

WORKSHEET

Q-6: ARE YOUR PROFIT MARGINS HIGH ENOUGH TO BE PROFITABLE?

Use this worksheet to calculate your Suggested Retail Price (SRP), your Wholesale Price (WP), and your Distributor Price (DP). Show the SRP on your website so your retailers and distributors don't feel like you are undercutting them. If you wish to offer a discount on your website, you can always run a short-term promotion using an e-coupon or a code.

Directions: Aim for a retail price that is 10 times your cost of goods (COGS) to manufacture your product. If you outsource production, be sure to add your freight cost if you need your product shipped to you before selling it to your customers. Here is an example of why you need a high profit margin. Let's use an example of a \$10 SRP and a 10% or \$1.00 cost of goods.



Suggest Retail Price (SRP) = \$10.00

Wholesale Price for Retailers = \$5.00 or as low as \$4.00 (between 50 and 60% of SRP)

Distributor Price will be = \$2.50
(50% off Retailer's \$5.00 Wholesale Price)

Cost of Goods (COGS) to Manufacture = \$1.00
That leaves you a gross profit of \$3 to \$4 when selling to retailers and \$1.50 when selling to distributors.

FORMULAS

SRP of \$10 (minus) Wholesale Price of \$5.00 (minus) COGS of \$1.00 = Gross Profit of \$4.00

Retailer Price of \$5.00 (minus) Distributor Price of \$2.50 (minus) COGS of \$1.00 = Gross Profit of \$1.50

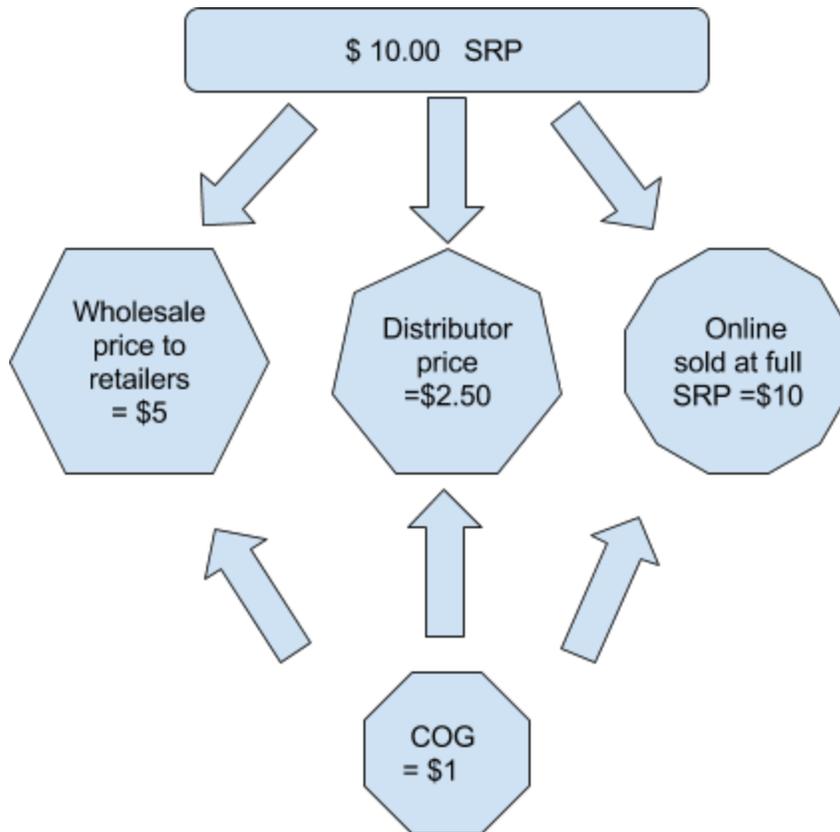
SRP of \$10 (minus) Online Price of \$0 (Minus) COGS of \$1.00 = Gross Profit of \$9.00

IMPORTANT: In many cases it will not be possible to achieve a 10% COGS. If your cost of goods is too high you will not be able to sell to distributors and make a profit. However, if distributors make up a small part of your sales you can sell them and make less profit if you are selling a lot of customers on your website and

directly to retailers. If you use a sales rep to sell to retailers don't forget to consider their sales commission as a part of your overall cost. Start by estimating how much your product will sell for and work backwards to see what the limit is for your manufacturing costs so you can be profitable.

Don't forget---If you are running your own company, you will also have sales and operating expenses to add to your cost of goods. If you are licensing your product to another company, they will likewise have their own sales and operating expenses. Even if you license your product, you will also have legal, development and operating expenses to consider. It doesn't do you any good to spend \$25,000 developing your idea into a product and protecting it if you only earn a few thousand dollars a year in royalties.

Below is a graphic showing the relationships of your cost to your selling prices



REMEMBER: If you license your product, your licensees will desire the same profit margins that you need to be profitable operating your own company.

Use this graphic to enter your cost and prices

