# Profit 

## Margins

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## Me



Grew up in Michigan, studied engineering
Worked between rural India and the US for 5 years
Launched Young Mountain Tea in 2013
Work on the Oregon RAIN team for 2+ years

When's a time you negotiated a good price, either as a customer or as a seller?


## What are margins?

## Margin

## Revenue



## Margin exists at multiple levels



Business-wide


Sales Channel


Individual Product/Service

## Two main types of margin

## Gross margin

- Gross margin = Revenue - Variable Costs
- Variable costs: costs that increase as you sell more.
- Also called or Cost of Goods Sold (COGS) for product-based businesses or Cost of Sales (COS) for service-based businesses


## Net margin

- Net Margin = Gross Margin - Fixed Costs
- Fixed costs: Anything that isn't impacted by selling more.


Margin can be expressed as a percent or a dollar value


Percent
Better for comparing options


## Dollars

Better for knowing where you stand at any one point

## People often use "margin" for

 "gross margin percent"Looking only at sales price and variable costs
(no overhead/fixed costs)

## (Revenue - Cost)



## Let clean up with an example!

Cost: \$4

Sales Price: \$10

## What's the margin?



Photo: Bella's LuvBar in Veneta, owned by Annie Molnar

$$
\frac{(10-4)}{10}=\frac{6}{10}=60 \%
$$

# MARGIN AND MARKUP ARE TWO DIFFERENT THINGS! 

(but they use the same inputs: price \& cost)

## Margin

## Markup

(Revenue - Cost)

Cost

Margin
Markup


10
60\%


> MARGIN
> (Revenue - Ctosid) AIMOS5!
> Revenue


## Increasing Price vs Decreasing Costs

|  | Original | $\$ 10$ more in price | $\$ 10$ less in cost |
| :--- | ---: | ---: | ---: |
| Price | $\$ 100$ | $\$ 110$ | $\$ 100$ |
| Cost | $\$ 75$ | $\$ 75$ | $\$ 65$ |
| Original margin \$ | $\$ 25$ | $\$ 35$ | $\$ 35$ |
| Original Margin \% | $25 \%$ | $32 \%$ <br> $(+7 \%)$ | $35 \%$ <br> $(+10 \%)$ |

In both cases, although the margin is $\$ 35$, the margin percent is increased more by decreasing cost than increasing price.

So keep your costs low!

## How do discounts affect margins?

$\$ 100 / \mathrm{hr}$ for deep tissue Masseuse 1: $\$ 75 / \mathrm{hr}$ Masseuse 2: \$80/hr Masseuse 3: \$90/hr


## Punchlines

## Math is weird.

Discounts affect margins in different ways depending on the original margin.

And if the discount is more than the original margin, you will be losing money.

## What should my margins be?

It depends! Varies by industry, geography, and sales channel

- Hospitality: 76\%
- Eating \& Drinking Establishments: 49\%-67\%
- Real estate: $52 \%$
- Educational services: $51 \%$
- Apparel: 46\%
- Agriculture - animals: $35 \%$
- Agriculture - crops: $25 \%$
- Brick-and-mortar retail: 20-35\%

Check yours out! Ready Ratios and Camino Financial

## Any questions so far?



Price

## Gross Margin means variable costs only!

Variable costs are anything that will increase as your sales increase.

Generally called COGS for product-based businesses, COS for service-based businesses

Don't include fixed costs that aren't affected by the amount of sales you make (ie "overhead")

## What should go into variable costs?

## Include:

- Material costs
- Shipping costs
- Storage costs
- Direct Labor (production or service delivery)
- Equipment

Don't include:

- Office space
- Marketing expenses
- Insurance
- Advertising
- Finance expenses (interest)
- IT
- Indirect labor (sales)

What is the most commonly missed variable cost for new businesses?

## Your time!

## How to calculate labor costs

For service-based businesses; the easiest way to calculate is to determine your hourly rate!

For product-based businesses, it's a simple three-step process

1. Give yourself a 3 hour window and see how many products you can make working at a comfortable speed
2. Assign a market-value to your time
3. Divide the cost of your time by the number of products you made

## For service businesses, variable costs are dominated by time delivering services

Example: massage parlors -- time spent providing the service counts as variable, but not time spent booking your services.
(Price - costs)

## Price

## Tips for Setting Your Price

- Create win-wins for you and your customer!
- Work out your absolute minimum to keep the doors open
- Based on your fixed costs and COGS
- Give yourself enough room to work in discounts and wholesale services that still have plenty of margin.


## Tips for Setting Your Price



Ask your customers

## Study the competition



## Develop tiers to give options

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    Jackson-Iriggs
    Vina Tarapaca Merlot-Maipo Volug, Oin-Cahomia
    Vina Tarapaca Robert Mondavi Cabemet Sowignon-
    Painter Bridge Zinfondel -Cowthamem Nustrito
    Lindemans Pinot Noir - South Eastern Nowname
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## Give yourself room to grow




## Let's put it all together over a cuppa' tea!

## Summary

- Margin: (Price-Cost)/Price
- don't forget the parentheses!
- To increase margin, more bang for your buck to lower cost than increase price
- If you discount more than your margin, you lose money!
- Don't forget to include your own time in your costs
- When setting price, give yourself plenty of room


## Resources

- Margin
- FREE online calculator including margin, discounts,
- Gross vs Net Margin
- Industry margins: Ready Ratios and Camino Financial
- Revenue
- Tips for Pricing
- Costs
- Variable Costs vs Fixed Costs
- What should go into Costs?
- Calculating costs for a service business (Net Hunt)



## Time budgeting

| Topic | How Long (min) | Start | Stop |
| :--- | :--- | :--- | :--- |
| Login + Intros | 5 min | $10: 00$ | $10: 05$ |
| First slides | 20 | $10: 05$ | $10: 25$ |
| Breakout 1 | 10 | $10: 25$ | $10: 35$ |
| Activity 2 | 10 | $10: 35$ | $10: 45$ |
| Slides | 15 | $10: 45$ | $11: 00$ |
| Breakout 2 | 10 | $11: 00$ | $11: 10$ |
| Main Room | 5 | $11: 10$ | $11: 15$ |

