PART 5

PRODUCT AND PHYSICAL GOO PRICING

Channels, Margins, Promotions, and the Multi-Market Architecture

Physical goods price architecture from manufacturer cost to retail price, MSRP and MAP policy mechanics with enforcement economics, retail channel margin stack and keystone pricing, DTC vs. wholesale contribution margin comparison, promotional pricing P&L model with pantry loading adjustment, markdown optimization framework with trigger rules, mixed bundling revenue optimization, channel conflict management strategies, commodity hedging (forward contracts vs. options), international pricing with PPP adjustment and gray market risk, and the complete physical goods pricing metrics framework.

SECTION 1
PHYSICAL GOODS PRICING ARCHITECTURE

Product and Physical Goods Pricing: Channels, Margins, and Architecture

Physical goods pricing is where the theories of value-based pricing meet the structural realities of distribution channels, retail mechanics, and multi-party margin requirements. Unlike SaaS — where the company sells directly to the user and captures the full price paid — physical goods often travel through multiple intermediaries (distributors, wholesalers, retailers) before reaching the consumer. Each intermediary takes a margin, and the manufacturer's price must be set to satisfy the economics of the entire channel — not just the consumer's WTP and the manufacturer's cost floor.

This part covers the complete architecture of physical goods pricing: the relationship between manufacturer list price, wholesale price, and retail price; MSRP (Manufacturer's Suggested Retail Price) and MAP (Minimum Advertised Price) policies and their legal constraints; retail price architecture and the mechanics of promotional pricing; the markdown optimization framework; bundling and unbundling strategies; DTC vs. wholesale price architecture and the channel conflict that arises when both coexist; commodity pricing and hedging; and international pricing across markets with different purchasing power, currencies, and competitive dynamics.

1.1 The Physical Goods Price Architecture

A physical goods company must simultaneously manage prices at multiple levels in the distribution chain: the manufacturer's ex-factory cost, the wholesale price charged to distributors or retailers, the retail price charged to consumers, and the promotional price during deals and markdowns. Each level has its own margin structure, its own set of stakeholders, and its own pricing constraints. Setting any one of these prices requires understanding how it affects all the others.

Price Level	Defined By	Typical Range (from MSRP)	Key Constraints
MSRP / List Price	Manufacturer	100% reference point	Cannot be enforced as minimum in most US states (resale price maintenance)

Price Level	Defined By	Typical Range (from MSRP)	Key Constraints
MAP (Min Advertised Price)	Manufacturer (unilateral policy)	Typically 85%–95% of MSRP	Can enforce advertising restriction but not actual sale price
Distributor Buy Price	Manufacturer-Distributor agreement	50%–65% of MSRP	Distributor margin must support their operating model (15%–25%)
Wholesale / Retail Buy Price	Manufacturer or Distributor	40%–55% of MSRP	Retailer keystone (50%+) or lower for volume accounts
Regular Retail Price	Retailer (informed by MSRP)	90%–110% of MSRP	Competitive pressure; retailer margin strategy
Promotional Retail Price	Retailer (funded by manufacturer TPR)	60%–80% of MSRP during deals	Manufacturer trade spend funds retailer markdown
DTC / eCommerce Price	Manufacturer (direct to consumer)	MSRP or slight discount	Channel conflict with retail partners

SECTION 2
MSRP AND MAP: MANAGING RETAIL PRICE INTEGRITY

MSRP and MAP: Protecting Price Integrity Across Channels

Manufacturer's Suggested Retail Price (MSRP) and Minimum Advertised Price (MAP) policies are the primary tools through which a manufacturer attempts to manage price integrity across its distribution channels — to prevent retailers from competing so aggressively on price that they destroy the brand's perceived value and undermine the economics of other channel partners who maintain healthy margins.

2.1 The MSRP Landscape

MSRP is a non-binding recommendation — it is the price the manufacturer suggests retailers charge, but retailers are legally free to set their own prices above or below MSRP. In the US, the Supreme Court's 2007 decision in Leegin Creative Leather Products v. PSKS overturned the per se illegality of vertical price

restraints (minimum resale price maintenance), allowing manufacturers to impose minimum resale price requirements in some circumstances under a rule-of-reason analysis. However, California, New York, and several other states maintain stricter standards — a manufacturer setting minimum resale prices in those states must navigate state antitrust law carefully.

