How To Price For Wholesale

Presented by:

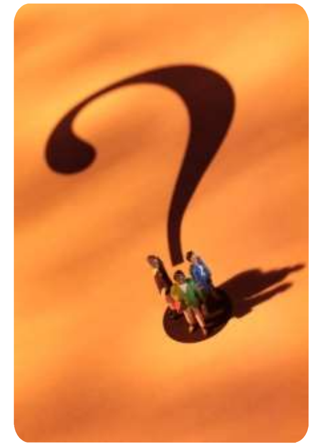
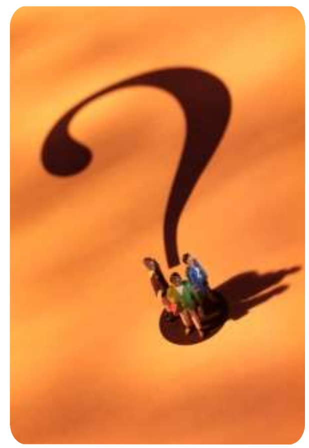
Peter G Harriman

Certified Business Adviser

MAINE SMALL BUSINESS DEVELOPMENT CENTERS

Purpose of this Presentation

- This presentation was designed to help understand pricing – wholesale and otherwise!
- 3rd in a 5 Part Series! Slides will be available! Webinar is being recorded.
- Questions in Chat please!
- By the end of this presentation, you will understand how to begin to determine the price of your product/service. This presentation is to help you get a good base to grow on.


Wholesale Webinar Series

A five part-series in partnership with the
New England Made Show March 15-17, 2025, in Portland

~~**Is Wholesale Right for Your Small Business?**~~

- ~~December 17, 2024~~

~~**How to Prepare Your Business for Wholesale**~~

- ~~January 7, 2025 @ 10:00 AM~~

How to Price for Wholesale

- January 14, 2025 @ 10:00 AM

How to Design a Booth for a Wholesale Tradeshow

- February 5, 2025 @ 11:00 AM

Panel Discussion: What I Wish Someone had Told Me About the NEM Show

- February 24, 2025 @ 2:00 PM

Register for webinars

How to Design a Booth for a Wholesale Trade Show

Feb
5
2025

Wed, Feb 5 11:00 AM to 12:00 PM

Add to Google Calendar | Outlook Calendar | Apple Calendar

Online

Facilitated by Maine SBDC

Topic: Managing a Business

Presented by Stefa Normantas, New England Made Shows

You have 3-7 seconds to capture someone's attention before they walk by your booth. Creating a booth that sells for you is the difference between a successful show and a loss. However, there's tons of design tips and tricks that aren't intuitive and make the difference in sales. Register for this class to learn what makes a buyer stop, connect with you and your products and make the sale!

