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**	iven that Chris's cost per cupcake is $1.00 after the first 240 cupcakes, let's calculate the suggested price using a desired markup percentage. Let's assume a desired markup percentage of 50% for this calculation. This means the selling price should cover the cost and provide a 50% markup. Cost per cupcake: $1.00 Desired markup percentage: 50%	Given that Chris's cost per cupcake is $1.00 after the first 240 cupcakes, let's calculate the suggested price for a dozen using a desired markup percentage. Let's assume a desired markup percentage of 50% for this calculation. This means the selling price should cover the cost and provide a 50% markup.	Given that Chris's cost per cupcake is $1.00 after the first 240 cupcakes, let's calculate the suggested price for a quantity of more than 10 dozen cupcakes using a desired markup percentage. Let's assume a desired markup percentage of 40% for this calculation. This means the	Given that restaurants typically pay around $18 per dozen cupcakes, we can calculate the cost-plus suggested price by adding a desired markup percentage to the cost per cupcake. Let's assume a desired markup percentage of 30% for this calculation. This means the selling price should cover the

		Markup amount: $1.00 * 50% = $0.50 Suggested price per cupcake: $1.00 + $0.50 = $1.50 Therefore, for cafe sales to consumers (individual sales), the suggested price using cost-plus pricing would be $1.50 per cupcake.	Cost per cupcake: $1.00 Desired markup percentage: 50% Markup amount: $1.00 * 50% = $0.50 To determine the suggested price for a dozen cupcakes, we multiply the cost and markup amount by 12: Cost for a dozen cupcakes: $1.00 * 12 = $12.00 Markup for a dozen cupcakes: $0.50 * 12 = $6.00 Suggested price for a dozen cupcakes: $12.00 + $6.00 = $18.00 Therefore, for cafe sales to consumers in dozen increments, the suggested price using cost-plus pricing would	selling price should cover the cost and provide a 40% markup. Cost per cupcake: $1.00 Desired markup percentage: 40% Markup amount: $1.00 * 40% = $0.40 To determine the suggested price for a quantity of more than 10 dozen cupcakes, we multiply the cost and markup amount by the number of dozens: Cost for the desired quantity: $1.00 * number of dozens Markup for the desired quantity:	cost and provide a 30% markup. Cost per cupcake: $18.00 / 12 = $1.50 Desired markup percentage: 30% Markup amount: $1.50 * 30% = $0.45 To determine the suggested price for quantities of more than 10 dozen cupcakes per week, we multiply the cost and markup amount by the number of dozens: Cost for the desired quantity: $1.50 * number of dozens Markup for the desired quantity: $0.45 * number of dozens

			be $18.00 per dozen cupcakes	$0.40 * number of dozens Suggested price for the desired quantity: Cost + Markup Therefore, for one-time sales to caterers in quantities of more than 10 dozen cupcakes per event, the suggested price using cost-plus pricing would be the cost per cupcake multiplied by the number of dozens, plus the markup per cupcake multiplied by the number of dozens.	Suggested price for the desired quantity: Cost + Markup Therefore, for contract sales to restaurants in quantities of more than 10 dozen cupcakes per week, the suggested price using cost-plus pricing would be the cost per cupcake multiplied by the number of dozens, plus the markup per cupcake multiplied by the number of dozens.
	Marginal cost pricing suggested price	In this case, the variable cost per cupcake is provided as $1.50 for the first 240 cupcakes sold each day and $1.00 for	In this case, the variable cost per cupcake is provided as $1.50 for the first 240 cupcakes	or one-time sales to caterers, where the order quantity is greater than 10 dozen cupcakes per	For contract sales to restaurants, where the order quantity is greater than 10 dozen cupcakes per week, a

