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Retail Grocery Pricing: A Primer

Knowledge of retail pricing—the art and science of determining the price at which to sell a particular item—can be helpful for grantees in understanding the relationship between grocery stores and food producers. What follows is a basic primer on how retail pricing is calculated in retail grocery stores.

Calculating Gross Margin Percentage

The formula in the example below is generally known as a *gross margin percentage* calculation and is used by retail grocery stores to determine a selling price.

How to Calculate Selling Price for Item

Costing \$1.00 Returning a 25% Gross Margin

Formula	$\frac{\text{Item Cost}}{1 - \text{Desired Gross Margin \%}}$
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Example	$\frac{\text{Item Cost} = \$1.00}{1 - 25\% \text{ (Desired GM \%)} = .75}$
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Result	$\frac{\$1.00}{.75} = \1.33 <p style="text-align: right; margin-right: 50px;">Selling Price</p>
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For the \$1.33 selling price calculated in the formula, this means after the retailer pays the \$1 cost of the product, there is 33¢ remaining as **gross profit**. All expenses such as labor, benefits, rent, electric and many others must be paid for out of the 33¢ cents. When those expenses are deducted, the remaining funds are referred to as **operating profit**.

While the term “markup” is commonly used in everyday parlance about pricing, there is a difference between **gross margin percentage** and **markup** on cost. For example, if a grocer pays \$1 for an item and “marks it up” 25% (\$1 x 1.25), the item would then be sold for \$1.25. However, that item would only have a 20% gross margin using the formula above.

Therefore, in general, conversations within the grocery business are focused on gross margin percentages and gross profit dollars, not markup. See below for industry standards for gross margin percentages in different grocery retail departments.

GROSS MARGIN BY DEPARTMENT	SINGLE-STORE
Grocery	24.7%
Dairy	25.4%
Frozen	30.0%
HBC	22.6%
GM	28.7%
Beer/wine/liquor	23.1%
Tobacco	9.3%
Produce	30.8%
Floral	32.6%
Meat	26.4%
Deli	44.6%
Bakery	43.9%
Seafood	24.2%
Pharmacy	23.1%
Total store	28.9%

Chart adapted from FMS. NGA 2020 Independent Grocers Financial Survey

A 2020 survey found that in retail produce departments the average gross margin percentage is 30.8%. Using the gross margin percentage formula, we can see if the store pays a supplier \$1.00 for an item, it will need to be sold to customers for ≈\$1.45 (\$1/.692).

Why Different Gross Margin Percentages?

As you can see from the chart above, pending the department, there will be a different gross margin associated with pricing a particular item. So, for produce and meat, you may have the same cost on an item, but because of differing department expense structures, you have two different retail prices. Differing retail price structures within a store may be illustrated in terms of a can of soup versus a stalk of celery.

For a case of Campbell's tomato soup, all that is required is taking the case off the delivery truck and putting the cans on the shelf. The labor cost associated with that simple task is lower than the labor rate for perishable departments, such as produce.

For a case of celery, or many other fresh produce items, the case comes off the delivery truck and moves into a very large storage cooler that is expensive to keep in continual operation 24 hours per day/365 days per year due to power and repair bills.

The celery is retrieved from the cooler, sometimes soaked in ice water to rehydrate after transportation, is visually inspected for quality, the celery top and butt end trimmed, and each stalk placed in an individual bag and sealed. The celery is then placed on the shelf of a refrigerated display case that again is expensive to buy, maintain, and run 24 hours per day/365 days per year.

Early the next morning, the celery, along with all other produce, is visually inspected for freshness or culled from the selling shelf for reworking into packaged celery sticks or, since the celery is still perfectly safe for consumption, sent over to the deli for use in food prep. Our shopping culture is “perfection-based” where any slight blemish on products means a no-sale and possible loss for that product.

In summary, celery has additional ongoing “costs” for labor, packaging materials, storage/preservation, and even a potential total loss of not being sold and tossed into trash. Meanwhile, the can of soup sat on the shelf waiting to be sold without any additional attributable costs other than the cost of being in “current inventory.”

As GusNIP grantees consider program design and requirements for produce (especially local produce), understanding the terminology and basic math components of the retail food industry will lead to more successful project implementations.

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