Calculating a profitable price for your Amazon listings

A step by step explanation.

Scope

Many retailers find it difficult to calculate a profitable selling price for their products when listing on Amazon. This guide seeks to show a step by step approach to doing that. And arrives at a fully explained formula to calculate a final selling price.

About

Seller Dynamics is a marketplace management system to help retailers sell on Amazon, eBay and a range of other marketplaces and websites.

It is provided by Objective Associates Limited, a leading UK based ecommerce consultancy providing Amazon and eBay support and hands on assistance to online retailers.

www.sellerdynamics.com

www.objectiveassociates.co.uk

Calculating your final listing price,
are you worried about costly errors?

Introduction

For ambitious, growing online retailers it is essential that when it comes to calculating final listing prices on the global marketplaces, such as Amazon, there is no room for error.

Listing items, without having fully calculated the costs involved, can result in a business that either never sells anything because the pricing is too high, or which provides goods at unprofitable levels. Either scenario results in frustration, anxiety and ultimately a business in liquidation. And calculating an incorrect final listing price might mean you buy stock that you simply can't sell.

But why should the calculation be a cause for any concern? Surely calculating a final listing price, requires nothing more than adding a fixed percentage to the base cost of the goods in question? Add 80% or 120% or 300%, whatever you have decided covers all your costs and leaves a little margin for profit.

That sounds, on the face of it, to make sense but it's necessary to look at how to calculate your final listing prices much closer if you are to avoid costly mistakes. To ensure your items are priced correctly you need to look at the detail.

When arriving at a final listing price you'll have to consider a number of factors.

- The VAT applicable.

- The Postage and Packaging costs that are *wrapped* up into the final price.

- The commission that the marketplace will charge based on the final listing price.

- Credit Card or PayPal fees based on the final listing price.

- Any additional fixed fees that may apply, such as FBA on Amazon.

- And of course your own mark-up, either based on a percentage of the base price and/or a fixed margin on top.
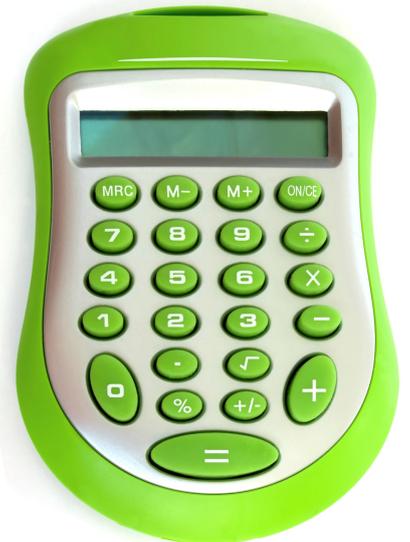
Calculating a final listing price

We've created a formula to help you calculate your final listing prices. And we'll work through how we did that. The explanation requires some basic knowledge of algebra.

We've looked at how your final listing price is calculated on a range of marketplaces and came up with what we believe is a reasonably standard way to arrive at a final listing price. The list of costs below may need adjusting depending on the exact nature of the marketplace in question, but we believe our calculation handles most situations and should be easily modified if required.

Your final selling price, before VAT is applied, is made up of several cost and profit elements:

> ***a) Cost of goods, excluding VAT***
>
> ***b) Your fixed mark up on cost of goods***
>
> ***c) Your percentage mark up on cost of goods***
>
> ***d) Postage and packaging***
>
> ***e) Marketplace Percentage fees calculated on the final listing price***
>
> ***f) Any additional listing fees calculated on the final listing price***
> > ***(this might be a separate listing charge and/or your Credit Card/PayPal charges)***
>
> ***g) Fixed fees from the marketplace and any other source such as payment processing***

To simplify this lets pull out those items you have most control over and call that your BASE PRICE.

