In this assignment, you will demonstrate your mastery of the following competency:

* Describe how market forces impact prices and decision-making

## Scenario

You have been hired as a financial manager for N&D’s Pizzeria. In your role, you support the owners with budgeting and financial information and help them understand the impact of market forces on their business. The pizzeria owners, Nicole and Danielle, have asked you to provide some financial insight to inform their pricing strategies and other decisions.

### Company Overview

N&D’s Pizzeria operates six pizzerias in the county of Sheffield. They provide the following products and services:

* Traditional pizzeria offerings: pizzas with a variety of toppings, breadsticks, and salads
* Take-out option plus delivery within 10 miles
* Dining-in option (each pizzeria has a small dining room with 10 to 15 tables)

N&D’s currently employs a total of 60 permanent staff as managers, cooks, servers, cashiers, bussers, dishwashers, and cleaners. It hires additional part-time and seasonal staff during peak periods. N&D’s also contracts with a local bookkeeper and another company to maintain its mechanical and IT equipment.

It leases its restaurant spaces, ovens and other equipment, furniture and fixtures, and delivery vehicles.

You can assume that the company will have a single menu for all locations, a single set of prices, and probably the same hours of operation, and it will make capital and advertising decisions for operation as a whole. When discussing the impact of market forces and pricing decisions, consider the six locations collectively.

#### Local Market Environment

* Other pizza restaurants are opening downtown, potentially impacting Nicole and Danielle’s business. N&D’s Pizzeria also faces competition from other fast-casual restaurants and from local supermarkets that offer frozen pizzas and fresh alternatives.
* A significant portion of N&D’s revenue comes from downtown businesses and catering company lunches. There is currently an initiative underway to revitalize the downtown area: It is expected to make gradual progress during the next year, adding around 50 more office spaces to accommodate approximately 1,000 employees. The project could bring more potential customers but also more potential competitors.

#### Current Economic Environment

* In relation to the business cycle, the local economy is generally healthy. Local banks and business associations expect it to remain so for the foreseeable future.
* Local interest rates for unsecured small business loans range from 7.25% to 7.75% per annum. Small businesses often use these loans to fund their operations during seasonal dips in demand. (Secured loans, used for capital investments such as the purchase of equipment, have lower interest rates.)
* The regional unemployment rate is a seasonally adjusted average of about 3.5%.
* Inflation rate: The regional Consumer Price Index (CPI) should continue at an annual rate of about 2.2% or slightly higher. This means minimum upward pressure on labor, materials, and fixed costs.

#### Relevant Market Forces

N&D’s Pizzeria is working with Success Marketing, a market research firm that helps businesses by providing data to inform management operations and decisions. Success Marketing developed the following competition analysis for the pizzeria, which contains key information about the economic environment:

#### N&D Pizzeria Competition Analysis

| **Competitors** | **Community Demographics** | **Number of nearby eateries (with and without liquor licenses)** | **Average price for a takeout meal from nearby eateries** | **Area**  **Businesses** | **Notes** |
| --- | --- | --- | --- | --- | --- |
| **Competing Pizzeria 1** | Approximately 2,000 students Aug–Dec and Jan–May  Population of 10,000 all year, not including students | With liquor licenses: 2  Without liquor licenses: 5 | $20 | Nearby university | The university is planning an expansion to accommodate 500 more students  in the upcoming year  Most restaurants have public parking within walking distance and are  within walking distance from the university |
| **Competing Pizzeria 2** | Population of 25,000 | With liquor licenses: 3  Without liquor licenses: 4 | $30 | Nearby arena | Most restaurants have public parking within walking distance and are  within walking distance from the arena |
| **Competing Pizzeria 3** | 3,000 students Aug–Dec and Jan–May  12,000 all year, not including students | With liquor licenses: 3  Without liquor licenses: 6 | $25 | Nearby university | Most restaurants have public parking within walking distance and are  within walking distance from the university |
| **Competing Pizzeria 4** | Population of 45,000 | With liquor licenses: 2  Without liquor licenses: 6 | $25 | Nearby office buildings | One of the nearby office buildings is adding an expansion to  accommodate 150 new employees  Most restaurants have public parking within walking distance and are within  walking distance from downtown offices |
| **Competing Pizzeria 5** | Approximately 4,000 students Aug–Dec and Jan–May  20,000 all year, not including students | With liquor licenses: 4  Without liquor licenses: 4 | $20 | Nearby university | Most restaurants have public parking within walking distance and are within  walking distance from the university |
| **Competing Pizzeria 6** | Population of 47,000 | With liquor licenses: 2  Without liquor licenses: 3 | $30 | Nearby office buildings | Most restaurants have public parking within walking distance and are within  walking distance from downtown offices |

#### Possible Operating-Hour Extension

N&D’s Pizzeria locations currently close at 10 p.m. and stop deliveries at 9 p.m. The local universities are expanding their populations of on-campus students. The pizzeria owners believe that staying open until 12 a.m. will increase business and help them stand out from competition. They will need 2–3 employees to work during that time (2 on Sunday through Thursday and 3 on Friday and Saturday nights). Employees are typically paid $9–$10 per hour, on average, including benefits.

#### Economic Policies and Trends

* N&D’s Pizzeria uses cheeses, tomato sauces, and olive oil imported from Italy, which they purchase from a U.S.-based wholesale company. The government is likely to impose an import tariff, which would raise the cost of N&D's ingredients by about 20%.