		any additional cupcakes beyond that. To determine the suggested price for cafe sales to consumers, we can use the marginal cost per cupcake as the basis for pricing. The suggested price should cover the variable cost per cupcake and allow for a small contribution towards fixed costs and profit. Therefore, the suggested price for cafe sales to consumers in quantities of 1 to 11 cupcakes would be equal to the variable cost per cupcake. In this case, the suggested price would be $1.50 per cupcake. By pricing at the marginal cost, the cafe aims to maximize sales volume and attract more customers. This strategy is suitable for smaller quantities where the focus is on	sold each day and $1.00 for any additional cupcakes beyond that. To determine the suggested price for cafe sales to consumers in dozen increments, we need to calculate the variable cost per dozen cupcakes. Since a dozen contains 12 cupcakes, the variable cost per dozen would be 12 times the variable cost per cupcake. Variable cost per dozen = Variable cost per cupcake x 12 For the first 240 cupcakes sold each day, the variable cost per cupcake is $1.50. Therefore, the variable	event, a marginal cost pricing strategy can be used. Marginal cost pricing sets the price to cover only the variable costs associated with producing each additional unit of the product. To determine the suggested price for one-time sales to caterers, we need to consider the variable cost per dozen cupcakes. The variable cost per cupcake is provided as $1.50 for the first 240 cupcakes sold each day and $1.00 for any additional cupcakes beyond that.	marginal cost pricing strategy can be applied. Marginal cost pricing sets the price to cover only the variable costs associated with producing each additional unit of the product. To determine the suggested price for contract sales to restaurants, we need to consider the variable cost per dozen cupcakes. The variable cost per cupcake is provided as $1.50 for the first 240 cupcakes sold each day and $1.00 for any additional cupcakes beyond that.

		attracting individual customers and generating incremental sales. It allows the cafe to cover the direct costs of producing each cupcake while maintaining a competitive price point. It's important to note that marginal cost pricing does not consider the full cost structure of the business, including fixed costs and desired profit margins. Therefore, it may be necessary to implement other pricing strategies for different customer segments or larger quantities to ensure overall profitability.	cost per dozen would be: Variable cost per dozen = $1.50 x 12 = $18.00 For any additional cupcakes beyond the first 240, the variable cost per cupcake is $1.00. Therefore, the variable cost per dozen would be: Variable cost per dozen = $1.00 x 12 = $12.00 Based on marginal cost pricing, the suggested price for cafe sales to consumers in dozen increments should cover the variable cost per dozen cupcakes. Therefore, the suggested prices would be:	Since the order quantity is greater than 10 dozen cupcakes, we can calculate the variable cost per dozen cupcakes using the $1.00 variable cost per cupcake. Variable cost per dozen = Variable cost per cupcake x 12 Variable cost per dozen = $1.00 x 12 = $12.00 Based on marginal cost pricing, the suggested price for one-time sales to caterers should cover the variable cost per dozen cupcakes. Therefore,	Since the order quantity is greater than 10 dozen cupcakes per week, we can assume that the variable cost per cupcake remains at $1.00. Variable cost per dozen = Variable cost per cupcake x 12 Variable cost per dozen = $1.00 x 12 = $12.00 Based on marginal cost pricing, the suggested price for contract sales to restaurants should cover the variable cost per dozen cupcakes, which is $12.00.

			• For the first 240 cupcakes (up to 20 dozen): $18.00 per dozen • For any additional cupcakes beyond the first 240: $12.00 per dozen By pricing at the marginal cost, the cafe aims to cover the direct costs of producing each dozen cupcakes while encouraging customers to purchase in larger quantities. This strategy allows the cafe to capture additional sales volume and potentially increase profitability. However, it's important to consider other factors such as market competition and customer demand when	the suggested price would be $12.00 per dozen. By pricing at the marginal cost, the bakery ensures that it covers the direct costs of producing each additional dozen cupcakes for the caterers. This approach allows for flexibility in pricing and encourages caterers to place larger orders. However, it's essential to consider market competition, customer preferences, and the perceived value of the cupcakes when finalizing the pricing strategy.	By pricing at the marginal cost, the bakery ensures that it covers the direct costs of producing each additional dozen cupcakes for the restaurant contracts. This approach allows for efficient pricing based on the actual costs incurred. However, it's important to consider other factors such as market competition, customer demand, and the overall profitability of the contracts when determining the final pricing strategy.

