The Economics of One Unit of Sale

What Is a Unit of Sale?
Entrepreneurs need to know their businesses are profitable. One important way to examine profitability is to look at how much profit the business makes every time it sells one item. But what exactly is the business selling? In some cases, this is easy to figure out. If you sell shoes, you would figure your profit from each pair of shoes. But what happens if you make buttons? Would it make sense to figure your profit based on a single button?

This is where the concept of one unit of sale comes in. A unit of sale is what a customer actually buys from you. It's the amount of product (or service) you use to figure your operations and profit. The unit of sale is really the basic building block of your business.

If you were a retailer who sold athletic shoes, your unit of sale would be a single pair of shoes. But if you were a wholesaler and only sold a minimum of five pairs at a time, your unit of sale would be five pairs of shoes. The smallest unit a customer can actually buy from you isn't a single pair of shoes – it's a carton containing five pairs. So your unit of sale would be five pairs of shoes packed in a carton.

If you were a manufacturer of buttons and sold them to other manufacturers, wholesalers, or large retail chain stores in cartons containing 1,000 boxes of 100 buttons each, your unit of sale would be one carton containing the 1,000 boxes. That's what your customer is actually purchasing.

Figuring out a unit of sale for a service business is usually based on how a customer is charged. For example, if you run a hair salon, a unit of sale might be one haircut. If you run a lawn-mowing company, your unit of sale might be mowing one lawn. But, because lawns are different sizes, you might have different rates for different sizes of lawns or you might charge by the hour.

The easiest way to think about a unit of sale is to ask yourself this question: What is it your customer is actually buying from you? That is your unit of sale.

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Entrepreneurs use their profits to pay themselves, to expand their businesses, and to start other businesses. Entrepreneurs want to know how much the business earns on the products it sells. To do this, they study the economics of one unit of sale (EOU). To calculate the economics of one unit of sale, subtract the variable expenses for a unit from the selling price for the unit. Remember that the variable expenses vary directly as a result of sales. The result is the contribution margin. This is the amount per unit that a product contributes toward the company's profitability before the fixed expenses are subtracted.

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\text{Selling Price - Variable Expenses = Contribution Margin}
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Questions for Discussion

1. What is a unit of sale?

2. Explain why a unit of sale is not the same for every business.

3. How do you calculate the contribution margin?