

Calculating Quantities Needed for Target Profits

Generalized Breakeven Analysis

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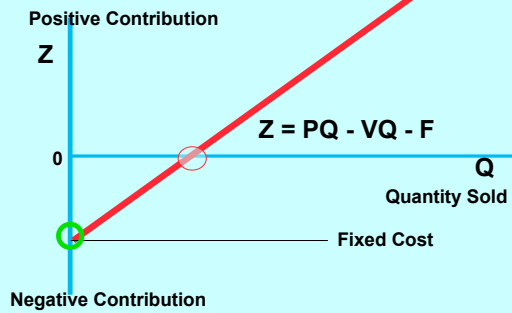
Breakeven Equation

$$PQ - VQ - F = Z$$

- P = price
- Q = quantity sold
- V = variable cost per unit
- F = total fixed of period costs
- Z = profit set equal to zero = 0

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Plot The Profit



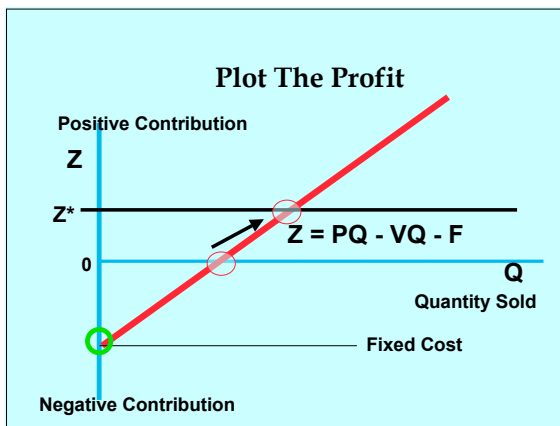
Breaking Even with a TARGET PROFIT

- $Z = (P-V)Q - F$
- A Breakeven Profit of Zero is **NOT** desirable
- Bigger Profit is better 😊



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Plot The Profit



Breaking Even with a Target Profit

$$Z = (P-V)Q - F$$

$$Q = \frac{F + Z}{P - V} \quad \bullet \text{ Target Profit Quantity}$$

$$R = \frac{F + Z}{\frac{P - V}{P}} = \frac{F + Z}{Mp} \quad \bullet \text{ Target Profit Revenue}$$

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**Four Target Profit Points
You Must Know**



Ted Mitchell

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$PQ - VQ - F = Z$

- 1) Target Profit Quantity (TZQ)
 - $TZQ = (F+Z) / (P-V)$
- 2) Target Profit Price (TZP)
 - $TZP = V + F/Q + Z/Q$
- 3) Target Profit Revenue (TZR)
 - $TZR = (F+Z) / Mp$
- 4) Target Profit Markup (TZMp)
 - $TZMp = (F+Z) / R$

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**We Use Target Profit Points
For Cost Based Pricing**

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**Retailers Often Use
Target Profit Markup For A
Negotiation
Starting Point with Sellers**

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Retailer's Point of View

- Called Target Profit Markup or
 - Standard Markup or
 - Desired Discount-off List or
 - Budgeted Markup or
 - Discount-off Recommended Retail Price
- **TZMp = (F+Z)/R**
- Is used in Markup Pricing Formulas

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Retailer's Focus
on the
Target Markup or
Discount off List
Needed

$$TZMp = \frac{F + Z}{R}$$

Salesmen Focus
on the Sales Revenue
to be Achieved

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Retailer's Target Markup or Discount-Off List Price

$$TZMp = \frac{F + Z}{R}$$

- Retailer says: At that Discount I lose money on every sale?
- Salesperson says: Yes... But you'll make it up in volume!

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Any Questions

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