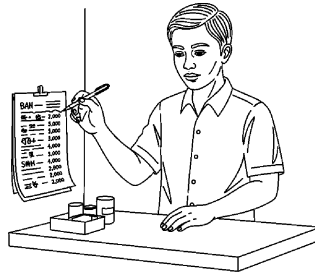


Channel Margin Reconciliation

Use when re-evaluating distribution channel investment after a significant cost change — a new marketplace fee structure, a logistics cost increase, or the addition of a new sales team. Runs quarterly at minimum; immediately after any material channel cost change.



Complementary worksheet for
Pricing Strategy Fundamentals
by Ibrahim Anwar

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What This Is For

Gross margin tells you how much room a product has between its production cost and its selling price. Net channel margin tells you how much of that room actually survives after the channel consumes its share: platform commissions, advertising spend to stay visible, packaging upgrades, return handling, sales team time, admin overhead. These two numbers can differ by 12 to 15 percentage points on the same product sold through a marketplace channel versus a direct corporate channel.

This worksheet surfaces that difference. The trigger is any material channel cost change — a new platform fee schedule, a logistics rate revision, the addition of a sales team headcount. At that moment, the channel ranking by gross margin and the channel ranking by net margin may no longer be the same. A business making channel investment decisions from the wrong ranking allocates resources in the wrong direction for months before the error becomes visible in the books.

Benefits

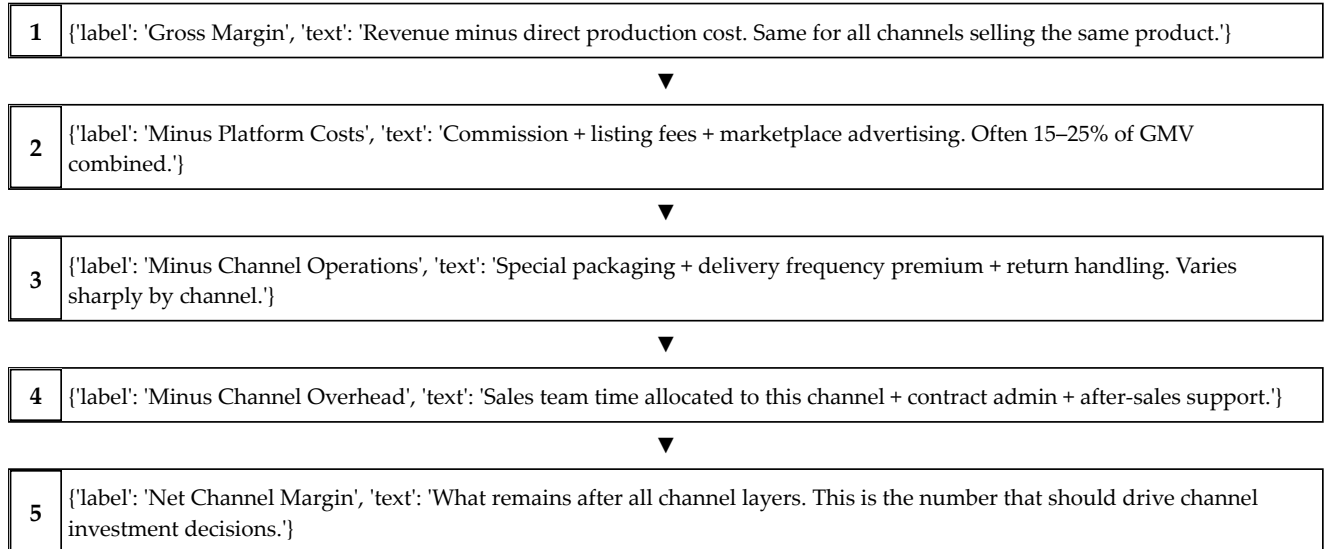
What you get when you actually run this worksheet on a real situation:

- Produces the actual net profitability ranking of channels — not by gross margin, which ignores channel costs, but by net margin after all channel-specific costs are allocated.
- Identifies which specific cost component drove a channel's net margin below threshold, so the intervention is targeted rather than generic.
- Creates the before-and-after baseline that makes a channel investment or exit decision defensible to a partner, investor, or board.
- Forces the advertising cost allocation that most channel analyses miss: paid ads on a marketplace platform are a channel cost, not a marketing overhead.
- Runs in under two hours once the channel cost data is collected — the collection is the work, not the analysis.

