MARGIN VS. MARKUP

Knowing the difference between margin and markup can help you increase your bottom line.

TERM CHEAT SHEET:
You need to know these 3 terms before you can calculate margins and markups.

Revenue:	COGS:	Gross Profit:
Earnings before deducting costs	Costs to create sales items	Revenue - COGS

MARGIN

Margin shows the revenue earned after paying the COGS as a percentage of the gross profit.

(Gross Profit / Revenue) X 100

MARKUP

Markup shows how much more your selling price is than the amount sale items cost you.

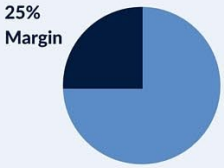
(Gross Profit / Cost) X 100

FIND THE MARGIN

STEP 1: FIND THE GROSS PROFIT
$200 - $150 = $50 Gross Profit

STEP 2: GROSS PROFIT / REVENUE
$50 /$200 = 0.25 Margin

STEP 3: MARGIN X 100
0.25 X 100 = 25% Margin



FIND THE MARKUP

STEP 1: FIND THE GROSS PROFIT
$200 - $150 = $50 Gross Profit

STEP 2: GROSS PROFIT / COGS
$50 /$150 = 0.33 Markup

STEP 3: MARKUP X 100
0.33 X 100 = 33% Markup

Margin and markup measure profitability differently.
Each markup relates to a specific margin.

Markup	Margin	Markup	Margin
20%	16.7%	43%	30%
25%	20%	50%	33%
30%	23%	75%	42.9%
40%	28.6%	100%	50%

Margin vs. Markup Chart: How to Calculate Margin and Markup

by **Amanda Cameron** on July 14, 2016

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 accounting. Don't forget to check out our infographic at the bottom of this page.

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. Calculating COGS could include materials and direct labor costs.

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 margin, shows the revenue you make after paying the COGS. To calculate margin, start with your gross profit (revenue – COGS). Then, find the percentage of the revenue that is gross profit.

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 gross profit

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

$50 / $200 = 0.25 margin

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

0.25 X 100 = 25% 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 sales 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.

Like a margin, you start finding a markup with your gross profit (revenue – COGS). Then, find the percentage of the COGS that is gross profit.

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 write the markup as a percentage, divide the gross profit by the COGS.

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

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

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

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

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
15%	13%
20%	16.7%
25%	20%
30%	23%
33.3%	25%
40%	28.6%
43%	30%
50%	33%
75%	42.9%
100%	50%

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. Or, you might be asking too much, and many potential customers are not willing to pay your prices. Check your margins and markups often to be sure you’re getting the most out of your strategic pricing.