

PROFIT MARGIN

A profit margin is a metric used to assess a company's financial performance. For your Shark Tank business, you'll focus on your **gross profit margin**. This measures how profitable your company's core operations are. To calculate your gross profit margin, subtract the cost of goods sold (COGS) from your total revenue, then divide that number by your total revenue. Your total indicates how efficiently your company produces its products or services.

Gross Profit Margin Formula

$$\text{profit margin} = \frac{(\text{revenue} - \text{costs})}{\text{revenue}} \times 100$$

Source: Profit margin: Formula and how to calculate. LendingTree. (n.d.). <https://www.lendingtree.com/business/profit-margin/>

Cost-Plus Pricing

This is the easiest method and also one of the most popular. Calculate the cost, add the markup, and use the resulting number as your price.

Although it's simple, keep in mind this strategy doesn't take into account factors like competition and demand.

Value-Based Pricing

Like cost-plus pricing, but this takes into account a customer's value perception. When using this strategy, a company determines the cost, adds the markup, and also adds the value perception. Value-based pricing compares the price of a product to competitors and adds to the price based on the differences of the product.

Bundle Pricing

Bundle pricing is when companies sell two or more products together for a single price. The idea behind bundle pricing is to create the perception of a good deal. This strategy works well with related products, such as a travel package that includes a flight and hotel or fast food combo meals.

Price Skimming

Businesses that use this strategy price their product as high as the market will allow. This strategy works best when the product is scarce and new versions haven't yet appeared on the market. Think Apple's iPhone and the smartphone market.

Anchor Pricing

Anchor pricing is another strategy that relies on customer perception of value. A business that uses this strategy sets an initial price as an "anchor" by which to compare the value of their product to similar products.

Loss Leader Pricing

These businesses typically sell a product at a loss. Businesses who rely on this strategy hope to bring customers in with a bargain on one product and incentivize them to spend more money on other products. The gaming industry often sells consoles at a loss but profits on video games and subscription services.

Competitive Pricing

This strategy begins with a market analysis to determine the going rates. That going rate is then used as the baseline for determining price. If a product costs less than its competition, customers may see it as more economic and accessible. If it costs more, customers may see it as higher quality. Think Walmart versus Whole Foods.

Pricing Strategies

Determining a price for your product or service isn't just about math. Review the different strategies used to price products and decide what is best for you.



CALCULATING MARKUP

1 DEFINITION

Markup is the ratio of gross profit to sales price.

Markup = selling price - product cost.

This is the method of adding a percentage to the selling cost of a product so that the company will make money to pay for its expenses.



2 CALCULATION

$$\frac{\text{Gross Profit}}{\text{Cost of Goods Sold}} \times 100$$

3 NO "NORMAL"

There is no universal markup in an industry. Indirect costs like advertisement, expensive endorsements, or high payroll are not calculated in gross profit. These costs can increase the markup.



4 EXAMPLES

Food and Hospitality = 60%
Clothing = 200%
Grocery = 15%
Tech = 9%
Books = 50%
Pharmaceuticals = 5,000%+



5 IS YOUR PRODUCT WORTH IT?

Remember, pricing your product too high or too low could limit the number of sales.

For example:

- An author sells his ebook on Amazon for \$4. When he raises the price to \$7, he sells more copies.
- A clothing brand sells a cheap quality t-shirt for \$70, but few customers are interested.

MARKUP EXAMPLES

A markup is a percentage or amount added to the cost of a product or service to determine its selling price. Markup can vary based on industry norms, competition, and pricing strategies. It's an important factor in determining the pricing of products and services. A good markup strategy ensures your business remains profitable and financially viable.

Markup Formula

$$\text{markup} = \text{selling price} - \text{product cost}$$

Example 1: Boutique T-Shirt

If it costs \$15 to make a t-shirt and a boutique owner sells the t-shirt for \$30, the markup is \$15.

Markup	=	Selling price	-	Product cost
\$15		\$30		\$15

Example 2: Can of Tomatoes

If it costs \$0.75 to produce a can of tomatoes and a grocery store sells the can for \$1.20, the markup is \$0.45. This is a 160% markup.