The practical consequence is that most manufacturers use MSRP as a reference point and rely on MAP policies — which restrict how low a retailer can advertise a price, even if the actual sale price is lower — as their primary enforcement tool. MAP policies can be enforced because they restrict advertising (a commercial activity the manufacturer can condition on) rather than the actual sale price (which the retailer sets independently). A manufacturer can legitimately terminate a retailer who violates MAP, as long as the decision is unilateral and not the result of an agreement with competing retailers.

MAP POLICY ECONOMICS

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MSRP: $199  |  MAP: $169 (85% of MSRP)

Retailer A: Advertises at $169 (MAP compliant); sells at $169
  Retailer margin: ($169 - $80 cost) / $169 = 52.7%  (healthy)

Retailer B: Advertises at $129 (MAP violation); sells at $129
  Retailer margin: ($129 - $80) / $129 = 38.0%  (thin but positive)
  Impact on Retailer A: Customers see $129 online and demand price match
  -> Retailer A loses margin or loses the sale
  -> Retailer A reduces shelf space for the brand or drops it entirely

MAP Policy Effect:
  Prevents race-to-bottom pricing among retailers
  Protects margin for retailers who invest in merchandising and service
  Maintains brand perception at healthy price level
  Manufacturer enforces by monitoring online prices; terminating violators
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CFO INSIGHT

MAP policy enforcement is one of the most financially valuable and most underinvested pricing activities for consumer goods manufacturers. A manufacturer with 500 authorized retailers and no MAP monitoring program is effectively operating in a race-to-the-bottom pricing environment — the most aggressive online discounters set the de facto market price, forcing all other retailers to match or lose sales. A systematic MAP monitoring and enforcement program (using price monitoring software like Wiser, PriceSpy, or DataWeave) costs $20,000 to $60,000 annually and can recover tens of basis points of gross margin across the retail channel. The ROI is almost always exceptional.

SECTION 3
RETAIL PRICE ARCHITECTURE AND KEYSTONE PRICING

Retail Price Architecture: Building the Margin Stack

Retail price architecture — the relationship between the manufacturer's cost, the wholesale price, and the retail selling price — determines the margin structure of the entire distribution channel. Getting this architecture right requires understanding the margin requirements of each participant in the channel and designing a price structure that is simultaneously: profitable for the manufacturer, attractive enough for distributors and retailers to carry the product enthusiastically, and competitive enough for the consumer to choose it over alternatives.

3.1 Keystone Pricing and Its Variations

Keystone pricing is the traditional retail rule of thumb: the retailer doubles the wholesale cost to arrive at the retail selling price, generating a 50% gross margin. While keystone remains a useful benchmark, it is not universally applicable. Mass market retailers typically work on lower keystone (40%–45% margins) because their high volume and low service overhead allow profitable operations at thinner margins. Specialty retailers often require above-keystone margins (55%–65%) to support the service, curation, and experience they provide. Luxury retailers may operate at even higher margins because the high-touch customer experience is a significant cost.

CHANNEL MARGIN STACK — FROM MANUFACTURER COST TO RETAIL PRICE

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Manufacturer Cost (full loaded, incl. all overhead): $28.00
Manufacturer Gross Margin Target: 45%
Manufacturer Selling Price (wholesale): $28.00 / (1 - 0.45) = $50.91

Distributor Buy Price: $50.91
Distributor Gross Margin: 18%
Distributor Selling Price to Retailer: $50.91 / (1 - 0.18) = $62.09

Retailer Buy Price: $62.09
Retailer Keystone (50% margin): $62.09 / (1 - 0.50) = $124.18
MSRP Set at: $125.00  (rounds to retail-friendly price point)