What To Expect at NEM – A Veteran Panel Share Their Experiences

Feb
24
2025

Mon, Feb 24 2:00 PM to 3:00 PM

Add to Google Calendar | Outlook Calendar | Apple Calendar

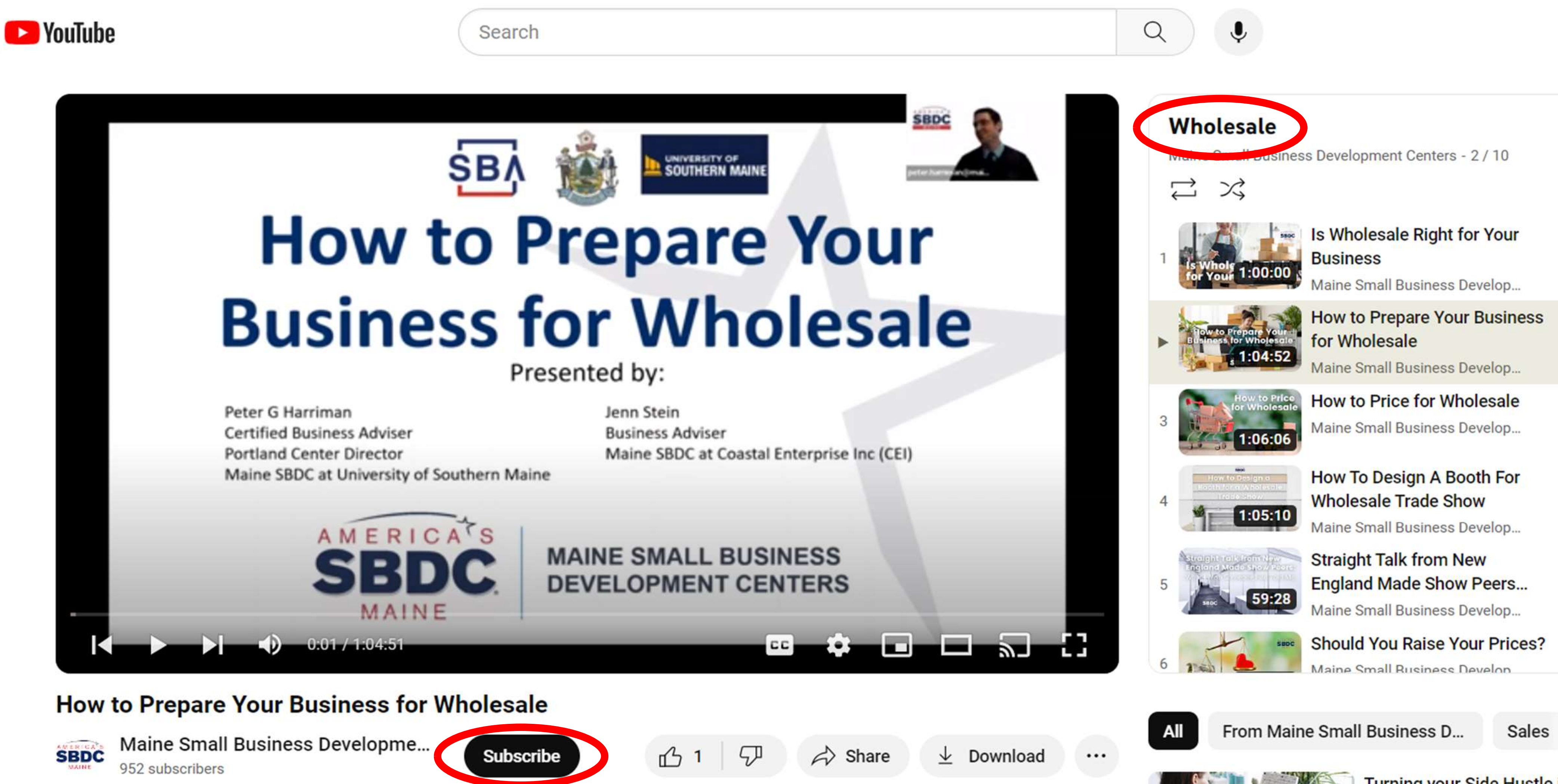
Online

Facilitated by Maine SBDC

Topic: Managing a Business

Panel discussion with seasoned NEM exhibitors moderated by Stefa Normantas, New England Made

You don't know what you don't know! Register now to learn from your peers with their hard-earned wisdom. They'll discuss what they wish they knew as they developed their wholesale business. Save yourself time and money as you learn what marketing, sales and operational challenges they've overcome and how they've done it.



https://www.youtube.com/watch?v=Uc4HG_DtQ-g&list=PL4gDmZQf5ijvCC2OseRYfZUlP7d_EU8wk&index=2

Summary Agenda

- Introduction
- Pricing – 3 Points of a Price
- Wholesale: Markup, Margin, Keystone!
- Common Pricing Strategies/Issues (Very Briefly)
- Wrap up - Questions

Who I am?

Peter Harriman

Certified Business Advisor

Southern Maine Area Center Director

Peter.Harriman@maine.edu

Maine Small Business Development Center

www.mainesbdc.org

AMERICA'S SBDC MAINE

Our Differentiator: Research, Breadth, and Time

One-on-One Advising
Business Advisors work with clients in a confidential manner one-on-one

SBDCnet
Ordering Research – Business Plan Samples, Trends, Map Analysis, etc

Industry Standards, helping with company specific Financials

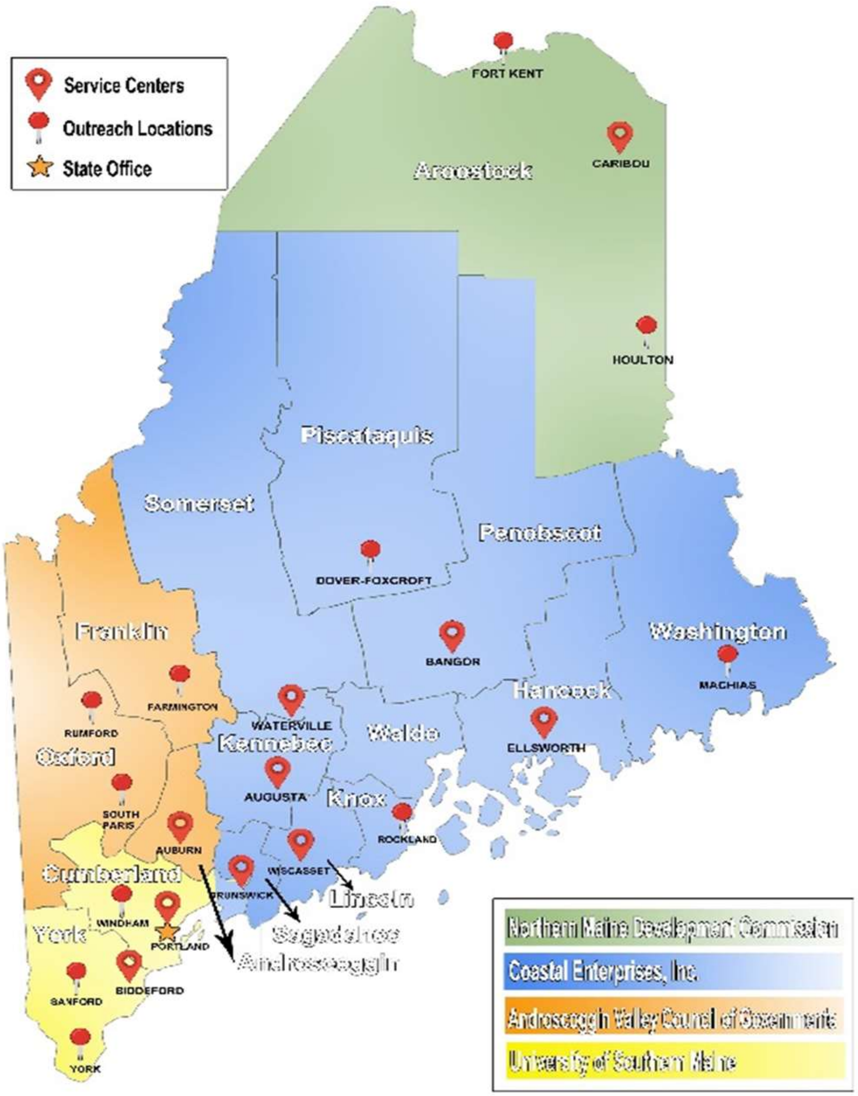
VerticalIQ
Up-to-date Industry Reports

General Information about a Wide Array of Topics with Full-Time, Trained and Certified Staff

