

Money Matter\$

Pricing for Profit



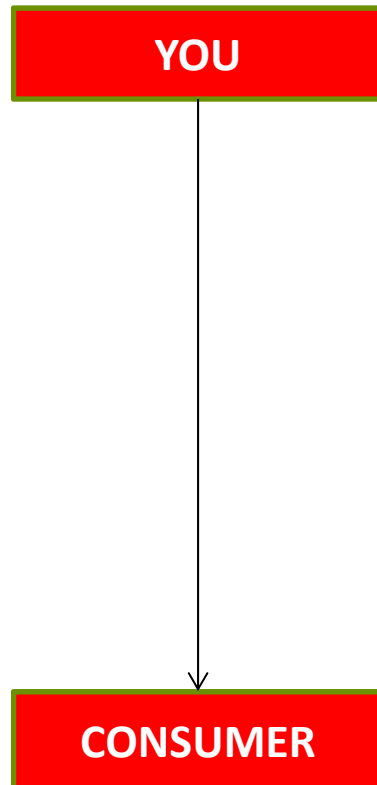
Sage Food Group - www.sagefoodgroup.com

Today's Menu

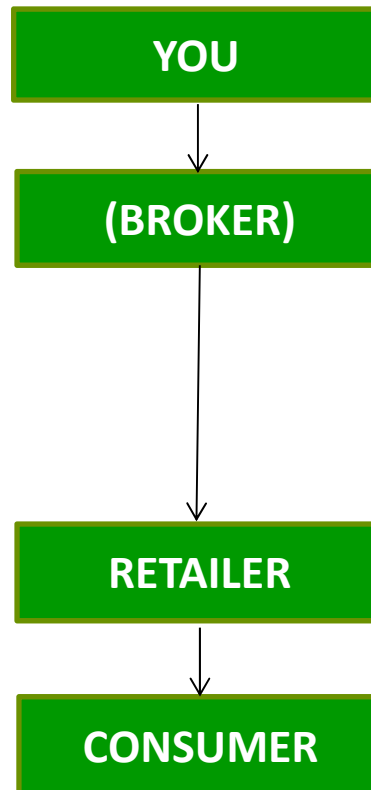
- Cost and price
- Markup vs. margin
- Standard industry margins
- How to price your product
- Sales support costs

3 Business Models

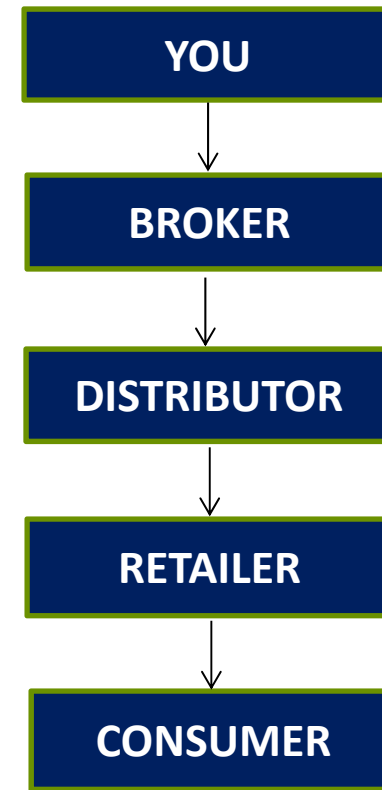
DIRECT-TO-CONSUMER



WHOLESALE



TRADITIONAL



Definitions

COST

- The amount paid to produce a product before it is sold

PRICE

- The money given to the seller for the product

Markup vs. Margin



Markup

IS A % OF COST

- Cost: \$2.00
- Markup: 30%
- $\$2.00 \times (1+30\%) = \2.60
- $\$2.00 \times 1.3 = \2.60

- $\$2.00 \times 1.45 = \2.90 (for 45% markup)
- $\$2.00 \times 1.5 = \3.00 (for 50% markup, etc.)

Most Use Margin

- Manufacturers
- Retailers
- Distributors
 - Kehe works on markup
- Ask what they use

Standard Industry Margins

- Manufacturer: 40% - 60%
- Retailer (non-grocery): 40% - 50% margin
- Retailer (grocery): 25% - 50% margin Use 40%
- Distributor: 25% - 35% margin Use 31%
- Distributor: 30% markup

Margin % (Gross Margin %)

IS A % OF SELLING PRICE

Selling Price: \$4.50

Cost: \$2.70

Selling price – cost = gross profit (\$)

  
\$4.50 minus \$2.70 = \$1.80

Gross profit ÷ selling price = margin %

  
\$1.80 divided by \$4.50 = 40% margin

What a Retailer Pays for Products

MARGIN IS A % OF SELLING PRICE

“Retailer takes a 40% margin.”