Margin at each level:
  Manufacturer: ($50.91 - $28.00) / $50.91 = 45.0%
  Distributor: ($62.09 - $50.91) / $62.09 = 18.0%
  Retailer: ($125 - $62.09) / $125 = 50.3%
  Consumer: pays $125 for $28 in manufacturer cost = 4.5x cost markup overall
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3.2 Direct vs. Indirect Channel Margin Trade-offs

A manufacturer that sells both directly to consumers (DTC) and through retail channels faces a structural pricing tension. The DTC channel captures the full retail margin — there is no distributor or retailer taking their share. At the DTC price of $125, the manufacturer captures $125 - $28 in cost = $97 in contribution (before DTC marketing and fulfillment). Through the retail channel, the manufacturer captures only $50.91 - $28 = $22.91 in gross profit from each unit sold. The DTC channel is structurally more profitable per unit — but the retail channel provides distribution scale, customer trust, and lower customer acquisition costs that DTC cannot easily replicate.

The channel conflict that arises when a manufacturer sells both DTC and through retail is among the most financially consequential pricing challenges in physical goods. Retailers who discover the manufacturer is selling directly to consumers at the same MSRP — but without giving the retailer their margin — will demand exclusivity, price parity, or both. The manufacturer must decide whether the incremental margin from DTC is worth the retail channel damage, and must design a price architecture that either eliminates the conflict (by pricing DTC at a premium to retail to avoid competing directly) or manages it explicitly.

SECTION 4
PROMOTIONAL PRICING AND MARKDOWN OPTIMIZATION

Promotional Pricing: When to Discount and How Deep

Promotional pricing — temporarily reducing prices through sales, markdowns, coupons, or promotional bundles — is one of the most widely practiced and most financially consequential pricing activities in physical goods retail and consumer goods manufacturing. Done well, promotional pricing stimulates trial, accelerates inventory liquidation, drives store traffic, and builds short-term revenue volume. Done poorly, it trains consumers to wait for promotions before buying, compresses baseline margins, and destroys brand value through chronic discounting that signals a product is not worth its regular price.

4.1 The Promotional Pricing Economics

PROMOTIONAL PRICING P&L IMPACT

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Regular Price: $49.99  |  Promo Price: $34.99 (30% off)
COGS: $18.00  |  Regular Margin: ($49.99-$18) / $49.99 = 64%
           |  Promo Margin:   ($34.99-$18) / $34.99 = 48.6%

Regular week sales: 1,000 units  |  Revenue: $49,990  |  GP: $31,990
Promo week sales: 2,800 units (lift factor: 2.8x)  |  Revenue: $97,972
  Promo Gross Profit: 2,800 x ($34.99 - $18) = $47,572

Incremental analysis:
  Promo GP:     $47,572
  Regular GP:   $31,990  (what would have been earned without promo)
  Incremental GP: $15,582  (promotion added $15,582 in gross profit)

But also consider:
  Pantry loading: customers buy 3 weeks' supply -> next 2 weeks baseline lower
  Post-promo dip: 2 weeks at 60% of baseline = (2 x $0.4 x $31,990) = ($25,592)
  Net promotion impact: $15,582 - $25,592 = ($10,010) net negative
  -> Promotion destroyed value; lift was pantry loading, not new demand
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4.2 Markdown Optimization Framework

Markdown optimization — determining the optimal timing, depth, and sequence of price reductions on slow-moving or end-of-season inventory — is the physical goods equivalent of revenue management. The goal is to liquidate inventory by the required deadline (end of season, model year, shelf life) while maximizing total revenue across the markdown period. Taking markdowns too early leaves money on the table (consumers who would have paid a higher price get the marked-down price). Taking markdowns too late (or too shallow) results in inventory that cannot be cleared at any profitable price and must be liquidated at deep discount or written off.