#### Current Pricing Information

The owners have indicated that they are willing to increase prices to address potential wage increases and increases in price for three of their main ingredients. They are concerned that if they raise prices too dramatically, they will drive their customers away. Based on their market research data, Nicole and Danielle know that, for all locations, their pizzeria is an average-priced option in terms of other similar restaurants. They generally receive high ratings for quality and service and average ratings for restaurant atmosphere.

N&D’s marketing consultants, Success Marketing, created a Demand Elasticity Spreadsheet, which shows the estimated number of meals that N&D’s pizzerias would sell at various prices. Higher prices would mean lower volume, of course. There is an average meal price that would maximize total revenue. Nicole and Danielle can use the spreadsheet to see the effect of various price levels.

## Directions

Nicole and Danielle would like you to provide a financial recommendations memorandum that will inform their approach to pricing decisions. Based on the scenario, above, they would like specific guidance on the following: Should they raise, lower, or maintain average prices in response to the import tariff? With regard to expanding the pizzeria’s operating hours, should they move forward, knowing that it could raise revenue but also increase costs? They have asked that you support your recommendations with financial information from the spreadsheet and with evidence from the company scenario.

* **Market Forces and Trends:** Nicole and Danielle would like you to describe market forces that potentially impact their business decisions.
  + Describe the basic market forces that are relevant to pricing and decision-making for companies. Include the following:
    - What information would you want to have in order to make sound pricing decisions?
    - With financial information, there is often some level of uncertainty and estimation. How would you explain any risk or uncertainty about information to senior management?
    - How would you suggest monitoring and responding to competitors’ pricing actions?
  + Discuss the overall economic ups and downs, such as business cycles, that inform financial strategies used at different times. Include the following in your response:
    - What trends are important for business owners to consider, and what impacts do the different phases have on financial strategies?
  + Describe the impact of local economic trends, such as interest rates, on supply and demand, equilibrium prices, and business decisions. Include the following in your response:
    - Describe how a major fluctuation in inflation and unemployment rates or the interest-rate outlook would affect businesses.
* **Pricing Information**: Based on the financial information and information in the scenario about potential increases due to a tariff, Nicole and Danielle would like you to describe factors that influence price for determining the best strategy given the company’s current financial situation.
  + Describe factors that influence price and inform pricing decisions. Include the following:
    - What average price level would you recommend, and why? What is the revenue-maximizing price based on estimated demand for N&D Pizzeria’s products?
    - How sensitive is demand to N&D’s pricing versus competitors’ prices?
  + Determine the price impacts of resulting revenues, costs, and operating income using information from the spreadsheet. Include the following:
    - What would the resulting revenues, costs, and operating income be?
    - Define opportunity costs, and explain how those, along with budget constraints, such as acquiring more staff or equipment, might affect pricing decisions.
    - How do overhead and other fixed and sunk costs affect pricing decisions?
  + Explain how key takeaways from the competition analysis inform pricing strategies. For example, should N&D's strive to be the high-price, high-quality competitor or the low-priced but probably lower-quality competitor? Include the following in your response:
    - Based on the information provided in the scenario, would you recommend expanding the hours of operation? Why or why not? What would be the estimated effect on revenues, costs, and profit? Provide examples from the company’s financial information to support your answer.
    - What further analysis would you recommend based on the information presented?
  + The federal government is considering imposing a substantial import tariff on foods from Italy, including the sauces, cheeses, and olive oil that N&D’s Pizzeria buys from a U.S. importer. Discuss how such a tariff might affect pricing and costs—for N&D’s, as well as for competitors. Include the following in your response:
    - Should N&D raise prices to offset some or all of the tariff?
    - Should they try to lower costs of raw materials or labor, possibly affecting the quality of their products and service?
    - Should N&D consider buying those raw materials domestically, even if the quality might suffer? Review the Income Statement spreadsheet in the Supporting Materials section. Looking at N&D’s projected income statement and margins, how much of a drop in profit and margins can the company afford.

## What to Submit

Every project has a deliverable or deliverables, which are the files that must be submitted before your project can be assessed. For this project, you must submit the following:

**Financial Recommendations Business Memorandum**  
Your business memorandum will discuss the elements, above, and should inform the company about how market forces impact prices and decision-making, including how it should prioritize strategic initiatives based on economic factors and trends. The memorandum should be 3–5 pages in length.

**Memo must include:**

**1) Describes market forces that are relevant to pricing and company decision-making; includes information to make sound pricing decisions, such as risk or uncertainty assessments and responses to competitors’ pricing actions**

**2) Discusses overall economic ups and downs, such as business cycles, to inform financial strategies used at different times; includes important trends and impacts for business owners**

**3) Describes the impact of local economic trends on supply and demand, equilibrium prices, and business decisions; includes potential impact of a major fluctuation in inflation and unemployment rates or interest rate outlook**

**4) Describes factors that influence price based on price elasticity; includes an average-price-level recommendation and revenue-maximizing price based on estimated demand, considering pricing versus competitors’ prices**

**5) Determines the resulting revenues, costs, and operating income; defines opportunity costs, budget constraints, overhead, and**

**6) Explains key takeaways from a competition analysis to inform pricing strategies; recommends further analysis and decisions based on the estimated effect on revenues, costs, and profit, and uses financial information to support**

**7) Discusses how an import tariff might affect pricing and costs for the company and its competitors; includes potentially raising prices, lowering costs, and alternative options for purchasing materials, and the potential impacts of those decisions**