Are You Confusing Markups And Margins

When it comes to understanding finance, very few business owners can claim to be experts. But even if we don't consider advanced topics, the difference between margin vs. markup remains a confusing aspect. To help our readers, we have decided to end this confusion once and for all. Today, we will discuss how markup and margin are two different concepts despite sharing some basic similarities. Let's get started:

What Is Margins

Margin is the ratio of your gross profit to net revenue. Let us try to understand the term 'margin' in a simple manner:

Firstly, let us quickly brush off three common terms.

1. Revenue: The net income generated through sales.
2. [Cost of goods sold](#) (COGS): The total expenses made throughout the selling process.
3. Gross profit: It is the difference between revenue and COGS.

For instance, if an item is sold for (revenue) $100 and the COGS is $70, we can say that the gross profit ($100-$70) is $30. Thus, the margin, in this case, is given by

($30) Gross profit/(100) revenue= 0.3 margin.

You can convert it into a percentage value by multiplying the margin by 100. In our case, this translates to (100*0.3) = 30%.

Margin is an effective metric for understanding the percentage of the money you get to keep after making a sale. Naturally, it is favorable to have a higher margin as it signifies higher profitability. Low margins, on the other hand, are only acceptable when the selling volume is considerably high.

What Is Markups

Markup helps you understand how much more (in percentage) you sold an item against its cost. Let us understand markup with this quick example:

Suppose you sell an item for $100, and its COGS is $60.

Thus, the gross profit ($100-$60) sits at $40.

To calculate the markup, divide the gross profit by the COGS. In our case, it is given by,

($40) gross profit/(%60) = 0.67

You can multiply the markup figure by 100 to get the answer in percentage format:

Thus, our markup in percentage (0.67*100) is 67%.

Markup, too, gives you an idea of how much percentage of revenue you can keep upon making a sale—the higher, the better unless your industry is focused on higher selling volume.

Markup-Margin Conversion

Both markup and margin are correlated, and you can use the below formula to calculate the markup using margin value:

Markup = [Margin / (1 – Margin)] X 100

For instance, if your margin is 20%, the mark up is given by:

Markup = [0.20/(1-0.20)] x 100

Gives 25% markup.

To calculate the margin value using the markup, use the below formula:

Margin = [Markup / (1+ Markup)] X 100

Let us understand the calculation with the help of an example with the markup value as 30%:

Margin = [030 / (1 + 0.30) X 100

Gives 23% margin.

The markup value always comes out to be higher than the margin value.

You can use the below margin vs. markup values chart for reference purposes:

Margin	Markup
10%	11.11%
20%	25%
30%	42.85%
40%	66.66%
50%	100%
60%	150%

70%	233%
80%	400%
90%	900%

Remember, the margin value cannot be greater than or equal to 100%.

Understanding Why You Need To Know Your Margins And Markups

Both of them are used to measure the profitability of a product, and knowing their values is necessary to maintain your bottom line effectively. Margin-markup values help you define your prices. Without having an idea of these values, you may underprice or overprice your products, both leading to negatively impacting your business.

Use these figures to assess the financial health and viability of your products/services. You may not be able to increase your selling prices beyond a certain extent as you would lose customers. Thus, they can give you insight into reducing the overall costs incurred to make more profit per item sold.

Summing Up

Both margins and markups are important profitability measuring metrics that every business needs to keep in mind. Many eCommerce platforms also require you to input these values, so you should have a clear understanding regarding the same.

Ecommerce automation solutions like Orderhive help you navigate through margins and markups for all your items and even in the case of bundled products. If you have any doubts regarding these two metrics, get in touch with the Orderhive team now to get the best brains in the industry to help you out.