

THE AUTOMATED MILLIONAIRE BEST BUSINESS PRACTICES

MARKUP VS. MARGIN



By
Mikkel Pitzner



BEST BUSINESS PRACTICES

Markup versus Margin

Mikkel Pitzner

The Automated Millionaire

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BEST BUSINESS PRACTICES

The Automated Millionaire Best Business Practices describes various Best Business Practices and/or Terminology used in business. These are aimed at giving you a better insight to terminologies, explanations or 'How Tos' for your business.

A NOTE ABOUT LINKS IN THIS DOCUMENT

Throughout this document you will find links (such as the yellow link just below) for more resources, which could be training videos, other documents or access to tools and the like. The individual links are directed to specific sections and resources relevant to what is being said it's linked to, but for your privacy and security, all links are sent to pages residing secured website of The Automated Millionaire website.

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To Your Success

I truly wish your success.

I believe entrepreneurs are critical for our society and that it is the entrepreneurs who often pave the way for innovations and development in the world.

Entrepreneurs accept great risk, work diligently and often have to endure great struggles in their pursuit of their dreams.

Those who succeed not only improve their own lives, but also many other lives. Lives of the other people in their families, but also lives of the people they employ and their families. Vendors as well and their families are positively affected by the ripples sent out from a well run and successful business.

I am therefore hopeful that my personal pursuit of helping as many entrepreneurs as possible can help increase these positive ripples, affecting as many people positively and as far reaching as possible.

Please feel free to connect with me for anything you believe I may be able to help and serve you with.

- Mikkel Pitzner

Email [Mikkel](#)



Markup versus Margin

The concepts of Markup and Margin are very simple, but business owners often confuse the two terms: Markup and Margin.

Both figures are used to set prices and to help you gauge profitability of your products/services, and even your entire business operation.

However, the two terms reflect profit differently and it's important to understand the difference. The following will give you a deeper insight into the two terms and how to understand them and how to use them in your business, so you can ensure you will get the desired results.

I believe the major goal for a business should be to make a profit. Yes, a business can have a lot of other worthwhile goals (e.g. doing good causes or similar), but ultimately without profits a business would eventually go under and that would be the end of it.

In order to make a profit in a business we need to charge for our services or products and charge more than it costs us to deliver upon everything that makes up for the business.

Product/Service Level:

For the individual product or service, it means that we would have to charge more than it costs us to deliver said product or service.

In business, we use the term Cost Of Goods Sold to be all the Variable Expenses that make up our costs of producing or delivering what we are selling.



Typically, the major elements of the Costs of Good Sold are: Labor and Materials. But additionally, you may have other expenses here too, such as delivery expenses, subcontractors, equipment rental and more.

At times, such as with larger production companies, a part of e.g. utilities expense will be added to the COGS even though such are normally residing under the Overhead or Fixed Costs in our Profit and Loss Statement. This is done in order to better reflect the Variable expense of the production. The latter makes good sense as one would typically see variations in expenses for e.g. electricity running large machinery as production rises or falls.

The emphasis with COGS is again that these are our Variable expenses only.

The term, Variable Expense, is highly descriptive as the expense varies with the amount of output. Produce e.g. more chairs, and you will have more expenses for materials, labor and other variable production associated expenses.

Variable Expenses are also often called Direct Expenses, and again this term is also highly descriptive when you think of the expenses being Directly related to producing more output/production and sales.

But let's keep our discussion on Markup versus Margin simple.

Markup is what you add to the cost of your product or service, so you make a profit.

e.g. A product you sell cost you \$100 to acquire or produce, and this \$100 include all the variable expenses directly associated with getting it to the point when you can offer it to the market place.

Now, you wish to ensure that you can make a profit.

In order to do so, you'll need to add your profit to your costs of the product or service. So let's say you add \$50 to your product/service which means your selling price becomes \$150.