AMERICA'S SBDC MAINE

Disclaimer

- THE SBDC DOES NOT PROVIDE TAX, LEGAL OR ACCOUNTING ADVICE. THIS MATERIAL HAS BEEN PREPARED FOR INFORMATIONAL PURPOSES ONLY, AND IS NOT INTENDED TO PROVIDE, AND SHOULD NOT BE RELIED ON FOR, TAX, LEGAL OR ACCOUNTING ADVICE. YOU SHOULD CONSULT YOUR OWN TAX, LEGAL AND ACCOUNTING ADVISORS BEFORE ENGAGING IN ANY TRANSACTION.



12 SBDC advisors cover locations across the State of Maine

AMERICA'S SBDC MAINE

SBDC Hosts Across Maine

- USM
- NMDC
- AVCOG

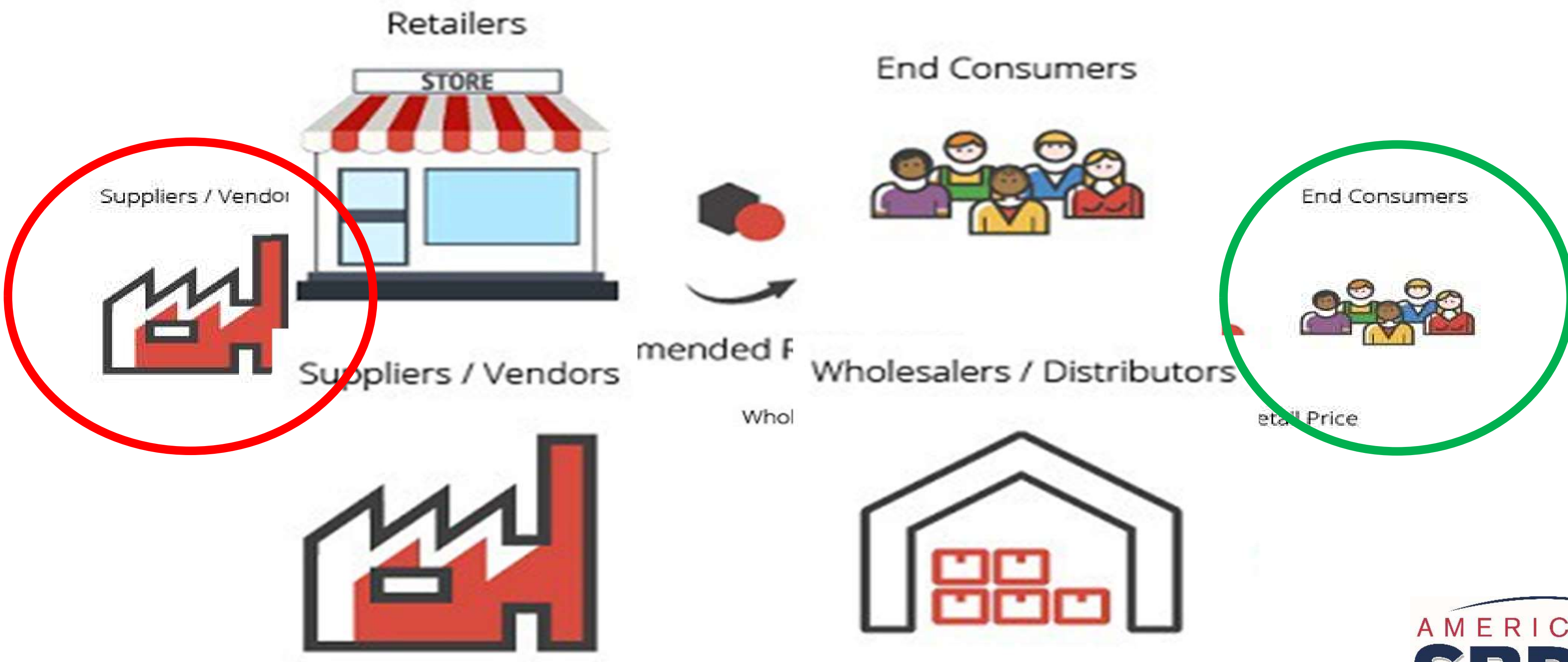
https://www.mainesbdc.org/

AMERICA'S SBDC MAINE

OR Find us on YouTube

AMERICA'S SBDC MAINE

Where are you at with Pricing?



Pricing is Complex!

- Pricing Technique – Strategies
- Target Market
- Competition
- Company Image/Positioning
- Distribution Channels
- Material/Labor Costs and Supply
- And to some extent… predicting the future….

AMERICA'S SBDC MAINE

The First Step in Pricing is…

RESEARCH:

Understand your Client

Understand your Channels

Price Point Determination versus Pricing Strategies

- **Price Point Determination** –
  Is the act of understanding at what price you need to sell
  (This is what we will be focusing on)

- **Pricing Strategy** –
  Is a marketing technique to help you sell

3 Points (Methods) to Determine Price Point

The Business Owner needs to have an understanding of their product/service:

1. Cost Basis (In Depth) [Cost-Plus Method]
2. Market Basis (i.e. Competitor Analysis)
3. Market Acceptance

   (i.e. Customer Perception of Value)

The Business Owners Needs to Consider ALL THREE!