Markup	=	Selling price	-	Product cost
\$0.45		\$1.20		\$0.75

Or, if the markup is represented as a percentage:

Product cost	x	Markup	=	Product cost
\$0.75		160%		\$1.20

Source: Locsin, A. (2017, November 21). What is the markup percent for most boutiques?. Small Business - Chron.com.
<https://smallbusiness.chron.com/markup-percent-boutiques-35432.html>

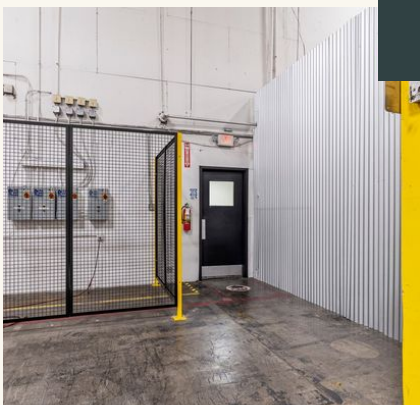


WARE-
HOUSE



New Listing

START FROM
\$16.00/SQ FT/YR



Property Features

- | | |
|-----------------|------------------------------------|
| 50,000 sq. ft. | 290 parking spaces |
| 24' ceilings | 26 exterior dock doors |
| 2 drive-in bays | 81,600 warehouse employees in area |

123 Anywhere St., Any
City, ST 12345

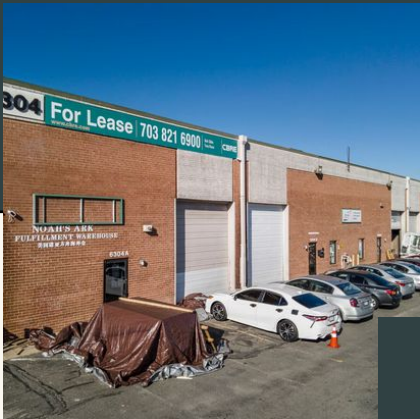


WARE-
HOUSE



New Listing

START FROM
\$13.50/SQ FT/YR



Property Features

- 36,000 sq. ft.
- 20' ceilings
- 9 drive-in bays
- Brick building
- 15 exterior dock doors

123 Anywhere St., Any
City, ST 12345

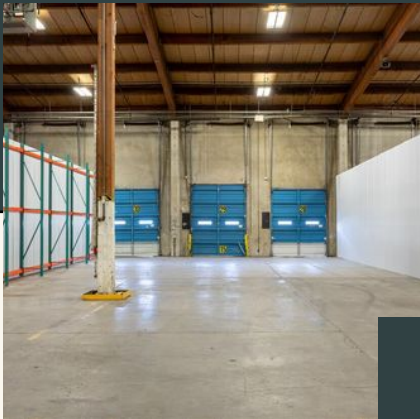


WARE-
HOUSE



New Listing

START FROM
\$17.00/SQ FT/YR



Property Features

- | | |
|-----------------|------------------------|
| 14,000 sq. ft. | Immediately available |
| 22' ceilings | 10 exterior dock doors |
| 5 drive-in bays | Forklifts included |

123 Anywhere St., Any
City, ST 12345



STORE-FRONT

New Listing



START FROM
\$8.00/SQ FT/YR

Property Features

2,500 sq. ft.

Immediately available

Built 1978

Freestanding



123 Anywhere St., Any
City, ST 12345



STORE-FRONT



New Listing

START FROM
\$20.00/SQ FT/YR



Property Features

Up to 1,950 sq. ft.
Built 2014

Near shopping
and restaurants

Located in strip center

123 Anywhere St., Any
City, ST 12345



STORE-
FRONT

New
Listing



START FROM
\$12.00/SQ FT/YR

Property Features

Up to 1,032 sq. ft.

75 parking spots

Built 2017

Located in strip center

123 Anywhere St., Any
City, ST 12345



WEBSITE

New Listing

START FROM
**\$3,000 +
\$40/MONTH**

Custom Built

A professional will build the website.
The same professional will train up to two
employees on how to maintain the website.

123 Anywhere St., Any
City, ST 12345



WEBSITE

New Listing

START FROM
**\$2,000 +
\$100/MONTH**

Custom Built + Maintained

A professional will build the website.
The same professional will update
your website weekly.

123 Anywhere St., Any
City, ST 12345



WEBSITE

New Listing

START FROM
\$60/MONTH

Self-Made

You and your employees will create and maintain this website.

123 Anywhere St., Any
City, ST 12345








MARKETING OPTIONS

You've put a lot of effort into creating your product or service. Now it's time to share it with the world. This is where a marketing strategy comes in!

A marketing strategy is a plan businesses use to introduce their products or services to customers, build a strong brand, and ultimately sell what they offer. A successful marketing strategy focuses on who the ideal customer is, how to reach them, and how to appeal to them.

Advertising Options

Select an option from the choices below. Don't forget to note your decision and rationale in your Business Plan Outline.

YouTube Ad	TV Commercial	Billboard
 \$10,000–\$30,000	 \$1,000–\$10,000	 \$1,500/month
Digital Ad (via social media)	Endorsement	Print
 \$534/month	 \$5,000–\$1 million	 \$360
Google Ad		
 \$500/month		

Sources

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