2.00
Laces	£0.50
Packaging	£1.00

**Total Variable costs per
trainer** **£6.50**

Total Output 100000
Total variable cost £650,000.00

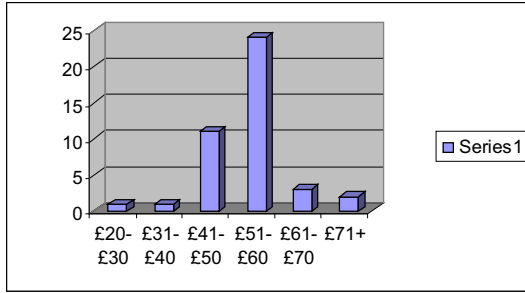
Total Costs £1,454,500.00
Average total cost £14.55

This costing statement has identified that my average total cost is £14.55. If I use cost-plus pricing which is basing the price of a production on the cost of producing it plus an allowance for profit I will then have to add a mark up which is pricing a product based on the cost of production plus a standard percentage for profit. Before I put my mark up on I will need to look at both my desk and field research.

According to my desk research my competitor's price range for their trainers is from £55.00 to £70.00. Therefore I will need a price that is not low so giving the impression it is a cheap product yet not too high as this will lead them to buy lower priced competitors products. If I priced according to this will be competitor based pricing which is basing the price of a product on the prices charged by competitors.

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According to my field research my target market are willing to pay from £50-£60 as shown on the graph with 24 out of 42 choosing this.



If I price my product according to this information it will be Market-orientated pricing which is pricing goods based on an analysis of target market through market research

Mark-up

By combining the information I have gained and working out my costing statement I was able to come up with a suitable mark up which reflects market research (what target market are willing to pay) field research therefore basing it n competitors prices and it also cover all my cots.

Average total cost	£14.55
Mark up (300 %)	£43.64
Selling Price	£58.18

Breaking Even-_the out- put at which a firm’s total revenue is equal to its total costs. At this point the firm is not making a profit or loss. All out put below this point is a loss and all output beyond the break even point is a profit.

$$\frac{\text{Fixed costs}}{\text{Selling price per unit} - \text{variable cost per unit}} = \text{Break even}$$

$$\frac{804,500.00}{(59.99-6.50)} = 15052 \text{ units}$$