

BUSINESS VITAMINS

Markup & Margin

INTRODUCTION:

The difference between margin and markup is that margin is sales minus the cost of goods sold, while markup is the amount by which the cost of a product is increased in order to derive the selling price. A mistake in the use of these terms can lead to price setting that is substantially too high or low, resulting in lost sales or lost profits, respectively. There can also be an inadvertent impact on market share, since excessively high or low prices may be well outside of the prices charged by competitors.

Margin Definition

Margin (also known as gross margin) is sales minus the cost of goods sold. For example, if a product sells for \$100 and costs \$70 to manufacture, its margin is \$30. Or, stated as a percentage, the margin percentage is 30% (calculated as the margin divided by sales).

Markup Definition

Markup is the amount by which the cost of a product is increased in order to derive the selling price. To use the preceding example, a markup of \$30 from the \$70 cost yields the \$100 price. Or, stated as a percentage, the markup percentage is 42.9% (calculated as the markup amount divided by the product cost).

VITAMIN DETAILS

Profit margin and markup are separate accounting terms that use the same inputs and analyze the same transaction, yet they show different information. Both profit margin and markup use revenue and costs as part of their calculations.

It is easy to see where a person could get into trouble deriving prices if there is confusion about the meaning of margins and markups. Essentially, if you want to derive a certain margin, you have to markup a product cost by a percentage greater than the amount of the margin, since the basis for the markup calculation is cost, rather than revenue; since the cost figure should be lower than the revenue figure, the markup percentage must be higher than the margin percentage.

The markup calculation is more likely to result in pricing changes over time than a margin-based price, because the cost upon which the markup figure is based may vary over time; or its calculation may vary, resulting in different costs which therefore lead to different prices.

Formulas:

To calculate the Markup and Margin amount

Markup amount = Selling Price – Cost

Margin amount = Cost + Markup amount

OR

Margin amount = Selling Price – Cost

To calculate the Markup % and & Margin %

$$\text{Markup \%} = \frac{\text{Markup amount}}{\text{Product Cost}}$$

$$\text{Margin \%} = \frac{\text{Margin amount}}{\text{Selling Price}}$$

Example:

Your product cost is \$70 and your selling price is \$90

Markup amount is:

Selling price \$90 minus cost \$70, it is equal to \$20

Markup % is

\$20 divided by \$70 which is 29%

Let us look into Margin amount and Margin %

Margin amount in our example is:

Selling price \$90 minus cost \$70, it is equal to \$20

As you can see that the markup and margin value is the same which is \$20. This is the absolute value.

However, the markup and margin percentages is different, and that is where a lot of people get confused and make the wrong calculations and therefore the selling price will be affected.

Margin % is

\$20 divided by \$90 which is 22%

While the markup % was 29%

Now, to convert from Markup to Margin, use this formula

$$\text{Margin \%} = \frac{\text{Markup \%}}{1 + \text{Markup \%}}$$

In our example: Let us convert the markup % to margin %

Margin % is

29% divided by (1 + 29%) = 22%



And to convert from Markup to Margin, use this formula

$$\text{Markup \%} = \frac{\text{Margin \%}}{1 - \text{Margin \%}}$$

Markup % is

22% divided by (1 - 22%) = 29%

For more examples, review the PDF file that is attached to this video.

EXAMPLES

BUSINESS VITAMINS

Cost	Selling Price	Markup amount	Markup %	Margin amount	Margin %
50	150	100	200.0%	100	66.7%
70	100	30	42.9%	30	30.0%
70	120	50	71.4%	50	41.7%
100	120	20	20.0%	20	16.7%
100	250	150	150.0%	150	60.0%
325	850	525	161.5%	525	61.8%

Converting from Markup % to Margin %

Markup %	Margin %
30.0%	23.1%
45.0%	31.0%
66.0%	39.8%
71.4%	41.7%
93.0%	48.2%
120.0%	54.5%
150.0%	60.0%

Converting from Margin % to Markup %

Margin %	Markup %
25.5%	34.2%
31.8%	46.6%
59.6%	147.5%
62.0%	163.2%
75.5%	308.2%
82.5%	471.4%
93.0%	1328.6%

Converting from Margin % to Markup %

Margin %	Markup %
25.5%	34.2%
31.8%	46.6%
59.6%	147.5%
62.0%	163.2%
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