The formula looks like this:

$$\text{Cost} + \text{Markup} = \text{Price}$$

Or in your example:

$$\$100 + \$50 = \$150$$

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

The Markup factor is typically a percentage or a factor (e.g. 0.5),

$$\text{e.g. } \$100 + (\$100 \times 50\%) = \$100 + \$50 = \$150$$

$$\text{or } \$100 + (\$100 * 0.5) = \$100 + \$50 = \$150$$

Sometimes, companies have settled on a factor to be used directly on the cost, e.g. a factor of 2.5, such that whatever the cost, they would multiply by 2.5 to derive the selling price,

$$\text{e.g. } \$100 * 2.5 = \$250$$

You'll find the latter often with retail clothing stores, or as used in a quick approximation when being presented with a cost of an item, and estimating if you believe you can sell the item in your stores, knowing your market.

If you wish to calculate backwards, knowing the selling price (\$150) and the cost (\$100), the formula looks like:

$$\frac{(\text{Price} - \text{Cost})}{\text{Cost}} = \text{Markup}$$



$$\text{e.g. } \frac{(\$150 - \$100)}{\$100} = 0.5$$

As long as you can sell the item, naturally the higher the markup the greater the profits. There's often a tradeoff between ability to sell your item (product/service) and the size of your markup.

Moving on to Margin

Margin describes how much of each sale can be counted as profit

To calculate the margin, the formula looks like:

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

$$\text{e.g. } \frac{(\$150 - \$100)}{\$150} = \frac{\$50}{\$150} = \frac{1}{3} = 33.33\%$$

The Gross Profit Margin is expressed in percentage.

There's a lot of confusion on the use of the terms Gross Margin and Gross Profit Margin. Gross Margin is often also called Gross Profit and is expressed in a dollar amount. I prefer the term Gross Profit when referring to the dollar amount and typically reserve the word Margin for any discussion on the margin as a percentage.

Gross Profit Margin is often expressed in percentage, and certainly that is how I will be using the term. When you search the internet for these terms you will find a lot of inconsistency and confusion about when it is "supposed to be" a dollar amount and when it is supposed to be a percentage.



When you encounter my personal choice for use of these terms, I will usually talk about the Gross Profit as the dollar amount corresponding to your Revenue – COGS.

*When I speak about the Gross Profit as expressed as a percentage out of your Revenues (or as in the case of a single item, a percentage out of the selling price), I typically express it as **Margin**, typically using **Gross Profit Margin**.*

Gross Profit is the revenue left over after you pay expenses of making your products or providing your services. Gross Profit is your Revenues – COGS (Cost Of Goods Sold).

On an individual item level, as we have looked at above, it's your Price – Cost = Markup.

In other words, Gross Profit is equal to your Markup on an individual item.

On a company wide level, Gross Profit is a little more complicated, as you will have to take all your Revenues minus all your COGS.

COGS, again is your Cost of Goods Sold. Cost of Goods Sold include all your Variable or Direct costs for your products or services.

For a more comprehensive walk through of the [Gross Profit and Gross Profit Margin](#), please see our supplement pdf on the topic in our The Automated Millionaire Best Business Practices series, or seek out our video training on the matter.

Gross Profit shows you how much you have left over to pay for all your other expenses, most notably Fixed expenses, also called Overheads, including finance expenses etc. and finally of course, your net profits.

In business, I would venture to say, you should always aim to grow your profits as much as possible, which means grow your Gross Profits, and grow your Net Profits.



Therefore, it's important to keep a good eye on these numbers, to track them and to improve upon them.

Gross Profit Margin, however, may be a better number to gauge your performance development from.

You see, it is possible to increase and grow your Gross Profit while actually decreasing your Gross Profit Margin.

Let's say you are comparing this year's performance to last year. Let's say you made some pretty great strides and that you grew your revenues, and that the resulting gross profits also grew from this.

