

Business Activity

COMMERCE 1.2



Part 1- Our Business

Our business is a sausage sizzle, Sizzlers. Four year 11 students will set up a stall on market day at XYZ College in ODO3 and will sell our product, sausages-in-bread, with the choice of onions, tomato-sauce, and mustard, served in a napkin.

Pūtake was the principle to how we approached market day. We wanted our customers to be provided with a quick affordable delicious lunch option.

We have a strong team that demonstrates whānautanga as we communicate and work well together. We will ensure kaitiakitanga by cleaning our equipment, cleaning up after ourselves, asking our customers to put napkins in the bin, and putting our oil in the bin rather than down the waterways.

Our Target market and stakeholders

- XYZ College's staff and students
- People who like sausages-in-bread
- People who have the money to spend

...will have expectations for our business. These being our well-cooked heated sausages, a stock of toppings, a clean hygienic stand and BBQ, and quick, excellent, customer service, all of which meets the pūtake of our group. Our other stakeholders are the suppliers of our ingredients, the school property team for providing the barbecue and our teachers from Commerce and Food Technology for funding the business and helping us along the way.

Relevant information in determining price

Non - Financial

- We put out a survey to our target market market for their opinion on how our product should appear and a lot of the respondents told us that they were just looking for a well-cooked sausage in fresh bread with sauce and onions .
- Ensuring we held true to our pūtake, providing a quick affordable delicious lunch option. Meaning whatever our price was, we had to agree it was reasonable and affordable for our target market and met what our target customers wanted.

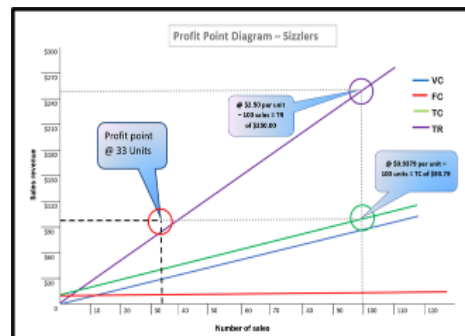
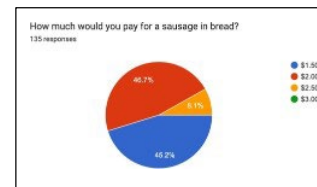
Financial

- Using the 2022 sausage-sizzle business’s model, as well as past sausage-sizzles at XYZ College, to help us determine the price of our product .
- We looked into how much sausage-sizzles around Wellington price their sausage-in-bread.
- For the viability of our business, we had to make sure that the price we charged was much higher than our cost per unit (\$0.70), to turn a profit so that we could maintain a steady cash flow.

Our Model/Concept

We originally wanted to use the cost-plus model to help us determine our price, as it’s quick and efficient . Our cost estimate was around 70 cents per unit, so we had flexibility in our price. Once we had done our market research, showing that few respondents would pay \$2.50, we decided that a market - based pricing strategy would be best for determining our price, even though it would increase the number of sales needed to make a profit.

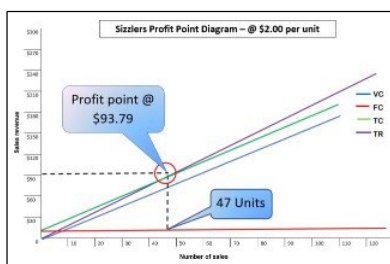
We used information from our survey as well as our secondary research which showed that the 2022 market-day sausage- sizzle business sold each unit for \$2.00 and we found sausage-sizzles around the Wellington region charging \$2-\$2.50 per unit. Sausage-sizzles at XYZ College over the past years have been priced at \$2. In our original discussions,we felt that \$2.50 was the best price to achieve our required profit, as costs had increased from last year, but after conducting our research and on further reflection \$2.50 was too much for a sausage-in-bread and might decrease our demand. As sausages-in-bread were priced \$2.00 last year at market day, we agreed it would be unfair if we upped that price this year .



Projected Profit Point and Revenue

Price-sensitivity: We asked ourselves, is it worth risking selling at a lower price of \$2.00? It's more affordable, meaning a likely increase in demand, or at a greater price of \$2.50 risking less demand, and people not buying from our business, which in return would minimise our revenue and profits. As the diagram (right) shows, our estimated profit at \$2.50 per unit would be over \$205.00.

Using all that information, and that our pūtake is an affordable lunch option, we decided on selling more at a lower price so it's more affordable, likely increasing our demand. The price is \$2.00.