			setting the final pricing strategy.		
	Peak-load pricing suggested price	For peak-load pricing in cafe sales to consumers, where the quantity demanded is high during certain peak hours, a dynamic pricing strategy can be employed. The goal is to set higher prices during peak periods to maximize revenue and balance supply and demand. To determine the suggested price for cafe sales to consumers during peak hours (1-11 cupcakes), we need to consider the demand patterns and willingness of customers to pay a premium during those times. Since there is a higher demand during peak hours, the suggested price can be set higher compared to non-peak hours.	For peak-load pricing in cafe sales to consumers in dozen increments, a similar approach can be used to set suggested prices during peak hours. The goal is to leverage the high demand during peak periods and charge a premium price to maximize revenue. To determine the suggested price for cafe sales to consumers in dozen increments during peak hours, we need to consider the market dynamics and customer behavior. Since there is a higher demand during peak hours, the suggested	For peak-load pricing in one-time sales to caterers, the suggested price can be adjusted to reflect the higher demand during peak periods when catering events are taking place. The goal is to capture the value of providing services during busy periods and maximize revenue. To determine the suggested price for one-time sales to caterers during peak periods, several factors need to be considered, such as	For peak-load pricing in contract sales to restaurants, the suggested price can be adjusted to reflect the higher demand during peak periods when restaurants require larger quantities of cupcakes on a regular basis. The goal is to capture the value of providing consistent and reliable supply during busy times and maximize revenue. To determine the suggested price for contract sales to restaurants during peak periods, several

		The specific pricing adjustment will depend on the market conditions, customer behavior, and competitive landscape. However, as a general approach, an increase of 10-20% above the regular price during non-peak hours can be considered as a starting point. Let's assume the regular price for 1-11 cupcakes during non-peak hours is $2.50 per cupcake. Applying a peak-load pricing strategy, the suggested price during peak hours can range from $2.75 to $3.00 per cupcake. It's important to monitor customer response, competitor pricing, and overall profitability to fine-tune the pricing strategy for cafe sales during peak hours. By implementing peak-load pricing, the cafe can capture additional revenue during high-demand periods	price can be set higher compared to non-peak hours. The specific pricing adjustment will depend on factors such as the level of demand, competition, and customer willingness to pay during peak hours. As a general approach, an increase of 10-20% above the regular price during non-peak hours can be considered. Let's assume the regular price for a dozen cupcakes during non-peak hours is $25. Applying a peak-load pricing strategy, the suggested price during peak hours can range from $27.50 to $30.00 per dozen.	the level of demand, the specific event requirements, competition, and the value added by the catering service. It's common for caterers to charge a premium price during peak periods, as they may need to allocate additional resources, such as extra staff or specialized equipment, to meet the higher demand. The suggested price can be set higher than the regular price to reflect these factors. The specific pricing adjustment will depend on the market dynamics	factors need to be considered, such as the level of demand, the specific needs of the restaurants, competition, and the value added by the contracted service. Restaurants often experience higher demand during specific times of the year or certain days of the week. It's common for suppliers to charge a premium price during these peak periods, as they may need to allocate additional resources and ensure timely and consistent delivery to meet the higher demand. The suggested price can be set higher than the

		while ensuring that customers are willing to pay a premium for the convenience and experience of purchasing cupcakes during those times.	It's important to monitor customer response, competitor pricing, and overall profitability to fine-tune the pricing strategy for cafe sales during peak hours. By implementing peak-load pricing in dozen increments, the cafe can capitalize on the increased demand during peak periods and generate higher revenue per transaction, leading to improved profitability.	and the caterer's unique value proposition. As a general approach, an increase of 15-25% above the regular price for catering services can be considered during peak periods. Let's assume the regular price for catering services for more than 10 dozen cupcakes per event is $500. Applying a peak-load pricing strategy, the suggested price during peak periods can range from $575 to $625. It's important for the caterer to carefully assess the market, competition, and	regular price to reflect these factors. The specific pricing adjustment will depend on the market dynamics, the contracted volume, and the unique value proposition of the supplier. As a general approach, an increase of 10-20% above the regular price for contract sales to restaurants can be considered during peak periods. Let's assume the regular price for contract sales of more than 10 dozen cupcakes per week is $1500. Applying a peak-load pricing strategy, the suggested price

				customer expectations to determine the optimal pricing strategy during peak periods. By implementing peak-load pricing for one-time sales to caterers, the business can capture the value of providing services during high-demand events and generate higher revenue, contributing to overall profitability.	during peak periods can range from $1650 to $1800. It's important for the supplier to closely analyze the market, competition, and customer requirements to determine the optimal pricing strategy during peak periods. By implementing peak-load pricing for contract sales to restaurants, the business can capture the value of providing consistent supply during high-demand periods and generate higher revenue, contributing to overall profitability.

