

THE ONE THIRD RULE FOR SMALL FOOD MANUFACTURERS

To work out the price of a product into the shop it is valuable to understand the **One Third Rule**.

The One Third Rule has been developed as a general guide. It is designed to help you calculate the prices which your food products need to achieve to make a profit, when you sell into a shop.

The Rule consists of the following:-

- One Third (33%) of your costs are for all your the raw materials and packaging.
- One Third (34%) of your costs are for all your labour and overheads.
- One Third (33%) is the cost of distribution, depreciation and profit.



The 1st Third includes:-

- a. All the costs of raw materials. This includes wastage which may be quite high for certain products.
- b. The primary packaging.
- c. The main label and/or sleeve.
- d. Art work design
- e. Best Before or Sell By label.
- f. Costs for Bar Codes
- g. Gases, if you are using modified atmosphere packaging (MAP).
- h. The outer packaging.
- i. The outer label.
- j. Shrink wrap.

The 2nd Third includes:-

- a. Labour & salary costs including National Insurance and Pension contributions, where appropriate.
- b. Lease, rental, mortgage or the bank loan, for the property, costs.
- c. Service charges on the property and surrounding area.
- d. Building maintenance costs.
- e. Business rates.
- f. Water & effluent disposal.
- g. Gas & electricity.

Guidance Note: Pricing a Food Product

- h. Waste collection and disposal.
- i. Estate cleaning, if appropriate.
- j. Pest control.
- k. Telephone, fax lines and Internet connection.
- l. Refrigeration &/or freezer maintenance.
- m. Equipment maintenance and spare parts.
- n. Scales calibration and maintenance.
- o. Light fitments.
- p. Janitorial costs.
- q. Laundry costs.
- r. Computer support costs.
- s. Costs for British Retail Consortium, SALSA or Scores on the Doors audits.
- t. Laboratory testing and support.
- u. Cost for handling complaints.
- v. Insurance.
- w. Accountants, solicitors and other professionals.
- x. Staff training costs.
- y. Advertising and marketing.

The 3rd Third is split 27% for distribution, 3% for machinery/equipment depreciation and 3% for profit (27 + 3 + 3 = 33%):-

The 27% pays for: -

- a. Van salesmen costs including National Insurance and Pension.
- b. Vehicle Hire.
- c. Vehicle Insurance.
- d. Vehicle Tax.
- e. Vehicle Maintenance.
- f. Vehicle Cleaning.
- g. Vehicle Refrigeration
- h. Fuel.
- i. Administration costs for temperature reports and logs.
- j. Congestion Charges (where appropriate).

Pricing Your Product:-

When working out the price of your product you take the costs of the First Third and multiply by 3. This is the minimum price you can sell your product at to make a profit.

Profitability depends on:-

- a. Good Buying.
- b. Good Selling.
- c. Applying the 80:20 Rule to your outlets (20% of your outlets provide you with 80% of your sales).
- d. Maximising your 'Drop Size'. The Drop Size is the amount of product that you sell to one customer every time you make a delivery.

Calculating your Selling Price when you know the Retailer's Mark Up:-

| Your Selling Price | Retailer's % Mark Up | Retailer's Selling Price |
|--------------------|----------------------|--------------------------|
| 0.77p | 30% | £1.00 |
| 0.74p | 35% | £1.00 |
| 0.71p | 40% | £1.00 |
| 0.69p | 45% | £1.00 |
| 0.66p | 50% | £1.00 |
| 0.64p | 55% | £1.00 |
| 0.62p | 60% | £1.00 |

To find out the retailer's mark up you will need to ask them. This is part of your Market Research.

Guidance Note: Pricing a Food Product



Words of Warning:-

- A. If you are unable to sell your product into the retailer at the price they require **and** cover all the costs of your raw materials, labour, distribution etc and make a profit then you should walk away from the business opportunity. If not, you will lose money.
- B. It costs time and money to make a delivery. If the value of the delivery is less than £90 it is unlikely to be cost effective and you will lose money. As an example if you are selling your products, in the local area, at £1.99 per unit in packs of 12 units (Total price of £23.88) then you need to sell at least four packs on each delivery (£23.88 x 4 = £95.12).
- C. We do **not** recommend 'Sale or Return'. If you offer this facility then your costing has to cover the likely level of returns. Experience would indicate that 10% of your sales may be returned.
- D. Once you have agreed the selling price to the retailer it is very difficult to raise that price. It is, therefore, not a good idea to try to enter into the market with a low price and hope that you can raise it later. Experience shows that this doesn't work.

Prepared by the Food Club Technical Team

The Food Club, 6 The Ridgeway, North Harrow, Middlesex, HA2 7QN

Tel/Ansaphone: (020) 8868 0113 www.thefoodclub.org.uk E-mail: foodieuk@aol.com

Legal Advisers: The Food Law Unit, Shoosmiths | www.shoosmiths.co.uk

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www.supremefoodscatering.co.uk