Let's look at some examples below:



	Example I	Example II
Revenue	3,000,000	4,000,000
Cost of Goods Sold		
Labor	1,200,000	1,700,000
Materials	850,000	1,150,000
Total COGS	2,050,000	2,850,000
Gross Profit	950,000	1,150,000
<i>Gross Profit Margin</i>	<i>31.67%</i>	<i>28.75%</i>
Expenses		
Advertising & Promotion	37,200	37,200
Depreciation & Amortization	73,000	73,000
Insurance	37,000	37,000
Maintenance	15,800	15,800
Office Supplies	12,520	12,520
Rent	187,000	187,000
Salaries	425,000	575,000
Telecommunication	12,400	12,400
Utilities	13,760	13,760
Vehicles	37,780	37,780
Other Expense 1	1,200	1,200
Other Expense 2	-	-
Total Expenses	852,660	1,002,660
Earnings Before Interest and Taxes	97,340	147,340
Interest Expense	38,000	38,000
Earnings Before Taxes	59,340	109,340
Income Taxes	12,461	22,961
Net Earnings	46,879	86,379
<i>Net Profit Margin After Taxes</i>	<i>1.56%</i>	<i>2.16%</i>



Let say Example I is last year (our base year) and Example II is this year.

Well, first off, we can see that the revenues grew quite a bit from \$3,000,000 to \$4,000,000. We can also see that our Gross Profit grew from \$950,000 to \$1,150,000.

This is a great achievement.

However, reviewing the Gross Profit Margin, we see that in the process we actually became less efficient in our ability of producing what we sold. We can see that the Gross Profit Margin decreased from 31.67% to 28,75%.

Now, as a business owner, I would take this development in my business any day, having greatly grown my revenues and achieving the resulting increase in our Gross Profit.

But it a perfect world, we would have at least remained equally efficient in our abilities of making it happen. In Example III below you can see the effect of this.



	Example I	Example II	Example III
Revenue	3,000,000	4,000,000	4,000,000
Cost of Goods Sold			
Labor	1,200,000	1,700,000	1,600,000
Materials	850,000	1,150,000	1,133,334
Total COGS	2,050,000	2,850,000	2,733,334
Gross Profit	950,000	1,150,000	1,266,666
<i>Gross Profit Margin</i>	<i>31.67%</i>	<i>28.75%</i>	<i>31.67%</i>
Expenses			
Advertising & Promotion	37,200	37,200	37,200
Depreciation & Amortization	73,000	73,000	73,000
Insurance	37,000	37,000	37,000
Maintenance	15,800	15,800	15,800
Office Supplies	12,520	12,520	12,520
Rent	187,000	187,000	187,000
Salaries	425,000	575,000	575,000
Telecommunication	12,400	12,400	12,400
Utilities	13,760	13,760	13,760
Vehicles	37,780	37,780	37,780
Other Expense 1	1,200	1,200	1,200
Other Expense 2	-	-	-
Total Expenses	852,660	1,002,660	1,002,660
Earnings Before Interest and Taxes	97,340	147,340	264,006
Interest Expense	38,000	38,000	38,000
Earnings Before Taxes	59,340	109,340	226,006
Income Taxes	12,461	22,961	47,461
Net Earnings	46,879	86,379	178,545
<i>Net Profit Margin After Taxes</i>	<i>1.56%</i>	<i>2.16%</i>	<i>4.46%</i>



From reviewing Example III with the others, you'll quickly see that would have meant a further increase in our Gross Profit of \$116,666 (\$1,266,666-\$1,150,000).

Had I not had the Gross Profit Margin % number, I might not have been aware that my production in my business actually became less efficient. Now that I know this, I would certainly begin to see what I could do in order to get my efficiency back up again in my business.

So, you might say that the Gross Profit Margin is a better number to use when keeping track on your evolvment of your efficiency in your business.

Without going too much into the details of the further numbers of the above Example I, II and III, suffice it to say that I kept all the fixed costs identical just so as to clarify the huge effect effects in Gross Profit and Gross Profit Margin have for a business.

In fact, I only increased slightly the Salaries to reflect the addition of e.g. some sales personnel, who helped us achieve the extra \$1,000,000 in sales.

