

# WORKHORSE

ORDER & INVENTORY MANAGEMENT

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## 5 factors affecting gross margin calculations



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[www.goworkhorse.com](http://www.goworkhorse.com)

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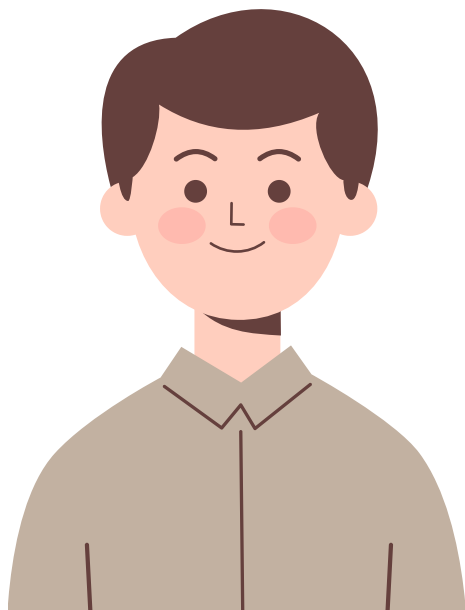
Summary

# MESSAGE FROM THE FOUNDER

## Unravelling the factors influencing variability in Gross Margins for product or manufacturing businesses is critical to a business thriving

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Gross margin, the heartbeat of profitability, is often subject to fluctuations that can bewilder businesses. Here we try and demystify some of the forces behind gross margin variability, outlining the challenges and proposing robust strategies. We emphasize the critical importance of accurate COGS calculations and effective forecasting, something we support many clients in achieving, as indispensable tools for businesses that have complex production or fulfilment challenges



Alastair Badman, Founder & CEO

“  
Not accurately knowing your gross margin is like trying to run with your legs tied together!

# 1. PRODUCT COMPLEXITY AND ASSEMBLY STRUCTURES



## Problem

Businesses with **intricate product structures** and **assembly processes** often encounter challenges in maintaining consistent gross margins. The complexity involved in managing multiple product elements or assemblies can lead to inefficiencies, impacting overall profitability.

The intricacies of product assembly introduce **layers of complexity** that ripple through the entire production process. Businesses may grapple with challenges in accurate cost allocation, inefficient workflows, and increased production times. The lack of streamlined processes can result in higher production costs, affecting the gross margin adversely.



## Solution

Workhorse advocates for a streamlined approach to product complexity. Our platform's rapid configurability allows businesses to model workflows efficiently, ensuring precise cataloging of supply and demand elements. By simplifying assembly processes and optimizing workflows, businesses can enhance operational efficiency and stabilize gross margins.

## 2. DYNAMIC CUSTOMER PRICING



### Problem

Dynamic customer pricing, while a strategic move for businesses, introduces an element of variability to gross margins. The challenge lies in balancing competitive pricing strategies with the need for profitability, often leading to fluctuations in gross margins.

Adapting to dynamic customer pricing models can be a double-edged sword. While businesses aim to stay competitive and attract customers, the constant adjustments in pricing structures can create challenges in maintaining consistent gross margins. Frequent changes may lead to uncertainty in revenue projections and affect overall profitability.



### Solution

Workhorse favours a data-driven approach to dynamic pricing. By leveraging our platform's insights, businesses can make informed decisions on pricing structures that align with both competitive market dynamics and profitability goals. Accurate data analysis allows businesses to strike a balance between customer satisfaction and stable gross margins.

# 3. SUPPLY CHAIN DYNAMICS



## Problem

Variability in supply and demand, coupled with unpredictable logistics times, presents a substantial challenge to businesses striving for consistent gross margins.

The ebb and flow of supply and demand, compounded by uncertain logistics times, can disrupt the delicate balance of inventory management. Businesses may face challenges in aligning production cycles with fluctuating demand, leading to excess inventory or stockouts. These fluctuations can directly impact gross margins as costs fluctuate with changes in demand.



## Solution

Workhorse emphasizes the need for a resilient supply chain strategy. By leveraging forecasting reports and historical data insights, businesses can navigate supply chain complexities more effectively. Workhorse's platform aids businesses in optimizing stock levels, reducing carrying costs, and enhancing overall gross margin stability.

# 4. BATCH COST VARIATIONS & COST OF GOODS SOLD (COGS)



## Problem

Managing significant changes in supplied costs by batch can be a major contributor to gross margin fluctuations, posing a challenge for businesses aiming for consistency. Inaccuracies in Cost of Goods Sold (COGS) calculations further compound this challenge, impacting the overall financial health of the business.

Batch cost variations introduce an element of unpredictability to the cost structure. This can be particularly challenging for businesses dealing with raw materials that experience price fluctuations or those engaged in manufacturing processes with variable costs. Inaccuracies in COGS calculations can propagate through financial reporting, distorting gross margin figures and hindering effective decision-making.



## Solution

Workhorse helps achieve accurate batch cost management and precise COGS calculations. By implementing robust systems for tracking and managing batch costs and ensuring accurate cost allocation, businesses can gain control over variations. The platform's configurability enables businesses to tailor their COGS calculations to specific product structures, providing a solid foundation for stable gross margins.

# 5. FORECASTING CHALLENGES



## Problem

Accurate forecasting is pivotal for anticipating variations in gross margins, yet many businesses grapple with forecasting challenges that impact overall profitability.

Forecasting challenges often arise from the inherent uncertainty in predicting future demand, supply, and market dynamics. Businesses may experience inaccuracies in predicting customer preferences, production lead times, or seasonal variations, leading to suboptimal inventory management and, consequently, gross margin variability.



## Solution

Workhorse provides a robust forecasting mechanism. By leveraging forecasting reports that combine historical sales data with future transaction insights, businesses can enhance the precision of their forecasts. Accurate forecasting enables proactive decision-making, minimizing the impact of variability on gross margins.



