Distribution

Pricing, Margins & Cost to go to Market

Outline

Wednesday, December 18, 2019

- Sales Channels & Revenue Streams
- Costing & Margin Calculation
- Distribution: Selling to your Customer
- Distribution Methods: Pros & Cons
- Key Learnings

Sales Channels

Sales Channels

The Avenues through which to sell your product, such as:

- Farmer’s Markets
- Gift & Craft Fairs
- Independent Retail Grocery
- Regional Grocery Chains
- Food Service
- Institutional Food Service
- Online Sales

Market Channels & Revenue Streams

How Many Market Channels is Too Many?

- 3 to 4 is appropriate
- Too many channels = loss of focus and costly
- Too few channels = high risk

Benefit of Multiple Market Channels

Pricing Your Product

Margin vs Markup

- Understand the difference between Margin vs Market
- The Food and Beverage industry typically uses margin
- If you use markup over margin you will lose

What is Markup?

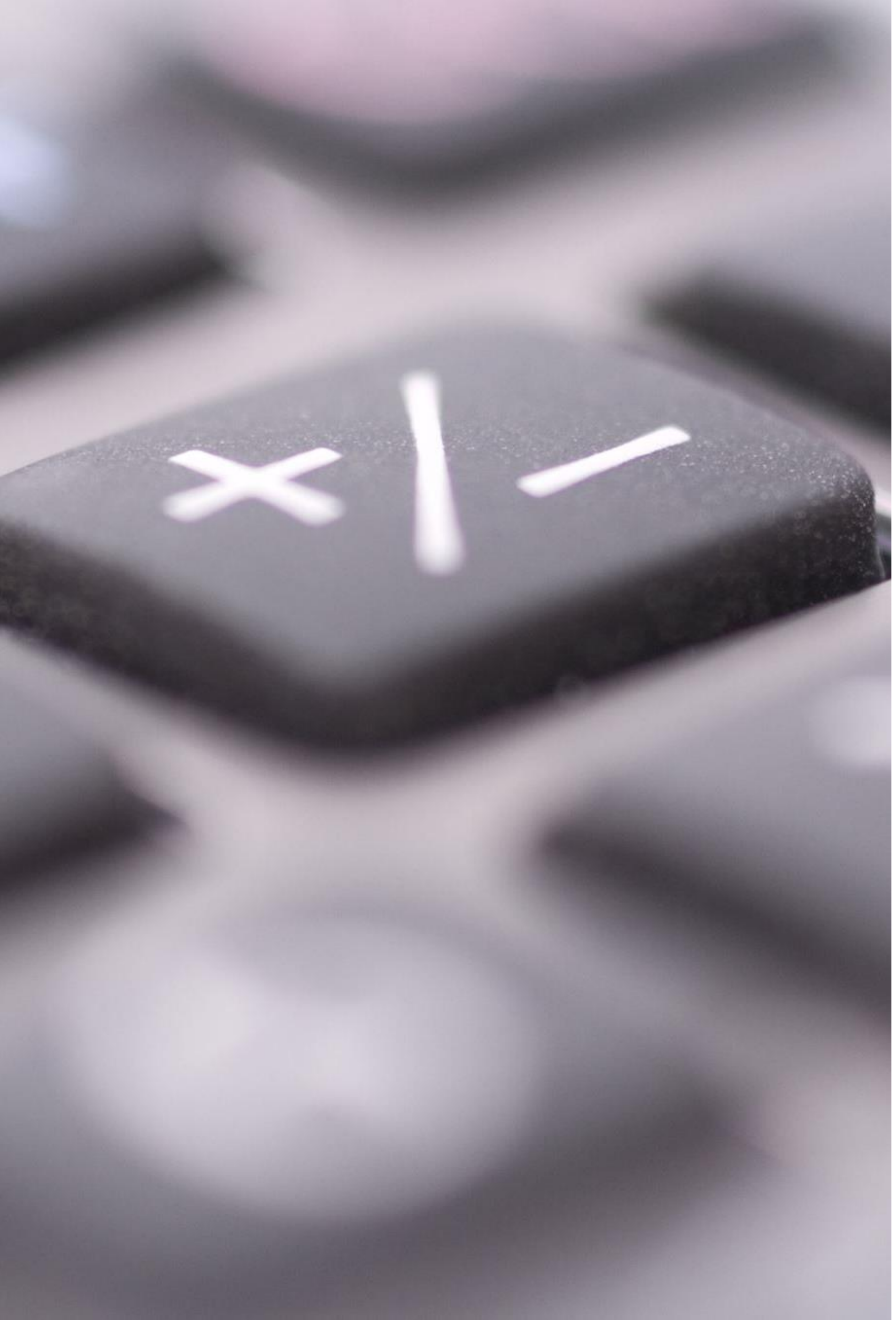
Mark up is the % difference between the actual cost and the selling price

If the product cost = $1.00 and Markup is 40% the calculation is: $1.00 x 1.40 = $1.40

What is Margin?

