



STRATEGIES TO SUCCEED

## Markup and Margin Explained

Business owners often confuse margin and markup. Each figure helps you set prices and measure productivity. But, a margin vs. markup chart shows that the two terms reflect profit differently. It's important to know the difference between margins and markups in your pricing.

### Terms to help understand margin and markup

To understand margin vs. markup, first know these three terms:

**Revenue** is the income you earn by selling your products and services. Revenue is the top line of your income statement and reflects earnings before deductions.

**Cost of Goods Sold (COGS)** include the expenses that go into making your products and providing your services. COGS include things like materials, direct labor costs and subcontractors.

**Gross profit** is the revenue left over after you pay the expenses of making your products and providing your services. Gross Profit is revenue minus COGS.

You will use these three terms when finding both margin and markup. Understanding the terms will help you grasp the difference between margin and markup.

### How to calculate margin

A margin, or gross profit margin, shows what your rate of return is on the sale of your products or services. Margin simply means a percentage. To calculate margin, start with your gross profit (revenue – COGS), then divide that number (gross profit) by revenue – that is your gross profit *margin*.

For example, you sell bicycles for \$200 each. Each bicycle costs you \$150. First, find your gross profit, or the difference between the revenue (\$200) and the cost (\$150).

$$\$200 - \$150 = \$50 \text{ gross profit}$$

To find the margin, divide gross profit by the revenue.

$$\$50 / \$200 = 0.25 \text{ margin}$$

To make the margin a percentage, multiply the result by 100.

$$0.25 \times 100 = 25\% \text{ margin}$$

The margin is 25%. That means you keep 25% of your total revenue. You spent the other 75% of your revenue on buying the bicycle.

Margin measures how much of every dollar in revenue you keep after paying expenses. In the example above, you keep \$0.25 for every dollar you make. The greater the margin, the greater percentage of revenue you keep when you make a sale.

### How to calculate markup

Markups are different than margins. A markup shows how much more your selling price is than the amount the item costs you.

Using the bicycle example from above, you sell each bicycle for \$200. The bicycle costs you \$150. First, find the gross profit.

$$\$200 - \$150 = \$50 \text{ gross profit}$$

To find out what percentage that cost was marked up, divide the gross profit by the COGS.

$$\$50 / \$150 = 0.33 \text{ markup}$$

To make the markup a percentage, multiply the result by 100.

$$0.33 \times 100 = 33\% \text{ markup}$$

The markup is 33%. That means you sold the bicycle for 33% more than the amount paid for it.

When bidding work, you always want to check this number to insure that the amount you marked up exceeds the your overhead breakeven percentage. To learn how to calculate this, go to <https://theprofitbleed.com/resources> and find the article titled “Go Beyond Breakeven.”

Markup measures how much more you sell your items for than the amount you pay for them. The higher the markup, the more revenue you keep when you make a sale.

### Margin vs. markup chart

Margins and markups interact in a predictable way. Each markup relates to a specific margin. Markups are always higher than their corresponding margins.

To easily find the markups that correlate to margins, use this margin vs. markup chart:

Markup	Margin
20%	16.7%
25%	20%
30%	23%

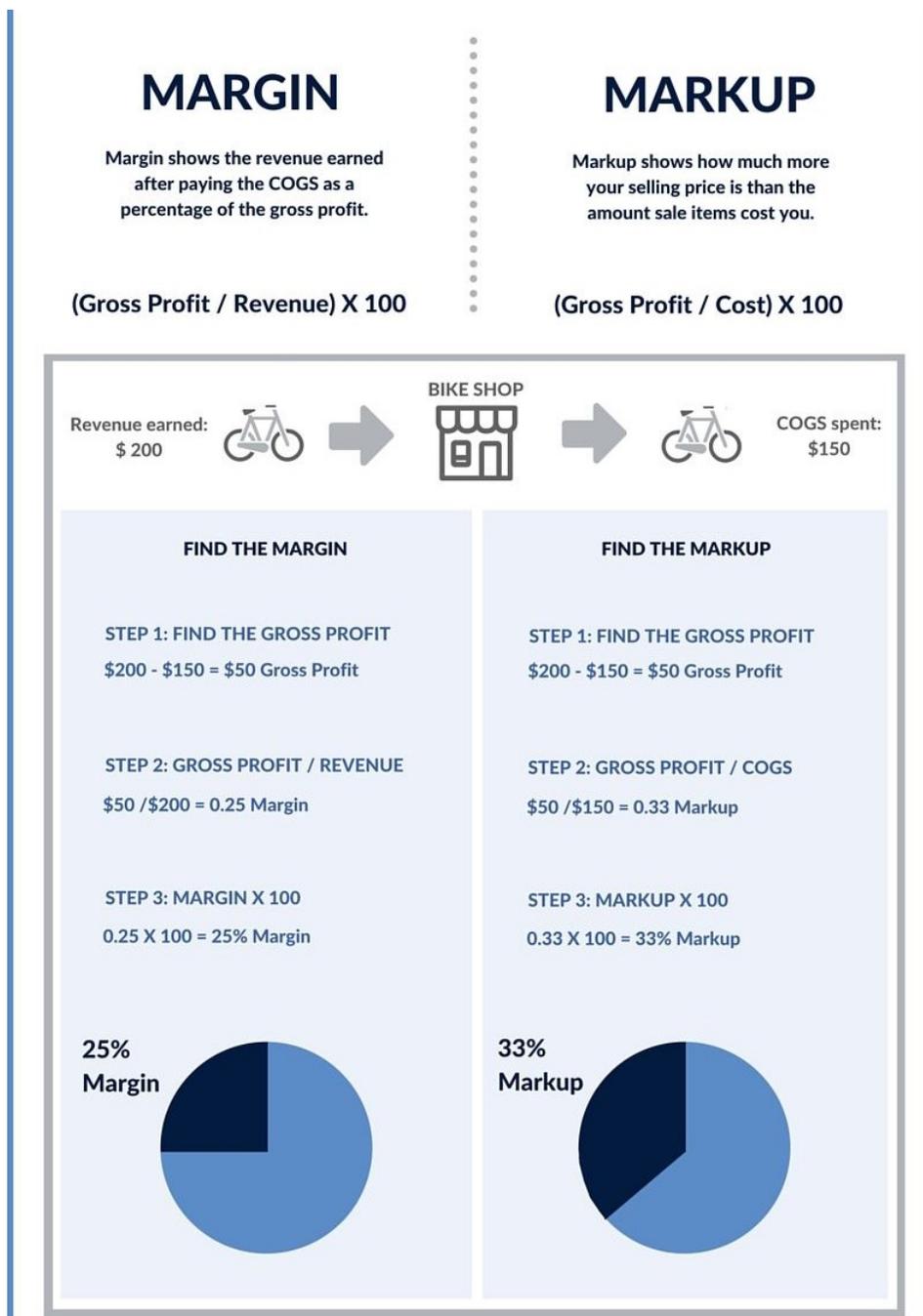
You can also get a more detailed markup / margin chart at