> ***BASE PRICE = (a) + (b) + (c) + (d)***
>
> ***BP = (a) + (b) + (c) + (d)***

So, in summary, the BASE PRICE is the Cost of Goods, plus your mark up (percentage and/or fixed), plus Postage and Packaging.
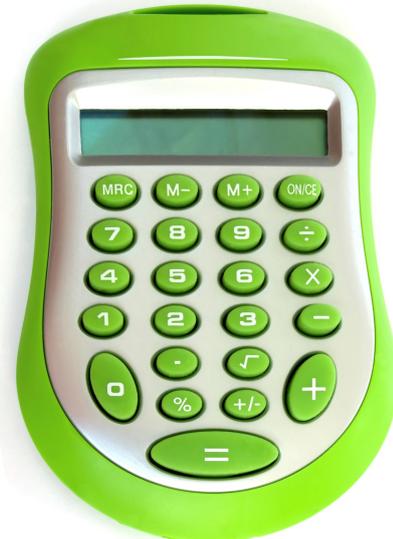
You will have noticed that the BASE PRICE does not include your marketplace fees or any separate listing fees, so let's look at how those are calculated.

FEES = (e) + (f) + (g)

FEES = (Marketplace Commission Percentage * Final Listing Price)

+

(Listing Percentage * Final Listing Price)

+

(Marketplace Fixed Fee)

FEES = (MCP * FLP) + (LP * FLP) + (MFF)

Unsurprisingly then, FEES are simply the addition of all the fees that you may be exposed to.

So the FINAL LISTING PRICE net of VAT is the fees plus your base price.

FINAL LISTING PRICE net of VAT = BASE PRICE + FEES

FLP net of VAT = BP + FEES

And if we add in the multiplier for VAT:

FLP = VAT * (BP + FEES)
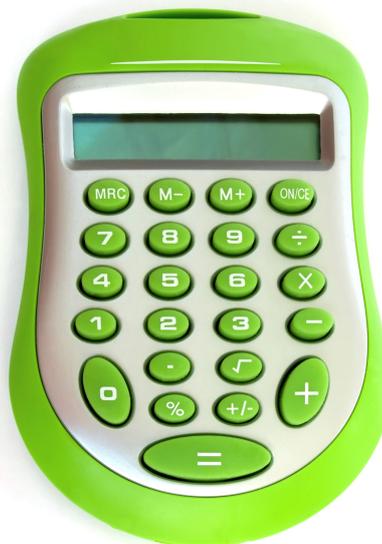
However, you may have noticed from the formula above that to calculate the FEES you need to know the FINAL LISTING PRICE.

But you can't accurately calculate the FINAL LISTING PRICE unless you calculate the FEES. You need to know the Final Listing Price before you can calculate the Final Listing Price!

So how can you get around this Catch-22 issue? This is where a little knowledge of algebra comes in very useful. If we look at our calculation again we see that if we add in all the various elements it looks like this:

$$FLP = VAT * [(BP) + (MCP * FLP) + (LP * FLP) + (MFF)]$$

Now we can multiply out and rearrange the elements so that we can find out what the FLP (Final Listing Price) is:

$$FLP = VAT.\ BP + VAT.MCP.FLP + VAT.LP.FLP + VAT.MFF$$

Move all the FLP elements to the left hand side:

$$FLP - VAT.MCP.FLP - VAT.LP.FLP = VAT.\ BP + VAT.MFF$$

Now extract the common FLP variable from those elements on the left hand side:

$$FLP(1 – VAT.MCP – VAT.LP) = VAT.BP + VAT.MFF$$

And extract the common VAT element from the right hand side:

$$FLP(1 – VAT.MCP – VAT.LP) = VAT(BP + MFF)$$

And finally divide the right hand side by the elements in brackets on the left. We now have a formula that when we plug in the various known values will generate the FLP (Final Listing Price):

$$FLP = VAT(BP + MFF) / (1 – VAT.MCP – VAT.LP)$$

The example overleaf will help explain this more.
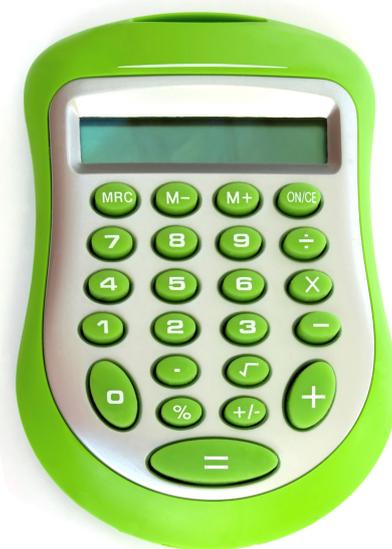
Example:

Let's use the formula to calculate a FINAL LISTING PRICE for an item. In this example we are assuming that the Marketplace Commission Percentage includes any Card Processing Fee – so it's an example useful for calculating your Amazon Final Listing Price.