Markdown Timing	Inventory Remaining	Recommended Markdown	Financial Logic
8 weeks before season end	40%+ of opening inventory	15%–20% markdown	Early action prevents deeper later; stir demand
6 weeks before season end	30%–40% of inventory	20%–30% markdown	Signal urgency; price-sensitive buyers activate
4 weeks before season end	20%–30% of inventory	30%–40% markdown	Accelerate velocity; most buyers still quality-motivated
2 weeks before season end	15%–25% of inventory	40%–60% markdown	Liquidation priority; accept lower margin over write-off
End of season	>20% remaining	50%–70%+ or liquidator	Clearance; cost recovery beats write-off

CFO INSIGHT

The most costly markdown decision is the one not taken soon enough. Retailers and brands that wait until the final two weeks of a season to take markdowns discover that even 60% discounts cannot clear aging inventory fast enough — and they end up at the liquidator accepting 20 to 30 cents on the dollar. Build a sell-through monitoring system with automatic markdown trigger rules: if sell-through falls below a defined threshold at each interval before the season end date, the markdown is triggered automatically rather than waiting for a committee decision. Algorithmic markdown triggering consistently outperforms human judgment on markdown timing because it removes the psychological resistance to acknowledging a slow-selling product.

SECTION 5

BUNDLING AND UNBUNDLING STRATEGY

Bundling and Unbundling: Creating and Extracting Value Through Package Design

Bundling — selling two or more products or services together at a combined price — is one of the most powerful pricing tools in physical goods and consumer goods, with applications that range from consumer packaged goods (multi-pack pricing) to industrial equipment (machine plus service contract) to consumer electronics (product plus accessories). Done correctly, bundling creates genuine consumer surplus (the bundle is worth more to the consumer than the sum of its parts, creating a compelling value proposition) while capturing consumer surplus for the seller (the bundle price is higher than the seller would achieve by selling each component separately to all consumers).

5.1 Pure vs. Mixed Bundling

There are two primary bundling architectures. Pure bundling offers only the bundle — no component can be purchased separately. Mixed bundling offers both the bundle and the components separately, with the bundle priced at a discount relative to the sum of component prices. Each architecture has different revenue implications depending on the heterogeneity of consumer WTP across the bundle components.

MIXED BUNDLING REVENUE OPTIMIZATION

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Two products: Product A (WTP varies: $30–$80) and Product B (WTP varies: $20–$60)
Four customer types (100 customers each):
  Type 1: WTP A=$80, WTP B=$60  |  Type 2: WTP A=$80, WTP B=$20
  Type 3: WTP A=$30, WTP B=$60  |  Type 4: WTP A=$30, WTP B=$20

Optimal Single Prices: A=$80, B=$60 -> Revenue = 200x$80 + 200x$60 = $28,000
  (Types 1 and 2 buy A; Types 1 and 3 buy B; Types 3 and 4 buy nothing)

Optimal Bundle Price: A+B bundle at $90
  Type 1 buys bundle: WTP $80+$60=$140 > $90 -> buys
  Type 2 buys bundle: WTP $80+$20=$100 > $90 -> buys
  Type 3 buys bundle: WTP $30+$60=$90 = $90 -> buys (indifferent, assume buys)
  Type 4: WTP $30+$20=$50 < $90 -> does not buy
  Bundle Revenue: 300 x $90 = $27,000 (less than unbundled for these types)

Mixed bundling: Bundle at $90; A alone at $70; B alone at $55
  Type 1: Bundle ($140 WTP vs. $90) -> buys bundle
  Type 2: A alone ($80 WTP vs. $70) -> buys A alone
  Type 3: B alone ($60 WTP vs. $55) -> buys B alone
  Revenue: 100x$90 + 100x$70 + 100x$55 = $9,000+$7,000+$5,500 = $21,500
  -> In this case unbundled wins; bundle math is highly context-dependent
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The bundling decision requires genuine WTP research for each product component and for the bundle itself. Without this data, the CFO cannot know whether bundling will increase or decrease total revenue. The general principle is: bundling is most valuable when consumer WTP across products is negatively correlated — when customers who have high WTP for Product A tend to have low WTP for Product B, and vice versa. In this case, the bundle captures revenue from customers who would have purchased only one component at its standalone price.

