Application: financial analyses

Business, Marketing

APPLICATION: FINANCIAL ANALYSES APPLICATION: FINANCIAL ANALYSES From the marketing arithmetic exercise calculations, increasing the retail and wholesale margins caused a drastic reduction in the manufacturer selling price. There is one major explanation that can be given to this situation. According to Star, Heskett & Levitt (1974), manufacturer selling price has a direct effect on retail margin per unit and wholesale margin per unit. The effect is such that when the manufacturer’s selling price is high, both retail and wholesale margins go up so that the wholesalers and retailers will not run at a lost. By increasing the retail and wholesale margin per unit therefore, it was important for the manufacturer’s selling price to go down or else the manufacturer’s selling price would be so close to the retail price that both wholesalers and retailers would make virtually no profit. Having said this, it will also be valid to argue that while the retail and wholesale margin per unit were increased, if there had been an increase in the retail price, the manufacturer’s selling price would not have needed to go down before profits would be made. Manufacturing is commonly seen by many consumers as an end to a process they hardly care anything about. The manufacturer however does not see manufacturing this way, knowing that there are always several units that come together to ensure the success or accomplishment of a common manufacturing process. At the end of the manufacturing, the price of products is determined by putting together the cost of production as was recorded from each unit. From this perspective of defining cost of production, based on which the prices of finished products are determined, it is possible to define or explain what unit contribution is. Based on the analogy given already, the unit contribution can be explained

as contribution margin that is made from each unit of production or manufacturing. This contribution of margin per unit is expected to determine how profitable each unit that comes under the production is. This is because some units would have higher weighing on the total cost of production than others will (Star, Heskett & Levitt, 1974). Like the manufacturer's selling price, increasing the retail and wholesale margins per unit with a fixed retail price leads to a decrease in unit contribution. The reason to this phenomenon can be said to be very straight forward and directly reflected in the manufacturer's selling price. This is because reduced unit contribution was seen to go with a reduced manufacturer's selling price. The implication here is that until the unit contribution is lower, it will not be possible for there to be lower manufacturer's selling price. This is because should unit contribution have been higher, the direct implication would have been that cost of production will be higher and so manufacturer's selling price will also have been higher. But already, it has been explained as to why retail margin and wholesale margin per unit cannot be increased necessarily because manufacturer's selling price is higher. For there to have been a possible increase in unit contribution, it is expected that retail price would have also been adjusted upwards. Increasing the fixed cost factors causes an increase in the number of breakeven units. At the same time, the market share needed to break even also increases with increased fixed cost factors. The explanation to give to this is directly related to the behavior of the fixed cost factors. It would be noted that the fixed cost factors are static and constant. What this means is that they are always present as part of expenditure for production. As expenditure, the fixed cost factors can be said to be liabilities

that take from the company's revenue rather than adding to it (Perreault, Cannon & McCarthy, 2014). Increasing such sources of liability therefore means that a lot of units need to be sold by the company in order to break even because the increase in fixed cost factors have created a greater gap of liability to cover. Meanwhile, companies need very commanding market share for them to be guaranteed of sale of units. It is for this reason that the breakeven market share also goes up in this situation. Reducing retail margin per unit increases profit impact but increasing brand market share and advertising budget can lead to increases in profit impact. It is important to stress however that the impact of increasing brand market share and advertising budget on profit impact is not constant but dependent on several other factors, including the extent to which marketers are able to translate the brand market share and advertising budgets into sale of units (Perreault, Cannon & McCarthy, 2014). With the above point made, it can be said that retail margin per unit could conflict with both brand market share and advertising budget in terms of strategy for increasing the profit margin. Such conflict can come about if after the various investments the company makes into branding and advertisement, it pegs retail margin per unit in such a way that consumers find prices to be too high and so consumers refuse to patronize the products that have been branded and advertised. With this said the importance of ensuring that there is always a relationship between a company's pricing strategy and its overall marketing strategy will be advocated (Perreault, Cannon & McCarthy, 2014). ReferencesPerreault Jr., W. D., Cannon, J. P., & McCarthy, E. J. (2014). Basic marketing: A marketing strategy planning approach (19th ed.). New York, NY: McGraw-Hill. Star, S.

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