

workbook

PRODUCT PROFITABILITY

PRACTICAL EXERCISES TO
MASTER MARGIN CALCULATION
IN COMMERCIAL DISCUSSIONS

After Hours
Mentor

CONTEXT

In international CPG companies, discussions around sales, pricing and profitability are part of everyday business.

Therefore being fluent in margin calculations can significantly strengthen your confidence and decision-making in commercial discussions.

This workbook contains practical exercises designed to help you quickly calculate margins and evaluate business scenarios without relying on complex Excel models.



This workbook is particularly useful for professionals at the beginning of their commercial careers who want to better understand pricing and profitability mechanics.

The content focuses on practical fundamentals commonly used in everyday commercial discussions.

Explore this workbook strengthen your confidence in commercial discussions!



DEFINITION

In commercial discussions, different terms are often used to describe product profitability:

Profit Margin

Gross Margin

Net Margin

Product Margin

Product Contribution

Contribution Margin

Generally - the differences between these terms are sometimes semantic and sometimes related to which cost components are included in the calculation.

Regardless of the terminology, the core calculation logic remains the same.

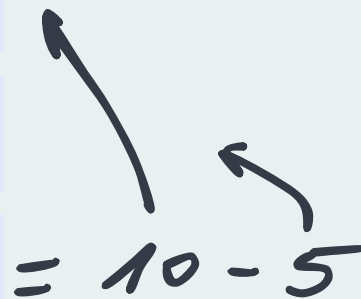
Once you understand the methodology step by step, margin calculations become straightforward.



BASIC MARGIN CALCULATION

Calculating margin from selling price to absolute margin*

Basic calculation	Base price
Selling price	10
Cost of product	5
Margin	5


$$= 10 - 5$$

Margin = Selling price - Product Cost

When margin is expressed as a value rather than a percentage, it is usually referred to as absolute margin.

*All figures use simplified assumptions and the same currency.

BASIC % MARGIN CALCULATION

From absolute margin to percentage margin.

Basic calculation	Base price
Selling price	10
Cost of product	5
Margin (abs)	5
% Margin	50%

$$= \frac{5}{10}$$

$$\% \text{ Margin} = \text{Absolute Margin} / \text{Selling Price}$$

In commercial discussions, margin is most commonly expressed as a percentage because it allows easier comparison across products.

Percentage margin is commonly used to compare products against company targets, average brand profitability or minimum profitability thresholds.

COMPARING % MARGIN OF PRODUCTS

Comparing products requires looking beyond price alone and understanding both absolute and percentage margin.

different products	Product A	Product B
Selling price	10	15
Cost of product	5	10
Margin (abs)	5	5
% Margin	50%	33%

!

In this example, the more expensive product (Product B) generates the same absolute margin as Product A, but its percentage margin is significantly lower due to higher product cost.

Same € margin $\neq$ Same % margin

% MARGIN OF FEW PRODUCTS

Differences in product cost structure and pricing can lead to significant variations in percentage margin across products.

different products	Product A ✓	Product B ✓	Product C ✓	Brand ABC
Selling price	10	15	8	
Cost of product	5	10	2	
Margin (abs)	5	5	6	
% Margin	50%	33%	75%	

To understand the total **profitability of Brand ABC**, we **cannot simply average the margins** of individual products.

In reality, products generate different sales volumes and sales values, which means a simple arithmetic average does not reflect actual brand profitability.

> weighted margin matters!

WEIGHTED % MARGIN OF BRAND

Brand profitability must be weighted based on product sales volume.

Brand view	Product A	Product B	Product C	Total mix Brand ABC
Volume sold	10	5 <i>X</i>	100	
Selling price	10	15 <i>11</i>	8	
Sales value =	100	+ 75	+ 800	= 975
Cost of products	50	<i>5 x 10</i> 50	200	300
Total abs Margin =	50	<i>5 x 5</i> + 25	+ 600	= 675
% Margin	50%	33%	75%	69% = $\frac{675}{975}$

Total brand profitability is calculated as **total margin divided by total sales**.

This leads to a **weighted margin of 69%** — far from the simple average of 53%.