Margin is the percentage difference between the selling price and the profit

A cost of $1.00 with 40% margin = $1.67



Margin Calculation

1. Turn 40% into a decimal by dividing 40 by 100, = 0.4.
2. Minus 0.4 from 1 to get 0.6.
3. Divide the cost by 0.6.
4. The number that you receive is how much you need to sell the item for to get a 40% gross margin.

Cost $1.00 /.6 = $1.67

Using Markup over Margin

$1.00 cost example shows a loss of $.27 with using markup over margin!

Pricing Your Product For Retail

Pricing for Retail

Your Cost + Gross Margin

Your cost + a 40% margin MINIMUM!

Distribution

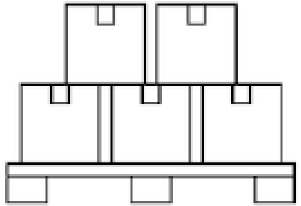
Build Pricing for Future: Include a cost for distribution of no less than 25%

Suggested Selling Price

Retailer Margins: don’t try and change them. Build your pricing with 40% for the retailer

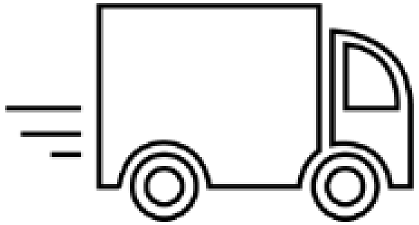
PRICING YOUR PRODUCT FOR RETAIL

CALCULATING MARGIN AT EVERY STEP



PRODUCT COSTS

The total cost for you to manufacture one unit of product - also known as Cost of Goods (COGs). It includes ingredients, packaging, and labour, as well as any freight in for ingredients and packaging.



DISTRIBUTOR PRICE

The price you sell your product to the distributor for. Generally manufacturers (you) retain a 40% margin at least.

WHOLESALE PRICE

The price the distributors sell your product to retailers. Generally distributor profit margins are 25% – 35%.

RETAIL PRICE

The price of your product on the retail shelf. Generally retail profit margins are 33% - 50%. Use 40% to start.

PRICING YOUR PRODUCT THROUGH THE VALUE CHAIN

CHOOSE A METHOD

WORK UP
FROM PRODUCT COST

$1.00
YOUR PRODUCT COST

$1.67
PRICE TO DISTRIBUTOR
40% Margin: $1.00 / (1-.40) = $1.67

$2.39
PRICE TO RETAILER
30% Margin: $1.67 / (1-.30) = $2.38

$3.98
PRICE TO CONSUMER
40% Margin: $2.39 / (1-.40) = $3.98

SUGGESTED RETAIL PRICE (SRP)
$3.99

WORK DOWN
FROM SUGGESTED RETAIL PRICE

$3.99
YOUR SUGGEST RETAIL PRICE

$2.39
PRICE TO RETAILER
40% Margin: $3.99 x (1-.40) = $2.39

$1.67
PRICE TO DISTRIBUTOR
30% Margin: $2.39 x (1-.30) = $1.67

$1.00
YOUR PRODUCTION COSTS (COGs)
40% Margin: $1.67 x (1-.40) = $1.00

YOUR COST OF GOODS (COGs)
$1.00

Distribution

Types of Distribution

- Self-Distribution
- Third-Party Distribution
- Delivery Agents
- Canada Post
- Couriers

Self-Distribution

Pros

- Customer Contact
- Cost Saving
- Sales Information

Cons

- Time Constraints
- Geographic Limitations
- Investment Infrastructure

Third-Party Distribution

- Purchase your products
- Hold Inventory in their warehouse
- Hold receivables
- Ability for expansion
- Payment within 30-day terms

Pros & Cons Third-Party Distribution

Pros

- Lower risk on A/R
- Access to more retailers
- Reduced admin cost & labour

Cons

- Loss of profit
- Loss of customer contact
- Loss of customer information

Key Learnings

Revenue streams should support you from both a financial as well as a physical perspective

Make sure you understand the difference between margin and markup and that you use MARGIN ALWAYS

Product pricing should consider: your gross margin, the distributor and the retail margin when developing pricing

Determine which distribution model will work best for your business

Questions?