

FTD Profitability

Floral Arrangement Pricing Strategy

Introduction

Based on the provided data for floral arrangements, we aimed to develop a pricing strategy that maximizes sales while maintaining a consistent profit margin across different types and sizes of products.

Initial Data Analysis

- Dataset Overview:** Two datasets were provided - one for 'Sympathy' and another for 'EDAY'. Each dataset contained information about the SKU, type, size, SRP (Suggested Retail Price), and various costs associated with each product.
- Profit Calculation:** Profit for each SKU was calculated using the formula:

$$\text{Profit} = \text{SRP} \times \text{Margin}$$

- Average Profit Analysis:** The average profit was computed based on 'Type' and 'Size' for each dataset. This gave insights into the profit distribution across various categories.

New Pricing Model

The goal was to create a pricing strategy rooted in the 'Total Cost of Goods' (COGS) while ensuring that the margins are somewhat normalized.

Formulation

- Factors Influencing Price:**
 - Cost of Goods Sold (COGS):** Represents the direct costs of producing the goods sold by a company. This amount includes the cost of the materials and labor directly used to create the good.
 - Type of Arrangement:** Different types of arrangements (like 'Basket', 'Vase', etc.) might have different pricing dynamics.
 - Size of Arrangement:** Size (like 'Standard', 'Deluxe', etc.) also influences the pricing. A 'Deluxe' arrangement would naturally be priced higher than a 'Standard' one.

2. Pricing Formula:

To ensure the margins are not extreme and are somewhat normalized, a formula based on COGS was derived:

$$\text{New SRP} = \text{COGS} \times \left(1.5 + \frac{60}{\text{COGS}}\right)$$

This formula ensures that as the COGS increases, the multiplier decreases, ensuring that we don't have extreme prices for high COGS items.

Sample Calculation

For a sample SKU **S12345** with a COGS of \$50, the suggested New SRP would be calculated as:

$$\text{New SRP} = \$50 \times \left(1.5 + \frac{60}{50}\right) = \$135$$

Thus, for this SKU, the recommended price to achieve the desired margin structure would be \$135.

Conclusion

This pricing strategy ensures that products are priced in a way that is consistent with their COGS, while also taking into account the type and size of the arrangement. This approach avoids extreme margins and provides a balanced pricing structure across the product range.