



Cost of Goods

Cost of oil includes:

- Cultivation I year of irrigation, fertilizers, pest control, etc.
- Harvest laborers, equipment rental
- Transportation of olives to mill
- Milling
- Bulk containers
- Transportation of bulk oil
- Storage

Cost of oil does NOT include land or trees

Cost of Goods

Cost of packaging includes:

- Bottle
- Label
- Closure
- Bottling expenses
- Case/Carton for bottles

Cost of packaging does NOT include expenses for shipping to customers.

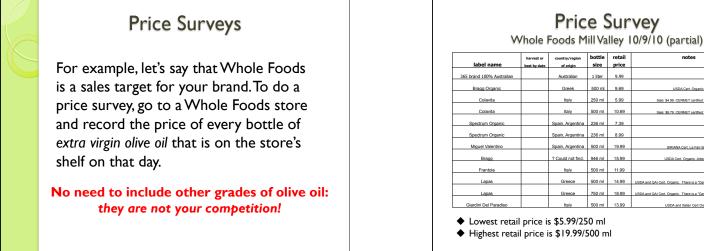




Other Business Expenses

- Overhead: office and warehouse rent, wages
- Administration: bookkeeping, office maintenance, phones, internet
- Financial: bank fees, loan service
- Marketing: print materials, website, trade shows
- Public Relations (activities leading to media exposure e.g. product donations for fundraisers)
- Memberships COOC (very important!)





Price Survey

price

9,99

9.69

10.69

15.99

11.99

14.99

18 99

notes

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Establishing Pricing

- Determine your cost of goods
- Add a profit that covers estimated costs of sales opportunities, other business expenses
- Establish Wholesale & Suggested Retail Prices
- >Wholesale is your selling price to Retailers
- Suggested Retail is the selling price to Consumers – it is just a suggestion because a retailer can sell at any price, even below cost, if they want to.

Margin vs. Mark-Up

- **Margin** is the percentage of the selling price that is profit.
- **Markup** is the percentage of cost added to cost to arrive at the selling price.
- These are different calculations; a selling price with a margin of 25% results in more profit than a selling price with a markup of 25%.

Margin vs. Mark-Up

- Mark-ups are based on a percentage of cost: =Cost + (Cost * Markup Percentage)
- The formula to calculate the <u>sales price</u> at a specific Margin based on the cost is: =Cost/(1-Margin Percentage)
- Alternately, the formula used to calculate the <u>Margin percentage</u> based on the sales price and cost is : =1-(Cost/Selling Price)

Retail Pricing Models

Independent specialty stores typically set retail prices at 2 X cost (50% margin/100% mark-up).

Large format specialty stores (Whole Foods) typically set retail prices at 40-45% margin (~70-80% mark-up).

PRICING					
Wholesale	Retail	Retail			
	50% margin	40% margin			
\$10.00	\$20.00	\$16.67			

Pricing Model

Based on pricing below, what would you set as the suggested retail price?

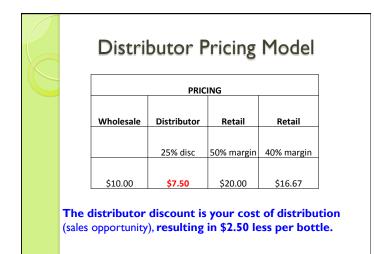
PRICING						
Wholesale Retail Retai						
	50% margin	40% margin				
\$10.00	\$20.00	\$16.67				

Your suggested retail price should NEVER be lower than your customer the retailer's price, therefore it needs to be \$20 or higher. If you are selling direct-to-consumers on a website, you should not be undercutting your customer's pricing.

SUCCESS!

You are selling lots of oil in Whole Foods and the buyer (*I mean team leader*) loves your brand! Now they want your oil in every store in the region, however they insist that you must use a distributor in order to continue selling to them.

What does it take to work with a distributor?



Distributor & Broker Pricing Model

Some distributors work in conjunction with a broker. In this case YOU pay the broker a 5% sales commission, based on the distributor price.

	PRICING						
Net							
	Wholesale	Distributor	Broker	Sales	Retail	Retail	
		25% disc	5% of dist		50% mrg	40% mrg	
	\$10.00	\$7.50	\$0.38	\$7.13	\$20.00	\$16.67	

Good News – the price including distributor and broker commission is your lowest net sales price!

Bad News – did you consider these costs of sales opportunities when you established your wholesale price?

If you raise your wholesale price to include the costs of using a distributor and broker, the <u>retail price will increase</u> and you will lose the retail account. Lack of understanding of these food industry pricing practices leads to the most common mistake made by new food producers – pricing your product too low.

Every time you increase your wholesale price you give the retailer the opportunity to review your product's performance and consider discontinuing your product.

Pricing Model including Cost of Goods

	PRICING							
	Cost of Goods	Wholesale	Distributor	Broker	Net Sales	Retail	Retail	
			25% disc	5% of dist		50% mrg	40% mrg	
	\$8.50	\$10.00	\$7.50	\$0.38	\$7.13	\$20.00	\$16.67	
Profit		\$1.50	\$(1.00)		\$(1.38)	\$11.50		

Pricing Model including Cost of Goods

	PRICING						
	Cost of Goods	Wholesale	Distributor	Broker	Net Sales	Retail	Retail
			25% disc	5% of dist		50% mrg	40% mrg
	\$7.00	\$10.00	\$7.50	\$0.38	\$7.13	\$20.00	\$16.67
Profit		\$3.00	\$0.50		\$0.13	\$13.00	
Is your business sustainable at your lowest gross profit?							

• As your business grows, a larger percentage of your sales will be at the lowest gross profit, therefore you need to establish wholesale and retail pricing that supports this amount.

- Your sustainable pricing model must take into account both the lowest gross profit AND the price acceptability in your target market.
- Knowing and controlling your cost of goods is the first step in establishing a sustainable business model.

Price Acceptability

In our price survey the lowest retail price was \$5.99 and the highest retail price was \$19.99.

Let's reverse engineer the prices to determine wholesale and distributor pricing.

Retail 40% margin	Wholesale	Distributor	Broker	Net Sales
\$5.99	\$3.60	\$2.70	\$0.14	\$2.57
\$19.99	\$12.00	\$9.00	\$0.45	\$8.55

Can you make a profit if your net sales price is between \$2.57 and \$8.55?