AMERICA'S SBDC MAINE

How do you determine your Cost Basis? (Minimum Price)

- Break down the process into 4 Steps (5 Steps for Wholesale):

  1) Step 1 - Direct Costs: (Often Called COST OF GOODS SOLD/ Variable Cost)

     - Materials or Ingredients

       What is going into each product directly? Ingredients? Components? SHIPPING COSTS? Packaging? Labelling?

     - Labor*

       (How much would you have to pay someone else to do the job?)
       Run a test batch and time yourself, this will help break it down!

Let's Talk About Labor Costs…

- Two (Basic) Methods of Calculating Labor Costs
  - COGS
    - Break Down the Labor for each product
  - Put it into Indirect Costs/Overhead
    - Think of Labor as a fixed costs:

AMERICA'S SBDC MAINE

Example of Breaking Up Labor Cost – COGS (Direct Cost)

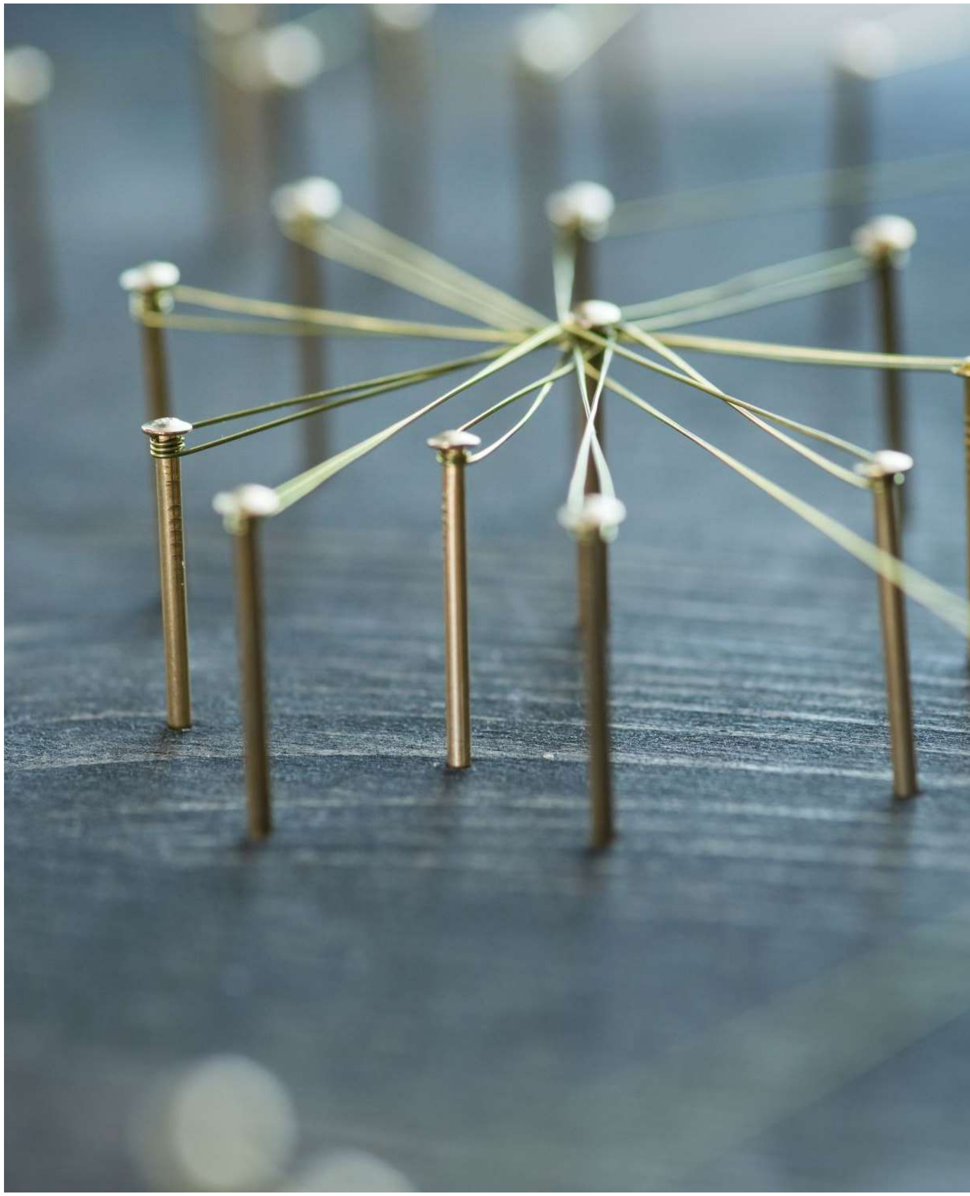
- Business Focuses on one piece at a time
- Jewelry Maker
  - How many earrings can you make in an hour?

    In 1 Hour can make 3 earrings
  - What is your hourly costs?

    Hourly pay rate at $15/hour

    Labor cost = $5/earing

(Important for KPI Metrics Later)



Continued –
Indirect Costs/Overhead

- Business Focuses on many products at once
- Baker
  - Take the Baker Salary*:
  - 40 hrs a week @ $18/hour = $720/ week
  - $720 x 52 Weeks = $37,440/ year

  - Divide the annual salary by sales –
    More on this in a couple slides!

