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Ecommerce Profit Math: Pricing, Margins and ROAS Made Simple

A plain-English guide to knowing what you really earn on every order, and how much you can afford to spend on ads

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Introduction

Many online store owners know their sales number by heart but cannot say how much profit they made last month. Sales feel good. Profit pays the bills. The gap between the two is made of product costs, shipping, payment fees, packaging, returns, ads and fixed expenses, and if you do not measure them, they quietly eat your business.

This guide is for small business owners, new ecommerce sellers and anyone running ads for an online store. You do not need an accounting background. If you can add, subtract, multiply and divide, you can do everything here. A calculator or spreadsheet helps.

By the end of this guide you will be able to:

- Work out the true cost of every order, including the hidden costs most beginners forget
- Explain the difference between margin and markup and avoid the common pricing mistake
- Calculate contribution margin per order
- Find your break-even ROAS and target cost per acquisition (CPA) before you spend on ads
- Build a simple per-order and monthly profit and loss statement
- Understand what discounts really cost you
- Use bundles, average order value and repeat customers to grow profit
- Track the numbers that matter every month

Throughout the guide we use one example store with simple numbers in Pakistani rupees (Rs). The same method works in any currency. You can check your own numbers quickly with the free ROAS Calculator, Break-even ROAS Calculator and Profit Margin Calculator at dadtechnologies.com/tools/.

Chapter 1: Unit Economics, the Foundation

What unit economics means

Unit economics means looking at the money in and money out for one unit of sale. In ecommerce, the most useful unit is usually **one delivered order**. If a single order does not make money, selling more of them will only make your losses bigger.

The basic question is simple:

When one customer places and receives one order, how much money is left for me after every cost linked to that order?

Three layers of cost

It helps to separate costs into three layers:

1. **Variable costs per order** - costs that happen every time you sell: the product itself, packaging, shipping, payment or COD fees, and the cost of returns and refused parcels.
2. **Marketing costs** - mainly ad spend, which you can measure per order as cost per acquisition.
3. **Fixed costs** - costs you pay every month whether you sell 10 orders or 1,000: platform subscriptions, apps, staff salaries, rent, software and internet.

Profit only appears after all three layers are covered. Most beginners look only at the first line of layer one (the product cost) and are surprised at the end of the month.

Meet the example store

Imagine a store that sells one main product, a men's watch, for Rs 3,000. We will use this store in every chapter. All numbers are made up for illustration, so replace them with your own.

Chapter 2: Cost of Goods and the Hidden Costs

Cost of goods sold (COGS)

COGS is what you pay to get the product ready to sell. It includes:

- The purchase price from your supplier or manufacturer
- Inbound freight or delivery from the supplier to you
- Import duties and taxes, if any
- Any labelling, tagging or assembly before sale

For our example store, the landed cost of one watch is **Rs 1,000**.

The hidden costs

These are the costs that turn a "good-looking" product into a loss-maker if you ignore them.

- **Packaging:** box, bubble wrap, flyer bag, tape, thank-you card. Example store: **Rs 100** per parcel.
- **Outbound shipping:** what the courier charges you to deliver. Example store: **Rs 250** per parcel.
- **Payment and COD fees:** card gateways and courier COD collection usually charge a percentage of the order value, sometimes plus a fixed fee. Example store: **4%** of the order value, which is Rs 120 on a Rs 3,000 order.
- **Returns and refusals:** with cash on delivery, some customers refuse the parcel at the door. You usually pay the outbound shipping, often a return charge, and lose the packaging. The product may come back, but sometimes damaged.
- **Other costs people forget:** damaged or lost parcels, customer service time, free gifts, failed delivery re-attempts, currency conversion charges and taxes on sales.

Putting a number on refusals

Refusals are one of the biggest profit leaks for COD stores, so it is worth calculating them carefully.