Sizzlers - Projected Income Statement	
Market Day - 2023	
Revenue (Income from Sales @ \$2.50)	\$ 300.00
Assuming sales of 120	
Less Expenses (Cost of components)	
Sausages	\$60.00
Bread	\$9.52
Onions	\$2.20
Tomato Sauce	\$2.99
Mustard	\$6.58
Napkins	\$2.50
Hire of Space/Staff	\$10.00
Total Expenses	\$93.79
Total revenue (TR) - Total costs (TC)	\$206.21
Total Profit	\$ 206.21

As the diagram (left) shows, at the price of \$2.00, by selling our projected 120 sausages we would only gain revenues of \$240.00 but would only need to sell 14 more units to reach our profit point.

The Determined Price = \$2 .00

Financial Information

Our financial information is discussed above, but to sum up, we used a market-based-pricing strategy, using our survey, comparing and using prices of previous market day, sausage-sizzles at XYZ College, around the Wellington region, as well as considering price sensitivity, to determine a reasonable affordable price for our product.

Our cost per unit is \$0.70 creating a profit margin of \$1.30, therefore we will break even at 47 units sold (\$94 in revenue), and from this point we will start making a profit, making our business viable.

Non-Financial Information

Pūtake - The price, \$2.00, we agreed was affordable, reasonable and was suitable for our pūtake, which is to provide a quick affordable delicious lunch option.

\$2.00 is also a very convenient price. It's a whole number, it's common to carry around \$2.00 coins, enhancing quick service, and we believed that we would receive more customers. It's a very affordable price for our target-market

To promote we advertised using posters, highlighting our price of \$2.00 so customers were aware of such an affordable option on this day.

Part 2 - The Change

Just before going to market our teacher told us of a change, 20% tax on our profits.

We calculated we will lose \$35.00 of profit, which is shown projected Income Statement.

This affected our price because we needed to work out what price to sell our product for. The change also affects our profit because it would reduce the amount of money we could donate.

[Your Business] - Income Statement		
Market Day - 2023		
	\$	\$
Revenue (Income from Sales)		268.8
Less Expenses (Cost of components)		
Sausages	\$60.00	
Bread	\$9.52	
Onions	\$2.20	
Tomato sauce	\$2.99	
Mustard	\$6.58	
Napkins	\$2.50	
Hire of Space/Stall	\$10.00	
Total Expenses	\$93.79	
Net Profit Before Tax		\$ 175.01
Tax @ 20% of profit		\$ 35.00
Total Profit/Loss		\$ 140.01

We had a big decision to make, we had some options that we could do

Option 1: Increase our price to something like \$2.40 to retain the old profit margin meaning we could make the same amount of profit with the same units sold, but that would go against what we had advertised. It would also look less clean and round as a price, and by responding to a rise in cost by increasing the price, it might undermine our pūtake.

Option 2: Decrease product. We could also have adopted the strategy of shrinkflation, where we reduce our quality (cheaper bread) or the quantity of onions or sauce on the sausages-in-bread. This would mean that we could keep our price but as we would have lower expenses, we would still make a profit. The problem is that customers are sure to notice, and we didn't think that they would be happy, they might think that they were ripped off.

Option 3: Do nothing.

In the end we decided that the best path was the one of least resistance. We decided to keep to the advertised price of \$2.00. We would sink the extra costs and make a bit less profit. This meant that we could continue to honour our pūtake, while still looking to make a reasonable profit for the day.

However, although this was a negative consequence, we were still able to donate profits to these extracurricular groups as well as sell affordable sausages to our customers for \$2.00 each, which fulfills both aspects of our pūtake. This means that although problems arose, we found a way to stay afloat as a business while still maintaining and fulfilling our values of our pūtake, and so at the end of the day everyone is happy.

Consequences of chosen price

A consequence to this decision was that we made less profit overall. Because we decided to keep our price at \$2.00, this decreased our profit by 20% from \$175.00 to \$140.00 in profit, and our profit margin decreased from \$1.30 profit per unit, to \$1.04 profit per unit. But regardless of this decrease, this is still a significant amount of profit made being \$140.00, a reduction on our original estimated profit of about \$35. The most important part of keeping our price at \$2.00, is that we held true to our pūtake, which was to provide a quick affordable delicious lunch option. We agreed \$2.00 was cheap, affordable, reasonable and was suitable for our pūtake.

Some of the negatives that found because we kept our price at \$2.00 with the 20% tax was because we lost even more of the profit, but if we had put the price up to \$2.50 then we may not have made as many sales. But some of the positives were that we kept to pūtake, cheap and affordable, It was the best price decision, Our research shows that we would sell more with our price, The amount that we sold justified our decision on keeping the price at \$2.00, We sold a lot of sausages, We kept the price at \$2.00 because we thought that people are most likely to have \$2.00 in their bag instead of \$2.50 and we also thought that it would be easier for the finance officer to handle the money. Because of these reasons that I have listed above this justified why we kept our price at \$2.00 instead of changing the price to be cheaper or more expensive. So, we have learned that most of our stakeholders were not affected by the addition of the tax – except the school charity groups, that will get less money donated to them.