AMERICA'S SBDC MAINE

Cost Basis Continued

2) Step 2 - Indirect Cost Next: **This is the hardest step**

- Determine **Annual Overhead Costs** and **Annual Sales (in units)**

Overhead costs are not determined by how many units you sell –

Insurance, rent, fees, etc. (*Labor!) – Sometimes referred to as Fixed Costs

Annual Costs/Sales need to be **projected** or you can take **last years**

Use the equation:

Overhead/ Annual Sales (in units) if you only have 1 type of unit

short example: $30,000/ 2,000 units = $15 per unit

AMERICA'S SBDC MAINE

More then One Product?

- Start the same – Find Annual Indirect Costs/Overhead
  - Let's stick with $30,000/ year in overhead

- Then look at Projected or Historic Sales = $50,000

Product A	Product B	Product C	
15,000 Units	1,000 Units	1,000 Units	
$37,500	$7,500	$5,000	= $50,000
75%	**15%**	**10%**	

More then One Product Continued…

Product A	Product B	Product C	
15,000 Units	1,000 Units	1,000 Units	
75%	**15%**	**10%**	

Portion of Indirect Cost:

$22,500	$4,500	$3,000	= $30,000
$1.50/unit	$4.50/unit	$3.00/unit	

Total Costs

- Steps 1 (Direct Costs) and Steps 2 (Indirect Costs)

  add up to your Total Costs

- You CAN NOT sell your product or services below this cost without losing money!

AMERICA'S SBDC MAINE

Cost Basis Continued…er..on

3) Step 3 - NEEDED Profit*

- To replace equipment, expand, or take a vacation at some point!
- Some people chose a profit % that is in line with their industry

4) Step 4 - Taxes on the Needed Profit (and possibly taxes on owner pay)

- Estimate 25%-30% taxes on your profit amount

3 & 4 combine to create **your** profit margin*

Keep in Mind the Retail versus Wholesale!

Adds a 5th step!

AMERICA'S SBDC MAINE

All the Steps on ONE Page:

- Price should include the following:
  - 1a) Materials, ingredients, packaging, etc (Direct Costs)
  - 1b) Labor* (Direct Costs)
  - 2) Overhead (Indirect Costs –Hardest to figure)

  - 3) **Needed Profit** – to replace equipment, expand, or take a vacation at some point!
  - 4) Taxes on Needed Profit (estimate at 25-30%)
  - 5) Retail Markup/Margin…

Three Pricing Terms to Know for Wholesale:

- Markup
- Margin
- Keystone

Markup – not Margin

- Definition:

  Markup is the amount that you increase the price of a product to determine selling price. Put another way, it is the amount above cost that you are selling your product for.

- Calculation: (Unit Cost = Wholesale Price)

  Markup = ((Sales Price – Unit Cost) / Unit Cost) x 100

- Example

  Markup = (($15-10)/$10) x 100

  Markup = (($5)/$10 x 100

  Markup = 0.5 x 100 = 50%

More Visually:

$$\text{Markup Percentage} = \frac{\text{Sales Price} - \text{Unit Cost}}{\text{Unit Cost}} \times 100$$

$$\frac{\$15 - \$10}{\$10} \times 100$$

$$\frac{\$5}{\$10} \times 100$$

For example, if a product costs $10 and the selling price is $15, the markup percentage would be ($15 – $10) / $10 = 0.50 x 100 = 50%.

Most Likely Scenario:

- A Buyer says that they Markup **125%**

First take your cost = $10
and multiply by percent = 125% = 1.25

$10 x 1.25 = $12.50   (This is the amount of Markup)

Add the amount of Markup to your Cost to get your Final Price

$10 + $12.50 = $22.50   Price with 125% Markup

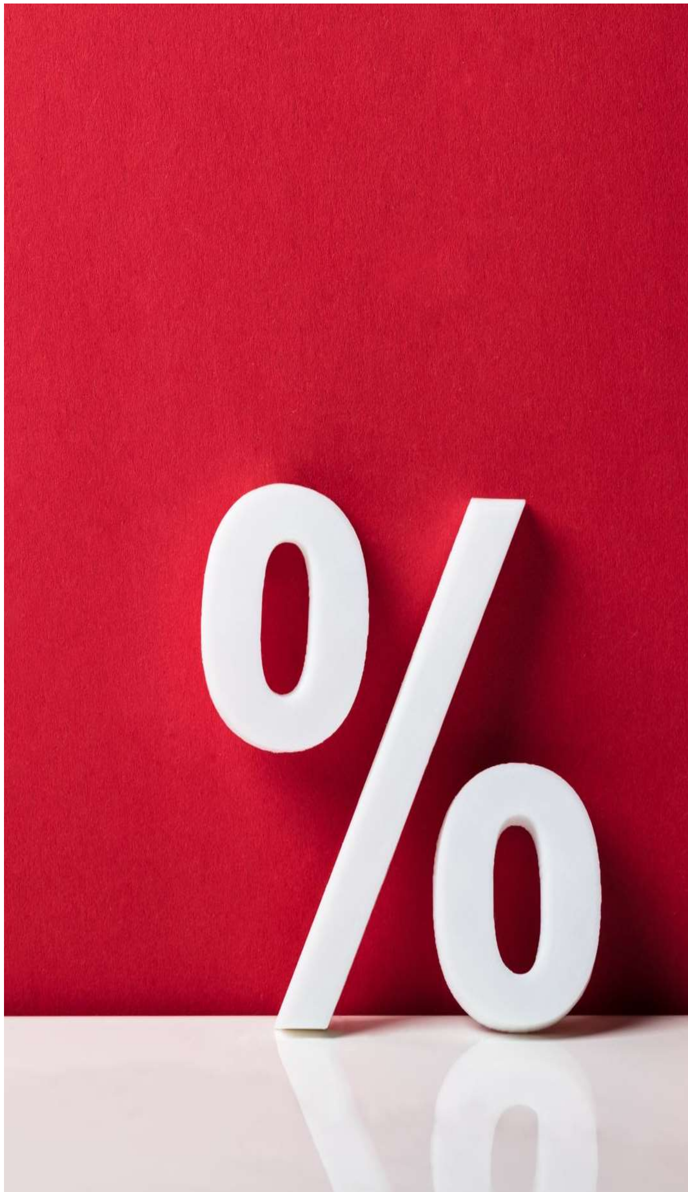
Calculating Retail Price if you know the Markup Percentage

