Somerset Corporation

The Solvents Division of the Somerset Corporation is one of many producers of a popular industrial solvent. During this past year they priced this product at $8/bottle. They arrived at this price by applying the directive from the corporate office that the Solvents Division should earn a net profit of at least $80,000 to their projection that 100,000 units would be sold during this past year. Their thinking can be summarized as follows:

Projected unit sales	**100,000**
Revenue*	**$ 800,000**
Variable costs**	**$ 300,000**
Fixed costs	**$ 420,000**
Net profit	**$ 80,000**

*($8/unit * 100,000 units)
**($3/unit * 100,000 units)

Somerset Corporation (continued)

The president of the Solvents Division is now making the pricing decision for the upcoming year. His current thinking can be summarized by the following quote: "This past year's problem was that we didn't do a good job of predicting sales. Now that we know that sales will be 80,000 units, we can price this product so we can make that $80,000 of net profit that the corporate office wants."

a) **Compute the price per unit that is specified by the president's current thinking (you can assume that the past year's fixed costs and variable costs/unit are the same as those for the upcoming year).**

b) **Do you agree with the president's current thinking? Why, or why not? Is there a better way to go about setting the upcoming year's price?**