

While the character of the demand for frozen orange concentrate was such that gross revenue increased as prices moved in either direction away from the pivotal point of about 12.5 cents per can, the revenue position of the retailer will depend upon the prices he must pay for the product. Clearly, then, the gross net revenue of the retailer (his total revenue less the actual cost of goods sold) would diminish as frozen orange concentrate was sold at successively lower prices, unless the price he paid for frozen orange concentrate also declined.

The test prices employed in this study represented in some instances rather extreme departures from existing market conditions and from the experiences of retail store operators. Under these circumstances the behavior of retail margins, if these prices were to actually prevail in the market, cannot be predicted with certainty. However, it is appropriate to examine the revenue position of the retailers and concentrate suppliers under two sets of assumptions regarding the possible behavior of margins if the test prices were to prevail in true market situations. These assumptions are: (a) under all price conditions the margin of the retailer will be a constant percentage of the selling price, and (b) under all price conditions the retail margin will be a fixed amount per can.

With the given demand relationship, a constant percentage margin on selling price would have yielded retailers a larger gross profit at prices both above and below the point of minimum total revenue (Figure 6). Table 7 demonstrates the division of the gross revenue at retail between the retailer and the supplier of concentrate if retailers had taken, at the various test prices, a margin of 20 percent for their services.<sup>10</sup> Since under the assumed conditions suppliers would have received the remainder of the gross receipts not absorbed by the retailer in the 20 percent margin, they also would have received a larger gross return as prices diverged in either direction from the point of lowest total revenue.

Should retailers maintain a constant absolute mark-up at all price levels, the division of gross receipts between retailers and concentrate suppliers would be quite different. The effect of charging a constant absolute margin of 3.3 cents per can on the

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<sup>10</sup> The assumed margin of 20 percent, which amounted to 3.3 cents per 6-ounce can, approximated the actual margin retailers were obtaining for frozen orange concentrate at the time of the study. Hence, both the assumption regarding a constant percentage margin and the following one which supposes a constant absolute margin are based on separate aspects of the same actual margin.