X $\frac{50\% + 33\% + 75\%}{3} = 53\% \text{ WRONG!}$

PROMO % MARGIN

The same product may generate different margins depending on the promotional discount applied.

base vs promo	Product A	20% discount
Selling price	10	8
Cost of product*	5	5
Margin (abs)	5	3
% Margin	50%	37.5%

$$= 10 \cdot (100\% - 20\%)$$

$$=$$

$$= \frac{3}{8}$$

Promotional margin of Product A **declines by - 12.5pp** during promotion.

$$= 37.5\% - 50\%$$

Margin changes are typically measured in **percentage points (pp)**, which represent the difference between the old and new margin percentage

*Product cost remains unchanged

PROMO % MARGIN BREAK EVEN PRODUCT A

Promotions reduce the selling price and profitability of a product, while product cost remains unchanged.

Therefore, it is important to understand the break-even point at which margin reaches 0%.

base vs promo	Product A	50% discount
Selling price	10	5
Cost of product	5	5
Margin (abs)	5	0
% Margin	50%	0%

$\frac{10-5}{10} - 1 = 50\%$

At break-even, the selling price equals product cost.

For Product A, break-even is reached at a 50% discount.

Any deeper discount (e.g. 51%) would result in a negative margin and a loss for the company.

Know your break-even before negotiating!

PROMO % MARGIN BREAK EVEN PRODUCT B

In this example, Product B (from page 6) has a higher product cost, which means break-even is reached at a 33% discount.

base vs promo	Product B	33% discount
Selling price	15	10
Cost of product	10	10
Margin (abs)	5	0
% Margin	33%	0%

$$\frac{15-10}{15} - 1 = 33\%$$

The higher the product cost, the higher the selling price required to avoid negative margin.

High-cost products leave less room for aggressive promotional discounts.

Not every product can handle deep promo!

PROMO % MARGIN AT DEEPER DISCOUNT

PRODUCT B

With a 40% discount, Product B generates a negative margin and loses €1 on every unit sold

base vs promo	Product B	40% discount
Selling price	15	9
Cost of product	10	10
Margin (abs)	5	-1
% Margin	33%	-11%

Selling product with **negative margin is rarely considered beneficial** by manufacturer.

Nevertheless, there may be strategic situations in which temporary negative margin is accepted as part of a broader commercial agreement.

Know your objectives before accepting offer!



POTENTIALLY GOOD DEAL DESPITE NEGATIVE MARGIN

Imagine that you want to promote Product C, but the retailer only accepts a 40% discount across the entire brand portfolio.

As a result, Product B is also included in the promotion despite generating negative margin.*

40% discount	Product A	Product B	Product C	Total mix Brand ABC
Volume sold on promo	30	20	200	Promo volume up!
Selling price 40% discount	6	9	4.8	
Sales value	180	180	960	1320
Cost of products	150	200	400	
Total abs Margin	30	-20	560	570
% Margin	17%	-11%	58%	43%

Despite Product B generating a -11% margin, the total Brand ABC promotional margin remains strongly positive at 43%.

This means the promotion may still be commercially attractive when profitability is managed at total brand level rather than individual SKU level.

*Product costs, base selling prices and margins based on examples from pages 5–8.

% MARGIN AT DIFFERENT MECHANISMS

Different promotional mechanisms can generate similar percentage margins while supporting different commercial objectives.

different mechanism of promo	Product A base	-33% discount	2+1 promo
Selling price	10	6.7	20
Cost of products	5	5	15
abs Margin	5	1.7	5
% Margin	50%	25%	25%

take 3
pay for 2
= 2×10
= 3×5

Both mechanisms deliver the same % margin, but support different objectives:

-33% discount

- encourages single-product trial
- lowers entry barrier for shoppers
- supports penetration

Know your objectives!

2+1 promo

- increases basket size and purchase volume
- supports stock-up behaviour
- is more effective for already established products

SUMMARY

Once you understand the core mechanics, margin calculations become much more intuitive.

In commercial practice, margin logic is most often used to:

- evaluate base product profitability
- assess promotional impact on margin
- understand portfolio and brand profitability
- support pricing and launch decisions
- balance sales growth with profitability targets

Strong understanding of margin logic helps build better commercial judgement and more confident business decision-making.



This workbook covers only the fundamentals.

In reality, commercial organizations work with many additional scenarios, mechanics and profitability trade-offs.

If you would like to explore more advanced commercial topics, stay tuned for future AH Mentor materials.

*Strong commercial decisions
start with understanding the numbers!*



TEST YOUR THINKING

Commercial judgement improves with practice.

