“TRAVEL’S WITH THE CASE!”

Keeping It Simple: A CPG Entrepreneur’s Guide To Gross Margins

from the team at 2X CONSUMER PRODUCTS GROWTH PARTNERS

We often discuss with CPG entrepreneurs how to correctly show gross margins to be GAAP (Generally Accepted Accounting Principles) compliant.

Gross profit reflects the dollars available to cover fixed and variable operating expenses, often referred to as OpEx. Gross margin is the percentage derived from gross profit divided by net revenue.

		See	Example	
	Gross Revenue		$1,000,000	
-	Discounts & Allowances	Note 1	$170,000	
	Net Revenue		$830,000	100%
-	Cost of Goods Sold	Note 2	$489,700	59%
	Gross Profit		$340,300	41%

Note 1: The biggest question often is related to what costs should be reflected as gross-to-net revenue reductions (referred to as “discounts and allowances”). 2x Partners Founder and Managing Partner, Andy Whitman, has guided people for over a decade to ask whether an expense “travels with the case” – meaning is selling the case contingent on the cost. If so, such as a cash discount given for early payment of the order, it should be reflected in Discounts & Allowances. The same logic applies to an off invoice given on the case and/or slotting costs. In both situations, the case sale is “contingent” on the costs. Examples are shown below.

Examples	"Travels With The Case"	Captured In
2% Cash Discount	Yes	D&A
Slotting	Yes	D&A
Off Invoice Allowance	Yes	D&A
Instant Redeemable Coupon*	Yes	D&A
Non-IRC Couponing	No	OpEx
Partnering With Retailer (e.g. for general retailer like 84.51° / Dunnhumby)	No	OpEx
Broker Commissions	No	OpEx

** Attached to every package in the case; as such, the estimated redemption costs would be a contra-revenue cost.*

Note 2: Cost of Goods Sold (COGS) should including all costs associated with manufacturing the product and getting it to the shipping point. This would certainly include raw material and packaging costs plus freight-in and fixed/variable manufacturing expenses (which should include costs of the plant if you have one, warehouse if you have one, etc.). GAAP allows freight-out to be captured in OpEx and that is a common choice made by most emerging brands.

Finally, where possibly we encourage you to also track marginal contribution, especially if freight-out (which is volatile at present) is captured in OpEx.