



California Association of
Flower Growers & Shippers

Dumping and Discounting Calculating the impact on your margins.

Gross Margin calculation exercise

What is gross margin? (Selling price) – Cost = gross margin.
(\$15.00 selling price) - (\$10.00 cost) = \$5.00 gross margin or 33% gross margin percentage.

What is mark up?

Markup Percentage Formula

The formula for calculating markup percentage can be expressed as:

$$\text{Markup Percentage} = \frac{\text{Sales Price} - \text{Unit Cost}}{\text{Unit Cost}} \times 100$$

For example, if a product costs \$10 and the selling price is \$15, the markup percentage would be $(\$15 - \$10) / \$10 = 0.50 \times 100 = 50\%$.

There are several things you should know about margins.

1. How much margin do I want to get for a particular product?
2. How do I calculate the margin?
3. If my actual margin is lower than I want, what can I do?

Knowing your margin for each product is one of the keys to pricing and to profitability.

Gross Margin Calculation Exercise – Fresh flowers

1. Mini Carns
 - a. Cost \$2.00/bunch
 - b. Freight \$0.50
 - c. Landed cost = \$2.50/bunch.
 - d. What margin do you want? Say 33%
 - i. Your gross margin percentage should be more than your operating expenses as a percentage of sales.
2. Calculation #1 - hit and miss
 - a. Start with a \$3.50 sell price minus \$2.50 landed cost = \$1.00 gross margin

- b. \$1.00 gross margin divided by \$3.50 selling price = 28.6%. Is this too high or too low?
 - c. Increase selling price if you want more margin. Say \$4.50 sell price minus \$2.50 landed cost = \$2.00 gross margin.
 - d. \$2.00 gross margin divided by \$4.50 selling price = 44.4%. Closer, maybe too high?
 - e. Selling price of \$4.00 minus \$2.50 landed cost = \$1.50 gross margin.
 - f. \$1.50 gross margin divided by \$4.00 selling price = 37.5% gross margin. Looks about right.
 - g. But all of that takes too long.
3. Calculation #2 – quick and easy
- a. If you want a 37% gross margin, divide the landed cost by 0.63. ($100\% - 37\% = 63\%$ OR $1.00 - .37 = 0.63$)
 - b. \$2.50 landed cost divided by 0.63 = \$3.97 or \$4.00 rounded to the next nickel.
 - c. If you want a 35% gross margin, divide the landed cost by 0.65. ($1.00 - 0.35 = 0.65$). \$2.50 divided by 0.65 = \$3.85 sell price.
 - d. So if you buy 100 bunches of mini carnas at a landed cost of \$2.50/bunch and you want a 33% margin, what is the selling price? How much margin, in dollars, will you make?
 - i. Calculate selling price: \$2.50 divided by 0.67 = \$3.73 (or \$3.75 after rounding up).
 - ii. \$3.75 selling price X 100 bunches = \$375 sales.
 - iii. \$2.50 landed cost X 100 bunches = \$250 cost.
 - iv. \$375 sales - \$250 cost = \$125 gross margin dollars.
 - v. \$125 gross margin divided by \$375 sales = 33% gross margin percentage, which is what you wanted.

What if you discount or dump flowers? How much margin will you make?

4. Calculation #3 – Dump.
- a. If you dump 5 bunches out of 100: \$2.50/bu cost X 5 bu = \$12.50 dump.
 - b. So you sold 95 bunches X \$3.75 = \$356.25 sales
 - c. Your cost doesn't go down and is still 100 bunches X \$2.50 = \$250.
 - d. \$356.25 - \$250 = \$106.25 is the gross margin for 95 bunches sold and 5 dumped. This is much lower than the \$125 gross margin if you sell 100 bunches at full price.
 - e. \$106.25 gross margin divided by \$356.25 sales = 29.8% gross margin percentage instead of 33%.
 - f. So dumping 5% of the flowers decreased the margin by \$12.70 resulting in a 3.2% lower margin. (29.8% versus 33%).
5. Calculation #5 – Discounting and dump
- a. What if you sell 75 bunches at full price (\$3.75). 20 bunches at cost (\$2.50) and dump 5 bunches. (\$0.00)
 - b. Sell 75 bunches X \$3.75 = \$281.25
 - c. Sell 20 bunches X \$2.50 = \$50.00
 - d. Dump 5 bunches. 5 bunches X \$0.00 = \$0.00
 - e. Total sales: \$281.25 + \$50.00 = \$331.25
 - f. Cost: \$2.50/bunch X 100 bunches = \$250
 - g. Gross margin: \$331.25 - \$250 = \$81.25
 - h. \$81.25 divided by \$331.25 sales = 24.5% gross margin instead of 33%
 - i. So selling 20% of the flowers at cost decreased the margin by \$25.00 resulting in a 5.3% lower margin. (29.8% margin versus 24.5% margin.)

