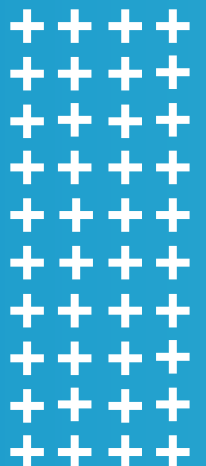




TBA

TBA MARKUP VS MARGIN

CHEAT SHEET



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This cheat sheet was built as a simple reference guide to assist trade business owners with the implementation of what they learn in the Markup VS Margin video – more specifically, what the difference is and how to calculate everything discussed.

What is Margin?

Margin is the total selling price of your job or project, minus the costs to deliver it all. In simple terms, the Gross Profit you make on all your jobs.

To calculate our Gross Profit Margin, we use the formula:

$$(Total\ sale\ price - Total\ costs) / Total\ sale\ price = Margin$$

What is Markup?

Markup is how much you add to the raw costs of a job or project to get it to your total selling price that sits on the quotes that you give your clients and customers. In simple terms, it's a tool you can use to get better profit margins on your jobs.

To calculate our Markup we use the formula:

$$(Total\ sale\ price - Total\ costs) / Total\ costs = Markup$$

If we confuse the two of these, we can actually fool ourselves into thinking we're going to be making a much better profit margin on our jobs and projects than we really are.

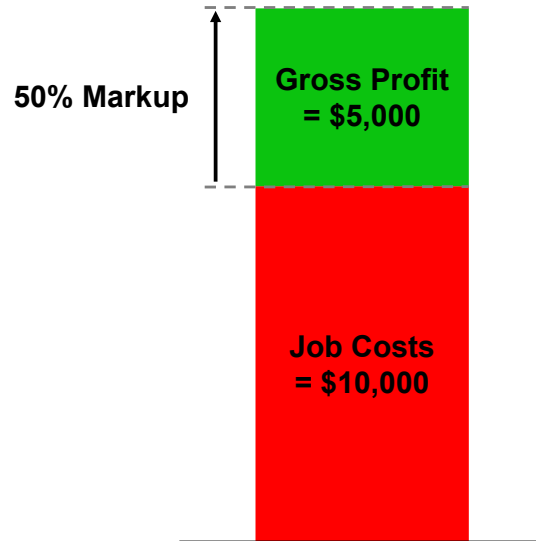
Markup vs Margin example:

Let's say for simple's sake, you're quoting a job and you estimate there to be \$10,000 in direct job costs, across your labour, materials, equipment hire etc.



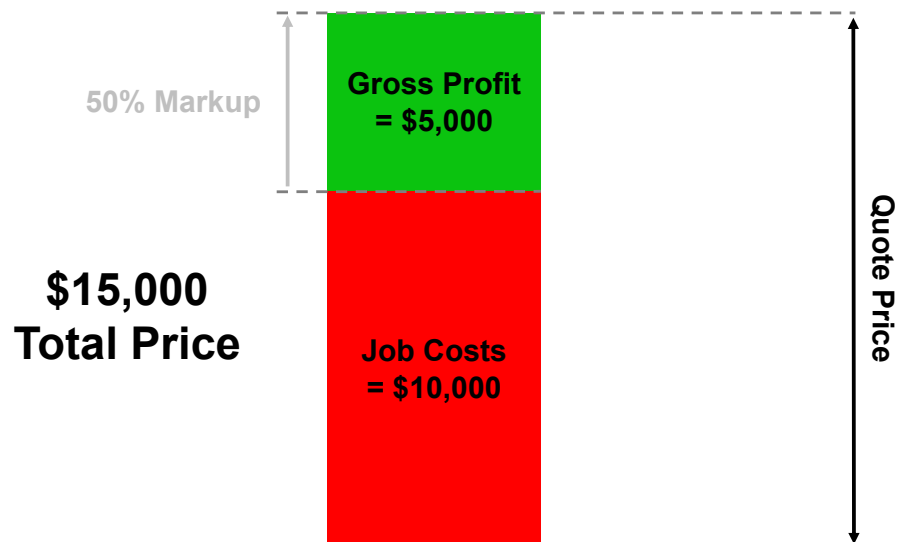
**Job Costs
= \$10,000**

If you were to Mark up those job costs by 50%, that would mean your Gross Profit on this job would come to \$5,000 (because \$10,000 times 50% equals \$5,000).



