Pricing for Profit in Grocery Channel

Step-by-Step with Calculations and Notes

Note: This example is relevant to a business that is producing the product, then selling and distributing the product themselves to a Grocery Retailer. It does not include selling to a distributor that then sells it to the Grocery Retailer.

Step 1: Production Costs (Cost of Goods)

Example:

COGS = Raw Materials + Labour + Packaging

$$6 + 3 + 1 = \$10.00$$

Total COGS = $10 per unit

- COGS represents the true cost to produce one unit.
- **Be sure to include all direct costs – often small producers forget to add COGS like labour, packaging, equipment, freight, etc.**
- Getting this right is essential because all later margins are based on COGS.

Step 1a: Understanding Gross Margin

$$\text{Gross Margin} = \frac{\text{Selling Price} - \text{COGS}}{\text{Selling Price}}$$

Example:

Selling Price = $15.38

COGS = $10.00

$$\text{Gross Margin} = \frac{15.38 - 10.00}{15.38} = 0.35\ (35\%)$$

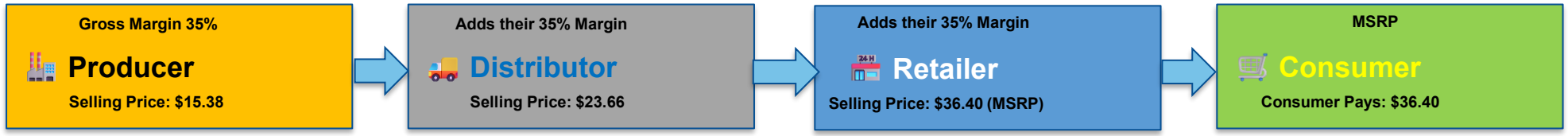
- Gross margin shows what % of each sales dollar is left after covering production costs.
- This margin is essential to cover operating expenses and generate net profit.
- A 35% gross margin means you keep $0.35 of every $1.00 sold after COGS.

Pricing for Profit Scenarios

Scenario 1: Selling Direct to Consumers

Scenario 2: Selling Through Retailers

Scenario 3: Through Distributors & Retailers



Step 3: Gross Profit per Unit

Gross Profit = Wholesale Price – COGS

Example: $15.38 – $10 = $5.38

Gross Profit = $5.38 per unit

- This is your immediate profit before expenses.
- Knowing your gross profit per unit helps you measure sales volume targets.
- If gross profit is too low, you'll struggle to cover OPEX.

Step 4: Operating Expenses (OPEX)

Example of Typical OPEX Categories:

- Marketing = $1.00
- Logistics = $0.75
- Overhead/Admin = $1.25
- Owner Salary = $0.50

Total OPEX = $3.50

OPEX = Marketing + Logistics + Overhead + Salary

$$1.00 + 0.75 + 1.25 + 0.50 = \$3.50$$

- Operating expenses are ongoing business costs not tied to production.
- Include realistic costs: marketing, logistics, rent, salary.
- Be disciplined: underestimate OPEX and you'll overstate profitability.

Step 5: Net Profit

$$\text{Net Profit} = \text{Gross Profit} - \text{OPEX}$$

Example:

$$5.38 - 3.50 = \$1.88 \ (\approx 12\%)$$

Net Profit = $1.88 per unit (~12% net margin)

- This is the money left after ALL costs.
- Net profit is your bottom line and should be a 10 to 15% target.
- If net profit is too low, you must adjust wholesale price or reduce OPEX.

Step 6: Retail Price (MSRP)

$$\text{MSRP} = \frac{\text{Wholesale Price}}{1 - 0.35}$$

Example:

$$\frac{15.38}{1 - 0.35} = \$23.66$$

MSRP = $23.66 on grocery shelf

- Retailers typically add their own 35% margin on your wholesale price.
- This ensures retailers also remain profitable.
- Consumers only see the final price - your role is ensuring profitability before it hits the shelf.

Closing: Why Pricing for Profit Matters

Key Takeaways:

- Cover COGS fully
- Include realistic OPEX
- Protect your gross margin (≥35%)
- Target 10 to 15% net profit
- Ensure MSRP remains competitive

- Profit doesn't happen by accident....it's engineered.
- If you miss steps (like ignoring labour or OPEX), you may sell lots but never make money.
- Pricing for profit is about building a sustainable business model.