

NEURAL PROFIT ENGINES

Solving Problems Before They Destroy Your Business

A GUIDE ON SETTING PRICES TO EARN PROFITS

A Plain-English Guide to Setting Prices That Actually Earn Profit

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Neural Profit Engines — The Neural CFO

A survey of Aggregator sites estimates that 77% of business failures can be traced to pricing products or services incorrectly. Another study concluded that 18% of business failures are directly tied to miscalculating costs and prices. Most owners who price by feel were never shown the difference between markup and margin — a mix-up that quietly drains profit out of every single sale.

This guide has no jargon you have to look up. It walks through the three numbers that actually determine whether a price makes you money, in the order you need to calculate them, with the arithmetic shown at every step.

Start Here: The One Sentence That Fixes Most Pricing Mistakes

Markup and margin are not the same and confusing them is the single most common — and most expensive — pricing mistake an owner makes.

THE RULE

Markup is added to your cost. Margin is kept from your price. They use the same two numbers but answer different questions, and they are never equal to each other (except at zero).

Here is the mistake in action. Suppose something costs you \$60. You want a 40% margin, so you think: "40% of \$60 is \$24 — I'll charge \$84." That price does NOT give you a 40% margin. It gives you a 28.6% margin. You just gave away over a tenth of the profit you thought you had, on every single sale, forever, until someone catches it.

	The Math
40% Markup on \$60 cost	$\$60 + (40\% \times \$60) = \$84 \text{ price} \rightarrow \text{margin} = (\$84 - \$60) / \$84 = 28.6\%$
40% Margin on \$60 cost	$\$60 \div (1 - 0.40) = \$100 \text{ price} \rightarrow \text{markup} = (\$100 - \$60) / \$60 = 66.7\%$

Notice the gap: to actually earn a 40% margin on a \$60 cost, you have to charge \$100 — not \$84. That \$16 difference, multiplied across every unit you sell in a year, is the difference between a business that funds itself and one that's always short. From here forward, when this guide says "margin," it means the percentage of the final price you keep — which is the number that actually matters, because it's what shows up as profit.

Step 1: Find Your True Cost — Not Just What You Paid the Supplier

Underpricing rarely starts with a bad price. It starts with an incomplete cost. Before you can price anything correctly, add up everything that the sale actually consumes:

- **Direct materials** — What you paid for the product, ingredients, or materials that went directly into this specific sale.
- **Direct labor** — The wages (plus payroll tax and benefits load, typically 12–20% on top of wages) for the time spent making or delivering this specific sale — not your entire payroll, just the portion tied to this unit or job.
- **Variable overhead** — Credit card processing fees, packaging, shipping, and any per-unit cost that scales directly with volume.
- **A slice of fixed overhead** — A fair share of rent, insurance, software, management salaries, and other costs that exist whether you sell one unit or a thousand — including a fair market wage for your own time as owner-operator, if you work in the business. Divide your total monthly fixed costs by your typical monthly unit volume to get a rough per-unit allocation.

THE MOST COMMON COST MISTAKE

Calculating your prices off your supplier's invoice and stopping there. If a service business forgets to load in all labor hours, or a product business forgets packaging and card fees, every price built on that number is quietly underpriced before a single markup or margin decision is even made.

A NOTE ON YOUR OWN WAGE

Notice "management salaries" includes your hours priced at a fair market rate for that role, the same as you'd pay someone else to do it. That covers your labor. It is not your reward for owning the business.

Step 2 adds that reward as a separate line, on purpose — conflating the two is how owners end up working for free without ever seeing it on paper.

Step 2: Decide What Margin You Actually Need — Don't Guess

"What's a good margin?" is the wrong question. The right question is: "What does this business need to earn to cover its costs and reward me?" That number comes from two calculations, not from what feels fair or what a competitor charges. The first is easy to forget entirely: what you, the owner, want this business to pay you beyond your working wage. The second is the breakeven math everyone assumes is the whole answer, but which is incomplete without the first.

2a. Price Your Own Return First — Before Margin, Before Anything Else

Your wage for hours worked already sits inside fixed overhead, priced like any other salary. This step is different: it's what the business owes you for the capital you've put at risk and the fact that you own it, not just work in it. Most pricing guides skip this entirely and treat owner profit as whatever happens to be left over after everything else is paid, which is exactly backward, and exactly why so many owners quietly work a full year for less than their receptionist.

Decide the number directly. A common starting point is an annual dollar target — say, \$96,000 a year, or \$8,000 a month — set deliberately, the same way you'd set a salary for a role you were hiring for. Divide it by your expected monthly volume to get a per-unit number:

OWNER RETURN PER UNIT

Owner's Target Additional Return per Unit = (Annual Target ÷ 12) ÷ Expected Monthly Volume. Example: \$8,000 ÷ 500 units/month = \$16.00 per unit.

This number gets added at the very end of the pricing formula below — after cost, after margin — as its own line, so it never gets quietly absorbed or negotiated away in a discount.

2b. The Breakeven Margin

Separately from your own return, the business still needs a margin on its costs to cover what a straight cost-recovery price can't: reinvestment, debt service, a cash cushion, and the fact that not every month goes as planned. Breakeven revenue = Fixed Costs ÷ Margin (as a decimal). If your fixed costs are \$30,000 a month and you're pricing at a 25% margin, you need \$120,000 in monthly revenue to break even — before the owner-return line in 2a is even in the picture.

