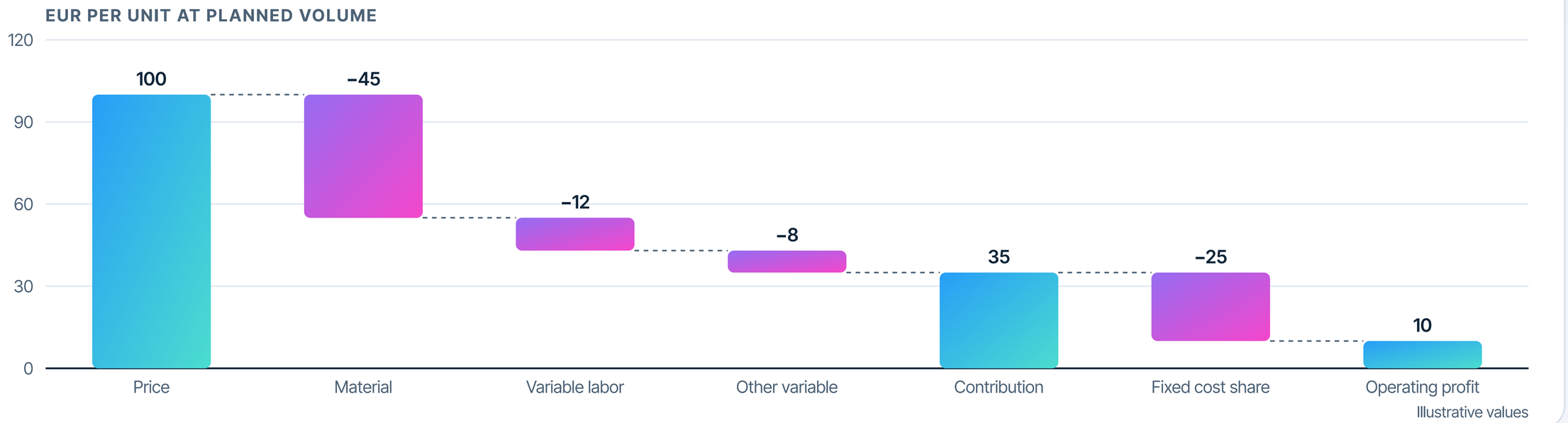
STRATEGY & PERFORMANCE

Contribution Margin Explained

Contribution margin is revenue minus variable costs. It shows how much each unit or order contributes to covering fixed costs and, beyond that, to profit.

01 THE CORE MODEL

WATERFALL · FROM PRICE TO PROFIT PER UNIT



Variable costs

Costs that rise with each unit made: material, energy, variable labor.

Contribution margin

Price minus variable cost: what each unit adds to cover fixed costs.

Fixed costs

Costs that stay the same in the short run, whatever the volume.

02 DECISIONS IT SUPPORTS

Use contribution, not full cost, for short-term order decisions.

FULL COST — CONTRIBUTION

FULL-COST THINKING

- − Fixed costs allocated to every unit
- − Profitable orders rejected as losses
- − Allocations change with volume

CONTRIBUTION THINKING

- + Shows what an order really adds
- + A clear basis for product mix choices
- + Links directly to break-even analysis

03 WORKED EXAMPLE

PUMP VARIANT · PER UNIT AT PLANNED VOLUME · ILLUSTRATIVE

PRICE		VARIABLE COST		CONTRIBUTION		DECISION
EUR 100	−	EUR 65 material, labor, other	=	EUR 35 margin ratio 35 %	→	Take extra order if capacity is free

04 MANAGEMENT TAKEAWAYS

01 — Know your variable costs

Separate truly variable from fixed costs with finance.

02 — Rank per bottleneck hour

When capacity is scarce, contribution per bottleneck hour sets the mix.

03 — Watch fixed cost coverage

Total contribution must still cover all fixed costs.

05 COMMON MISTAKE

LIMITATION

Ignoring fixed costs too long

Orders priced just above variable cost help in the short term, but the business must still cover its fixed costs.