



**PRICING
INFO
SHEET**

One of the most critical cornerstones of creating a profitable company is pricing your product correctly.

There are many factors to consider so please read the following material carefully.

Before you begin using the formula to calculate the pricing here is some background to consider:

1. COGS (Cost of Goods Sold): food ventures work on a COGS basis and the typical COGS runs between 38-42%.
 - a. This is the price to the distributor not the retailer.
 - b. Please remember that when costing out the item it includes the cost of ingredients as well as the packaging.
 - c. For this exercise labor is not included in COGS (this is because typically in small businesses, employees multiple tasks so identifying manufacturing labor costs are more difficult).

2. To figure out your recipe, you can use the Culinary Costing Template we have included in Step One.
 - a. Cost of ingredients: Depending on the food product you need to consider the concept of "yield".
 - i. Example: If purchasing a 20 lb bag of potatoes that need to be cleaned and peeled the reality is that you only have about a 16 lbs (80%) yield rate. So the cost per lb. is not what you paid on invoice but rather the cost divided by the yield. This can make a significant impact on the cost of ingredients and thus the price they need to charge.





3. Add the packaging costs to the recipe costs to get COGS.

- a. Other applicable costs that will be captured in your expense categories include labor, shipping and handling and storage. Again, for this formula they are not included in COGS.

Channels of distribution (how you sell your product) **MUST** be taken into account. And taking them into account now (regardless of how you are currently selling/distributing your product) allows for growth into all distribution channels without having to increase your price later (and potentially losing customers because of sticker shock).

1. Distribution channels are:

- a. Direct to Retail – this is when you sell directly to end-consumers yourself from your location or end-consumer events or on your website.
- b. Direct to Wholesale – when you sell your product directly to stores or sellers that then sell to the end-consumer.
- c. To Distributors – when you sell to sellers who sell to wholesalers.

2. Each of these channels has to have its margin in order to maintain its business's profitably. Typically (though this can vary so you need to make sure when you use the formula you are using the correct margins for your industry) in the food industry the margins are:

- a. Distributor adds 25-30%.
 - b. Wholesaler adds 30-50%.
 - c. You need to add your 40% minimum to the cost of your COGS.
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Now to the formula:

Again, please note that the most common mistake is to NOT consider all of the various levels of distribution so that growth is an option.

There are 2 methods that you can use:

5. Production to Retail – this allows you to set the price based on your COGS: As mentioned, the COGS is typically 38-42%, the distributor margin is 25%, and the retailer margin is 35%. These margins might vary slightly depending on your product so make sure you check. A typical example of the math looks like:

- a. Cost of the item with packaging is \$2.00 (your COGS)
- b. At a 40% Margin for you the selling price would be $\$2.00 / .60 = \3.33
- c. Distributor buys at \$3.33 and adds their 25% margin so sells to the retailer (wholesaler) for \$4.44 ($\$3.33 / .75 = \4.44)

6. Retail Price to COGS by item – this method allows you to set a price you think the market will pay and then work “backwards” to see if you can produce the product at the COGS that are the result of the formula. Let’s look at an example in which we are using a Suggested Retail of \$9.99:

- a. Minus the retailer’s margin of 35%: $\$9.99 \times .65 = \6.49 . So the price to a retail store (Wholesale Price) = \$6.49
 - b. Minus distributor’s margin of 25%: $\$6.49 \times .75 = \4.87 . So the price to a distributor (Distributor’s Price) = \$4.87
 - c. Minus your margin of 40%: $\$4.87 \times .60 = \2.92
 - d. COGS in order for you to be profitable has to be \$2.92 (or less).
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