Framework To Use

— Channel Cost Waterfall

Net channel margin is calculated by subtracting each layer of channel-specific cost from gross margin. The waterfall shows which layer consumed the most headroom.



How To Use

Follow these steps in order. Each one builds on the previous.

- 1 List each active channel in its own row: direct/corporate, wholesale, marketplace A, marketplace B, own storefront, distributor. One row per channel.
- 2 Enter gross margin for each channel. This is the same product-level gross margin across all channels unless the selling price or product variant differs by channel.
- 3 Collect platform commission rate for each channel. For marketplace channels, include the base commission, payment gateway fee, and any mandatory service tier fees.
- 4 Allocate paid advertising cost as a percentage of channel revenue. Pull three months of ad spend data from the platform dashboard. Divide by three months of channel revenue. This is the advertising rate.
- 5 Estimate packaging premium: does this channel require heavier packaging, additional labelling, or custom presentation beyond the base product? Calculate as a percentage of selling price.
- 6 Estimate return handling cost as a percentage of channel revenue. Use three months of return data – return rate times average handling cost per return, divided by channel revenue.
- 7 Allocate sales team and admin time to each channel. If the sales manager spends 60% of time on the corporate channel and 20% on each marketplace, apply those proportions to the total sales cost.
- 8 Sum all channel cost rates for each row. Subtract from gross margin. The result is net channel margin.
- 9 Rank channels by net channel margin, not gross margin. Any channel below 8% net margin triggers a cost reduction or price adjustment analysis.

Example Use

An electronics accessories operator sells through three channels: direct corporate, Marketplace A, and Marketplace B. She has been treating marketplace B as her growth channel because of its high gross revenue. The Q2 channel margin reconciliation produces a different picture.

Direct corporate channel: gross margin 32%. Platform commission 0%. Paid advertising 2% (trade shows, occasional email). Special packaging 0% (standard). Return handling 0.5%. Sales team time 8%. Admin 1%. Total channel cost: 11.5%. Net channel margin: 20.5%.

Marketplace A: gross margin 32%. Platform commission 12%. Paid advertising 9% (required to appear on page one). Special packaging 1.5% (extra bubble wrap per return policy). Return handling 3% (25% return rate, \$0.80 handling each). Sales time 3%. Admin 1%. Total channel cost: 29.5%. Net channel margin: 2.5%.

Marketplace B: gross margin 32%. Platform commission 8%. Paid advertising 14% (new promoted listing program required to maintain visibility). Special packaging 1%. Return handling 2%. Sales time 2%. Admin 1%. Total channel cost: 28%. Net channel margin: 4%.

The ranking by gross revenue had marketplace B first. The ranking by net channel margin: direct corporate 20.5%, marketplace B 4%, marketplace A 2.5%.

Marketplace A is barely above zero. Marketplace B at 4% nets \$40 per \$1,000 in GMV — less than the cost of a 45-minute review session. The channel investment decision that follows: reduce marketplace A advertising spend by 50% (test whether visibility falls proportionally or holds), and redirect sales team time from both marketplaces toward direct corporate prospecting, where net margin is five times higher.

The Worksheet

Tear this out, copy it onto a fresh sheet, or fill it in directly.

Channel Margin Reconciliation									
<i>Use when re-evaluating distribution channel investment after a significant cost change — a new marketplace fee structure, a logistics cost increase, or the addition of a new sales team. Runs quarterly at minimum; immediately after any material channel cost change.</i>									
CHANNEL	GROSS MARGIN (%)	PLATFORM COMMISSION (%)	PAID ADVERTISING (% OF CHANNEL REVENUE)	PACKAGING PREMIUM (%)	RETURN HANDLING (%)	SALES / ADMIN TIME (%)	OTHER CHANNEL COSTS (%)	TOTAL CHANNEL COST RATE (%)	NET CHANNEL MARGIN (%)

Reflection Prompts

After filling in the worksheet on the previous page, work through these.

