



Mini guide

Prices and Margins on Shopify

A repeatable calculation of each order's contribution, to tell margin from markup and decide how much discount you can afford.

Francesco Guiducci

Edition October 2026 · English

ifgdigital.com

For personal or internal business use; unauthorized distribution is prohibited.

Contents

How to use this guide	3
1 · Choose a consistent basis	3
2 · Distinguish margin from markup	3
3 · Collect costs without counting them twice	4
4 · Calculate order contribution	4
5 · Work back to a target price	5
6 · Test the discount	5
7 · Use Shopify fields for their intended purpose	5
8 · Prepare the worksheet and monthly review	6

How to use this guide

This guide builds a repeatable calculation of a sale's contribution, separates margin from markup and shows how much discount a product can take. The examples are hypothetical: they are not Shopify fees or client results.

I'm Francesco Guiducci, a freelance Shopify consultant and developer based in Rome. I start from the single order: store reports are useful, but you need to know which costs they include.

1 - Choose a consistent basis

Before any formula, record the currency, tax treatment and cost period. Revenue and costs must be on the same basis: if you work with revenue net of VAT, don't subtract costs that include VAT. Ask your adviser to confirm how recoverable and non-recoverable taxes are treated.

The price the customer pays, revenue and the bank payout can all differ. Below, R is the revenue the model uses. The examples leave taxes out to isolate the arithmetic; they don't say what price to show customers.

2 - Distinguish margin from markup

With revenue R and product cost C:

- product gross profit in euros = $R - C$
- product gross margin percentage = $(R - C) \div R \times 100$
- markup percentage = $(R - C) \div C \times 100$

At $R = €100$ and $C = €50$, margin is 50% and markup is 100%. At $R = €100$ and $C = €60$, margin is 40% and markup is about 66.67%. The denominator changes.

If R is zero, the margin percentage is undefined; if C is zero, so is the markup. Don't replace either with a 0% that doesn't exist.

Product gross profit is not net profit: acquiring, preparing, delivering and managing the sale still cost money.

3 · Collect costs without counting them twice

Item	How to record it	Watch for
Product	Unit cost and date	Separate variants and batches
Packaging	Cost per order or per unit	A single box isn't a cost for every item
Shipping	Your cost and the customer's contribution, separately	Free shipping still has a cost
Payment	Percentage, fixed fee and calculation basis	The basis can include tax and shipping: check your contract
Acquisition	Attributed spend per order for the period	Not every order comes from a new customer
Returns	Expected cost, assumptions and historical data	Avoid one arbitrary buffer applied to everything
Fixed costs	Separate monthly total	Subscriptions and staff don't disappear with one fewer order

To estimate returns, use $\text{probability} \times \text{average economic cost of the event}$, consistent with the costs you've already counted. Example: $5\% \times €12 = €0.60$ per order. This is a scenario estimate: compare it with actual results later.

Include payment fees in the cost of a return. According to Shopify, refunding a Shopify Payments transaction carries no additional fee, but the original card processing fee is not returned.

4 · Calculate order contribution

Group the variable costs, in euros per order, into C_0 . Let f be the payment percentage and k the fixed fee. Only when f applies to the same R :

- $\text{contribution} = R \times (1 - f) - C_0 - k$
- $\text{contribution margin} = \text{contribution} \div R$

Hypothetical example. $R = €50$; product €18, packaging €1, merchant-funded shipping €4, acquisition €6, expected returns €1: $C_0 = €30$. With $f = 2\%$ and $k = €0.25$, contribution is $50 \times 0.98 - 30 - 0.25 = €18.75$, or 37.5%.

If the fee is charged on a gross amount different from R , use $f \times$ the amount actually charged. The shorter formula then needs its basis corrected.

