Cost-based Pricing Assignment Chart

		Sales by Segment			
		Cafe sales to consumers 1 - 11 cupcakes	**Cafe sales to consumers Dozen increments**	**One time sales to caterers > 10 dozen/event**	**Contract sales to restaurants >10 dozen/ week**
Parts 1 & 2	**Cost-plus pricing suggested price**	1.5 (Cost) +1 (assume 40% margin) = 2.5	1.5*12 + 1*12 = 30 (assume 40% margin) Since consume more, should give consumers a bit discount (assume 10%). 30*0.9 = 27	If order between 120 and 240 cupcakes: Price of each cupcake will be 1.5 (Cost) + 1 (assume 40% margin) = 2.5 but since large quantity order so give them 20% discount => each cupcake will be 2.5*0.8 = 2 If order >240 cupcakes: Price of each cupcake will be 1 (Cost) + 0.67 (assume 40% margin) = 1.67 but since large quantity order so give them 20% discount => each cupcake will be 1.67*0.8 = 1.34	Considering customer lifetime value, this group of people should get more discount. If order between 120 and 240 cupcakes: Price of each cupcake will be 1.5 (Cost) + 1 (assume 40% margin) = 2.5 but since large quantity order so give them 30% discount => each cupcake will be 2.5*0.7 = 1.75 If order >240 cupcakes: Price of each cupcake

					will be 1 (Cost) + 0.67 (assume 40% margin) = 1.67 but since large quantity order so give them 30% discount => each cupcake will be 1.67*0.7 = 1.17
	Marginal cost pricing suggested price	P=MC=1.5	P=MC=1.5	If order between 120 and 240 cupcakes: P=MC=1.5 If order >240 cupcakes: P=MC=1	If order between 120 and 240 cupcakes: P=MC=1.5 If order >240 cupcakes: P=MC=1
	Peak-load pricing suggested price	If customer buying during the peak hours (ex: afternoon tea) The cost of producing the cupcake will have extra since need to hire one more people and cost 10 per hour. New Cost = 1.5+0.05 (additional cost during peak hours)= 1.55 Charge = 1.55+2 (surge price) = 3.55	If customer buying during the peak hours (ex: afternoon tea) Charge P=1.55+2 = 3.55 since buy large quantity, 3.55*0.9 = 3.195	If order between 120 and 240 cupcakes: Charge = 1.55+2 = 3.55 since buy large quantity, 3.55*0.8 = 2.84 If order >240 cupcakes: Cost = 1 (if produce > 240) + 0.05 = 1.05 Charge = 1.05+2 = 3.05 since buy large quantity, 3.05*0.8 = 2.44	If order between 120 and 240 cupcakes: Charge = 1.55+2 = 3.55 since buy large quantity, 3.55*0.7 = 2.458 If order >240 cupcakes: Cost = 1 (if produce > 240) + 0.05 = 1.05 Charge = 1.05+2 = 3.05 since buy large quantity, 3.05*0.7 = 2.135

	Target cost pricing suggested price	Assume competitor selling cupcake at $2 And if we want to make 40% margin Target cost = 2-0.8(margin) = 1.2 So we need to think a way to reduce cost from 1.5 -> 1.2	Assume competitor selling cupcake at $2 And if we want to make 40% margin Target cost = 2-0.8(margin) = 1.2 So we need to think a way to reduce cost from 1.5 -> 1.2	If order between 120 and 240 cupcakes: Assume competitor selling cupcake at $2 And if we want to make 40% margin Target cost = 2-0.8(margin) = 1.2 So we need to think a way to reduce cost from 1.5 -> 1.2 If order >240 cupcakes: Target cost = 2-0.8(margin) = 1.2 Since our cost to produce >240 cupcakes only $1 so we can get $1 profit	If order between 120 and 240 cupcakes: Assume competitor selling cupcake at $2 And if we want to make 40% margin Target cost = 2-0.8(margin) = 1.2 So we need to think a way to reduce cost from 1.5 -> 1.2 If order >240 cupcakes: Target cost = 2-0.8(margin) = 1.2 Since our cost to produce >240 cupcakes only $1 so we can get $1 profit

Part 3	**Your recommended strategy**	Peak-load pricing	Peak-load pricing	Cost-plus pricing	Target cost pricing
	Rationale for your overall recommended price/strategy*	For café customers, I would suggest to sell with "Peak-load pricing" since from café perspectives we can earn more profit by exploiting customers' utility since their price elasticity for buying the cupcake is relatively low (if you are craving for a cake, is $2 dollars and $1.5 dollars matter to you?). For one time sale to caterers, I would suggest using "Cost-plus pricing" since this group of customer is not including in our customer lifetime value and also from café perspectives, we would also like to earn more profit from this "one-time" sales. For Contract sales to restaurants, I would suggest using "Target cost pricing" since they are including in customer lifetime value and we definitely want to keep this group of user for long time. If a restaurant want to sign a contract with you for long term cooperation, they definitely will compare your price with competitor. Given this scenario, we should consider the pricing strategy of our competitor.			
Part 4	**Where do you expect the highest margin? Why?**	Café sales to customer (as mentioned above, we can charge them with "Peak-load pricing strategy" and this allows us to exploit as much as customer utility as possible)			
	Where might you suggest Chris take a lower margin? Why?	Contract sales to restaurants since we need to ensure our price is comparable to other competitors and because of this, we need to squeeze our margin to make our products/price more attractive for our long term customers. Though the margin of each cupcake is lower, we can have large orders to compensate the low margin.			
Part 5	**Should Chris open the cafe? Explain, using projected revenues and profits to support your decision.**	Yes she should. Given we have many customers and our pricing strategy is reasonable.			