

MKT100/300 - Margins vs Markups

Margins

- % based on **cost**
- \$ amount you want to add to cost to determine price

Markups

- % based on **price**
- \$ amount of selling price available to cover costs

$$\text{Margin \$} = \text{Markup \$} \quad \text{Margin \%} \neq \text{Markup \%}$$

FORMULAS

Margins

$$\text{Margin \$} = \text{Selling Price} - \text{Cost}$$

$$\text{Margin \%} = \frac{\text{Price} - \text{Cost}}{\text{Price}}$$

Rearranged to find margin price:

$$\text{Price} = \frac{\text{Cost}}{1 - \text{Margin \%}}$$

Rearranged to find margin cost:

$$\text{Cost} = \text{Price} - (\text{Price} \times \text{Margin \%})$$

Markups

$$\text{Markup \$} = \text{Selling Price} - \text{Cost}$$

$$\text{Markup \%} = \frac{\text{Price} - \text{Cost}}{\text{Cost}}$$

Rearranged to find markup price:

$$\text{Price} = \text{Cost} \times (1 + \text{Markup \%})$$

Rearranged to find markup cost:

$$\text{Cost} = \frac{\text{Price}}{1 + \text{Markup \%}}$$

Example 1: A hat costs \$10 and a retailer sells it at a price of \$15. What is the margin and markup in dollars and percentages?

Margin and Markup (\$):

$$\begin{aligned} &= \text{Selling Price} - \text{Cost} \\ &= 15 - 10 \\ &= \$5 \end{aligned}$$

Margin (%):

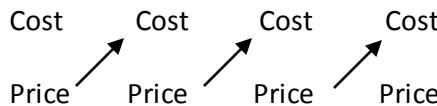
$$\begin{aligned} &= \frac{\text{Price} - \text{Cost}}{\text{Price}} \\ &= \frac{15 - 10}{15} \\ &= 33\% \end{aligned}$$

Markup (%):

$$\begin{aligned} &= \frac{\text{Price} - \text{Cost}}{\text{Cost}} \\ &= \frac{15 - 10}{10} \\ &= 50\% \end{aligned}$$

Example 2: It costs \$10 for a manufacturer to make a hat. If the manufacturer maintains a 20% margin, the wholesaler places a 10% markup, and the retailer places a 30% markup, what is the cost of the hat for the customer?

Recall Supply Chain: Manufacturer → Wholesaler → Retailer → Customer



Manufacturer Price:

$$\begin{aligned} &= \frac{\text{Cost}}{1 - \text{Margin \%}} \\ &= \frac{10}{1 - 20\%} \\ &= \$12.50 \end{aligned}$$

Wholesaler Price:

$$\begin{aligned} &= \text{Cost} \times (1 + \text{Markup \%}) \\ &= 12.50 \times (1 + 10\%) \\ &= 12.50 \times (1.10) \\ &= \$13.75 \end{aligned}$$

Retailer Price:

$$\begin{aligned} &= \text{Cost} \times (1 + \text{Markup \%}) \\ &= 13.75 \times (1 + 30\%) \\ &= 13.75 \times (1.3) \\ &= \$17.88 \end{aligned}$$

Customer Cost:

$$\$17.88$$