SECTION 6

DTC VS. WHOLESALE PRICE ARCHITECTURE AND CHANNEL CONFLICT

DTC vs. Wholesale: Managing Channel Economics and Conflict

The coexistence of DTC and wholesale channels is one of the most complex pricing challenges in modern consumer goods. A brand that sells through both channels must answer a question with significant financial consequences: should DTC and wholesale be priced at the same consumer price (parity), should DTC carry a premium (to protect retail relationships), or should DTC carry a discount (to drive consumer acquisition and margin capture)?

6.1 Channel Price Architecture Options

Architecture	DTC Price vs. Retail	Brand Benefit	Channel Risk	Financial Impact
DTC at parity	Same as retail MSRP	No channel conflict; retail partners comfortable	Consumers have no financial reason to buy DTC	DTC gross margin higher; no incremental consumer value
DTC at premium (exclusive/curated)	5%–15% above MSRP	Justifies premium service, exclusives, or personalization	Risk of consumers choosing retail for lower price	Highest DTC margin; limited DTC volume
DTC at slight discount (5%–10%)	5%–10% below MSRP	Drives DTC volume; rewards direct relationship	Retail partners may reduce display support	High DTC margin despite discount; risk of channel friction
DTC-only products	No comparable retail product	Complete pricing independence for DTC-exclusive items	Portfolio complexity; manufacturing variant cost	Full DTC margin with no channel conflict
DTC at significant discount (15%+)	15%+ below MSRP	Maximizes DTC adoption; disrupts traditional retail	Retail partners exit or reduce shelf space	Short-term DTC gain; long-term channel damage

6.2 The Channel Contribution Margin Comparison

DTC VS. WHOLESALE CONTRIBUTION MARGIN

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Product COGS: $22.00  |  MSRP: $80.00

Wholesale Channel Economics:
  Wholesale price to retailer: $40.00 (50% of MSRP; keystone for retailer)
  Manufacturer gross profit: $40.00 - $22.00 = $18.00 (45% of wholesale price)
  Less variable trade spend (8% of wholesale): ($3.20)
  Less outbound freight to DC: ($1.50)
  Net wholesale contribution: $13.30 per unit

DTC Channel Economics (at MSRP parity):
  DTC revenue: $80.00
  Less COGS: ($22.00)
  Less fulfillment (pick/pack/ship): ($12.00)
  Less returns reserve (10%): ($8.00)
  Less payment processing (3%): ($2.40)
  Less digital marketing (blended CAC allocated per order): ($14.00)
  Net DTC contribution per order: $21.60

DTC contribution premium vs. wholesale: $21.60 - $13.30 = $8.30/unit
  But requires more capital (inventory, fulfillment infra) and more risk
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SECTION 7

COMMODITY PRICING AND INPUT COST HEDGING

Commodity Pricing: Managing Input Cost Volatility

Many physical goods manufacturers have significant commodity exposure in their cost structure — the price of steel, aluminum, copper, cotton, wheat, crude oil, natural gas, or other commodity inputs that fluctuate with global supply and demand dynamics largely outside the manufacturer's control. When input costs are volatile, the manufacturer faces a choice: reprice constantly to maintain margin (operationally complex; customer relationships strained), absorb the volatility in their margin (financially damaging in high-inflation periods), or hedge the commodity exposure through financial instruments that fix or cap input costs for defined forward periods.

7.1 Cost Pass-Through vs. Hedging Strategy

The fundamental choice in commodity-intensive businesses is between price flexibility (adjusting prices frequently as input costs change) and price stability (maintaining consistent prices for customers, absorbing cost fluctuations through hedging or margin compression). Most B2B manufacturers and many consumer goods brands choose some combination: hedging to provide price stability to customers for defined contract periods, with built-in escalation clauses for changes beyond the hedged position.

