

12.3: Cost-Oriented Pricing Equations

Learning Objectives

- Using cost-oriented pricing equations, calculate the retail price, the cost, and the markup percentage of a product

We touched on this topic briefly in an earlier section when we calculated the markup of an item costing \$4.00. We also discussed the concept of keystone pricing, which is simply a straight 50% markup on all items regardless of cost. We can easily calculate the different components of retail pricing using known variables.

To **calculate the retail price based on cost** requires knowing your markup objective. Markup, again, is the difference between what the retailer paid to a vendor for the product and the price at which they sell it to their customers. So for a target 53% markup on an item costing \$9.00, we will need two steps. First, we need the “cost complement” of the markup which is calculated as:

$$\text{Cost Complement} = 100\% - \text{Markup}$$

$$\text{Cost Complement} = 100\% - 53\%$$

$$\text{Cost Complement} = 47\% \text{ or } .47$$

Then we simply divide the cost of the product by the cost complement to arrive at the retail price.

$$\text{Retail Price} = \$9.00 / .47$$

$$\text{Retail Price} = \$19.15$$

To **calculate markup percentage based on cost and retail price**, we use the formula discussed earlier:

$$\text{*Retail price minus cost price divided by retail price*}$$

So if your item cost is \$4.00 and you sell it for \$10.00, you would calculate markup as:

$$(\$10.00 - \$4.00) / \$10.00 = .6 \text{ or } 60\%$$

Finally, to **calculate cost based on retail price and markup** with a retail price of \$25.00 and a markup of 55%, we would use this formula:

$$\text{Cost} = \text{Retail price} * \text{Cost Complement}$$

$$\text{Cost} = \$25.00 * .45$$

$$\text{Cost} = \$11.25$$

Video -- Pricing Strategies: Cost-Based Pricing



Practice Questions

<https://assessments.lumenlearning.co...sessments/9276>

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