Imagine the example store ships 100 parcels and 20 are refused, a 20% refusal rate. For each refused parcel the store pays:

- Outbound shipping: Rs 250
- Return shipping: Rs 250
- Lost packaging: Rs 100

- **Total per refused parcel: Rs 600**

The product returns to stock in good condition in this example.

Twenty refused parcels cost 20 x Rs 600 = **Rs 12,000**. That cost must be carried by the 80 orders that were actually delivered and paid for:

Rs 12,000 / 80 = **Rs 150 per delivered order**.

A shortcut formula: refusal cost per delivered order = cost per refused parcel x (refusal rate / delivery rate). Here: Rs 600 x (0.20 / 0.80) = Rs 600 × 0.25 = Rs 150.

> Tip: Your refusal rate has a direct effect on profit. Calling or messaging customers to confirm COD orders before dispatch is often one of the cheapest ways to protect your margin.

Chapter 3: Margin vs Markup

Two different ways to describe the same gap

Markup and margin both describe the difference between cost and price, but they divide by different numbers.

- **Markup** = (Price - Cost) / Cost
- **Margin** = (Price - Cost) / Price

Using only the product cost for our watch:

- Price Rs 3,000, cost Rs 1,000, difference Rs 2,000
- Markup = 2,000 / 1,000 = **200%**
- Gross margin = 2,000 / 3,000 = **66.7%**

Same product, same numbers, very different-looking percentages.

The common mistake

Imagine an owner wants a 40% margin on a product that costs Rs 600. They add 40% to the cost: Rs 600 × 1.40 = Rs 840.

But the margin on Rs 840 is (840 - 600) / 840 = 240 / 840 = **28.6%**, not 40%.

To get a true 40% margin, divide the cost by (1 - target margin):

Price = 600 / (1 - 0.40) = 600 / 0.60 = **Rs 1,000**.

Check: (1,000 - 600) / 1,000 = 400 / 1,000 = 40%. Correct.

Gross margin is not your profit

Gross margin only counts product cost. It ignores shipping, fees, packaging, refusals, ads and fixed costs. A product with a 66.7% gross margin, like our watch, can still lose money if those other costs are large. That is why the next chapters focus on contribution margin.

The free Profit Margin Calculator at dadtechnologies.com/tools/ converts between cost, price, margin and markup in seconds, which is useful when you are pricing a new product.

Chapter 4: Contribution Margin per Order

What contribution margin is

Contribution margin is what is left from one order after **all variable costs**, but before ads and fixed costs. It is the money each order "contributes" towards paying for marketing, overheads and finally profit.

Contribution margin = Selling price - all variable costs per delivered order

Contribution margin % = Contribution margin / Selling price

Worked example: one delivered order

Here is the full per-order picture for the example store.

Line item	Amount (Rs)	Notes
Selling price	3,000	Revenue per delivered order
Product cost (COGS)	1,000	Landed cost
Packaging	100	Box, wrap, card
Outbound shipping	250	Courier charge
COD / payment fee	120	4% of Rs 3,000
Refusal cost allocated	150	From Chapter 2
Total variable costs	**1,620**	1,000 + 100 + 250 + 120 + 150
Contribution margin	**1,380**	3,000 - 1,620
Contribution margin %	46%	1,380 / 3,000
Ad cost per delivered order	900	Example CPA
Profit per order after ads	**480**	1,380 - 900, before fixed costs

Notice how the 66.7% gross margin shrinks to a 46% contribution margin once the hidden costs are included, and to Rs 480 per order once ads are paid.

Why this number matters most

Contribution margin tells you three important things:

1. **Whether a product is worth selling at all.** If contribution is zero or negative, more sales only mean more losses.
2. **How much you can spend on ads.** You cannot spend more than the contribution margin to win an order without losing money on it.

3. **How many orders you need to cover fixed costs.** We will calculate this in Chapter 6.

Chapter 5: Pricing Methods

Four common approaches

There is no single correct pricing method. Most stores combine a few.