COMMODITY HEDGING FINANCIAL IMPACT

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Manufacturer uses 500,000 lbs of aluminum per quarter
Current spot price: $1.12/lb  |  Quarterly cost: $560,000

Scenario A: No hedging (spot price exposure)
  If aluminum rises to $1.45/lb: Quarterly cost = $725,000 (+$165,000)
  At 40% gross margin target: must raise price or absorb $165K hit to profit

Scenario B: Forward contract at $1.15/lb for 12 months
  Cost locked: $575,000/quarter regardless of market moves
  Cost of hedging vs. spot: $575K - $560K = $15,000 premium (insurance cost)
  If aluminum rises to $1.45: Saved $725K - $575K = $150,000 per quarter
  If aluminum falls to $0.95: Lost $575K - $475K = $100,000 per quarter vs. spot

Scenario C: Options hedge (cap at $1.20/lb; pay premium)
  Option premium: $0.04/lb x 500,000 lbs = $20,000/quarter
  If aluminum rises above $1.20: option kicks in; cost capped at $620K
  If aluminum falls: benefit from lower spot price (unlike forward contract)
  Best of both worlds: upside protection + downside participation
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CFO INSIGHT

Commodity hedging is a risk management tool, not a profit center. The CFO who evaluates a hedging program by asking 'did we make money on the hedge?' is asking the wrong question. The right question is: 'did the hedge allow us to maintain pricing commitments to customers without absorbing margin volatility?' A hedge that costs $80,000 in premium and saves $600,000 in unexpected cost increases is an excellent outcome. A hedge that costs $80,000 and the commodity price declined (so we would have been better off unhedged) is also an excellent outcome — because at the time of the hedge decision, the cost increase was a real risk that was worth insuring against. Evaluate hedges prospectively, not retrospectively.

SECTION 8
INTERNATIONAL AND MULTI-MARKET PRICING

International Pricing: Purchasing Power, Currency, and Market Architecture

International pricing — setting prices for markets outside the company's home country — adds layers of complexity to every pricing decision: currency risk, purchasing power variation, different competitive landscapes, different regulatory requirements (VAT/GST treatment that affects the consumer's effective price), and the arbitrage risk created when price differences between markets are large enough to motivate parallel imports or gray market activity.

8.1 Purchasing Power Parity vs. Market-Based Pricing

A US company that exports its $80 MSRP product to Germany, Japan, Brazil, and India faces an immediate question: should the price in each market be equivalent to $80 at the current exchange rate (a simple currency conversion), or should it be adjusted for the local purchasing power and competitive environment? A simple currency conversion prices the product at a level that is competitively unattainable in lower-income markets (a $80 product in India, where the average per-capita income is a fraction of the US level, is effectively inaccessible to most consumers) and potentially below market in higher-income markets.

Market	Exchange Rate	Simple Conversion Price	PPP-Adjusted Price	Recommended Price	Pricing Rationale
Germany (EUR)	1.08 $/EUR	€74 (€73.15)	€72	€79.99	Premium European market; above parity supports brand
Japan (JPY)	149 $/JPY	¥11,920	¥9,500	¥10,800	Competitive market; local brand strength affects WTP
Brazil (BRL)	4.95 $/BRL	R$396	R$240	R$299	PPP adjusted; import duties add ~20%; competitive floor

Market	Exchange Rate	Simple Conversion Price	PPP-Adjusted Price	Recommended Price	Pricing Rationale
India (INR)	83 $/INR	■6,640	■3,200	■3,999	Dramatically lower PPP; price for accessible tier
Australia (AUD)	1.54 $/AUD	A$123	A$115	A$119	High PPP; close to US equivalent; strong import market

8.2 Gray Market and Parallel Import Risk

When price differences between markets are large — as between the US ($80) and India (■3,999 = ~$48) in the example above — arbitrageurs may purchase product in the low-price market and resell it in the high-price market, undercutting the manufacturer's official channel. This gray market activity is particularly prevalent for consumer electronics, pharmaceuticals, and luxury goods where the price differentials are large and the products are easily shipped across borders.

The CFO must model the gray market risk for any market price architecture that creates material price differentials. Mitigation strategies include: product localization (creating product variants with features specific to each market that cannot be resold in other markets), warranty policies that are only honored through authorized channels in the country of sale, supply chain restrictions that limit distributor quantities to amounts consistent with local demand, and legal action against identified gray market operators where intellectual property rights provide a basis for enforcement.

