

Gross Profit- Net Margin Calculation – (Very simple example to show concept.)

1. Determine sales revenue (avg sale price per unit x total units)
2. Determine Cost of Goods Sold- All costs associated in manufacturing the products from raw material to final product inventory
 - a. direct labor, raw material, energy, depreciation, scrap
 - b. indirect labor, maintenance, manufacturing overhead, parts, services
 - c. logistic costs, packing, shipping, inventory carrying costs, sales service, order processing, etc.
3. Determine Gross Profit = Sales Revenue- Cost of Goods Sold
4. Determine Net Margin= (Gross Profit/ Sales Revenue)*100
5. Wal-Mart operates to an approximate level of 3.5 % Net Margin..

Description	Manufacturing Expenses (000)
Sales = Total Sales Revenue (avg sale price x no. of units)	\$300,000
COGS	
Cost of Manufacturing <i>(Raw Material, Energy, labor, depreciation, Maintenance)</i>	\$220,000
COGS Total	\$220,000
Gross Profit	\$80,000
Gross Profit Margin (gross profit/ Sales)	27%
General Administration and Overhead	\$40,000
Taxes (estimated 40% - tax foundation.org)	\$16,000
Net Profit	\$24,000
Net Margin	8.0%