



## Understanding Margins and Markups

The difference between markup and margin is confusing to even the most seasoned buyers and merchandisers. First, you need to know that margins are used by retailers like you and markups are used by wholesalers. Second, you need to know that markup and profit are not the same.

**Markup percentage** is the percentage difference between the actual cost and the selling price, while **gross margin percentage** is the percentage difference between the selling price and the profit.

Let's say you just bought an item for \$100 and want to figure out how much to sell it for. You decide you want to mark up the item by 25%. In this example, a 25% markup on an item originally costing \$100 would be \$25, so the sales price of the item would be \$125. Here's the equation:

$$\frac{\text{Sales Price}}{\$125} = \frac{\text{Item Cost} \times \text{Markup \%} + \text{Item Cost}}{\$100 \times 0.25 + \$100}$$

To calculate gross margin percentage you would divide the gross profit (sales price minus cost) by the sales price. Using the same numbers as above, the gross profit is \$25 and the sales price is \$125, therefore the margin percentage is 20%

$$\frac{\text{Gross Margin \%}}{20\%} = \frac{\text{Gross Profit}}{\$25} / \frac{\text{Sales Price}}{\$125}$$

You can see that markup percentage and margin percentage are not equal.

Now, let's say you wanted a 25% margin on your \$100 item. To figure that out, you can use the following equation:

$$\frac{\text{Sales Price}}{\$133.33} = \frac{\text{Item Cost}}{\$100} / \left( \frac{1 - \text{Gross Margin \%}}{1 - 0.25} \right)$$

In this case, your markup percentage would be 33%.

$$\frac{\text{Markup \%}}{33\%} = \frac{(\text{Sales Price} - \text{Item Cost})}{(\$133.33 - \$100)} / \frac{\text{Item Cost}}{\$100}$$



Comparing these two examples, you can see how your profits differ based on markup and margin percentage:

| Item Cost | Markup % | Margin % | Profit  |
|-----------|----------|----------|---------|
| \$100     | 25%      | 20%      | \$25    |
| \$100     | 33%      | 25%      | \$33.33 |

Here are a few more examples with an \$8.00 item and various margin percentages:

| Item Cost | Markup % | Margin % | Sales Price | Profit  |
|-----------|----------|----------|-------------|---------|
| \$8.00    | 150%     | 60%      | \$20.00     | \$12.00 |
|           | 100%     | 50%      | \$16.00     | \$8.00  |
|           | 81.8%    | 45%      | \$14.55     | \$6.55  |
|           | 42.9%    | 30%      | \$11.43     | \$3.43  |

**Margin Tips:**

- Do not assume that everyone you speak to understands the difference between a margin and a markup.
- We recommend a margin anywhere between 45% to 60%.
- Round the new price to the nearest 9.

**Markup v. Margin Conversion Chart**

| MARKUP % | MARGIN % |
|----------|----------|
| 15%      | 13%      |
| 20%      | 16.7%    |
| 25%      | 20%      |
| 30%      | 23%      |
| 33.3%    | 25%      |
| 40%      | 28.6%    |
| 45%      | 31%      |
| 50%      | 33.3%    |
| 60%      | 37.5%    |
| 75%      | 42.9%    |
| 100%     | 50%      |