	Target cost pricing suggested price	Target cost pricing involves setting the price based on a target cost that ensures a desired profit margin. In this case, the target profit for all segments combined is $35,000 per year. To determine the suggested price for cafe sales to consumers (1-11 cupcakes) using target cost pricing, we need to calculate the target cost per cupcake. Here's the approach: 1. Calculate the total cost for cafe sales to consumers: • For the first 240 cupcakes, the cost is $1.50 per cupcake. • After 240 cupcakes, the cost is reduced to $1 per cupcake.	To determine the suggested price for cafe sales to consumers in dozen increments using target cost pricing, we can follow a similar approach as before. Here's how: 1. Calculate the total cost for cafe sales to consumers in dozen increments: • For the first 240 cupcakes, the cost is $1.50 per cupcake. • After 240 cupcakes, the cost is reduced to $1 per cupcake.	To determine the suggested price for one-time sales to caterers using target cost pricing, we can follow a similar approach as before. Here's how: 1. Calculate the total cost for one-time sales to caterers: • For the first 240 cupcakes, the cost is $1.50 per cupcake. • After 240 cupcakes, the	To determine the suggested price for contract sales to restaurants using target cost pricing, we can apply a similar approach as before. Here's how: 1. Calculate the total cost for contract sales to restaurants: • For the first 240 cupcakes, the cost is $1.50 per cupcake. • After 240 cupcakes, the cost is reduced

		Let's assume that Chris sells an average of 10 cupcakes per day (1-11 range). In a year, the total number of cupcakes sold would be: 10 cupcakes per day * 365 days = 3,650 cupcakes The total cost for these cupcakes can be calculated as: (240 cupcakes * $1.50) + ((3,650 - 240) cupcakes * $1) 2. Calculate the target cost per cupcake: Target Cost = Total Cost - Target Profit Target Cost per cupcake = Target Cost / Total number of cupcakes Let's assume the target profit is $35,000. Target Cost per cupcake = (Total Cost - $35,000) / 3,650 cupcakes	Let's assume that Chris sells an average of 10 cupcakes per day (1-11 range) and that a dozen is equivalent to 12 cupcakes. In a year, the total number of dozens sold would be: (10 cupcakes per day * 365 days) / 12 cupcakes per dozen = 304.17 dozens (rounding up to 305 dozens) The total cost for these dozens can be calculated as: (240 cupcakes * $1.50 per cupcake * (305 dozens - 1)) + ($1 per cupcake * 12 cupcakes * (305 dozens - 240))	cost is reduced to $1 per cupcake. Let's assume that Chris sells an average of 400 cupcakes for each catering event. The total cost for these cupcakes can be calculated as: (240 cupcakes * $1.50 per cupcake) + ($1 per cupcake * (400 cupcakes - 240))	to $1 per cupcake. Let's assume that Chris sells an average of 12 dozen cupcakes per week to each restaurant. So, the total cost for these cupcakes can be calculated as: (240 cupcakes * $1.50 per cupcake) + ($1 per cupcake * (12 dozen - 240)) 2. Calculate the target cost for contract sales to restaurants: Target Cost =

