BEVASSETS · THE PRICING MASTERCLASSES

MASTERCLASS 01

Trade Pricing

How a single dollar gets carved up from your hands to the consumer's glass.

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Let me start with the mistake that kills more brands than any other. A founder builds a beautiful product, adds up what it costs to make, slaps on a margin that feels fair, and announces a price. Then they walk into a distributor meeting and watch that price get shredded in real time, because the distributor takes their cut, the retailer takes theirs, the state takes its excise, and the bottle that needed to land at $24.99 to compete is suddenly staring at $31 on the shelf. Now it's overpriced against its set, it doesn't move, and the founder spends a year wondering what went wrong with the product. Nothing went wrong with the product. The pricing was built in the wrong direction.

In the three-tier system you do not price forward from your cost. You price *backward* from the shelf. You decide where the bottle has to sit to win against its competitive set, and then you work the markup chain in reverse, peeling off the retailer's margin, then the distributor's margin, then taxes and freight, until you arrive at the number you are actually allowed to charge. That number is your FOB. If your fully-loaded cost of goods fits under it with room to breathe, you have a business. If it doesn't, you have a hobby with a logo.

> ***The shelf price is not the end of your pricing. It is the beginning. Everything else is subtraction.***

The Reverse Pour: building price from the shelf back

I call this the Reverse Pour because you start at the glass and work back to the still. Here is the full chain on a premium 750ml spirit that needs to hit $24.99 to compete. Your numbers will move by state, category, and channel, the markups below are typical, not gospel, but the *method* never changes.

WORKED EXAMPLE · THE REVERSE POUR

750ml premium spirit, target shelf $24.99

TIER & MOVE	RESULT
Consumer shelf price (where it must compete)	$24.99
Remove retailer margin (~33% on retail)	−$8.25
Retailer's laid-in cost = distributor wholesale	$16.74
Remove distributor margin (~30% on wholesale)	−$5.02
Distributor's laid-in cost	$11.72
Remove inbound freight & state excise (est.)	−$1.50
Your FOB, the most you can charge the distributor	**$10.22**

If your fully-loaded cost of goods is $5.00, you have a real brand. If it's $9.50, you're working for the privilege of being on the shelf.

Read that bottom line again. The shelf said $24.99, but the actual ceiling on what you collect is about $10.22 a bottle, and that is before you spend a dime on selling it, sampling it, or shipping it the second time. This is why founders who "price up from cost" get ambushed. They never saw the subtraction coming because they ran the math in the wrong direction.

YOU (SUPPLIER)	→	DISTRIBUTOR	→	RETAILER	→	CONSUMER
$10.22		**$16.74**		**$24.99**		**Pours**
FOB		*wholesale*		*shelf*		*the only vote*

Margin percent versus margin dollars

Here is a trap inside the trap. Every tier thinks in margin *percent*, but they get paid in margin *dollars*. A distributor doesn't deposit a percentage at the bank. They deposit the spread. When you negotiate, never argue percent in a vacuum, argue the dollars per case and what those dollars buy you. A 30% margin on a slow $12 bottle is worse for a distributor than a 25% margin on a $20 bottle that actually moves. Learn to speak in both languages, because the person across the table is doing the dollar math in their head whether they say it out loud or not.

> SAM SAYS
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> *"The price tag on the shelf is a story the whole chain agreed to tell. Trade pricing is just learning to read the story backward, so you know whose cut you're really fighting over before you walk in the room."*

Posted prices, PTC, and the deal you didn't mean to set

In control and franchise states, your pricing isn't a handshake, it's posted, filed, and visible. The price you set at launch becomes the anchor every future negotiation drags against. Founders give away a deep "introductory" deal to get placements, and then discover that the introductory price *is* the price, forever, because raising it later reads as a price increase to every buyer who onboarded at the low number. Price-to-consumer, or PTC, is the number the whole trade reverse-engineers your value from. Set it soft and you've told the entire market what you think you're worth.

> **SCENARIO · THE INTRODUCTORY PRICE THAT BECAME THE CEILING**
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> *A founder launches an RTD at an aggressive $14.99 four-pack to win shelf space fast. It works, placements everywhere. Eight months later, with costs rising, he tries to move to the $17.99 he always intended. Every buyer treats it as a 20% price hike on an unproven brand and half of them cut the SKU at reset. He didn't launch a price. He launched a ceiling, and then bumped his head on it. The right move was to launch at $16.99 with a temporary feature deal, same net cost to the consumer for a window, but the posted price was always where it needed to live.*

What to do Monday

Don't theorize. Run the Reverse Pour on your own lead SKU before you do anything else this week.

1. Find the real shelf price of the brand you most want to sit next to. Walk into three stores and look. Don't guess.
2. Subtract a realistic retailer margin for your channel (grocery, liquor, on-premise all differ).
3. Subtract your distributor's standard margin for your category. Ask them, they'll tell you.
4. Subtract freight and excise for your top state.
5. Compare the FOB you just derived to your fully-loaded cost of goods (Masterclass 03). The gap is your entire business. If it's thin, fix it now, not at month nine.