SECTION 9
METRICS FRAMEWORK AND CFO CHECKLIST

Physical Goods Pricing Metrics and CFO Checklist

9.1 Physical Goods Pricing Metrics

Metric	Formula / Definition	Benchmark / Target
Retail Sell-Through Rate	Units sold to consumers / Units shipped to retailers	>70% by mid-season target; track vs. markdown trigger
Average Retail Price (ARP)	Consumer revenue / Units sold at retail (from POS)	Track vs. MSRP; declining = promotional depth or MAP violations
Trade Spend Rate	Total trade allowances / Gross manufacturer revenue	15%–30% CPG norm; track component-by-component
Promotional Lift Factor	Sales during promotion / Sales in comparable non-promo period	Track by product and retailer; compare to financial model
Post-Promotion Dip	Weeks below baseline following promotion / Promotion weeks	High dip = pantry loading; low dip = genuine demand stimulation
Channel Contribution Margin	(Net channel price - Variable cost) / Net channel price	Track DTC vs. wholesale separately; compare economics
MAP Compliance Rate	Retailer instances at MAP or above / Total monitored instances	>90% compliance target; violations tracked by retailer
Commodity Cost Index	Actual input cost / Baseline cost at last pricing decision	Track weekly; triggers pricing review when >5% change
International Price Index	Local market price / PPP-equivalent US price	Track arbitrage risk; differential >40% warrants review
Gray Market Incidence	Gray market units identified / Total units sold	Track through channel audits; rising = price architecture issue

9.2 CFO Operating Checklist

- Channel margin stack documented for each product line and each channel: manufacturer cost, wholesale price, distributor margin, retailer margin, and consumer price all modeled; updated when cost structure or channel terms change.
- MAP policy established and enforced: price monitoring software operational; violations documented and addressed within 5 business days; serial violators receive formal warnings and potential termination.
- Promotional pricing P&L; model built for every planned promotion: lift factor estimated from history; pantry loading adjustment applied; post-promotion dip modeled; promotion approved only if net financial impact is positive.
- Markdown trigger rules documented: sell-through thresholds by week of season that automatically trigger defined markdown depths; no committee delay in the markdown decision process.

• DTC vs. wholesale contribution margin calculated monthly: net contribution per unit compared by channel; channel conflict risk assessed when DTC discount exceeds 10% below retail.

• Commodity exposure assessed quarterly: key input categories and their cost as % of COGS identified; hedging strategy reviewed against current market conditions; forward contracts or options executed per approved policy.

• International price architecture reviewed annually: PPP-adjusted prices calculated for each market; gray market risk assessed for high-differential markets; transfer pricing implications of intercompany sales confirmed.

• Bundling ROI measured post-launch: actual bundle attach rate vs. model; actual ASP of bundle vs. components; incremental gross profit vs. cannibalization tracked at 90 days post-launch.

Closing Perspective: Physical Goods Pricing as Channel Stewardship

Physical goods pricing is ultimately an act of channel stewardship — the discipline of designing a price architecture that serves every participant in the distribution chain from manufacturer to consumer, while optimizing the manufacturer's financial position across that chain. The CFO who treats physical goods pricing purely as a margin optimization exercise, without considering the economics of channel partners, will find that those partners find other products to carry, other brands to display, and other manufacturers to favor with their most valuable shelf space.

The tools of physical goods pricing — MSRP, MAP, keystone, trade spend, markdown optimization, bundling, channel contribution analysis — are the instruments through which this stewardship is exercised. Each tool has a place in the pricing toolkit, and the sophistication of its use separates consumer goods CFOs who build durable, profitable channel relationships from those who constantly chase lost margin through reactive promotions, under-optimized markdowns, and channel conflict that could have been avoided with more deliberate price architecture design.

Part 6 covers Services and Professional Fees Pricing — the architecture of hourly, fixed-fee, retainer, and value-based professional service pricing, rate card design, scope creep financial management, outcome-based and success fees, competitive positioning through pricing, and the specific financial dynamics of pricing new services vs. established offerings.

End of Part 5: Product and Physical Goods Pricing | Pricing Strategy — A 14-Part Series

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