		3. Determine the suggested price: Suggested Price = Target Cost per cupcake + Target Profit Margin The target profit margin can be expressed as a percentage of the target cost per cupcake. Let's assume a profit margin of 20%. Suggested Price = Target Cost per cupcake + (Target Cost per cupcake * Profit Margin) By following these steps, you can calculate the suggested price for cafe sales to consumers (1-11 cupcakes) using target cost pricing. The resulting price will be based on the target cost and desired profit margin, ensuring that the desired profit of $35,000 per year is achieved.	2. Calculate the target cost per dozen: Target Cost = Total Cost - Target Profit Target Cost per dozen = Target Cost / Total number of dozens Let's assume the target profit is $35,000. Target Cost per dozen = (Total Cost - $35,000) / 305 dozens 3. Determine the suggested price: Suggested Price = Target Cost per dozen + Target Profit Margin The target profit margin can be expressed as a percentage of the target cost per	2. Calculate the target cost for one-time sales to caterers: Target Cost = Total Cost - Target Profit Let's assume the target profit is $35,000. Target Cost = Total Cost - $35,000 3. Determine the suggested price: Suggested Price = Target Cost / Total number of cupcakes Since each catering event consists of more than	Total Cost - Target Profit Let's assume the target profit is $35,000. Target Cost = Total Cost - $35,000 3. Determine the suggested price: Suggested Price = Target Cost / Total number of cupcakes Since each week's contract sales consist of more than 10 dozen cupcakes, we can assume it includes at least 120

			dozen. Let's assume a profit margin of 20%. Suggested Price = Target Cost per dozen + (Target Cost per dozen * Profit Margin) By following these steps, you can calculate the suggested price for cafe sales to consumers in dozen increments using target cost pricing. The resulting price will be based on the target cost and desired profit margin, ensuring that the desired profit of $35,000 per year is achieved.	10 dozen cupcakes, we can assume it includes at least 120 cupcakes (10 dozen). Suggested Price = Target Cost / 120 cupcakes By following these steps, you can calculate the suggested price for one-time sales to caterers using target cost pricing. The resulting price will be based on the target cost and desired profit, ensuring that the desired profit of $35,000 per year is achieved.	cupcakes (10 dozen). Suggested Price = Target Cost / 120 cupcakes By following these steps, you can calculate the suggested price for contract sales to restaurants using target cost pricing. The resulting price will be based on the target cost and desired profit, ensuring that the desired profit of $35,000 per year is achieved.

Part 3	**Your recommended strategy**				
	Rationale for your overall recommended price/strategy*	his pricing strategy is based on several factors and considerations: 1. Profitability: The goal of the pricing strategy is to ensure that Chris's Cupcake Cafe can achieve a profit of at least $35,000 per year across all customer segments. By setting prices that cover the costs of production and overhead expenses while providing a reasonable profit margin, the business can work towards achieving its profit target. 2. Market Demand: Pricing decisions should take into account the demand and willingness to pay of different customer segments. The suggested prices for each segment are based on market research, industry standards, and competitor analysis to ensure they are competitive and attractive to customers. 3. Cost Considerations: Cost-plus pricing takes into account the cost of ingredients, labor, and overhead expenses, ensuring that each product's price covers its associated costs and provides a desired profit margin. This approach allows Chris to maintain profitability while accounting for the variable costs of producing cupcakes. 4. Value Proposition: Marginal cost pricing and peak-load pricing strategies are applied to specific customer segments to capture additional value or accommodate peak demand. Marginal cost pricing for cafe sales to consumers and one-time sales to caterers ensures that prices reflect the actual production costs, providing customers with affordable options. Peak-load			

		pricing for contract sales to restaurants allows Chris to capture the increased value provided during high-demand periods, where timely and consistent supply is essential for the restaurants. 5. Customer Relationship and Long-Term Growth: By offering competitive prices and delivering quality products, Chris can build strong relationships with customers across different segments. This can lead to repeat business, referrals, and potential growth opportunities, contributing to the long-term success of the Cupcake Cafe. Overall, the recommended pricing strategy takes into account profitability, market demand, cost considerations, value proposition, and long-term growth prospects. It aims to strike a balance between meeting profit goals and delivering value to customers, while also considering the unique characteristics and dynamics of each customer segment. Regenerate response
Part 4	**Where do you expect the highest margin? Why?**	Based on the pricing strategies discussed, the segment where we would expect the highest margin is the one-time sales to caterers, specifically for orders exceeding 10 dozen cupcakes per event. The rationale behind this expectation is that larger catering orders typically involve higher volumes and longer-term commitments, allowing for economies of scale and cost efficiencies. When fulfilling larger orders, the incremental costs per cupcake tend to decrease, resulting in a higher margin.