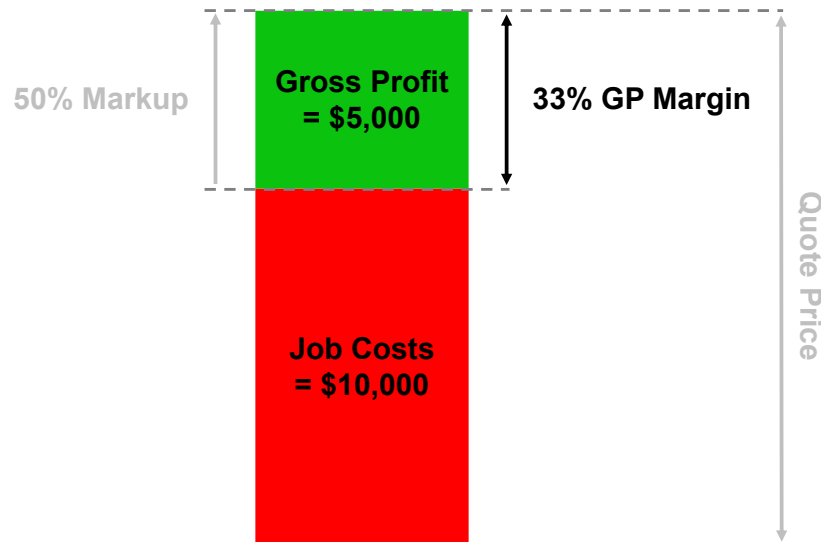
And so that 50% markup makes the total quote, or final sale price of your job \$15,000.

\$10,000 in costs, and \$5,000 in gross profit from our 50% markup.



But this doesn't mean we're making 50% profit.

In fact, our gross profit on this job is actually only **33%**.



And this is because the \$5,000 in gross profit is 33% of the total sale price of \$15,000.

So, marking up our job by 50% allowed us to make a 33% Gross Profit Margin.

Now, the problem here is that if you don't understand the difference between Markup and Margin, and you think that marking up your job by 50% will mean you will achieve a 50% Gross Profit Margin...

You're actually making 17% less profit than you think you are!

The **33%** is what you get to keep, NOT the 50% you thought you were getting.

So, it's no wonder why so many trade business owners out there are pricing jobs, thinking there's a lot of fat in them, but once they finish the job, collect their money and then look at their bank account, what they expected to be there, just isn't there.

It's all because they're confusing their Markup with their Margin!

And this is why that relationship is so important to understand when pricing your jobs.

Because if you change the way you're pricing to focus solely on your margin and using markup as a tool to get there... rather than thinking Markup is your Margin you're going to make significantly more money in your business, and that's a guarantee.

Setting Gross Profit Margin Targets:

Now, in alignment with that, what you want to do is set Gross Profit Margin targets for your different work types before you even worry about what Markup you should be putting on your jobs. You need to establish benchmark Gross Profit targets based off how much money you want to earn in the year and what your overheads are.

For example, you might want to earn \$300,000 in Operating Profit...

Calculating Gross Profit Margin Targets

- 1) Set Operating Profit target over the next 12 months
- 2) Projected Overhead Cost over the next 12 months

Operating Profit Target = \$300,000

And you might have \$800,000 in Overheads...

Calculating Gross Profit Margin Targets

- 1) Set Operating Profit target over the next 12 months
- 2) Projected Overhead Cost over the next 12 months

Operating Profit Target = \$300,000

Projected Overhead Cost = \$800,000

This would make your Gross Profit target \$1.1M...

Calculating Gross Profit Margin Targets

- 1) Set Operating Profit target over the next 12 months
- 2) Projected Overhead Cost over the next 12 months

Operating Profit Target = \$300,000

Projected Overhead Cost = \$800,000

Gross Profit Target = \$1,100,000

Then to get your percentage you estimate you're going to do \$3M in sales over the next 12 months...

Calculating Gross Profit Margin Targets

Gross Profit Target = \$1,100,000

Projected Revenue = \$3,000,000

And then you divide your \$1.1M Gross Profit margin by \$3M....

