



### 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.

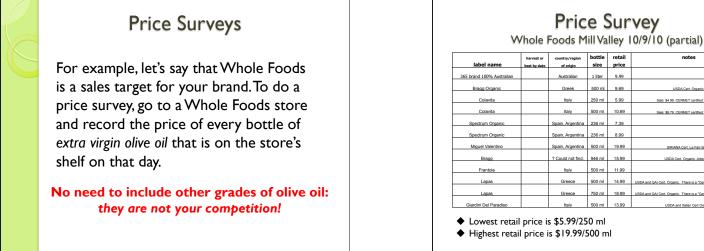




### **Other Business Expenses**

- 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?

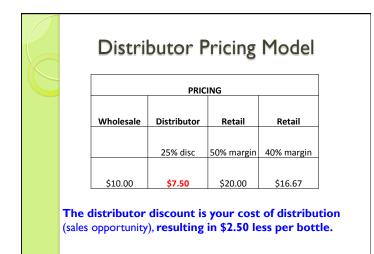
PRICING						
Wholesale Retail Retai						
	50% margin	40% margin				
\$10.00	\$20.00	\$16.67				

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.

<b>Retail</b> 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?

