

Margin vs. Markup

Ms. Duffy

Mark Up is the percentage of cost you add to cover your overheads.

A dress designer buys fabric for one dress for 25 euro.

She pays her dressmakers 12 euro an hour.

It takes them 1.5 hours to make one dress.

What is the actual cost of the dress?

Markup asks, **What percent of the cost should profit be?**

Profit
Cost

25 -- cost of fabric
12 (1.5) -- cost of labor

43 euro -- cost



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Profit
Cost

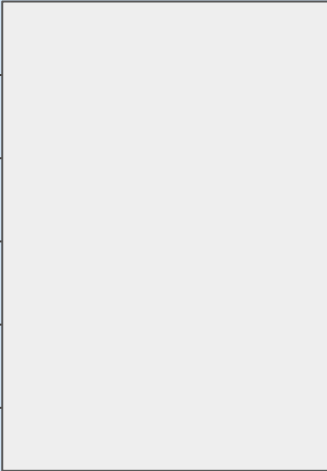
Cost = 43 euro

Cost (euro)	Markup (%)	Profit (euro)	Selling Price (euro)
43	20		
43	40		
43	60		
43	80		
43	100		
43	120		

Cost Based Thinking: What can I charge my customer to cover my overhead?

Markup asks, **What percent of the cost should profit be?**

Cost = 43 euro

Cost (euro)	Markup (%)	Profit (euro)	Selling Price (euro)
43	20	8.60	
43	40	17.20	
43	60	25.80	
43	80	34.40	
43	100	43.00	
43	120	48.00	
43			

Cost Based Thinking: What can I charge my customer to cover my overhead?

Markup asks, **What percent of the cost should profit be?**

Cost = 43 euro

Cost (euro)	Markup (%)	Profit (euro)	Selling Price (euro)
43	20	8.60	51.60
43	40	17.20	60.20
43	60	25.80	68.80
43	80	34.40	77.40
43	100	43.00	86.00
43	120	48.00	91.00

Cost Based Thinking: What can I charge my customer to cover my overhead?

Margin looks at profit as a percentage of selling price.

Margin asks, What is the value of this product to my customer?

**Value Based
Thinking**

Profit
Selling Price



Margin is looking at profit as a percentage of selling price.

It is looking at the value to the customer, i.e. how much is the product worth to the customer?

Cost (euro)	Markup (%)	Profit (euro)	Selling Price (euro)
43	20	8.60	51.60
43	40	17.20	60.20
43	60	25.80	68.80
43	80	34.40	77.40
43	100	43.00	86.00
43	120	48.00	91.00
43	140	60.20	103.20

Margin also measures how much of every euro a customer spends the company keeps.

Profit
Selling Price

If your margin is 20% and the selling price of the dress is 100 euro ... The company keeps 20 euro..

20 **profit**

100 **selling price**

Markup
 $\frac{\text{Profit}}{\text{Cost}}$

Margin is looking at profit as a percentage of selling price.

Margin
 $\frac{\text{Profit}}{\text{Selling Price}}$

Margin also measures how much of every euro a customer spends the company keeps.

Cost (euro)	Markup (%)	Profit (euro)	Selling Price (euro)	Margin (%)
43	20	8.60	51.60	
43	40	17.20	60.20	
43	60	25.80	68.80	
43	80	34.40	77.40	
43	100	43.00	86.00	
43	120	48.00	91.00	
43	140	60.20	103.20	

Markup
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Margin is looking at profit as a percentage of selling price.

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Margin also measures how much of every euro a customer spends the company keeps.

Cost (euro)	Markup (%)	Profit (euro)	Selling Price (euro)	Margin (%)
43	20	8.60	51.60	17
43	40	17.20	60.20	29
43	60	25.80	68.80	38
43	80	34.40	77.40	45
43	100	43.00	86.00	50
43	120	48.00	91.00	53
43	140	60.20	103.20	58

Markup
Profit
Cost

What do you notice about margin and markup?

Margin
Profit
Selling
Price

Cost (euro)	Markup (%)	Profit (euro)	Selling Price (euro)	Margin (%)
43	20	8.60	51.60	17
43	40	17.20	60.20	29
43	60	25.80	68.80	38
43	80	34.40	77.40	45
43	100	43.00	86.00	50
43	120	48.00	91.00	53
43	140	60.20	103.20	58

When you increase margin, markups grow exponentially

			Profit / Selling Price	Profit / Cost
Selling Price	Cost	Profit	Margin %	Markup %
\$100			10%	
\$100			20%	
\$100			30%	
\$100			40%	
\$100			50%	
\$100			60%	
\$100			70%	
\$100			80%	
\$100			90%	