1. **Cost-plus pricing.** Start with your costs and add a margin. Simple, but it ignores what customers are willing to pay.
2. **Competitor-based pricing.** Look at what similar products sell for. Useful as a reality check, but competitors may be losing money too.
3. **Value-based pricing.** Price according to the value the customer sees: quality, brand, convenience, warranty, fast delivery. Often allows higher prices if you communicate the value well.
4. **Target-contribution pricing.** Decide what contribution margin you need, then work backwards to the price. This is the most useful method for stores that rely on paid ads.

Worked example: pricing for a target contribution

Imagine the example store wants a contribution margin of at least 50%, so that its break-even ROAS (explained in Chapter 6) is 2 or lower.

The fixed-amount variable costs are:

- COGS Rs 1,000 + packaging Rs 100 + shipping Rs 250 + refusal allocation Rs 150 = **Rs 1,500**

The COD fee is 4% of the price. Let the price be P. We want:

P - 1,500 - 0.04P = 0.50P

Rearranging: P - 0.04P - 0.50P = 1,500, so 0.46P = 1,500, and P = 1,500 / 0.46 = **Rs 3,260.87**.

Rounding up to a clean retail price gives **Rs 3,299**. Check:

- COD fee: 4% of 3,299 = Rs 131.96
- Total variable costs: 1,500 + 131.96 = Rs 1,631.96
- Contribution: 3,299 - 1,631.96 = Rs 1,667.04
- Contribution %: 1,667.04 / 3,299 = about **50.5%**. Target met.

Pricing checklist

☐ Do I know my full variable cost per delivered order?

☐ Does the price leave enough contribution to pay for ads?

☐ Is the price reasonable compared with similar products?

☐ Have I explained the value (quality, warranty, delivery, service) clearly on the product page?

☐ Have I tested whether customers still buy at the new price?

Chapter 6: Break-even ROAS, Target CPA and the Monthly P&L

ROAS and CPA in plain words

- **ROAS** (return on ad spend) = Revenue from ads / Ad spend. A ROAS of 3 means Rs 3 of sales for every Rs 1 spent on ads.
- **CPA** (cost per acquisition) = Ad spend / Number of orders. It is what you pay in ads to win one order.

ROAS on its own says nothing about profit. A ROAS of 3 is excellent for a high-margin product and a loss for a low-margin one. You need your break-even ROAS to judge it.

Break-even ROAS

Break-even ROAS is the ROAS at which ads exactly use up your contribution margin, leaving zero profit on each order (before fixed costs).

Break-even ROAS = 1 / Contribution margin %

Or, equivalently: Selling price / Contribution margin per order.

For the example store: 3,000 / 1,380 = **2.17** (or 1 / 0.46 = 2.17).

This means:

- ROAS above 2.17: each ad-driven order makes some money towards fixed costs
- ROAS of 2.17: each order breaks even
- ROAS below 2.17: each ad-driven order loses money

The free Break-even ROAS Calculator at dadtechnologies.com/tools/ does this calculation for you, and the ROAS Calculator shows the ROAS of a campaign from its spend and revenue.

Break-even CPA and target CPA

Break-even CPA = Contribution margin per order = **Rs 1,380** for the example store.

If you want a specific profit per order, subtract it:

Target CPA = Contribution margin - Desired profit per order

If the store wants Rs 400 profit per order: target CPA = 1,380 - 400 = **Rs 980**.

The matching target ROAS is 3,000 / 980 = **3.06**.

A COD warning about measuring CPA

Ad platforms count orders when they are placed, not when they are delivered. If 20% of COD orders are refused, the platform's CPA will look better than your real CPA per delivered order.

To convert: maximum cost per placed order = break-even CPA per delivered order x delivery rate.

For the example store: 1,380 × 0.80 = **Rs 1,104** per placed order is the break-even point the ad platform should show. Likewise, if the ad dashboard shows a ROAS based on placed orders, your real ROAS on delivered revenue is lower by the same factor.

Worked monthly P&L

Imagine the example store ships 500 parcels in a month. With a 20% refusal rate, 100 are refused and 400 are delivered. The store spends Rs 900 in ads per delivered order.