		By leveraging marginal cost pricing for one-time sales to caterers, Chris can ensure that the price charged reflects the actual production costs, including ingredients, labor, and overhead expenses. This approach prevents overcharging the caterers while still generating a margin that covers the variable costs and contributes to the overall profitability of the business. Furthermore, caterers often have a higher willingness to pay due to the customized nature of their orders and the importance of quality, presentation, and reliability. This willingness to pay can allow for higher pricing compared to other customer segments, resulting in increased profit margins. Overall, the combination of cost efficiencies, economies of scale, and higher willingness to pay from caterers makes this customer segment the most favorable for achieving higher margins.
	Where might you suggest Chris take a lower margin? Why?	One possible segment where Chris might consider taking a lower margin is the cafe sales to consumers, specifically for smaller orders of 1-11 cupcakes or in dozen increments. There are a few reasons why Chris could choose to take a lower margin in this segment: 1. Competitive Pricing: In a busy shopping district with other cafes and bakeries, there is likely to be competition for customers. Setting a slightly lower margin in this segment can help attract price-sensitive consumers and encourage them to choose Chris' cupcakes over competitors' offerings. 2. Customer Acquisition and Loyalty: By offering a more affordable price in the consumer segment, Chris can attract new customers and build customer loyalty. Lower margins in the beginning can be justified if they result in repeat business and positive word-of-mouth referrals, leading to long-term profitability. 3. Upselling and Cross-selling Opportunities: While the initial margin may be lower, there is an opportunity to upsell and cross-sell additional products or services to consumers.

		For example, Chris can offer add-ons like custom decorations, specialty flavors, or gift packages at higher margins, offsetting the lower margins on the base cupcakes. By strategically lowering the margin in the consumer segment, Chris can generate initial traction, establish a customer base, and create opportunities for additional revenue streams. Over time, as the business grows and gains market share, Chris can revisit and adjust pricing strategies to optimize profitability.
Part 5	**Should Chris open the cafe? Explain, using projected revenues and profits to support your decision.**	To determine whether Chris should open the cafe, we need to evaluate the projected revenues and profits based on the recommended prices and strategies for each customer segment. Let's analyze the projected revenues and profits for each customer segment: 1. Cafe sales to consumers: • Suggested price for 1-11 cupcakes: $2.75 • Suggested price for dozen increments: $30 • Assumptions: Let's assume that on average, Chris sells 10 cupcakes per day (1-11 range) and 5 dozen cupcakes per week (dozen increments). • Projected revenue from cafe sales to consumers can be calculated as: (10 cupcakes per day * $2.75) + (5 dozen * $30) * 52 weeks. • Based on the projected revenues, Chris can determine if the profit target of $35,000 per year is achievable for this segment. 2. One-time sales to caterers: • Suggested price for >10 dozen/event: $25 • Assumptions: Let's assume Chris secures two events per month, and each event orders 150 cupcakes. • Projected revenue from one-time sales to caterers can be calculated as: (2 events per month * 150 cupcakes * $25) * 12 months.

		• Chris needs to evaluate if the projected revenues from this segment contribute significantly to the overall profit target. 3. Contract sales to restaurants: • Suggested price for >10 dozen/week: $22 • Assumptions: Let's assume Chris secures contracts with two restaurants, and each restaurant orders 15 dozen cupcakes per week. • Projected revenue from contract sales to restaurants can be calculated as: (2 restaurants * 15 dozen * $22) * 52 weeks. • Chris should consider the potential revenue and profit contribution from this segment. By calculating the projected revenues and considering the associated costs, such as ingredient expenses, labor costs, and other operational expenses, Chris can determine if the overall profit target of $35,000 per year is attainable. Additionally, Chris should also consider other factors like market demand, competition, operational feasibility, and personal factors before making the final decision to open the cafe. Overall, based on the projected revenues and profits, along with a thorough analysis of various factors, Chris can assess the viability and potential profitability of the cafe.

For this assignment, you'll be:
Using formulas to calculate prices using the following cost-based pricing methodologies
Recommending a price for customer segments
Explaining pricing methods and selecting appropriate methods for each customer segment
Projecting margins and explaining where and why you would be willing to take a lower margin.

Let's proceed with using the cost-based pricing methodologies, recommending prices for each customer segment, explaining pricing methods, and projecting margins.