With the above examples, we can perhaps also get a sound understanding of positive effects of achieving more sales (as long as we maintain a decent performance in our efficiency and profitability). But perhaps more importantly, we can get a sound understanding of the positive effects of maintaining or developing sound efficiency in our production or in how we carry out our business.

As a Business Turn Around Agent or as a Business Consultant, our focus is often indeed that of affecting improvements in the efficiency of carrying out the business of our client.

For [further in-depth discussion on Gross Profit and Gross Profit Margin, please see our supplement and/or training on same](#). These are highly important factors to grasp and master in your pursuit of making your business even more profitable.



Markup and Margin Are Not The Same

As was evident from the above example the Markup and the Margin is **NOT** the same.

As I stated in the beginning of this document. many business confuse these two and often think that when you mark up something by say 10%, your margin becomes 10%, when in fact your gross profit margin becomes only 9.1%.

The discrepancy becomes even bigger as the percentage increase and so as we say with our example using the formulas, when you mark up something by 50%, your gross profit margin becomes 33.33%

Therefore, it is critical that we keep this in mind when we try to improve our business or when we set our prices on individual products or services.

The illustration below shows a chart of various Markup percentages and their associated Gross Profit Margin percentages:



Markup vs. Margin Chart

Markup	Margin
5.0%	4.8%
10.0%	9.1%
15.0%	13.0%
20.0%	16.7%
25.0%	20.0%
30.0%	23.1%
33.3%	25.0%
35.0%	25.9%
40.0%	28.6%
45.0%	31.0%
50.0%	33.3%
55.0%	35.5%
60.0%	37.5%
65.0%	39.4%
70.0%	41.2%
75.0%	42.9%
80.0%	44.4%
85.0%	45.9%
90.0%	47.4%
95.0%	48.7%
100.0%	50.0%

Markup and its associated Margin

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Margin to Markup Conversion

To convert Margin to Markup, here's the formula:

$$\text{Markup} = [\text{Margin} / (1 - \text{Margin})] * 100$$

So let's say you are aiming to have a 34% gross profit margin on your individual product or service:

$$\text{Markup} = [0.34 / (1 - 0.34)] * 100$$

$$\text{Markup} = 51.51\%$$

Markup to Margin Conversion

To convert Markup to Margin, here's the formula:

$$\text{Margin} = [\text{Markup} / (1 + \text{Markup})] * 100$$

So, let's say you want to markup up by 50% and would like to know how much your margin is, the example becomes:

$$\text{Margin} = [0.50 / (1 + 0.50)] * 100$$

$$\text{Margin} = 33.33\%$$



Key Takeaways

- There's is huge confusion and inconsistencies about when margin is a dollar amount and when it is a percentage.

When Margin is just Revenue – COGS, it's a dollar amount and refers to the gross profits you made on a single item (or if you look at company-wide activities, on all your activities for delivering upon what you sold).

When Margin is expressed as “out of “ your selling price or out of your revenue, it is expressed as a percentage.

Personally, I typically refer to the dollar amount as Gross Profit and the percentage as Gross Profit Margin.

In other words, when I use the word Margin, I typically speak of the number as a percentage.

- Gross Profit and Gross Profit Margin assess a company's efficiency at using its labor and supplies in producing goods or services
- Gross Profit Margin may be the best indicator of assessing your efficiency of your activities, especially when comparing performance over time.
- Profit margin and markup show two aspects of the same transaction. Profit margin shows profit as it relates to a product's sales price or revenue generated. Markup shows profits as it relates to costs.
- Markup is based on cost, and margin is based on selling price (or revenue).
- Markup is your selling price minus your cost.




- Markup is what you Mark Up your cost price with.
- Markup be expressed both in
- Profit margin and markup are separate accounting terms that use the same inputs and analyze the same transaction, yet they show different information.
- Gross Profit refers to the revenue a company makes after paying the cost of goods sold (COGS)
- As a Business Owner, you should strive to maximize both your Gross Profit and your Gross Profit Margin as much as possible.



