

## ***Profit Margin versus Percentage Increase Reference Guide***

When using the price calculator, there are a variety of pricing adjustments available. Here is a quick reference guide for how the price calculator functions when it comes to the difference between the profit margin and percentage increase options.

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### **Using a Profit Margin:**

To have a profit margin of 50%, the list price will need to be at least twice the net cost, so that the distributor can make a 50% profit on the transaction. Essentially, it is the percentage of profit.

$$\text{Profit Margin} = [\text{Net Income (total left after paying supplier)} / \text{Net Sales (total paid by end user)}] * 100$$

For example:

If a product has a net cost of \$5 and the distributor wants to make a 50% profit, they will need to increase the list price to \$10 so that they make 50% of the total sale. They charge \$10 and then pay the supplier \$5. The remaining \$5 is their profit, which is 50%.

### **How does this work as far as calculating the list price?**

Take the net cost and multiply it by remainder of the profit margin to calculate the list price.  
Then, subtract the net cost from the list price to get the profit.  
Divide the profit by the list price and then multiply by 100 to get the profit margin.

The total equation looks like this:

$$\text{Net Cost} / (1.00 - \text{Profit Margin}) = \text{List Price}$$

Here is an example:

There is a product with a net cost of \$1.56 and we want to have a 30% profit margin. To determine the list price, we'll plug the numbers into the formula above:

$$\$1.56 \text{ (net cost) divided by } 1.00 - .30 \text{ (profit margin desired)} = \$1.56 / .70 = \$2.23 \text{ (list price)}$$

### **Can I double check that the list price is correct when using a profit margin?**

Yes, subtract the list price from the net cost to get the profit.  
Then, divide the profit by the list price and multiply by 100 to get the profit margin.

The total equation looks like this:

$$\begin{aligned} \text{List Price} - \text{Net Cost} &= \text{Profit} \\ (\text{Profit} / \text{List Price}) * 100 &= \text{Profit Margin} \end{aligned}$$

Here is an example using the product information above:

$$\begin{aligned} \$2.23 \text{ (list price) minus } \$1.56 \text{ (net cost)} &= \$0.67 \text{ (profit)} \\ \$0.67 \text{ (profit) divided by } \$2.23 \text{ (list price)} &= .30 \text{ multiplied by } 100 \text{ to get percentage} = 30\% \end{aligned}$$

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**Note:** Profit Margins in the Price Calculator apply to the base product price only; it will not include any additional charges, such as set-up or shipping charges.

# ***Profit Margin versus Percentage Increase Reference Guide***

## **Using Percentages**

Percentage increases will be calculated based on the current information in the price grid. Price percentage adjustments will apply to the base product price only; they will not include any additional charges, such as set-up or shipping charges.

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### **Increase List Price by Percentage from List Price:**

To show a percentage increase for the list price based off the list price, the increase will be based on the percentage of the current list price added to the current list price.

For example:

If a product has a list price of \$10 (with a net of \$5) and then distributor wants to increase the price to be 50% higher than that current list price, they will select Add, enter a Percentage of 50 and then select To: Price/From: Price. The price will now be \$15.00 (50% of \$10 is \$5; and \$10 + \$5 is \$15).

### **The total equation looks like this:**

List Price from supplier \* Percentage = Amount to be Added to Current List Price  
List Price from supplier + Amount to be Added to Current List Price

Here is an example:

There is a product with a net cost of \$1.56, list price of \$2.60, and we want to increase the list price by 25%. To determine the list price, we'll plug the numbers into the formula above:

$\$2.60$  (current list price) \*  $.25$  (desired percentage increase) =  $\$0.65$  (amount to be added to list price)  
 $\$2.60$  (current list price) +  $\$0.65$  (amount to be added to current list price) =  $\$3.25$  (marked up list price)

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### **Increase List Price by Percentage from Net Cost:**

To show a percentage increase for the list price based off the net cost, the increase will be based on the percentage of the net cost you have specified.

For example:

If a product has a net cost of \$5 and then distributor wants to increase the price to be 50% higher than net cost, they will select Add, enter a Percentage of 50 and then select To: Price/From: Net Cost.

The price will now be \$7.50 (50% of \$5 is \$2.50; and \$5 + \$2.50 is \$7.50).

### **The total equation looks like this:**

Net Cost \* Percentage = Amount to be Added to Net Cost  
Net Cost + Amount to be Added to Net Cost = Adjusted List Price

Here is an example:

There is a product with a net cost of \$1.56, list price of \$2.60, and we want to increase the list price to 35% above the net cost. To determine the list price, we'll plug the numbers into the formula above:

$\$1.56$  (net cost) \*  $.35$  (desired percentage increase) =  $\$0.55$  (amount to be added to net cost)  
 $\$1.56$  (net cost) +  $\$0.55$  (amount to be added to net cost) =  $\$2.11$  (adjusted list price)