Difference between margin and markup; how to set margin and markup; how to play the pricing game?

Sweetpotato Action for Security and Health in Africa

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Sweetpotato Seed Systems Community of Practice: Sixth Consultation- Sustainable Pre-basic Seed Production – Progress Review. Nairobi 8th December 2016

Gross Margin Analysis

- To assess a company's financial stability and overall health.
- Gross margin is a measure of the return after deducting variable (or operational) costs.
- Net margins are the returns after deducting total costs (variable and the appropriate fixed cots).
- It can be also measured in terms of ratio by dividing total revenue, which indicate a percentage measurement of profit that expresses the amount a company earns per dollar of sales.

Financial Tools

- Cost estimates
- Benefit estimates i.e., revenue generated from sales. (direct and indirect)
- Cash flow (operational, investment, financing)– NPV, rate of return, return on investment (ROI – return on equity, assets, capital) and sensitivity analysis

Markup

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- Markup = (Sale price − Cost) / Cost
- Margin = (Sale price − Cost) / sales price

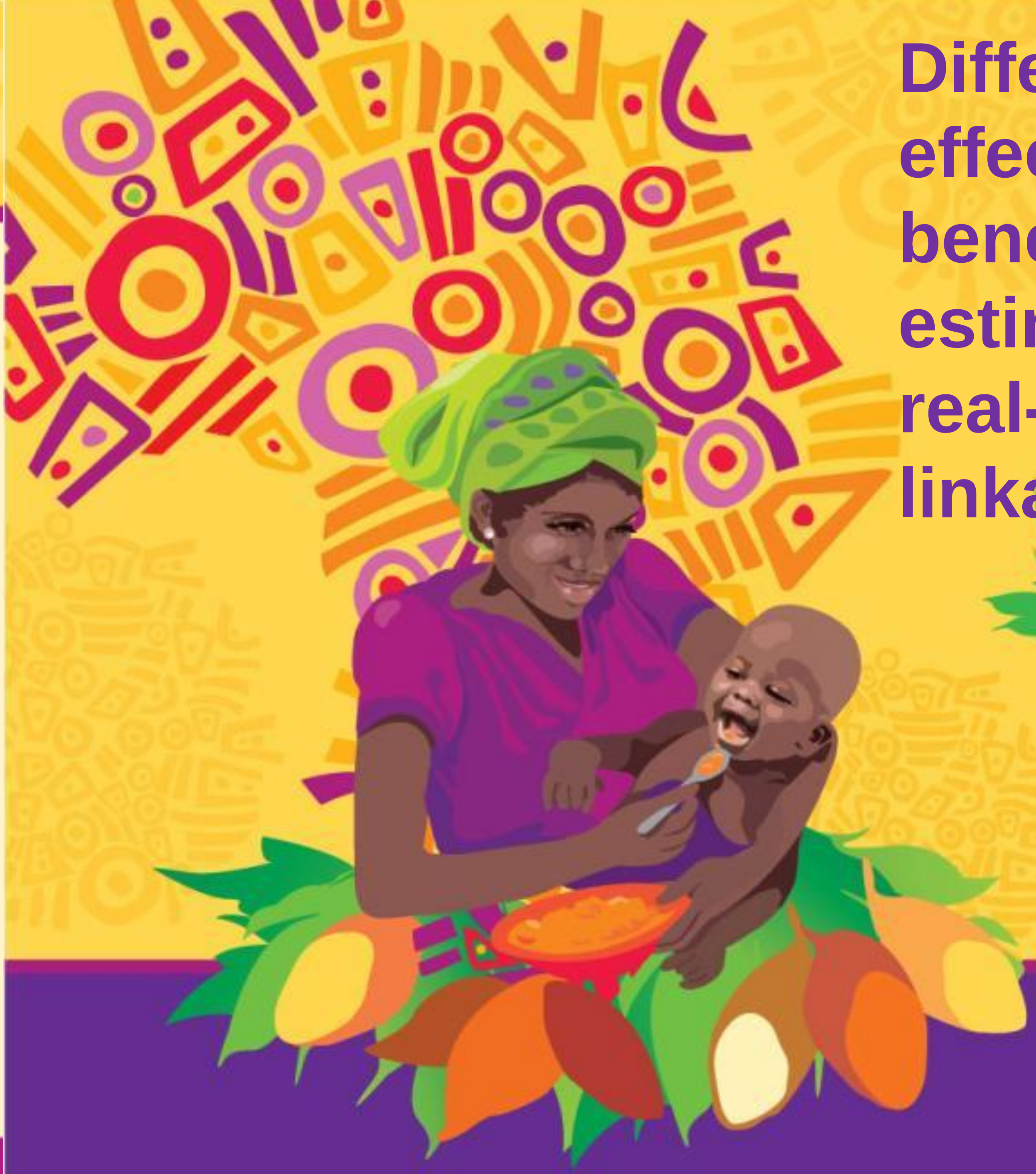
- To arrive at a 10% margin, the markup percentage is 11.1%
- To arrive at a 20% margin, the markup percentage is 25.0%
- To arrive at a 30% margin, the markup percentage is 42.9%
- To arrive at a 40% margin, the markup percentage is 80.0%
- To arrive at a 50% margin, the markup percentage is 100.0%

Why do we need markup?

- It is difficult to ensure that you have taken into consideration all of your costs.
- missing out on indirect costs or opportunity costs.

What is break-even point?

- Total cost = total revenue



Difference between cost effectiveness and cost benefit analysis; cost estimation method using real-time data collection; linkage with revolving fund

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cost effectiveness & cost benefit analysis

- Incremental Cost effectiveness analysis (some inputs i.e., sterilized soil or sand???) is to compare the relative cost and outcomes of different interventions. Cost-benefit analysis allows a person to make an investment decision on the basis of the financial viability of different interventions.

Cost estimation method (variable and fixed) linking with revolving fund (excel sheet)

- Cost structure
- Cost collection method
- Why do we need real-time data?
- How can we link revolving fund?