

# Pricing For Profit

Prepared For  
  
Your Group

Prepared By

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## Objectives Of The Session

- Review the Profit Structure of the Industry
- Identify the Key Pressure Points in Improving Profitability
- Understand How Gross Margin Impacts Everything Else in the Business

Exhibit 1

Profit Planning Group

## Income Statement Results For Mountain View, Inc.

	<u>Dollars</u>	<u>Percent</u>
Net Sales	20,000,000	100.0
Cost of Goods Sold	<u>13,400,000</u>	<u>67.0</u>
Gross Margin	6,600,000	33.0
Payroll and Fringes	3,700,000	18.5
All Other Expenses	<u>2,300,000</u>	<u>11.5</u>
Total Expenses	<u>6,000,000</u>	<u>30.0</u>
Profit Before Taxes	600,000	
Fixed Expenses	5,000,000	
Variable Expenses	1,000,000	5.0

Exhibit 2

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### The Increase In Unit Sales Required To Exactly Offset A Price Reduction

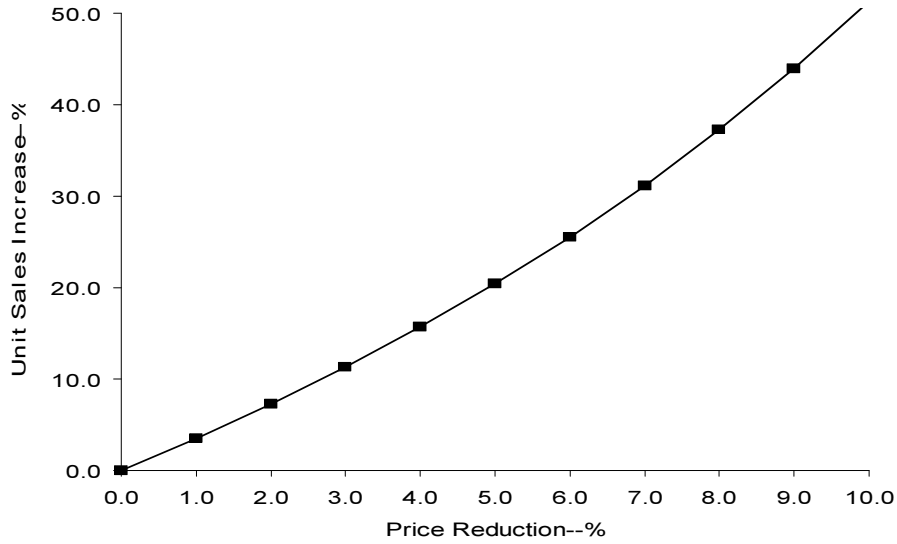


Exhibit 3

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### The Impact Of A Five Percent Supplier Price Increase

Summary		Dollar	Percent
<u>Income Statement</u>	<u>Current</u>	<u>For Dollar</u>	<u>For Percent</u>
Net Sales	20,000,000	20,670,000	21,000,000
Cost of Goods Sold	<u>13,400,000</u>	<u>14,070,000</u>	<u>14,070,000</u>
Gross Margin	6,600,000	6,600,000	6,930,000
Fixed Expenses	5,000,000	5,000,000	5,000,000
Variable Expenses	<u>1,000,000</u>	<u>1,033,500</u>	<u>1,050,000</u>
Total Expenses	<u>6,000,000</u>	<u>6,033,500</u>	<u>6,050,000</u>
Net Profit	600,000	566,500	

Exhibit 4

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### Improving The Gross Margin Percentage By Either Buying Or Pricing

Summary <u>Income Statement</u>	<u>Current</u>	<u>Buying Potential</u>	<u>Pricing Potential</u>
Gross Margin--%	33.0	33.5	33.5
Net Sales	20,000,000	20,000,000	
Cost of Goods Sold	<u>13,400,000</u>	<u>13,300,000</u>	<u>13,400,000</u>
Gross Margin	6,600,000	6,700,000	6,750,376
Variable Expenses	1,000,000	1,000,000	1,007,519
Fixed Expenses	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
Total Expense	<u>6,000,000</u>	<u>6,000,000</u>	<u>6,007,519</u>
Profit Before Taxes	600,000	700,000	

Exhibit 5

Profit Planning Group

### Separating Pricing And Buying

Summary <u>Income Statement</u>	<u>Current</u>	<u>Buying Potential</u>	<u>Pricing Potential</u>
Net Sales	20,000,000	20,000,000	19,850,746
Cost of Goods Sold	<u>13,400,000</u>	<u>13,300,000</u>	<u>13,300,000</u>
Gross Margin	6,600,000	6,700,000	6,550,746
Variable Expenses	1,000,000	1,000,000	992,537
Fixed Expenses	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
Total Expense	<u>6,000,000</u>	<u>6,000,000</u>	<u>5,992,537</u>
Profit Before Taxes	600,000	700,000	
Cost of Goods Reduction--%		0.75	

Exhibit 6

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### Impacting Gross Margin With Product Mix

Velocity Code	<u>Current Performance</u>			<u>Potential Performance</u>		
	<u>Gross Margin</u>			<u>Gross Margin</u>		
	<u>Sales</u>	<u>%</u>	<u>Dollars</u>	<u>Sales</u>	<u>%</u>	<u>Dollars</u>
A	12,000,000	30.0	3,600,000	12,000,000	30.0	3,600,000
B	4,000,000	32.5	1,300,000	4,000,000	32.5	1,300,000
C	3,000,000	40.0	1,200,000	3,000,000	40.0	1,200,000
D	<u>1,000,000</u>	50.0	<u>500,000</u>	<u>1,100,000</u>	50.0	<u>550,000</u>
Total	20,000,000	33.0	6,600,000	20,100,000		6,650,000

Exhibit 7

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### Impacting Gross Margin With Blind Item Pricing

Velocity Code	<u>Current Performance</u>			<u>Potential Performance</u>		
	<u>Gross Margin</u>			<u>Gross Margin</u>		
	<u>Sales</u>	<u>%</u>	<u>Dollars</u>	<u>Sales</u>	<u>%</u>	<u>Dollars</u>
A	12,000,000	30.0	3,600,000	12,000,000	30.0	3,600,000
B	4,000,000	32.5	1,300,000	4,000,000	32.5	1,300,000
C	3,000,000	40.0	1,200,000	3,000,000	40.0	1,200,000
D	<u>1,000,000</u>	50.0	<u>500,000</u>	<u>1,100,000</u>	<u>54.5</u>	<u>600,000</u>
Total	20,000,000	33.0	6,600,000	20,100,000		

Exhibit 8

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## Common Characteristics Of Blind Items

<b>Characteristic</b>	<b>Implication</b>
● Low Sales Level	Bought rarely, unlikely to remember the last price paid
● Not Heavily Promoted	Information about price not readily available
● Bought Only When Needed	Availability more important than price
● Low Price	On a small item, no real concern about price
● Repair Parts	Buy something small, avoid buying something large
● Unusual	Hard to find, availability is key
● Non-Seasonal	No need to discount "in season"
● Unbranded	Difficult to obtain specific price information

Exhibit 9

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## Everything You Need to Know About Price Management

Profit can be much higher than it now is

Gross margin is a larger profit driver  
than sales

There is more margin impact outbound  
than there is inbound

There are lots of commodities but also  
lots of blind items

Price increases should be your friend

Exhibit 10

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