6. Calculation #6 - So what margin do I need to start with in order to end up with the margin I want? It depends entirely on how much product is dumped and/or discounted. Based on our example above, we need to start with a 42% gross margin to end up with a 33% gross margin after dumping 5 bunches and selling another 20 bunches at cost.
- a. We start with a 42% gross margin (0.42)
 - b. $\$2.50$ cost divided by $0.58 = \$4.35/\text{bunch}$ sell price ($\$4.31$ rounded up to $\$4.35$. Always round up)
 - c. Sell 75 bunches at full price: $\$4.35 \times 75 \text{ bunches} = \326.25
 - d. Sell 20 bunches at cost: $\$2.50 \times 20 \text{ bunches} = \50
 - e. Dump 5 bunches: $\$0.00 \times 5 = \0.00 sales
 - f. Total sales: $\$341.25 + \$50 + \$0 = \376.25
 - g. Total cost 100 bu: $\$250$
 - h. Gross margin: $\$376.25 - \$250 = \$126.25$.
 - i. $\$126.25$ divided by $\$376.25$ sales = 33.6% gross margin percentage.
 - j. So you need to set prices to get a higher margin that will cover your dump and discounting. If the selling price is too high for the market you are in, then you need to lower the starting margin and selling price but also discount and dump less.

Most Important lessons from the attendees.

- There are a lot of moving parts between buying and selling that affect gross margin. Buying and selling must be coordinated and the margin should be monitored daily and weekly.
- Really pay attention to your numbers, patterns, historical data. Look at your cooler. Keep track of sales team – hitting their numbers. Watch your numbers!
- Your margins should be taken where you can. Take low margins only where you have to.
- If you can't sell it you're not doing anyone any favors.
- Managing dump is extremely important!
- Where your market is, is very important also.
- Maximize the market margin where you are and where you can.
- Calculate all your costs into your margin.
- Dump affects your bottom line, it is huge! Pay attention to dump!
- Be proactive to take the right decisions quickly.
- When you expect a 33% margin, don't expect a 33% margin. There's always changes.
- Consider additional costs beyond cost and freight i.e. processing costs, extra time, etc. Hidden overhead.
- Always have a calculator handy! Be accurate.
- You have to know all your costs, and what your margin should be. Be sure to factor in all costs.
- Focus on your sensitive items first.
- When you dump you are not really making your costs back – be careful!



California Association of
Flower Growers & Shippers

Margin Calculation Exercise

Margin calculation #3 – With Dump

Calculate the gross margin for the scenario below.

Purchase 100 bunches of mini carnations - Landed cost of \$2.50

You want to sell the flowers to make a 33% gross margin. What should the selling price be?

You sell 95 bunches at full price.

You dump 5 bunches of the flowers.

What is your ending margin?

Margin calculation #4 – With Discounting and Dump

Calculate the gross margin for the scenario below.

Purchase 100 bunches of mini carnations – landed cost of \$2.50

You want to sell the flowers to make a 33% gross margin. What should the selling price be?

You sell 75 bunches at full price

You dump 5 bunches

You sell 20 bunches at cost.

What is your ending margin?

Margin calculation #5 - What gross margin do you need to end up with 33% gross margin after you dump 5 bunches of the flowers and sell 20 bunches at cost? Hint: In the last exercise, the gross margin was 8.5% too low because of the dump and discounting.

Purchase 100 bunches of mini carnations – landed cost of \$2.50

You want to sell the flowers and end with a 33% gross margin.

You sell 75 bunches at full price

You dump 5 bunches

You sell 20 bunches at cost.

What should your gross margin and initial selling price be?