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MASTERCLASS 03

Understanding Cost of Goods

The real, fully-loaded cost of a bottle, every line founders forget until the margin is already gone.

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Ask a founder what their product costs and most of them tell you the liquid cost. "About two dollars a bottle." No. That's not your cost of goods. That's one line of your cost of goods, usually the smallest one. The liquid is the part everybody remembers because it's the part they fell in love with. Your real cost of goods is the liquid plus the glass plus the closure plus the label plus the carton plus the co-pack fill fee plus the dry-goods freight plus the shrinkage plus the case packaging plus the cost of money tied up in inventory you produced months before you got paid. Forget three of those lines and you've mispriced the whole brand.

I've sat with founders who were genuinely shocked to learn they were losing money on every case while celebrating sellout. They weren't bad at math. They were doing honest math on a dishonest cost number, because nobody ever made them build the bottle up line by line. So let's build one.

Your liquid cost is the cost you brag about. Your laid-in cost is the cost that decides whether you live.

The True Laid-In Stack

Here is a fully-loaded bill of materials for a 750ml premium spirit. The exact numbers are illustrative, yours move with volume, glass weight, and co-packer, but every line is one I've watched a founder leave out and regret.

WORKED EXAMPLE · THE TRUE LAID-IN STACK

What a 750ml bottle actually costs to put in the case

COST LINE	PER BOTTLE
Liquid / juice (the part everyone remembers)	$1.85
Glass bottle	$1.10
Closure / cork / capsule	$0.38
Front & back labels	$0.22
Carton / case packaging (allocated)	$0.30
Co-pack / bottling fill fee	$0.95
Inbound freight on dry goods	$0.18
Shrinkage, breakage & QC loss (~3%)	$0.15
True laid-in cost of goods	**$5.13**

The founder who said "about two dollars" was off by 150%. Against a $10.22 FOB that's the difference between a 50% gross margin and a margin that can't survive the first depletion allowance.

Look at what happened. The liquid, the thing the whole brand is built around, is barely a third of the real cost. The glass nearly matches it. The fill fee beats it. And the lines founders skip entirely (freight, shrink, allocated packaging) add up to almost a full dollar on their own. Run this stack honestly and the FOB from Masterclass 01 suddenly has a very different meaning.

COGS is not landed cost is not dead net

Three different numbers, and founders blur them into one at their peril. **Cost of goods** is what it costs to make the bottle and get it into the case. **Landed cost** adds getting it to the distributor's dock, outbound freight, duties if you're importing, storage. **Dead net** (from Masterclass 02) is what you actually keep after the trade takes its allowances. Your gross margin lives between dead net and COGS. If you only ever look at liquid cost versus FOB, you are flattering yourself with a margin that does not exist.

MAKE IT		SHIP IT		SELL IT		KEEP IT
COGS	→	**Landed**	→	**FOB**	→	**Dead Net**
$5.13		*+ freight/storage*		*$10.22 invoiced*		*after the trade*

SAM SAYS

"Every founder knows their liquid cost to the penny and their real cost not at all. Build the bottle up line by line, freight and shrink and all, before you ever fall in love with a price."

The cost of money nobody puts on the sheet

Here's the line that doesn't show up on any bill of materials and sinks more brands than breakage ever will: the cost of cash. You pay your co-packer when the bottle is made. You get paid by the distributor sixty, ninety, sometimes a hundred and twenty days after it ships, if the terms hold. That gap is your money, frozen in glass, sitting in a warehouse. The faster you scale, the bigger the freeze. Plenty of "profitable" brands have died with a healthy margin and an empty bank account because the cost of carrying their own inventory was never priced in.

SCENARIO · PROFITABLE ON PAPER, BROKE IN THE TRUCK

A founder lands a big chain reset, a thousand cases, the order of her dreams. She pays the co-packer up front: real money, gone. The cases ship. The chain pays in 90 days. In between she has payroll, the next production run her growing velocity demands, and a depletion program due. On paper she just had her best month ever. In reality she's three weeks from missing payroll because every dollar of her "profit" is frozen in a bottle on a shelf two time zones away. Her COGS was fine. Her cost of money was the thing nobody priced.

What to do Monday

1. Build your True Laid-In Stack from scratch. Every line. If you can't fill a line in, that's a number you're currently guessing on, go get it.
2. Add a shrinkage line even if it feels pessimistic. Three percent is not pessimistic; it's Tuesday.
3. Separate COGS, landed cost, and dead net into three columns. Find your true gross margin between dead net and COGS.
4. Estimate your cash-conversion gap: days from paying the co-packer to getting paid by the distributor. That number is how much working capital each case of growth actually costs you.