5 · Work back to a target price

Under the same assumptions, for a target contribution margin m:

- target $R = (C_0 + k) \div (1 - f - m)$

The denominator must be positive. With $C_0 = €30$, $k = €0.25$, $f = 2\%$ and $m = 35\%$: $R = 30.25 \div 0.63 = €48.015873...$ Rounded to €48.02, the recalculated margin is about 35.005%.

The formula $C \div (1 - m)$ works when C already covers every cost considered and doesn't depend on price: it doesn't handle percentage fees on its own. With revenue of €49 and a cost of €17, the difference is €32 and the ratio $32 \div 49$ is 65.31%. Those €32 are not net profit if other costs remain to be deducted.

6 · Test the discount

Apply the discount to revenue, then recalculate every cost that depends on price. Using the €50 example:

Scenario	Revenue	Contribution	Contribution margin
Full price	€50.00	€18.75	37.50%
10% discount	€45.00	€13.85	30.78%
20% discount	€40.00	€8.95	22.38%
Acquisition from €6 to €10	€50.00	€14.75	29.50%

A 20% discount cuts contribution by about 52.27% here. Keeping the same total contribution would take about 2.095 times as many orders, with costs and mix unchanged. That is not a forecast that the promotion will bring them.

With a 25% minimum margin, minimum revenue is $30.25 \div (1 - 0.02 - 0.25) = €41.438356...$ Against €50, the theoretical maximum discount is about 17.12%. For a price in cents, round minimum revenue up and check the result.

7 · Use Shopify fields for their intended purpose

Price defines the offer. Compare-at price is not a way to create a saving that doesn't exist: before using it, check the price history and the rules that apply to the promotion.

Cost per item feeds the profit reports. Shopify states that profit is reported only for products and variants with a cost recorded at the time of sale; without a cost, the sale stays out of the profit figures, so net sales in two reports may not match. The cost is a static value tied to one point in time.

Discounts and refunds reduce net sales and so the margin. The gross margin in the report is based on net sales, while the product page shows margin on the full price: the two can differ. Shopify's example: a \$20 T-shirt costing \$10 shows 50% on its product page; after a 25% discount, the Gross profit by product

report shows about 33%. Don't read the figure as a full account of marketing, shipping and fixed costs.

Before updating an existing catalog, export a copy, test the workflow on a few products and check the variants. Don't rewrite prices just to fit an incomplete model.

8 - Prepare the worksheet and monthly review

Use one row per scenario with these columns: product ID, cost date, R, C₀, f, k, contribution, margin, return assumptions, fee verification date. Add a column that flags missing values and non-positive denominators.

Each month, compare forecast and actuals: revenue, discounts, fees, returns and acquisition cost. Without reliable attribution, show cautious, base and favorable scenarios with explicit assumptions.

To estimate how many orders cover a monthly fixed cost F: $\text{orders} = F \div \text{average contribution per order}$, rounded up. With €1,500 and €18.75 you need 80 orders. The shortcut holds only while contribution and mix stay stable; it leaves out income tax, investment and cash timing.

Exercise with answer. R = €80, C₀ = €42, f = 2.5%, k = €0.30. Calculate contribution and margin before and after a 15% discount, keeping the assumptions.

Answer. At full price, contribution is €35.70 and margin 44.625%. After the discount, revenue is €68 and contribution €24, margin about 35.294%. Keep the decimals in the sheet and round only what you display.

Done when each product has a declared basis, costs, fees and returns, a contribution per order, the maximum discount that holds your minimum margin and a monthly review date. For the payment provider's actual costs, use the provider's documentation and contract; the tax treatment must be set for your business.

Sources

- Shopify Help Center, profit reports: <https://help.shopify.com/en/manual/reports-and-analytics/shopify-reports/report-types/profit-reports>
- Shopify Help Center, determine pricing: <https://help.shopify.com/en/manual/products/details/product-pricing/determine-pricing>
- Shopify Help Center, refunds and fees: <https://help.shopify.com/en/manual/payments/shopify-payments/payouts/refunds>

Sources checked on 17 October 2026.