



## HOW TO CALCULATE GROSS PROFIT AND CASH MARGINS

Look after the pennies and the pounds look after themselves, right? That's great but how do you know how much you're making on each cocktail? . It is very important to ensure you are charging the correct amount for your drinks to cover overhead costs, typically a cocktail will need to have a gross margin of 70% to effectively cover running costs, employee wages, business rates etc. We have created this handy training guide to ensure it is simple to calculate your gross margin.

The first step you need to make is to remove VAT. You do this by dividing your selling price by 1.2 (VAT at 20%). For example:

**A cocktail at £8.50 / 1.2 = a net price of £7.08**

Next you need to remove the net cost (cost without VAT) of the cocktail. This is total cost of all ingredients used. For a classic mojito for example:

50ml White Rum:	£0.86
4 wedges of lime:	£0.20
Fresh mint:	£0.06
2 BSP caster sugar:	£0.05
25ml Franklin & Sons Soda Water:	£0.13
Garnish: Mint Sprig	£0.03
Garnish: Lime Wedge	£0.05
<b>Total Cost:</b>	<b>£1.38</b>

To calculate your cash margin for this drink simply subtract the Net Cost Value from the Net Selling Price:

**Net Selling Price £7.08 – Net Cost £1.38 = Cash Margin £5.70**

To take this one step further we should look at what our Gross Profit Percentage is (GP%). This can be achieved with a simple formula:

**(Net Selling Price – Net Cost) / Net Selling Price**

**So, for the same example as above the GP% on the Mojito sold at £8.50 will be 80%**

**(Net Selling Price £7.08 – Net Cost £1.38) / Net Selling Price £7.08 = 80% GP**

On average you want a Gross Profit of around 70%, but this always will vary on venue. Out of your Gross Profit you will have all your fixed and variable outgoings (bills, staff costs, ingredients etc) which again varies on venue.