

Margin Vs. Markup: Formulas and Their Uses

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Deciding on the selling price and figuring out the profit margin is very tricky. But what's more delicate than that is maintaining a consistent profit margin among the products bought from different vendors at different costs.

Margin and Markup formulas are two ways that can help you calculate how much profit share to earn from each product and to know while accounting how much profit share you have received from each product.

However, many fail to understand the difference between Margin and Markup, and therefore in this blog ahead, I will help you decode both the terms, their uses, and their calculations.

Let's first learn about Markup.

Markup and It's Formula

Markup means the additional COGS percentage that you add to the cost of the product to find the selling price.

Markup's formula uses cost as the denominator to determine the percentage because it is the percentage of cost added.

Markup Formula = $(\text{Price} - \text{Cost}) / \text{Cost}$

If you want to decide your price based on Markup then this formula can be used like this.

Price = $(\text{Markup} * \text{Cost}) + \text{Cost}$

You need to know how much profit in terms of the percentage of the cost of products you want to make, and then you can apply this formula to products from different vendors or different types of products.

For example, a company is buying two types of t-shirts, T1 and T2, from two vendors, V1 and V2. So, how to decide on the selling price.

The cost price of T1 from V1= \$10

The cost price of T2 from V2 = \$12

And if you have decided to earn a profit of 100%, then your Markup will be 1. Your Markup will vary between 0-1 with 0 being zero percent markup and 1 being 100% percent markup.

Selling price for T1 = $S_1 = \text{Cost} + (\text{Cost} * \text{Markup}) = 10 + (10 * 1)$

$S_1 = \$20$

Selling Price for T2 = $S_2 = \text{Cost} + (\text{Cost} * \text{Markup}) = 12 + (12 * 1)$

$S_2 = \$24$

Margin and It's Formula

Margin is the fixed amount often expressed in currency. Price is used as a denominator to calculate the profit margin.

Margin formula = $(\text{Price} - \text{Cost}) / \text{Price}$

Take an example to understand the calculation of Margin.

The Margin of a company selling \$15 T-shirts at \$20 can be calculated in the following way.

$$\begin{aligned}\text{Margin} &= (20 - 15)/20 \\ &= 0.25 \text{ i.e. } 25\%\end{aligned}$$

Margin Vs. Markup: How to decide which one to use and when

Markup and Margin are very similar terms when you see them from a distance, but when you use them, they have certain unique features exclusive to them.

Let's understand where Markup can be used beneficially. For instance, if as a company you are starting up and are insistent on making a certain amount of profit you can generalize a markup percentage to decide a selling price so that on every product you earn 50%, 100 or 25% profit margin whatever you have fixed.

It becomes effortless for a company to calculate the selling price and also adhere to their profit goals. This can be used in excel sheets by creating a formula where you enter the cost price in one column and Markup in one column to calculate the SP for that product automatically.

On the other hand, Margins are used to know the exact amount of profit your sales are generating for each product. This helps you to understand the actual revenue you are making in terms of profits.

Conclusion:

It's essential to understand that knowing Margin and Markup and the uniqueness of each method is crucial for a business to determine the selling price & the actual profit margin.

The above-given formulas can be used to calculate Markup and Margin.

If you are looking for a proficient assistant who does the job for you and equips you with analytical reports of profits and markups to make more crucial decisions for your company, free of cost for the first 15 days, click here.

Essential Resources :

- <https://www.inflowinventory.com/blog/calculate-margin-vs-markup/>
- <https://www.accountingtools.com/articles/what-is-the-difference-between-margin-and-markup.html>
- <https://www.educba.com/margin-vs-markup/>