Monthly Fixed Costs	At 15% Margin, You Need	At 25% Margin, You Need	At 35% Margin, You Need
\$30,000	\$200,000 revenue	\$120,000 revenue	\$85,700 revenue

This table is the real argument for raising prices: moving from a 15% to a 25% margin doesn't just add profit — it cuts the revenue you need to survive by 40%. A thin margin doesn't just mean less profit on a good month; it means every slow month, cost spike, or bad job is far more likely to push you below zero.

Putting It Together: The Full Pricing Formula

THE COMPLETE FORMULA

Price = [Total Cost per Unit ÷ (1 – Required Margin, as a decimal)] + Owner's Target Additional Return per Unit

Worked example: total cost per unit (materials, labor, and allocated overhead — including your working wage) is \$42. Required margin for reinvestment and cushion is 15%. The owner's target additional return, from 2a, is \$16.00 per unit.

	The Math
Margin-adjusted base price	\$42 ÷ (1 – 0.15) = \$49.41
Plus the owner's target return	\$49.41 + \$16.00 = \$65.41 final price

THE PRECISION FLAG

That 15% was calculated on the \$42 cost base — before the \$16 owner-return was added on top. Once the owner-return is layered in, 15% is no longer the margin on the final price. Check it: margin dollars (\$7.41) ÷ final price (\$65.41) = 11.3%, not 15%. Nobody did anything wrong — but if you're tracking margin against the final price elsewhere in your reporting, use the realized 11.3%, not the 15% you started with, or you'll recreate the exact markup-versus-margin confusion this guide opened with, one layer deeper.

Step 3: Price the Product, Not the Competitor

Checking competitor prices is useful for context — it is never a substitute for knowing your own cost, required margin, and target return. A competitor with a different cost structure, different owner-return expectations, or a different overhead base can profitably charge a price that would lose you money or quietly underpay its own owner to get there. Use their price as one data point, never as your formula.

The Discount Trap: Why a Price Cut Costs More Than It Looks Like

This is the single most expensive pricing mistake owners make on purpose, usually to win volume or beat a competitor. A discount comes straight out of margin — not out of revenue — because your costs to serve that sale don't go down just because the price did. That means the volume increase required to break even on a discount is always larger, often much larger, than owners expect.

Starting Margin	Price Cut	Extra Volume Needed to Hold the Same Gross Profit
50%	10%	+25% more units
50%	20%	+67% more units
50%	30%	+150% more units
30%	10%	+50% more units
30%	20%	+200% more units

Read the last row again: at a 30% starting margin, a 20% price cut requires tripling your volume just to earn the same money. Most discounts never come close to generating that kind of lift, which is why revenue can rise after a price cut, but the money in your bank account falls. Revenue is the number everyone watches. Gross profit in dollars is the number that pays the bills.

THE CHECK

Before running any discount, calculate the break-even volume lift using this formula: $\text{Required Volume Increase} = \text{Discount \%} \div (\text{Margin \%} - \text{Discount \%})$. If you can't confidently say you'll hit that number, the discount is a loss, not a promotion.

Different Products, Different Margins — On Purpose

Not every item in your business needs the same margin, and forcing one blended margin across everything you sell is its own quiet profit leak. A useful way to think about it:

- **High-volume, low-complexity items** — Items that draw customers in or move fast can carry a thinner margin, because volume and turnover do some of the work.
- **Low-volume, high-complexity items** — Anything with heavy labor, customization, rework risk, or slow-moving inventory needs a fatter margin, because it ties up more of your time, cash, or shelf space per dollar of revenue.

- **Your margin by product or service line** — Know it for every product line. A business that's profitable in total can still be losing money on a product it sells constantly, simply because nobody separated the blended average into its parts.

A Five-Minute Monthly Pricing Check

Pricing isn't a decision you make once. Costs drift — supplier prices rise, wages rise, card fees creep — and if your prices don't move with them, your margin erodes silently, a little every month, until a year or two later you're working just as hard for meaningfully less.

THE MATH THAT PROVES IT

Input costs rising by just 6% a year against flat prices erodes a 40% gross margin down to roughly 34% in three years — a full third of your profitability, gone without a single decision that felt like a mistake.

Pricing Self-Check

- ☐ I can state my true cost per unit — materials, labor, variable costs, and a fair share of overhead — for my top-selling item
- ☐ I've set a specific dollar target for what I want this business to pay me beyond a fair working wage — and it's a separate line in my price, not whatever's left over
- ☐ I know the difference between markup and margin, and I know which one my current prices are actually based on
- ☐ I've calculated my breakeven revenue at my current average margin
- ☐ I know my margin by product or service line, not just my average margin across the whole business
- ☐ Before my last discount or promotion, I calculated the volume increase required to break even on it
- ☐ I've compared my gross margin percentage today to what it was three years ago
- ☐ My prices have moved in the last 12 months to reflect rising supplier, labor, or processing costs

Not sure what your real margin is by product?

I run your actual cost and sales data through the same five-lens system I use for every client — and hand you a plain-language breakdown of exactly where your pricing is leaking profit, and what to charge instead.

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