Retail price is calculated with the following formula:

- Wholesale Price x (1+Markup Percent) = Retail Price
- Here's an example based on a wholesale price of $30 and a 60% markup percentage:
- Convert the markup percent into a decimal: 60% = .60
- Add it to 1 to get the multiple: 1 + .60 = 1.6
- Multiply the wholesale price by 1.6

The answer is your retail price

- $30 (Wholesale Price) x 1.6 = $48 (Retail Price)



Which Product Do You Believe Has the Higher Markup?

HIGH SCHOOL RING

1,329%

BOTTLED WATER

4,000%

A $2 water bottle generally costs the manufacturer around 5 cents to make.

MOVIE THEATER POPCORN

1,275%

The wholesale price for a small popcorn is about 35 cents.

COFFEE ON THE GO

300%

A drink made by a barista would often cost under 50 cents if made at home.

Sources:
www.thekitchn.com/grocery-store-biggest-markup-23004498
www.rd.com/list/10-outrageous-markups-youd-never-guess-you-were-paying/
www.businessinsider.com
www.fool.com

swagbucks

Margin – not Markup

- Definition:

  Margin is the difference that a product is sold for and the cost. It is the amount of money earned from the Sale. It is sometimes called Gross Margin.

- Calculation: (Unit Cost = Wholesale Price)

  Margin = ((Sales Price – Unit Cost) / Sales Price) x 100

- Example

  Margin = (($20-10)/$20) x 100

  Margin = (($10)/$20 x 100

  Margin = 1/2 x 100 = 50%

A More Likely Scenario:

- A Buyer says they must maintain a **75%** Margin

First take the desired profit margin of 75% and subtract it from 1 = 1 – 75% or 1 – 0.75 = 0.25

Then take your cost and divide it by that number

$10 / 0.25 = $40 – So you know what they will sell for

Check the math:

Margin = ((Sales Price - Cost) / Sales Price) x 100

Margin = (($40-$10) / $40) x 100

Margin = ($30 / $40) x 100 = ¾ x 100 = 75% Margin

AMERICA'S SBDC MAINE

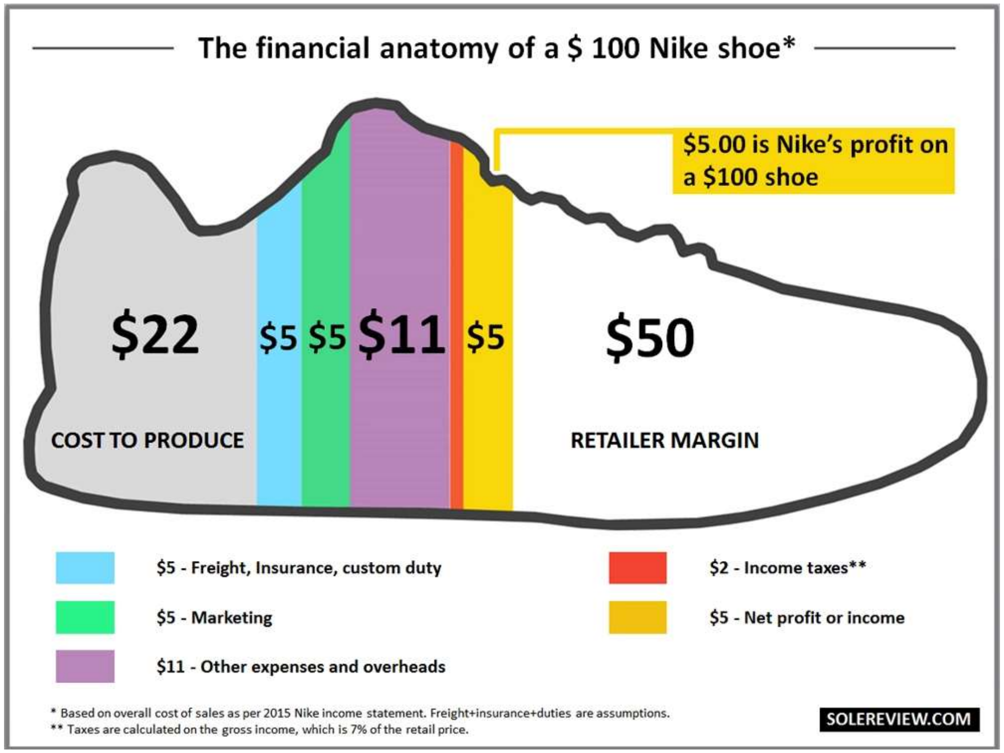
Calculating Retail Price if you know the Gross Margin

- **Retail price is calculated with the following formula:**
- Wholesale Price / (1 - Markup Percentage) = Retail Price
- Here's an example based on a wholesale price of $30 and a 60% gross margin percentage:
- Convert the markup percent into a decimal: 60% = .60
- Subtract it from 1 (to get the inverse): 1 - .60 = .40
- Divide the wholesale price by .40