1. Net channel margin = Gross margin minus Total channel cost rate. Rank channels by net margin, not gross margin. Has the ranking changed since the last time this was calculated? If yes, which specific cost component moved the most?
-

2. For any channel where net margin is below 8%: identify one cost component that could realistically be reduced by half or more without destroying the channel's revenue. Batch deliveries, lower-frequency ad spend, or renegotiated platform terms are common candidates. If no cost can be reduced, the channel price must rise — or the channel needs a strategic review.
-

Tips and Traps

TIPS

- Collect three months of data for advertising and return costs before running the reconciliation. One month is too noisy; three months gives a defensible average.
- Include the owner's time in sales and admin allocation for the direct channel. An operator who spends eight hours per week managing the corporate relationship is spending real cost that should appear in the channel margin calculation.
- When two channels sell the same product at different prices (e.g., marketplace price slightly higher to cover commission), calculate gross margin separately for each channel using the actual selling price on that channel.
- Run the reconciliation immediately after any platform announces a fee schedule change. Do not wait for quarterly timing — a commission jump from 8% to 12% on a 4% net margin channel turns it negative immediately.

TRAPS

- Calculating gross margin at the average price across all channels instead of the actual price per channel. Channels with different price points have different gross margins before any costs are subtracted.
- Allocating advertising spend to a general marketing budget instead of to the channel that generated it. Platform advertising is a channel cost; offline brand advertising can stay in marketing overhead. The distinction is attribution, not preference.
- Treating a channel with high gross revenue as automatically worth keeping. A channel that generates \$50,000 in monthly GMV at 2% net margin is generating \$1,000 in net contribution. The same sales effort directed at the direct channel at 20% net margin would generate ten times the contribution.

Appendixes

Appendix A – Channel Cost Rate Estimation Guide

For each cost component, use this guide to determine the right allocation method.

Platform commission:

Source: Platform contract or invoice. Use exact percentage, not estimate.

Common range: 5-15% GMV for marketplace; 0% for direct; 3-8% for wholesale aggregators.

Paid advertising:

Source: Platform ad dashboard, three-month average.

Formula: Total ad spend on platform / Total revenue from that platform = ad rate %.

Note: If zero ads are run on a channel, enter 0%. Do not allocate brand advertising here.

Packaging premium:

Source: Packaging invoice differential.

Formula: (Channel-specific packaging cost - base packaging cost) / selling price = %.

Note: If the channel requires no packaging change, enter 0%.

Return handling:

Source: Return log + handling cost estimate.

Formula: (Return count × avg handling cost per return) / channel revenue = %.

Handling cost includes: labour time to process, re-inspection, re-packaging, re-listing.

Sales team time:

Source: Time allocation estimate (ask the sales team, or observe for two weeks).

Formula: (Hours spent on channel / total sales hours) × total monthly sales cost / channel revenue = %.

Note: For solo operators, use an hourly value based on owner time cost (annual salary target ÷ 2,080).

Admin overhead:

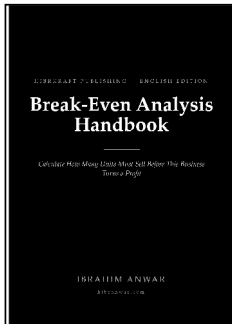
Source: Admin time or platform management time.

Typically 0.5-2% for simple channels; higher for channels requiring custom invoicing, credit notes, or frequent

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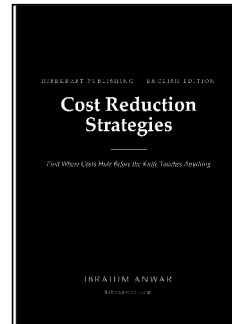


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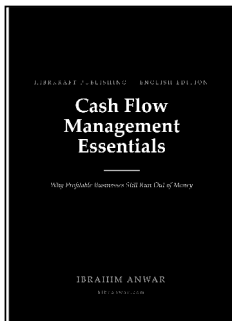


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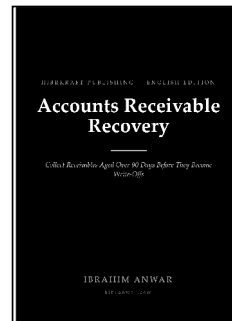


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