

# Sales and markup

Business



## Worksheet: Metric 5 Mark-up &amp; 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:  $\text{Markup (\%)} = \frac{\text{Gross Profit}}{\text{Cost}} * 100 = \frac{\$35}{\$40} * 100 = 87.5\%$

- 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:  $\text{Selling Price} = \text{Cost} + \text{Markup (\$)} = \text{Cost} + (\text{Markup (\%)} * \text{Cost})$   $\$63 = \text{Cost} + (40\% * \text{Cost})$   $\$63 = \text{Cost} + (0.4 * \text{Cost})$   $\$63 = (1 + 0.4) * \text{Cost}$   $\$63 = 1.4 * \text{Cost}$   $\text{Cost} = \frac{\$63}{1.4} = \$45$

- 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:  $\text{Gross Profit} = \text{Selling Price} - \text{Cost of Goods Sold} = \$5 - \$2 = \$3$

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

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:  $\text{Markup (\$)} = \text{Markup (\%)} * \text{Cost} = 25\% * \$100 = \$25$   $\text{Selling Price} = \text{Cost} + \text{Markup (\$)} = \$100 + \$25 = \$125$   $\text{Margin (\%)} = \text{Markup} / \text{Price} * 100 = \$25 / \$125 * 100 = 20\%$

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:  $\text{Selling Price} = \text{Cost} / (1 - \text{Margin (\%)}) = \$100 / (1 - 25\%) = \$100 / (1 - 0.25) = \$133.33$   $\text{Markup (\$)} = \text{Selling Price} - \text{Cost} = \$133.33 - \$100 = \$33.33$   $\text{Markup (\%)} = \text{Markup (\$)} / \text{Cost} * 100 = \$33.33 / \$100 * 100 = 33.33\%$

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?

Retail Price = \$125.00

Mark-up %	40.00%	42.86%	400.00%	150.00%
Margin %	28.57%	30.00%	80.00%	60.00%
Selling Price	\$ 5.00	\$ 7.00	\$ 10.00	\$ 50.00
Channel Margin	\$ 2.00	\$ 3.00	\$ 40.00	\$ 75.00
Channel Markup	\$ 2.00	\$ 3.00	\$ 40.00	\$ 75.00