The answer is your retail price

- $30 (Wholesale Price) / (1 - .60) = $75 (Retail Price)

Let's give a real-life example of Margin



- Nike Profit Margin =

  Margin = ((Sales Price - Cost) / Sales Price) x 100

  Margin = (($50 - $45) / $50) x 100

  Margin = ($5 / $50) x 100

  Margin = 0.1 x 100 = 10% Margin ($5 Profit)

- Retailer Profit Margin =

  Margin = ((Sales Price - Cost) / Sales Price) x 100

  Margin = (($100 - $50) / $100) x 100

  Margin = ($50 / $100) x 100

  Margin = 0.5 x 100 = 50% Margin ($50 Profit)

Bonus = Retailer used Keystone

(100% markup on $50 Cost)

AMERICA'S SBDC MAINE

Markup is NOT Gross Margin!

- **Markup** is the difference between a product's selling price and cost as a percentage of the ***cost***.

For example, if a product sells for $125 and costs $100, the additional price increase is ($125 – $100) / $100) x 100 = 25%.

- **Gross margin** is the difference between a product's selling price and the cost as a percentage of ***revenue***.

For example, if a product sells for $125 and costs $100, the gross margin is ($125 – $100) / $125 = 0.2(20%) = 20%.

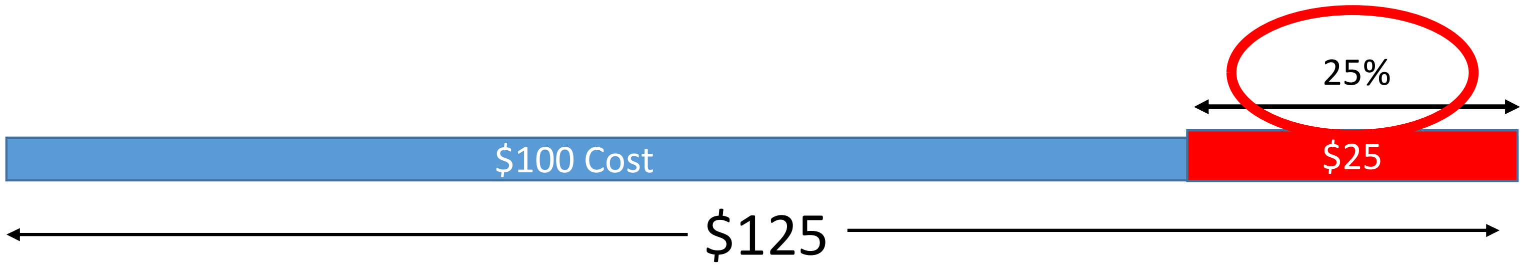
- Markup is almost always higher than Gross Margin

AMERICA'S SBDC MAINE

Look at it Visually: $100 Item w/ Markup & Margin

- Markup (either wholesale or retail) –

  25% more than $100 = $100 x 1.25, making $125 total price



- Gross Margin (either wholesale or retail)

  Of the $125 total, the $25 represents 1/5th of the total price (20%)

Side-By-Side

- Just to Solidify that Margin and Markup are NOT the same
- Markup is (typically) Higher than Margin
- Even I get these two terms mixed up ALL THE TIME!

Markup	Margin
15%	13%
20%	16.7%
25%	20%
30%	23%
33.3%	25%
40%	28.6%
43%	30%
50%	33%
75%	42.9%
100%	50%

AMERICA'S SBDC MAINE

How to Remember Them

- Calculation:

  Markup = ((Sales Price – Unit Cost) / Unit Cost) x 100
  Margin = ((Sales Price – Unit Cost) / Sales Price) x 100

  Remember the Phrase: **“Costs March Up, Sales March In”**

  “Costs March Up” – COST Markup
  “Sales March In” – SALES Margin

What is “Keystone”?

Keystone markup or keystone pricing refers to **selling your product at double its wholesale price or its cost**. In other words, a keystone markup occurs when there is a gross margin of 50 percent of the cost price. Alternatively, the markup is 100 percent of the sale price. https://marketbusinessnews.com/financial-glossary/

Keystone Pricing example:

Keystone is the default “go to” pricing – Rule of Thumb

Triple Key = Wholesale Price x 3

Key and a Half = Wholesale Price x 2.5

Each Industry will have their own average markup

Examples:

Restaurants – 60%

Retail Grocers – 15%

All that on one page – WITH NUMBERS

- 1a – Material/Ingredients/Packaging $7.35/earring
- 1b – Labor (assuming $15/hr)

  It takes 60 minutes to make 3 earrings $5.00/earring
- 2 – Overhead [**Hardest to Calculate**]
  - Assume $800 monthly costs = $9,600 annually and selling 480 Units for the year*

  ($9,600/480 = $20) *Constant throughout year <u>$20.00/earring</u>

  Total so far: $32.35/earring
- 3 – Needed Profit (as markup) = 20% = $32.35 x 1.2 = $38.82
- 4 – Taxes on Profit = 25% on $6.47= $1.62 added = Wholesale- $40.44/earring
- ***<u>5 - Keystone (Assume)</u>*** = Retail: ***<u>$80.88/earring (MSRP: $80.99)</u>***

AMERICA'S SBDC MAINE

Problems with Cost Basis Pricing

Knowing True Direct Cost	Knowing How to Apply Indirect Costs	Remembering Growth
Increased purchasing/production can lead to decreases in cost	What # of units produced per period • Guessing at sales and/or costs	You need to advise the client that the current pricing might not reflect their need to grow if they are expecting large growth in the first 3 years

AMERICA'S SBDC MAINE

After you Establish your Cost Basis…

- Determine Market Basis (Competitor Prices)

- Market Acceptance

(What your Core Client Perceives as the value).

