MARK-UP VERSUS MARGIN

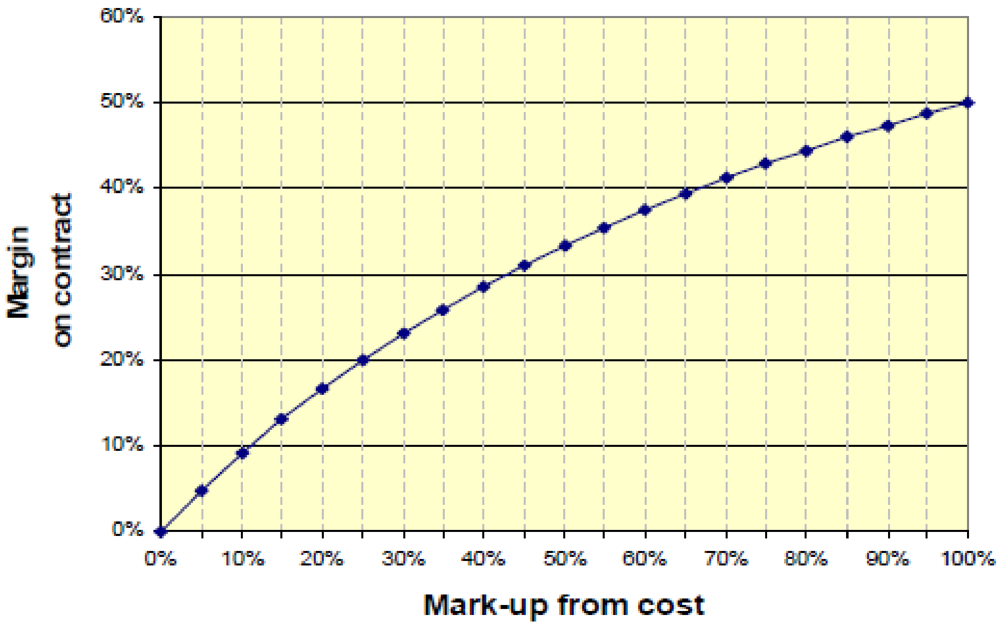
Mark-up percentage is the percentage difference between the actual cost and the selling price, while **gross margin percentage** is the percentage difference between the selling price and the profit.

An often over-looked, but important, factor to consider when setting the contract price of a project is that the percentage margin (profit) on the contract is not the same as the percentage mark-up from cost. The graph below shows that to make 20% profit on a contract, it must be marked up 25% from cost. This discrepancy grows in magnitude as the desired profit margin is increased. Obviously, to make 50% profit, 100% mark-up from cost is required.

The effective percentage profit resulting from a given mark-up percentage is:

$$P = 100 \times \frac{M}{100 + M}$$

- P = Percentage profit on contract.
- M = Percentage mark-up from cost.



Example : Mark-up of 18%, the actual margin on contract is 15.25%; 2.75% less than the mark-up. If you were expecting to make 18% profit on a $200,000 contract, you will be out of pocket $5,500.00.