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.

\[ \text{Margin Calculation: } \frac{8.00}{0.55} = 14.55 \quad (0.55 \text{ is the reciprocal of 45; or } 1.00 – 0.45 = 0.55) \]

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**: \[ \frac{8.00}{0.40} = 20.00 \quad 20.00 – 60\% = 8.00 \]
- **$8.00 with a 30% margin**: \[ \frac{8.00}{0.70} = 11.43 \quad 11.43 – 30\% = 8.00 \]

**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

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