Note: This table is showing a constant **selling price**, but looking at what happens when **cost** decreases and **profit** increases

When cost decreases but selling price stays the same Markup increases exponentially

When you increase margin, markups grow exponentially								
			Profit / Selling Price	Profit / Cost				
Selling Price	Cost	Profit	Margin %	Markup %				
\$100	\$90	\$10	10%	11%				
\$100	\$80	\$20	20%	25%				
\$100	\$70	\$30	30%	43%				
\$100	\$60	\$40	40%	67%				
\$100	\$50	\$50	50%	100%				
\$100	\$40	\$60	60%	150%				
\$100	\$30	\$70	70%	233%				
\$100	\$20	\$80	80%	400%				
\$100	\$10	\$90	90%	900%				

Note: This table is showing a constant **selling price**, but looking at what happens when **cost** decreases and **profit** increases

When cost decreases but selling price stays the same Markup increases exponentially

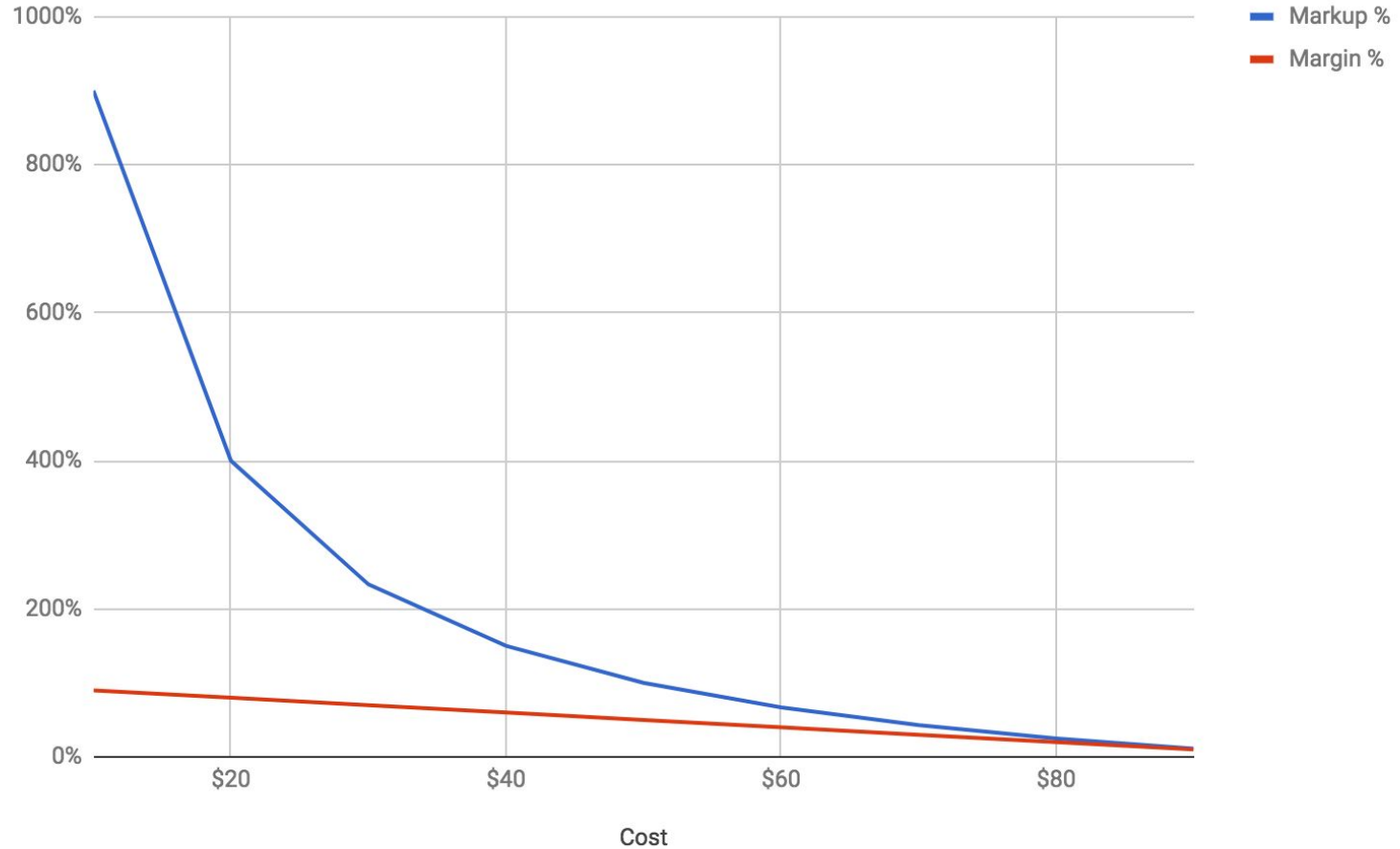
Comparison of Markup vs Margin in Pricing

