

Pricing to Net Profit per Unit (Margin-Based)

This guide explains how to calculate pricing from production costs through to net profit per unit using the margin method. It focuses on the equations and process in a simplified step-by-step format.

Step 1: Calculate Total Production Cost (COGS)

$\text{COGS} = \text{Raw Materials} + \text{Labour} + \text{Packaging}$

Example: $\$6 + \$3 + \$1 = \10 total COGS

Step 2: Calculate Wholesale Price

$\text{Wholesale Price} = \text{COGS} \div (1 - \text{Wholesale Margin \%})$

Example: $\$10 \div (1 - 0.35) = \15.38

Step 3: Calculate Gross Profit

$\text{Gross Profit per Unit} = \text{Wholesale Price} - \text{COGS}$

Example: $\$15.38 - \$10 = \$5.38$

Step 4: Calculate Total Operating Expenses (OPEX)

$\text{OPEX} = \text{Marketing \& Promotions} + \text{Shipping/Logistics} + \text{Overhead Allocation} + \text{Other Variable Opex}$

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

Step 5: Calculate Net Profit

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

Example: $\$5.38 - \$3.50 = \$1.88$

Step 6: Calculate Retail Price (MSRP)

$\text{MSRP} = \text{Wholesale Price} \div (1 - \text{Retail Margin \%})$

Example: $\$15.38 \div (1 - 0.35) = \23.66

Summary of Equations

$\text{COGS} = \text{Raw Materials} + \text{Labour} + \text{Packaging}$

$\text{Wholesale Price} = \text{COGS} \div (1 - \text{Wholesale Margin \%})$

$\text{Gross Profit} = \text{Wholesale Price} - \text{COGS}$

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

$\text{MSRP} = \text{Wholesale Price} \div (1 - \text{Retail Margin \%})$

By following these equations, you can clearly see how each stage of the process contributes to your final net profit per unit.