> Let's assume:

- The BASE PRICE (BP) is £5. This is the Cost of Goods including P&P and margin;
- The VAT rate is 20%;
- The Marketplace Fixed Fee (MFF) is £0.20;
- The Marketplace Commission Percentage (MCP) is 15%;
- And the Listing Percentage Fee is 1%.

If we plug in those values we can calculate the Final Listing Price:

> **FLP = VAT(BP + MFF) / (1 – VAT.MCP – VAT.LP)**
> **FLP = 1.2 * (5 + 0.2) / (1 – 1.2 * 0.15 – 1.2 * 0.01)**
> **FLP = 6.24 / (1 – 0.18 – 0.012)**
> **FLP = 6.24 / 0.808**
> **FLP = £7.72**

So to be sure that you can sell an item, where £5 covers your P&P, Cost of Goods and Profit Margin you need to sell it at a price of at least £7.72. Where the £7.72 covers all your other overheads, VAT, Listing Fees and Marketplace Fees.

Consider if you had applied a rough rule of thumb instead. Perhaps you multiply the Base Price up by the VAT level and then again by the Marketplace and Listing Commissions before finally adding on any fixed Marketplace Listing Fees. You might end up with a calculation that looks like this:

> **Total = BASE PRICE ***
> **VAT * MARKETPLACE COMMISION RATE * LISTING RATE**
> **+ FIXED FEE**
> **Total = 5 * 1.2 * 1.15 * 1.01 + 0.20**
> **Total = £7.17 WRONG!!!!!**

This would give a Final Listing Price of £7.17 and produce an error of 55p, enough to wipe out a large part of any profit on an item that you had decided had a BASE PRICE of £5. And perhaps even allowing you to sell at a loss.

If you are still not sure about our formula then why not work backwards?

- The VAT payable (20%) on an item listed at £7.72 would be £1.28.
- The Marketplace Commission (15%) on that item would be £1.16.
- The Listing Percentage (1%) on that item would be £0.08.
- The Marketplace Fixed Fee is 20p.

Adding those charges up gives us £2.72 which if we subtract from £7.72 gives us our £5 Base Price.

Try our formula with a few other values if you are still unsure, or why not build a little spreadsheet?
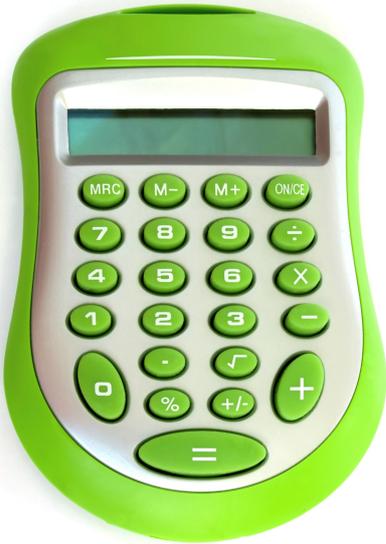
Summary

Attention to the detail of how the Final Listing Price is calculated is essential if you want to arrive at prices that ensure your business is successful.

From the example provided it is clear that significant errors can creep in if your assumptions are inappropriate.

For those not familiar with algebraic manipulation the arrival at the formula below may appear a complicated process.

$$\textit{FLP = VAT(BP + MFF) / (1 – VAT.MCP – VAT.LP)}$$

But it should be clear that using anything less sophisticated results in a potentially large and costly issue.

Implementing the formula in a spreadsheet will give you an easy way to check your prices and also allow you to add your own refinements.

You'll also find an online calculator on our websites to help.

Find out more about our products and consultancy services at www.objectiveassociates.co.uk/book-a-slot.

Free trials, demonstrations and full information on Seller Dynamics can be found at www.sellerdynamics.com.

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