

# [Sales and markup](https://assignbuster.com/sales-and-markup/)

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Worksheet: Metric 5 Mark-up & Margin

* 1) A computer software retailer uses a markup rate of 40%. If the retailer pays $25 each for computer games sold in its stores, how much do the games sell for?

Answer: The markup is 40% of the $25 cost, so the markup is: (0. 40) \* ($25) = $10 Then the selling price, being the cost plus markup, is: $25 + $10 = $35 Therefore the games sell for $35.

* 2) A golf pro shop pays its wholesaler $40 for a certain club, and then sells that club to golfers for $75. What is the retail markup rate?

Answer: The gross profit in dollars is calculated as sales price less cost: $75 - $40 = $35 The markup rate is then calculated: Markup (%) = Gross Profit / Cost \*100 = $35 / $40 \*100 = 87. 5%

* 3)A shoe store uses a 40% markup on cost. Find the cost of a pair of shoes that sells for $63.

Answer: The cost of the shoes is calculated as follows: Selling Price = Cost + Markup ($) = Cost + (Markup (%) \* Cost) $63 = Cost + (40% \* Cost) $63 = Cost + (0. 4 \* Cost) $63 = (1 + 0. 4) \* Cost $63 = 1. 4 \* Cost Cost = $63 / 1. 4 = $45 )

* In 2009, Donna Manufacturing sold 100, 000 widgets for $5 each, with a cost of goods sold of $2. What is the company’s margin %? Identify a way that Donna Manufacturing can increase its profit margin?

Answer: First we have to calculate the gross profit: Gross Profit = Selling Price – Cost of Goods Sold = $5 - $2 = $3

Now we can calculate the margin: Margin (%) = Gross Profit / Sales \* 100 = $3 / $5 \* 100 = 60%

Ways to increase the profit margin:

* Decrease cost of material
* Decrease cost of manufacturing
* Increase sales price per unit
* Decrease COGS )

If a product costs $100 and is sold with a 25% markup at a retail store, what would be the retailer’s margin on the product? What should be the markup and selling price if the retailer desires a 25% margin? Why might the retailer be seeking to increase their margin?

Answer: a) To calculate the margin, we first have to determine the sales price: Markup ($) = Markup (%) \* Cost = 25% \* $100 = $25 Selling Price = Cost + Markup ($) = $100 + $25 = $125 Margin (%) = Markup / Price \* 100 = $25 / $125 \* 100 = 20%

Therefore the retailer’s margin would be 20% when the product is sold at a 25% markup. ) To calculate the markup and selling price at a 25% margin: Selling Price = Cost / (1 – Margin (%)) = $100 / (1 – 25%) = $100 / (1 – 0. 25) = $133. 33 Markup ($) = Selling Price – Cost = $133. 33 - $100 = $33. 33 Markup (%) = Markup ($) / Cost \* 100 = $33. 33 / $100 \* 100 = 33. 33%

Therefore to obtain 25% margins, the product would have to be sold at $133. 33 with a markup of 33. 33%. c) Reasons for increase include: - Increase in fixed costs (rent, tax, commission, wages, etc. ) - Increase in demand and/or decrease in supply Other competitors/retailers charge more for the product and the higher margin is a result of increasing sales price to match

6) The following is a Distribution Chain for a Pair of designer Jeans: The manufacturer in China produces the Jeans for $5. 00 a pair and sell them to the importer for $7. 00. The importer sell them to the brand distributor for $10. 00 a pair The Retail store buys them for $50. 00 from the brand distributor. The Retail Store markups them up 150%.

What is the Retail Price? What is the Margin % and Markup % for each of the Channel partners in the Distribution Chain?

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| --- | --- | --- | --- | --- | --- |
| Retail Price = $125. 0 |  |  |  |  |  |
| Mark-up % |  | 40. 00% | 42. 86% | 400. 00% | 150. 0% |
| Margin % |  | 28. 57% | 30. 00% | 80. 00% | 60. 00% |
| Selling Price | $ 5. 00 | $ 7. 0 | $ 10. 00 | $ 50. 00 | $ 125. 00 |
| Channel Margin |  | $ 2. 00 | $ 3. 0 | $ 40. 00 | $ 75. 00 |
| Channel Markup |  | $ 2. 00 | $ 3. 0 | $ 40. 00 | $ 75. 00 |