ONE PAGE SUMMARY

Entrepreneurship & Startup › Business Models & Strategy › Revenue & Pricing Strategy

Cost-plus pricing

Cost-plus pricing ensures profit by adding markup to costs.

DEFINITION

Cost-plus pricing is a strategy where a business adds a fixed percentage or amount to the total cost of a product to determine its selling price. This method ensures that all costs are covered while generating a profit.

KEY CONCEPTS

Cost Calculation

Accurate calculation of total costs, including materials, labor, and overhead, is essential.

Markup Percentage

The markup percentage is the amount added to the cost to set the final price.

Profit Margin

This strategy helps ensure a consistent profit margin on each product sold.

Simplicity

Cost-plus pricing is straightforward and easy to implement, making it popular among small businesses.

Market Considerations

While simple, this method may not consider competitor pricing or market demand.

EXAMPLES

→ A furniture maker calculates total costs of $200 and adds a 30% markup, selling for $260.

→ A bakery's total cost for a cake is $15; with a 50% markup, it sells for $22.50.

→ A clothing retailer has a cost of $30 for a shirt and applies a $10 markup, pricing it at $40.

MEMORY TIPS

★ Think 'Cost + Profit' to remember the formula.

★ Use 'C + M = S' (Cost + Markup = Selling price) as a mnemonic.

★ Visualize a price tag with costs and markup clearly labeled.

COMMON MISTAKES

✗ Failing to accurately calculate total costs, leading to underpricing.

✗ Not adjusting markup for market conditions or competitor pricing.

✗ Overlooking fixed and variable costs in the pricing strategy.

QUICK RECAP

Cost-plus pricing is a straightforward method where businesses add a markup to their costs. It's essential to accurately calculate costs and consider market factors to avoid common pitfalls.