

Markup vs Margin

If a store buys a product for \$100, how does the store price the product? It depends on whether it is talking about Markup or Margin.

Markup

To markup a price, you simply take the cost of the product and mark it up by a certain percent.

$$\$100 + 25\% = \$125 \text{ price}$$

This is has a 25% markup.

What is the margin of profit?

$$\text{Profit} / \text{Price} = 25/125=20 \quad 20\% \text{ margin}$$

Margin

What if the store wanted to ensure a 25% margin? A slightly more complex formula is required.

$$\frac{\textit{Cost}}{1 - (\textit{Percent of margin})}$$

$$\frac{\$100}{1 - .25} = \frac{\$100}{.75} = 133.33$$

Price is \$133.33. Check the margin?

Profit / Price = 33.33/133.33=.24998 or

25% margin