Line	Calculation	Amount (Rs)
Revenue	400 × 3,000	1,200,000
Product cost	400 × 1,000	400,000
Packaging	500 parcels x 100	50,000
Outbound shipping	500 × 250	125,000
Return shipping	100 × 250	25,000
COD fees	400 × 120	48,000
Total variable costs	sum of the above	**648,000**
Contribution	1,200,000 - 648,000	**552,000**
Ad spend	400 × 900	360,000
Contribution after ads	552,000 - 360,000	**192,000**
Fixed costs	platform, apps, staff, other	95,000
Net profit	192,000 - 95,000	**97,000**

Check the numbers against the per-order view:

- Variable costs: 400 delivered orders x Rs 1,620 = Rs 648,000. Matches.
- Contribution: 400 x Rs 1,380 = Rs 552,000. Matches.
- Campaign ROAS: 1,200,000 / 360,000 = **3.33**, comfortably above the break-even of 2.17.
- Net profit margin: 97,000 / 1,200,000 = about **8.1%**.

The fixed costs of Rs 95,000 in this example are made up of Rs 15,000 for the platform and apps, Rs 60,000 for staff, Rs 12,000 for software and internet and Rs 8,000 for other

overheads.

Break-even orders per month

After ads, each delivered order leaves Rs 480 (1,380 - 900). To cover Rs 95,000 of fixed costs:

95,000 / 480 = 197.9, so the store needs **198 delivered orders** a month just to break even. Every delivered order beyond that adds roughly Rs 480 of profit, as long as costs and CPA stay the same.

Chapter 7: Discounts, Average Order Value and Bundles

The real cost of a discount

A discount comes straight out of your contribution margin, not your revenue. That makes it far more expensive than it looks.

Imagine the example store runs a 20% off sale. The price drops from Rs 3,000 to **Rs 2,400**.

- COGS: Rs 1,000
- Packaging: Rs 100
- Shipping: Rs 250
- COD fee: 4% of 2,400 = Rs 96
- Refusal allocation: Rs 150 (assuming the refusal rate stays the same)
- Total variable costs: **Rs 1,596**
- Contribution: 2,400 - 1,596 = **Rs 804**

A 20% price cut has reduced contribution from Rs 1,380 to Rs 804, a drop of Rs 576, which is about **41.7%**.

To earn the same total contribution as before, the store would need 1,380 / 804 = 1.72 times as many orders, or roughly **72% more orders**. The break-even ROAS also rises from 2.17 to 2,400 / 804 = **2.99**, so ads must perform much better during the sale.

Before running a discount, ask:

1. Will this discount bring enough extra orders to make up for the smaller contribution?
2. Is there a cheaper way to motivate buyers, such as free shipping above a threshold, a free low-cost gift or a bundle?
3. Will customers learn to wait for sales instead of buying at full price?

Average order value (AOV)

AOV = Total revenue / Number of orders.

Raising AOV is powerful because many costs are paid per parcel, not per item. Shipping, packaging and often the ad cost stay roughly the same whether the customer buys one item or two.

Ways to raise AOV:

- Bundles and multi-packs
- "Frequently bought together" suggestions

- Free shipping above a set order value
- Add-ons at checkout, such as gift wrap or accessories
- Quantity discounts, priced with care

Worked example: a bundle

Imagine the example store offers two watches as a bundle for Rs 5,400, which is 10% off the normal Rs 6,000 for two.

- COGS: 2 × 1,000 = Rs 2,000
- Packaging: Rs 120 (slightly larger box)
- Shipping: Rs 300 (slightly heavier parcel)
- COD fee: 4% of 5,400 = Rs 216
- Refusal allocation: a refused bundle costs 300 + 300 + 120 = Rs 720; at a 20% refusal rate that is 720 × 0.25 = Rs 180 per delivered order
- Total variable costs: 2,000 + 120 + 300 + 216 + 180 = **Rs 2,816**
- Contribution: 5,400 - 2,816 = **Rs 2,584**

If the ad cost per order stays around Rs 900, profit per bundle order is 2,584 - 900 = **Rs 1,684**, compared with Rs 480 on a single watch. The break-even ROAS for the bundle is 5,400 / 2,584 = **2.09**, slightly easier to beat than the single product's 2.17.