Gross Margin Tool

The Automated Millionaire has developed a tool for calculating your Gross Profit Margin and for comparing the effects of changes you may wish to explore for potential implementation in your business.



Gross Margin Calculator

Use the calculators to find your desired Gross Profit Margin Percentage or to use your desired Markup

Input in ORANGE cells only

Desired Margin Calculator					
Item's Product/Service	Item's Cost	Desired Margin %	"Divide" Factor	"Multiply" Factor	Item's Price
ACME WIDGET	\$ 1.00	10%	0.90	1.1111	\$ 1.11

HOW TO USE THIS CALCULATOR

1. Enter your **Total Cost of the item**
2. Select the desired **Gross Profit Margin %**
3. Your **Selling Price** for your product/service is calculated and displayed in the green cell

Desired Markup Calculator					
Item's Product/Service	Item's Cost	Desired Markup %	"Multiply" Factor	Item's Price	
ACME WIDGET	\$ 1.00	10%	1.1	\$ 1.10	

HOW TO USE THIS CALCULATOR

1. Enter your Total Cost of the item
2. Enter your desired Markup %
3. Your Selling Price for your product/service is calculated and displayed in the green cell

Please Note:
The Automated Millionaire prefers operating with a **DESIRED GROSS PROFIT MARGIN CALCULATION** so using the blue-shaded calculator is preferred

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[Click here for more on this Gross Margin Tool](#)



Gross Margin Table

Use the table to find the division and the multiplication factors to help you obtain your desired Gross Margin Percentage

Gross Margin %	Divide by	Multiply by	Gross Margin %	Divide by	Multiply by	Gross Margin %	Divide by	Multiply by
"GM%"	1-GM%	1/(1-GM%)	"GM%"	1-GM%	1/(1-GM%)	"GM%"	1-GM%	1/(1-GM%)
1%	0.99	1.0101	34%	0.66	1.5152	67%	0.33	3.0303
2%	0.98	1.0204	35%	0.65	1.5385	68%	0.32	3.1250
3%	0.97	1.0309	36%	0.64	1.5625	69%	0.31	3.2258
4%	0.96	1.0417	37%	0.63	1.5873	70%	0.3	3.3333
5%	0.95	1.0526	38%	0.62	1.6129	71%	0.29	3.4483
6%	0.94	1.0638	39%	0.61	1.6393	72%	0.28	3.5714
7%	0.93	1.0753	40%	0.6	1.6667	73%	0.27	3.7037
8%	0.92	1.0870	41%	0.59	1.6949	74%	0.26	3.8462
9%	0.91	1.0989	42%	0.58	1.7241	75%	0.25	4.0000
10%	0.9	1.1111	43%	0.57	1.7544	76%	0.24	4.1667
11%	0.89	1.1236	44%	0.56	1.7857	77%	0.23	4.3478
12%	0.88	1.1364	45%	0.55	1.8182	78%	0.22	4.5455
13%	0.87	1.1494	46%	0.54	1.8519	79%	0.21	4.7619
14%	0.86	1.1628	47%	0.53	1.8868	80%	0.2	5.0000
15%	0.85	1.1765	48%	0.52	1.9231	81%	0.19	5.2632
16%	0.84	1.1905	49%	0.51	1.9608	82%	0.18	5.5556
17%	0.83	1.2048	50%	0.5	2.0000	83%	0.17	5.8824
18%	0.82	1.2195	51%	0.49	2.0408	84%	0.16	6.2500
19%	0.81	1.2346	52%	0.48	2.0833	85%	0.15	6.6667
20%	0.8	1.2500	53%	0.47	2.1277	86%	0.14	7.1429
21%	0.79	1.2658	54%	0.46	2.1739	87%	0.13	7.6923
22%	0.78	1.2821	55%	0.45	2.2222	88%	0.12	8.3333
23%	0.77	1.2987	56%	0.44	2.2727	89%	0.11	9.0909
24%	0.76	1.3158	57%	0.43	2.3256	90%	0.1	10.0000
25%	0.75	1.3333	58%	0.42	2.3810	91%	0.09	11.1111
26%	0.74	1.3514	59%	0.41	2.4390	92%	0.08	12.5000
27%	0.73	1.3699	60%	0.4	2.5000	93%	0.07	14.2857
28%	0.72	1.3889	61%	0.39	2.5641	94%	0.06	16.6667
29%	0.71	1.4085	62%	0.38	2.6316	95%	0.05	20.0000
30%	0.7	1.4286	63%	0.37	2.7027	96%	0.04	25.0000
31%	0.69	1.4493	64%	0.36	2.7778	97%	0.03	33.3333
32%	0.68	1.4706	65%	0.35	2.8571	98%	0.02	50.0000
33%	0.67	1.4925	66%	0.34	2.9412	99%	0.01	100.0000

