What is the difference between mark-up and margin?

Is there a difference? Absolutely. More and more in today's environment, these two terms are being used interchangeably to mean gross margin, but that misunderstanding may be the menace of the bottom line. Mark-up and profit are not the same. Also, the accounting for margin vs. mark-up are different. A clear understanding and application of the two within a pricing model can have a drastic impact on the bottom line. Terminology speaking, mark-up percentage is the percentage difference between the actual cost and the selling price, while gross margin percentage is the percentage difference between the selling price and the profit.

So, who rules when seeking effective ways to optimize profitability? Many mistakenly believe that if a product or service is marked up, say 25%, the result will be a 25% gross margin on the profit and loss. However, a 25% mark-up rate produces a gross margin percentage of only 20%.

The calculations are as follows:

Let's start with a cost price of 100.

If you are marking this up by 30% then the calculation is:

100 * 1.3

This gives a selling price of 130

The profit margin on this item is calculated as follows:

(130-100)/130*100

This gives a profit margin percentage of 23%

To calculate a profit margin you divide the profit by the selling price and multiply by 100.

If your intention is to trade at a profit margin of 30% then you are doing yourself a disservice by marking up your prices.

To preserve your margin your calculation should be:

Cost price divided by the margin percentage you want subtracted from 100.

Eg. If you are seeking a margin of 30% then your calculation should be:

100 / 70% = 143

Your selling price on a 100 euro item should be 143 if you are seeking a profit margin of 30%.