

SAFA Entrepreneurial Lesson

Increasing Profit Margins Ethically

What does it mean to be ethical?

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Being ethical in the business world means to employ moral principles in commercial activity.

By charging prices way too high in order to meet profit margins, you sacrifice ethics and you also drive away customers. In some cases, it is okay to have a markup to meet profit margins, but you need to know how much you would be able to go up.

Watch the following video on setting prices reasonably



Activity Time

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Select one of the pricing strategies mentioned in the video, and write down why you would employ this option in your entrepreneur journal.

Increasing profits by decreasing price you pay

By decreasing the price you pay, you are selecting the most ethical way to increase profit margins.

You do this by negotiating with your manufacturers to bring down your price. A common way this happens is by increasing the quantity of your order. Manufacturers are usually willing to bring down the price they charge you per piece, if you increase the size of your order.

As an entrepreneur, it is also important you know how to negotiate with manufacturers in order to ensure that you are paying the lowest price possible, and thus maximizing your profit margins.

Examples of Unethical Pricing Strategies

- 1. Collusion:** Occurs when two or more firms agree to collaborate on wrongful acts in order to exploit their customers.
 - This is less common for start-up companies such as yours in this simulation. This is because you are innovating a solution to a problem which didn't have a solution before. This means you will not typically have competitors to collaborate with, but it is still something you should know to avoid.
- 2. Price Gouging:** occurs when businesses respond to demand by charging overly steep prices
 - This is much more common for businesses like the one you operate in this simulation. This is because the solution you made is an innovation, so you typically will not have competitors. This essentially gives you a monopoly over the product you are offering, and gives you the ability to charge overly steep prices.
 - In some cases, if your demand is extremely high, you can get away with making money with this strategy, but it is extremely unethical.

Watch the following video on negotiating with manufacturers.