<https://theprofitbleed.com/resources>.

## Why margin vs. markup matters

Knowing the difference between a markup and a margin helps you set goals. If you know how much profit you want to make, you can set your prices accordingly using the margin vs. markup formulas.

If you don't know your margins and markups, you might not know how to price a product or service correctly. This could cause you to miss out on revenue. Check your margins and markups often to be sure you're getting the most out of your strategic pricing. Still need help with margin vs. markup? Check out our infographic below.



## Markup and Margin Table

Margin	Markup	Multiplier	Margin	Markup	Multiplier	Margin	Markup	Multiplier	Margin	Markup	Multiplier
1%	1.01%	1.010	26%	35.13%	1.351	51%	104.09%	2.041	76%	316.69%	4.167
2%	2.04%	1.020	27%	36.99%	1.370	52%	108.32%	2.083	77%	334.80%	4.348
3%	3.09%	1.031	28%	38.89%	1.389	53%	112.78%	2.128	78%	354.51%	4.545
4%	4.17%	1.042	29%	40.83%	1.408	54%	117.40%	2.174	79%	376.20%	4.762
5%	5.27%	1.053	30%	42.87%	1.429	55%	122.21%	2.222	80%	400.00%	5.000
6%	6.38%	1.064	31%	44.92%	1.449	56%	127.29%	2.273	81%	426.30%	5.263
7%	7.53%	1.075	32%	47.07%	1.471	57%	132.58%	2.326	82%	455.59%	5.556
8%	8.70%	1.087	33%	49.27%	1.493	58%	138.10%	2.381	83%	488.21%	5.882
9%	9.89%	1.099	34%	51.51%	1.515	59%	143.90%	2.439	84%	525.00%	6.250
10%	11.11%	1.111	35%	53.83%	1.538	60%	150.00%	2.500	85%	583.70%	6.867
11%	12.36%	1.124	36%	56.27%	1.563	61%	156.40%	2.564	86%	614.30%	7.143
12%	13.63%	1.136	37%	58.72%	1.587	62%	163.18%	2.632	87%	669.20%	7.692
13%	14.94%	1.149	38%	61.29%	1.613	63%	170.29%	2.703	88%	733.30%	8.333
14%	16.28%	1.163	39%	63.92%	1.639	64%	177.79%	2.778	89%	809.10%	9.091
15%	17.64%	1.176	40%	66.68%	1.667	65%	185.71%	2.857	90%	900.00%	10.000
16%	19.04%	1.190	41%	69.50%	1.695	66%	194.11%	2.941	91%	1011.10%	11.111
17%	20.49%	1.205	42%	72.41%	1.724	67%	203.01%	3.030	92%	1150.00%	12.500
18%	21.96%	1.220	43%	75.42%	1.754	68%	144.50%	2.125	93%	1328.60%	14.286
19%	23.47%	1.235	44%	78.67%	1.788	69%	222.59%	3.226	94%	1566.70%	16.667
20%	25.00%	1.250	45%	81.81%	1.818	70%	233.31%	3.333	95%	1900.00%	20.000
21%	25.75%	1.226	46%	85.19%	1.852	71%	244.81%	3.448	96%	2400.00%	25.000
22%	28.20%	1.282	47%	88.69%	1.887	72%	257.11%	3.571	97%	3233.30%	33.333
23%	29.88%	1.299	48%	92.30%	1.923	73%	270.39%	3.704	98%	4900.00%	50.000
24%	31.58%	1.316	49%	96.09%	1.961	74%	284.60%	3.846	99%	9900.00%	100.000
25%	33.33%	1.333	50%	100.00%	2.000	75%	300.00%	4.000	100%	20000.00%	200.000

**About the Author:** Good market or bad, raging competition or not, any contractor or designer can run a healthy, profitable business. Most just don't know how. Consultant, Speaker, Author Vicki Suiter, founder of Suiter Business Builders, knows the secrets to creating sustained profitability and success. Vicki helps people see their businesses differently, then gives them the tools to *do* things differently.

Since starting her business in 1990, Vicki has helped hundreds of contractors and designers build solid foundations for their businesses, enabling them to achieve the kind of success they never dreamed possible. In addition to running her consulting practice, Vicki has become an in-demand speaker at industry conferences nationally and internationally, where her presentations are consistently ranked among their most popular. Vicki's articles and opinions have been widely shared in print and across the web. She is also the author of book **"The Profit Bleed"** How managing margin can save your contracting business.