

Understand Your Margins

Let's talk about **margins** for a minute. Margins can be confusing. Here is a simple way to calculate a margin properly. Let's work with an item that costs **\$8.00 and apply a 45% margin** to it (don't confuse margin with a markup). Margins are used by retailers and markups are used by wholesalers.

\$8.00 + 45% margin: $8.00 \div 0.55 = 14.55$ (0.55 is the reciprocal of 45; or $1.00 - 0.45 = 0.55$)

To test this formula: $\$14.55 - 45\% = \8.00 It's always a good idea to test your formula before moving on!

Here are a few more examples:

\$8.00 with a 60% margin $\$8.00 \div 0.40 = \20.00 $20.00 - 60\% = 8.00$

\$8.00 with a 30% margin $\$8.00 \div 0.70 = \11.43 $11.43 - 30\% = 8.00$

Margin Tips:

- Do not assume that everyone you speak to understands the difference between a margin and a markup. I once asked a room of nearly 200 store owners to raise their hand if they thought they knew the difference. They all raised their hands. I then showed them an example on the slide. When I asked if this is what they were thinking, only four hands went up.
- I recommend a margin anywhere between a 45% to a 60%.
- Round the new price to the nearest 9.

Are you a member of the **Merchandising Overhaul of Fame**? Why not try out? Send your photo to gabe.trahan@ncpanet.org

Good luck!

Gabe