Use the following exercises to test your pricing and profitability logic.

*Commercial confidence
is built via practice !*



EXERCISES

BASE MARGIN

Calculate margin of products X Y Z

base margin	Product X	Product Y	Product Z
Selling price	20	120	70
Cost of product	5	48	40
Margin (abs)			
% Margin			

EXERCISES // ANSWERS

BASE MARGIN

Calculate margin of products X Y Z

base margin	Product X	Product Y	Product Z
Selling price	20	120	70
Cost of product	5	48	40
Margin (abs)	15	72	30
% Margin	75%	60%	43%

EXERCISES

PROMOTIONAL MARGIN

Calculate margin of products X Y Z with **20% discount**
Write new price after discount as [**Promo price**]

promo margin	Product X	Product Y	Product Z
Base price	20	120	70
Promo price			
Cost of product	5	48	40
Margin (abs)			
% Margin			

EXERCISES // ANSWERS

PROMOTIONAL MARGIN

Calculate margin of products X Y Z with **20% discount**
Write new price after discount as [**Promo price**]

Promo margin	Product X	Product Y	Product Z
Base price	20	120	70
Promo price	16	96	56
Cost of product	5	48	40
Margin (abs)	11	48	16
% Margin	69%	50%	29%

EXERCISES

BRAND MARGIN AT PROMO

Calculate Brand XYZ margin with a 20% discount.

BRAND margin	Product X	Product Y	Product Z	BRAND XYZ
volume on promo	100	50	300	
Promo price per unit	16	96	56	
Sales value				
Cost of product per unit	5	48	40	
Margin per unit				
Total margin				
% Margin				



EXERCISES // ANSWERS

BRAND MARGIN AT PROMO

Calculate Brand XYZ margin with a 20% discount.

BRAND margin	Product X	Product Y	Product Z	BRAND XYZ
volume on promo	100	50	300	
Promo price per unit	16	96	56	
Sales value	1600	4800	16800	23200
Cost of product per unit	5	48	40	
Margin per unit	11	48	16	
Total margin	1100	2400	4800	8300
% Margin				36%

To calculate total brand margin, add together the absolute margin generated by all products and divide it by total sales value.

It is not necessary to calculate the percentage margin of each product separately.

However, doing so can help validate whether the final brand margin calculation is logical (for example, whether the result is realistically positioned between the highest and lowest product margins)

EXERCISES

TARGETED PRICE

What should be the target price of Product A if:

- base margin must remain above 40%
- promotional margin must remain above 30%

You also know that the typical promotional discount in this category is 20%.

targeted price	Base price ProductA	Promo Price Product A
Base Price		
Promo price		
Cost of product	12	12
Margin per unit		
% Margin		



EXERCISES // ANSWERS

TARGETED PRICE

What should be the target price of Product A if:

- base margin must remain above 40%
- promotional margin must remain above 30%

You also know that the typical promotional discount in this category is 20%.

targeted price	Base price ProductA	Promo Price Product A
Base Price	20	
Promo price		16
Cost of product	12	12
Margin per unit	6	4
% Margin	40%	25%

If the target margin is 40%, product cost represents the remaining 60% of the selling price.

Therefore >> Selling price = Product cost / 60%

This gives us a base selling price of 20.

Once the base selling price is calculated, we can estimate promotional profitability.

With a 20% discount, promotional margin equals 25%, which remains below the required 30% target.

Conclusion > base price is too low, so we go to next page to calculate.

EXERCISES // ANSWERS

TARGETED PRICE

What should be the target price of Product A if:

- base margin must remain above 40%
- promotional margin must remain above 30%

You also know that the typical promotional discount in this category is 20%.

targeted price	Base price ProductA	Promo Price Product A
Base Price	21.9	21.9
Promo price		17.5
Cost of product	12	12
Margin per unit	9.9	5.5
% Margin	45.2%	31.4%

If the target promotional margin is 30%, product cost represents the remaining 70% of the promotional selling price.

Therefore >> Promo price = Product cost / 70%

This results in a promotional price of 17.14.

To stay on the safe side, the final promotional price is rounded up to 17.5.

Once the promotional price is defined, we can calculate the required base price and resulting base margin.

This means the recommended base price should be 21.9, as it protects both the required base margin and promotional profitability targets.