

Markup Versus Gross Profit Margin

We're glad you took an interest in this topic on margin and markup. This topic explains the difference in gross profit margin (or profit margin) and price markup.

There is a big difference between markup and gross profit. In fact, this is one of the most common errors contractors make and it can cost you big.

Markup and margin, what's the difference?

Short Answer

Markup is a percentage of the cost.

Margin is the same dollar amount expressed as a percentage of the selling price.

Example

Item costs \$1.00 Items sells for \$1.50.

Markup is .50 or 50 percent of the cost.

Margin is .50 or 33 a percent of the selling price.

A More Detailed Explanation

Markup Defined

Markup is the difference between invoice cost and selling price. It may be expressed either as a percentage of the selling price or the cost price and is supposed to cover all the costs of doing business plus a profit. Whether markup is based on the selling price or the cost price, the base is always equal to 100 percent. Markup is the additional amount added to a sales proposal (bid) or price and which contain overhead, profit, excess costs, etc.

Margin Defined

The difference between net sales and the cost of goods sold. It is also referred to as gross profit. Gross Profit/Total Sales. The percentage of every dollar earned that can be used to pay general and administrative expenses.

Margin Versus Markup Formula

Applying a simple formula will determine how much the margin will be based on a percentage that the contractor expects to make. The contractor will set a margin that ensures that they will be competitive in the local market. It may or may not reflect the actual value of an item. In your example, we are looking to make an 60% margin assuming that our item costs \$10. To figure out our sales price we use the following formula, expressing the margin as a decimal (i.e., 60% = .60):

Retail Price = (Cost of item)/(1, desired margin)

Markup Versus Margin Table

Markup %	Gross Profit Margin %	Multiplier
20	16.67%	120
21	17.36%	121
22	18.03%	122
23	18.70%	123
24	19.35%	124
25	20.00%	125
26	20.63%	126
27	21.26%	127
28	21.88%	128
29	22.48%	129
30	23.08%	130
31	23.66%	131
32	24.24%	132
33	24.81%	133

34	25.37%	134
35	25.93%	135
36	26.47%	136
37	27.01%	137
38	27.54%	138
39	28.06%	139
40	28.57%	140
41	29.08%	141
42	29.58%	142
43	30.07%	143
44	30.56%	144
45	31.03%	145
46	31.51%	146
47	31.97%	147

Source

<http://www.mrhvac.com/2010/03/26/margin-versus-markup/>