Pricing Worksheet

Retail Selling Price	$	________
Less Retailer's Margin (RM) of 40%t[I-RM]		x 60%
Equals Retailer's Cost	= $	________
Less Distributor's Margin (DM) of 25% [I-DM]		x 75%
Equals Distributor's Cost	= $	________
Subtract shipping costs paid by manufacturer	- $	________
Equals Price manufacturer receives	= $	________
Less Processor's margin (PM)'of 400/0 [1-PM]		x 60%
Processor's Cost	$	________

EXAMPLE

If the retail selling price is $5.00, total manufacturing costs per unit are $1.40 and the manufacturer pays shipping costs of 5 cents per unit, you would sell your product to the distributor for $2.20:

Retail Selling Price		$5.00
Less Retailer's Margin (RM) of 40% [I-RM]	x	60%
Equals Retailer's Cost/Unit	=	$3.00
Less Distributor's Margin (DM) of 25% [I-DM]	x	75%
Equals Distributor's Cost	=	$2.25
Subtract shipping costs paid by manufacturer	-	.05
Equals Price manufacturer receives	=	$2.20
Less Processor's Margin (PM) of 40% [I-PM]	x	60%
Processor's Cost	=	$1.32

A production cost (C) of $1.32 is necessary to have a 40% margin for the manufacturer. Since actual costs are $1.40, the true profit margin this scenario is 36% [M=I-(1.40/2.20)].

Is the margin you found acceptable? If not, the price to the consumer will need to be changed or your costs need to be reduced. Keep in mind that there are limits to the price you can charge for a product without encountering stiff consumer price resistance.

There are price-points where small changes in price can have a significant effect on sales. These price points are just below the even dollar amount. If your retail price is $5.07, you may want to consider lowering it to $4.99 or $4.95 to create a more favorable consumer perception of the price.

Most lkely you sell through a variety of distribution channels - direct to consumers, direct to some retailers or "house accounts" and through brokers. If you sell direct to consumers, you must charge them the full retail price to prevent undermining your retailers. All retailers must pay the same price as well, regardless of whether they order through a broker or not. Therefore, your volume may be lower on house accounts but your profit margin will be higher.

Furthermore, if you have a line of products, consider charging the same price across the board. Such a strategy will make it more convenient for retailers to order products and price them on their own shelves.