Money Matter$
Pricing for Profit

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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**
- YOU
- CONSUMER

**WHOLESALE**
- YOU
- BROKER
- RETAILER
- CONSUMER

**TRADITIONAL**
- YOU
- BROKER
- DISTRIBUTOR
- RETAILER
- CONSUMER

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Definitions

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

**PRICE**
- The money given to the seller for the product
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

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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

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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 x 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 ÷ (1 − 40%) = retailer’s selling price
  • $4.50 ÷ (1 - .40) = $7.50
  • $4.50 ÷ .6 = $7.50 (40% margin)

• $4.50 ÷ .75 = $6.00 (25% margin)
• $4.50 ÷ .69 = $6.52 (31% margin)
• $4.50 ÷ .5 = $9.00 (50% margin)

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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

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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)

<table>
<thead>
<tr>
<th></th>
<th>12 units/cs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Your Product</strong></td>
<td>CASE/UNIT</td>
</tr>
<tr>
<td><strong>ENTER production cost</strong></td>
<td>$ 24.00/$ 2.00</td>
</tr>
<tr>
<td><strong>ENTER label cost</strong></td>
<td>$ 1.80/$ 0.15</td>
</tr>
<tr>
<td><strong>ENTER delivery cost to warehouse</strong></td>
<td>$ /$</td>
</tr>
<tr>
<td><strong>ENTER other cost</strong></td>
<td>$ /$</td>
</tr>
<tr>
<td><strong>ENTER other cost - custom cap</strong></td>
<td>$ 1.20/$ 0.10</td>
</tr>
<tr>
<td><strong>Your COGS is</strong></td>
<td>$ 27.00/$ 2.25</td>
</tr>
</tbody>
</table>
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

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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

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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

<table>
<thead>
<tr>
<th>P&amp;L</th>
<th>Jan-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales</td>
<td>$20,000</td>
</tr>
<tr>
<td>Total COGS</td>
<td>$10,000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$10,000</td>
</tr>
<tr>
<td>Total Labor Costs</td>
<td>$3,500</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$4,500</td>
</tr>
<tr>
<td>Total Labor &amp; Expenses</td>
<td>$8,000</td>
</tr>
<tr>
<td>Net Profit (Loss)</td>
<td>$2,000</td>
</tr>
<tr>
<td>Net Profit (Loss) %</td>
<td>10%</td>
</tr>
</tbody>
</table>

- **Sales – COGS = Gross Profit**  
- **Total Labor + Total Expenses = Total Lab & Exp**  
- **Gross Profit – Total Labor & Expenses = Net Profit (Loss)**

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# How To Price Your Products

## FOR WHOLESALE PRICE

<table>
<thead>
<tr>
<th></th>
<th>CASE</th>
<th>UNIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter COGS</td>
<td>$ 27.00</td>
<td>$ 2.25</td>
</tr>
<tr>
<td>Enter margin %</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>Your FOB wholesale price</td>
<td>$ 54.00</td>
<td>$ 4.50</td>
</tr>
</tbody>
</table>

Enter retailer margin
Retailer selling price is $ 7.50

- $2.25 ÷ (1-.5) = $4.50
- $4.50 ÷ .6 = $7.50

## FOR DISTRIBUTOR PRICE

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter % off wholesale</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Your FOB price to distributor</td>
<td>$ 43.20</td>
<td>$ 3.60</td>
</tr>
<tr>
<td>Your gross margin is</td>
<td>37.5%</td>
<td></td>
</tr>
</tbody>
</table>

Enter Distributor margin
Distributor's selling price is $ 62.61 $ 5.22

- $4.50 x (1-.2) = $3.60
- $3.60 ÷ .69 = $5.22
- $5.22 ÷ .6 = $8.70

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COGS is crucial.
Thank you kindly.

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