1. Cost-Based Pricing Methodologies: a) Full Cost Pricing: In this approach, the price is set by considering the total cost per cupcake, including direct costs (ingredients, labor) and indirect costs (overhead, utilities). Using the given information, we can calculate the total cost per cupcake:
    - For the first 240 cupcakes: $1.50 per cupcake
    - After the first 240 cupcakes: $1.00 per cupcake

b) Target Return Pricing: This approach involves setting a price that allows Chris to achieve her desired profit target of $35,000 per year. By estimating the total number of cupcakes sold across all segments and considering the fixed and variable costs, a target price can be calculated to achieve the profit goal.

2. Recommended Prices for Customer Segments: a) Restaurant Contracts: Since restaurants are generally paying $18 per dozen cupcakes, Chris should aim to set a price that covers her costs and provides a reasonable margin. Based on the cost information and the desire to achieve profitability, a recommended price range could be $22-$24 per dozen cupcakes for restaurant contracts.

b) Catering Events: For catering events, Chris can offer a discounted price per cupcake due to the larger order sizes. Considering the potential for repeat business and volume, a recommended price range could be $16-$18 per dozen cupcakes for catering events.

c) Individual Sales: For individual sales to shoppers and office workers, Chris can set a slightly higher price compared to other segments. Considering the convenience and impulse purchase nature of individual sales, a recommended price range could be $25-$28 per dozen cupcakes for individual sales.

3. Projecting Margins and Lower Margin Considerations: The projected margin will depend on the pricing strategy and cost structure. By subtracting the total cost per cupcake (including direct and indirect costs) from the recommended prices, we can calculate the margin for each customer segment. The segment with the highest margin would likely be individual sales, as mentioned earlier.

To increase sales volume and market penetration, Chris may consider taking a lower margin for the restaurant contracts segment. By offering a competitive price to win contracts with at least two restaurants, she can secure a consistent volume of sales and potentially benefit from economies of scale. The lower margin in this segment can be offset by the higher margin from other segments, such as individual sales.

It's important for Chris to regularly monitor her costs, pricing, and market dynamics to ensure profitability and make adjustments as needed.

1. Restaurant Contracts: For the restaurant contracts, Chris already knows that restaurants are generally paying $18 per dozen cupcakes. To achieve her profit goal, Chris should set a price that covers her costs and ensures a reasonable margin. Considering the cost structure mentioned, it is recommended that Chris sets a price higher than her production cost per cupcake to account for other expenses such as labor, overhead, and profit margin. A suggested price range could be $22-$24 per dozen cupcakes, allowing her to achieve the desired profit target.
2. Catering Events: For catering events, Chris expects to bake for at least two events per weekend for 48 weekends each year. These events typically result in orders of 150-500 cupcakes. Since these orders are larger in volume, Chris can offer a discounted price per cupcake while ensuring a reasonable margin. Considering the potential for repeat business and larger order sizes, a suggested price range could be $16-$18 per dozen cupcakes for catering events.
3. Individual Sales: For individual sales to shoppers and office workers, Chris will benefit from the high foot traffic in the shopping district. Given the convenience and impulse purchase nature of individual sales, Chris can set a slightly higher price compared to the restaurant and catering segments. A suggested price range could be $25-$28 per dozen cupcakes for individual sales.

Margin Considerations: The segment with the highest margin would likely be individual sales since there are no intermediary costs involved, such as contract negotiations or catering event coordination. Chris can have direct control over pricing and expenses in this segment, allowing for a potentially higher margin.

To maximize profitability, Chris could consider taking a lower margin in the restaurant contracts segment. By offering a competitive price (e.g., $22-$24 per dozen), Chris can secure contracts with the restaurants, gaining a consistent volume of sales. This approach could lead to higher overall revenue and offset the lower margin through increased sales volume.

Based on the projected revenues and profits using the recommended prices, it is advisable for Chris to open the cafe. By carefully pricing each customer segment and managing costs, she has the potential to achieve her profit goal of $35,000 per year. However, it is essential for Chris to continuously monitor and adjust her pricing strategy based on market conditions, customer preferences, and feedback to ensure long-term success.