Competitor Pricing

- Competitor’s pricing (Competitor/Alternative)
  (not saying you have to match it)
  - Secret (or open*) shopping!

- Margin/Mark-up that is typical in your distribution channel
  - VerticalIQ Reports

Note: Keep in mind some things that affect Operating margins
- Sales Rep/Distributor
- Profit margin desired
- Other (bad debt, finance cost, fulfillment

Reverse Engineering Retail Pricing:

- For example, if your Competitor retail price is $60 and you assume that the retailer gets a 85% retail markup (slightly less than Keystone) and the wholesaler has a 20% wholesale gross margin, you can use this formula to work backward and calculate the wholesale price:

- Step 1 – Convert markup to get wholesale price:

Wholesale Price x (1 + Markup) = Retail Price

  - Convert the markup into a decimal: 85% = .85
  - To Solve for Wholesale, we need to Divide Retail Price
  - Divide Retail Price by 1.85

The answer is your wholesale price

$32.43 (Wholesale Price) x (1 + 0.85) = $60 (Retail Price)

Reverse Engineering Continued

- Step 2 – Calculate wholesale margin to get to actual cost

(direct & Indirect)

- Wholesale Price / (1 – Wholesale margin) = Wholesale Cost
  - Calculate your target cost price (cost of goods) to maintain a 20% wholesale margin:
  - Convert the Margin percent into a decimal: 20% = .20
  - Subtract it from 1 (to get the inverse): 1 - .20 = .80
  - Multiply .80 times the Wholesale Price

The answer is your target cost price

$32.43 (Wholesale Price) x 0.80 = $25.94 (Target Cost Price)

Market Perception (Customer Perception)

- Understand your CORE clients
  - What price are they expecting to pay?
    - Most clients have a perceived value
  - Factors in Perceived value:

  Outer Appearance, Utility, Brand Value, Availability, and …… Emotions
    - Mis-match to perception of value and price
      - Apple Iphone = total production cost of $490.50, total retail of $1,099
  - What pricing strategy would work best?
    - Customer Survey
    - Focus Group

AMERICA'S SBDC MAINE

Example of a Pricing Survey:

Van Westendorp Pricing Model:

- Developed in 1976

1. At what price would you think the product is so inexpensive that you question the quality and not consider it? (Too inexpensive)

2. At what price would you think the product is a bargain—a great buy for the money? (Inexpensive, good value)

3. At what price would you begin to think the product is getting expensive, but you still might consider it? (Expensive/high side)

4. At what price would you begin to think the product is too expensive to consider? (Too expensive)

Also other models like the Gabor-Granger Direct Pricing Technique, Conjoint Analysis, and Monadic price testing!

The Pareto Principle in Business

80/20 Rule – 80% of the outcome comes from 20% of the causes

https://mint.intuit.com/blog/how-to/the-pareto-principle-80-20/

https://www.g2.com/articles/pareto-principle

Common Pricing Strategies

- *Market Penetration Pricing* (Walmart)
  - Price set low to capture market share
- *Market/Price Skimming* (Apple)
  - High prices on new products that is then reduced with time
- *Location Pricing* (Stadiums)
  - Higher prices dictated by convenience
- *Bundle Pricing* (Internet/Cable)
  - Lower rate to purchase bundle than to buy individually

Other Pricing Strategies

- *Psychology Pricing* (Pricing at $0.99 versus $1/ BOGO deals)
  - Price based on emotional drivers
- *Perceived value/prestige pricing* (Coach/ Rolex)
  - Price based on value realized by customer
- *Price Lining* (Vehicles)
  - Price set at different levels depending on options
- *Competitor pricing* (Gas Stations)
  - Set price to match competitor’s

AMERICA'S SBDC MAINE

"Red Flags" for Too Low Pricing

RECEIVING A HIGH PERCENTAGE OF ORDERS

SELLING OUT OF YOUR PRODUCTS

LEAD TIME STRETCHES OUT

PROFIT MARGIN DETERIORATION

HAVEN'T IMPLEMENTED A PRICE INCREASE IN "A LONG TIME"

AMERICA'S SBDC MAINE

Alternatives for Too High Pricing

If the market will not accept the product at a price which will cover costs and the desired margin, four alternatives are available:

- Accept a lower margin (i.e. do nothing)
- Differentiate your product from your competitions in the minds of the buyers.
- Discontinue the product
- Reduce costs

AMERICA'S SBDC MAINE

How to Reduce Costs?

- Look at Direct and Indirect Costs FIRST
- Discounts on Bulk ordering of Materials
- Reduce Labor Time
- Hire Someone
- Join Forces - Co-op, associations, partnerships?

AMERICA'S SBDC MAINE

Two Basic Rules of Pricing

- The market, not your costs, determines the price at which your products will sell.
- Your costs and desired profits only establish a "price floor" below which you cannot sell and make a profit.

From John Entwistle

Summary

- Know your product
- Know your market
- Know your price

Thank you! …
and Questions!?

Or you can use computers!!!

- Try these websites:
- For Markup:
  - https://www.omnicalculator.com/finance/markup
  - https://www.calculatorsoup.com/calculators/financial/markup-calculator.php

- For Margin:
  - https://www.omnicalculator.com/finance/margin

- For both:
  - https://www.calculatorsoup.com/calculators/financial/selling-price-calculator.php