- Retailer’s Selling Price: \$4.50
- $\$4.50 \times 40\% = \1.80 (*gross profit*)
- $\$4.50 - \$1.80 = \$2.70$

Retailer is buying product for \$2.70.

How To Calculate Retailer Selling Price

“Retailer takes a 40% margin.”

- Your selling price to retailer: \$4.50
- Retailer margin: 40%
- Your selling price $\div (1 - 40\%) =$ retailer's selling price
- $\$4.50 \div (1 - .40) = \7.50
- $\$4.50 \div .6 = \7.50 (40% margin)

- $\$4.50 \div .75 = \6.00 (25% margin)
- $\$4.50 \div .69 = \6.52 (31% margin)
- $\$4.50 \div .5 = \9.00 (50% margin)

How To Price Your Products

- Know your cost of goods sold (COGS)
- Know your labor & expenses per month
- Understand standard industry margins
- Various pricing strategies
 - Competition
 - Premium
 - Cost-based
- Start with cost-based



Cost of Goods Sold (COGS)

COGS: The direct costs attributable to the production of your product(s).

- Production cost (co-p)
- Ingredients
- Packaging
- Direct labor
- Facility rental
- (Delivery to your warehouse)

How to Calculate COGS

Determine your cost of goods sold (COGS)		
	12	units/cs
Your Product	CASE	UNIT
ENTER production cost	\$ 24.00	\$ 2.00
ENTER label cost	\$ 1.80	\$ 0.15
ENTER delivery cost to warehouse	\$ -	\$ -
ENTER other cost	\$ -	\$ -
ENTER other cost - custom cap	\$ 1.20	\$ 0.10
Your COGS is	\$ 27.00	\$ 2.25

Your Expenses

- Auto
- Bad debt
- Bank, credit card
- Commission
- Computer
- Depreciation
- Equipment lease
- Insurance
- Maintenance
- Marketing
- Meals & entertainment
- Mileage
- Miscellaneous
- Office supplies
- Postage & freight
- Rent
- Supplies
- Taxes & license
- Trade show
- Travel
- Utilities
- Other

Sales Support Costs

How will you get product *off* the shelf?

- Free case per SKU per store (6-packs)
- 15% off first order
- Free shipping
- Buy 10, get 1 free

- 15% off 2-4 times year
- Demos
- Coupons
- BOGO



Sales Support Costs for 30 Stores

DEMOS

- 1 demo per month per store
 - \$100-\$200 per demo
 - \$3,000 to \$6,000 per month
 - \$36,000 to \$72,000 per year

FREE FILL

- 3 SKUs @\$27.00 COGS per case
 - That's \$2,430!

Basic P&L

P&L		Jan-15	
Total Sales	\$	20,000	
Total COGS	\$	10,000	
Gross Profit	\$	10,000	50.0%
Total Labor Costs	\$	3,500	17.5%
Total Expenses	\$	4,500	22.5%
Total Labor & Expenses	\$	8,000	40.0%
Net Profit (Loss)	\$ \$	2,000	
Net Profit (Loss)	%	10%	

Sales – COGS =
Gross Profit

Total Labor + Total
Expenses = Total
Lab & Exp

Gross Profit – Total
Labor & Expenses =
Net Profit (Loss)

How To Price Your Products

FOR WHOLESALE PRICE	CASE	UNIT
Enter COGS	\$ 27.00	\$ 2.25
Enter margin %	50%	
Your FOB wholesale price is	\$ 54.00	\$ 4.50
Enter retailer margin	40%	
Retailer selling price is		\$ 7.50
FOR DISTRIBUTOR PRICE		
Enter % off wholesale	20%	
Your FOB price to distributor is	\$ 43.20	\$ 3.60
Your gross margin is	37.5%	
Enter Distributor margin	31%	
Distributor's selling price is	\$ 62.61	\$ 5.22
Enter retailer's margin	40%	
Retailer's selling price is		\$ 8.70

$$\$2.25 \div (1-.5) = \$4.50$$

$$\$4.50 \div .6 = \$7.50$$

$$\$4.50 \times (1-.2) = \$3.60$$

$$\$3.60 \div .69 = \$5.22$$

$$\$5.22 \div .6 = \$8.70$$

COGS is crucial.



Thank you kindly.



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