Difference in Markup and Margin when pricing an item costing £1.00



When Margin Increases, Markup Increases Exponentially

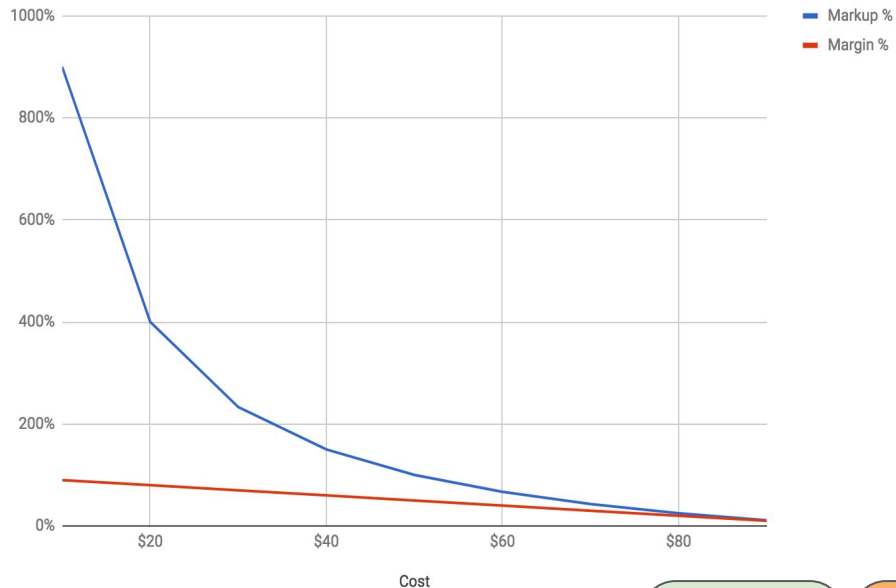
(Selling Price Constant = \$100)



Why does markup rise faster than margin?

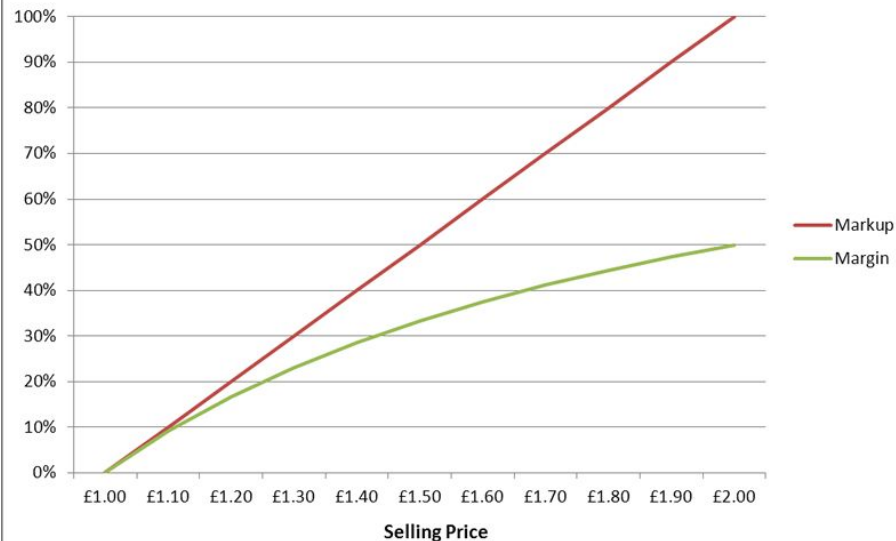
When Margin Increases, Markup Increases Exponentially

(Selling Price Constant = \$100)



Comparison of Markup vs Margin in Pricing

Difference in Markup and Margin when pricing an item costing £1.00



Markup
 $\frac{\text{Profit}}{\text{Cost}}$

Margin
 $\frac{\text{Profit}}{\text{Selling Price}}$

Why does markup rise faster than margin?

Markup
 $\frac{\text{Profit}}{\text{Cost}}$

Margin
 $\frac{\text{Profit}}{\text{Selling Price}}$

Margin
 $\frac{\text{Profit}}{\text{Cost} + \text{Profit}}$

Will **always** have
larger
denominator.

Therefore, will
always be a
lesser value

Question we looked at in class (20th Oct.)

A sports shop buys t-shirts for \$25 and sells them for \$49

- (a)
 - (i) Find the **mark up** for the t-shirts (profit as a percentage of cost price)
 - (ii) Find the **margin** for the t-shirts (profit as a percentage of selling price)

- (b) The shop also sells runners, at a mark up of 50%
Find the margin for these runners