The 10% bundle discount works here because it is offset by sharing shipping, packaging and ad costs across two items, unlike the 20% sitewide sale.

Chapter 8: Repeat Customers, LTV and a Monthly Profit Tracker

Why repeat customers change the maths

The first order from a new customer usually carries the full ad cost. A repeat order from an existing customer can often be won through WhatsApp, email or SMS at a much lower cost. That makes repeat orders some of the most profitable orders you will get.

Lifetime value (LTV) basics

Customer lifetime value is the total contribution you earn from an average customer over a chosen period, such as 12 months.

Imagine the example store looks at 100 new customers over a year:

- All 100 place a first order
- 30 of them place a second order
- 10 of those 30 place a third order
- Total orders: 100 + 30 + 10 = **140**, or **1.4 orders per customer**

Using the contribution margin of Rs 1,380 per order, 12-month LTV (contribution, before ads) = 1.4 × 1,380 = **Rs 1,932**.

This tells the owner that, over a year, an average new customer contributes Rs 1,932. In theory the store could spend more than Rs 1,380 to win a first order and still profit over time, as long as repeat orders actually happen.

Be careful with this:

- Cash runs out before "lifetime" arrives. You pay for the ad today and receive repeat orders later.
- Use real repeat data from your own store, not hopeful guesses.
- Recalculate LTV every few months as your customer base grows.

Simple ways to encourage repeat orders

- Include a thank-you card with a discount code for the next order
- Send order updates and a follow-up message on WhatsApp after delivery
- Offer refills, replacements or complementary products
- Build a small email or WhatsApp list and contact it with useful offers, not daily spam

A simple monthly profit tracker

You do not need complex software. A spreadsheet with one row per month and these columns is enough:

1. Parcels shipped
2. Parcels delivered
3. Delivery rate (delivered / shipped)
4. Revenue from delivered orders
5. Product cost
6. Packaging
7. Shipping (outbound and return)
8. Payment and COD fees
9. Total variable costs
10. Contribution (revenue - variable costs)
11. Contribution margin % (contribution / revenue)
12. Ad spend
13. ROAS (revenue / ad spend)
14. CPA per delivered order (ad spend / delivered orders)
15. Fixed costs
16. Net profit (contribution - ad spend - fixed costs)
17. AOV (revenue / delivered orders)
18. Repeat orders (number or share of orders)

Review the tracker at the end of each month and ask:

- Did my delivery rate improve or get worse?
- Was my ROAS above my break-even ROAS?
- Did any cost line grow faster than revenue?
- Which product, offer or campaign produced the most contribution, not just the most sales?

> Tip: Update the tracker weekly during busy months or when testing new ads. Problems are cheaper to fix when you spot them early.

Quick-Start Checklist

☐ List every variable cost for one order: product, packaging, shipping, fees and returns

☐ Calculate your refusal or return cost per delivered order

☐ Work out your contribution margin per order in rupees and as a percentage

☐ Check the difference between your margin and your markup

☐ Price new products by working backwards from a target contribution margin

☐ Calculate your break-even ROAS (1 / contribution margin %)

☐ Set a target CPA that leaves the profit per order you want

☐ Adjust ad platform CPA and ROAS for your COD delivery rate

☐ Calculate how many orders you need each month to cover fixed costs

☐ Recalculate contribution before running any discount or sale

☐ Test at least one bundle or offer that raises average order value

☐ Measure how many customers buy a second time and estimate LTV

☐ Set up a monthly profit tracker and review it every month

☐ Use the free ROAS, Break-even ROAS and Profit Margin calculators to check your numbers

About DAD Technologies

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