EXAMPLE

Item's Product/Service	Item's Cost	Desired Margin %	"Divide" Factor	"Multiply" Factor	Item's Price
ACME WIDGET	\$ 100.00	10%	0.90	1.1111	\$ 111.11

HOW TO USE THIS TABLE

1. Determine the **Total Cost of The Item**
2. Select the desired **Gross Profit Margin %**
3. Divide the **Total Cost of the Item** by the related "Divide By" factor
OR
4. Multiply the **Total Cost of the Item** by the related "Multiply By" factor
5. Note: You will get the same result using either of these methods

Input can only be made in ORANGE cells



Click the button below for more on the Gross Profit Margin Calculator Tool

Gross Profit Margin Calculator Tool



For

Special Training On This Subject,

Including The Subject Of Pricing, And How To Price For Profits And Success

**Markup vs Margin
Pricing For Profits & Success**



How To Turn Around Any Business In 8 Simple Steps

Or

The Secrets Method Of A Successful Turn Around Agent

Mikkel Pitzner, founder and creator of The Automated Millionaire, its programs and its coaching, has been an entrepreneur all his adult life and his business endeavors have taken him and his activities all over. From initial activities in Denmark to activities in Sweden, Norway, Poland, Germany, England and the United States.

He has been engaged in all kinds of business from all industries and on all levels inside business.

Following obtaining the coveted Green Card, Mikkel soon commenced working with one of the largest and most successful business consulting companies in the US



and soon ranked among the top 3 consultants there among some 1,300 esteemed colleagues.

The time with the large consulting company rapidly exposed Mikkel to a huge multitude of companies from all kinds of industries and of all sizes, spread all throughout the US and Canada.

Most of these companies were in need of help. Many of the companies were downright struggling for survival, but in very short time with the help of Mikkel, these companies were soon on a new path towards prosperity.

“Through all the experience of helping these companies, I learned some great insights.

One of these is the fact that actually most businesses can be turned around fast even if everything appears really doom and gloom. I also learned to even greater extent that in all businesses there’s cash to be found.

With the help of the consulting company and my brilliant colleagues I also learned a system, which I have now expanded upon to make it even more comprehensive. An accessible framework that can be used in any business, to turn it around or to make a great business even greater.

This framework and system truly is How To Turn Any Business Around In 8 Simple Steps.

- Mikkel Pitzner

The bases of this system or method has been successfully incorporated with several hundreds of thousands of businesses by me and many of my colleagues collectively.



It is HIGHLY EFFECTIVE and it just downright WORKS. I have yet to find a business in which it wouldn't work.

Want to access a quick overview of the 8 Simple Steps?

Just click the link below and I'll show you the method so you can incorporate it in your business now:

**How To Turn Around Any
Business In 8 Simple Steps**



About The Automated Millionaire

The Automated Millionaire helps small and medium sized businesses achieve greater profits and more efficiently run operations without having to work harder and does so by implementing a specific business method called The Automated Millionaire Business System.

The Automated Millionaire is founded by Mikkel Pitzner, who is also the creator of The Automated Millionaire Programs and Coaching.

To Get A Free Taste Of Some Of The Insights Of The Automated Millionaire That You Can Use In Your Business Click The Button Below:

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