Calculating Gross Profit Margin Targets

Gross Profit Target = \$1,100,000

Projected Revenue = \$3,000,000

Gross Profit Margin Target = \$1,100,000 / \$3,000,000

And this will then give you a 37% Gross Profit Margin target.

Calculating Gross Profit Margin Targets

Gross Profit Target = \$1,100,000

Projected Revenue = \$3,000,000

Gross Profit Margin Target = \$1,100,000 / \$3,000,000

Gross Profit Margin Target = 37%

This way you have a profit target that you're aiming for on your jobs and projects before you pull the trigger on any quotes.

This is important because without the target, you don't know what to aim for and so your markup is likely going to just be a random amount with no real strategy behind it – you need to start with the end in mind...

How much money do YOU want to earn!

What Markup do you now use?

Now that you know how what Gross Profit Margin you need to be aiming for, you now need to know what Markup to use to hit that target...

Because, if you were to just add a 37% Markup to your job costs because you need to hit a 37% Gross Profit Margin... this isn't going to get you there.

To calculate the Markup you need to use, use the following equation:

$$\text{Markup} = \text{Margin} / (1 - \text{Margin})$$

Then to calculate your total quote price use the following equation:

$$\text{Sell Price} = \text{Costs} \times (1 + \text{Markup})$$

For example...

We need to hit a 37% margin, so:

$$\text{Our Markup} = 0.37 / (1 - 0.37) = 0.59$$

And then our Total Quote Price = \$10,000 x (1 + 0.59) = **\$15,900**

So, at the end of the day, markup is just a tool to help you price for margin!

A profitable quote price isn't about just adding on a random percentage to your job costs...

It has to be precise to what you're looking to achieve.

Back costing your jobs and projects:

Now that you understand the difference between Markup and Margin and you're pricing based off your Gross Profit Margin targets, and you know what markup to use to hit those targets, now you want to know if you're actually making that profit on your jobs.

And this is where back costing comes into play.

Back costing is the process of comparing what profit we actually made on a job or project with what we originally estimated we'd make.

So, basically just comparing our original quote with what actually happened.

How much profit did we expect to make, versus how much profit did we actually make.

And this is really important to get that feedback loop of how we're really going on our jobs because it's all well and good to quote a job at a 50% Gross Profit Margin... but if we're only making 20% or we're even losing money then we need to know, and we need to know why.

It could be an estimation error and not allowing enough for the job, it could be blow outs in delivery or inefficiency from your crews, it could be wastage of materials etc. whatever the reason, getting the feedback on how you're actually performing will allow you to adjust and better prepare for the next job to ensure that you are getting the profit you anticipate and deserve!

An example of this is one of our plumbing clients.

When we first started working together, he didn't really understand the relationship between Markup and Margin, and he wasn't sure what Gross Profit he was making on his jobs.

All he'd really focus on from a number's perspective was how many sales he was making every month. But when we back costed jobs, we discovered that he wasn't making enough and there was no consistency to his pricing.

Here are some of the Gross Profit Margins from his jobs:

26%, 45%, 24%, 38%, 40%, 32%, 26%, 22%, 10%, 34%, 42%, 22%, 33%, 17%, 28%, 21%...

And after establishing how much money he actually wanted to earn, his overheads, and then gross profit margin targets, in a matter of months he was back growing his top line sales but now with far greater profits.

In fact, his gross profit margin across every job was either 50%, 60%, or even up to **70%**.

NEVER dropping below 50%.

This is why it's also important that you not only understand Markup and Margin, but also back cost your jobs to understand how you're really going. Because just like our client, you too could be leaving significant amounts of money on the table.

To summarise:

- Markup and Margin are NOT the same thing
- When pricing jobs focus on Margin and using Markup as a tool to get there
- Base your Gross Profit Margin on jobs off of pre-set targets
- Back cost all your jobs and projects to see how you're performing

Gross Profit Margin Target	Required Markup
1%	1.01%
2%	2.04%
3%	3.09%
4%	4.17%
5%	5.26%
6%	6.38%
7%	7.53%
8%	8.70%
9%	9.89%
10%	11.11%
11%	12.36%
12%	13.64%
13%	14.94%
14%	16.28%
15%	17.65%
16%	19.05%
17%	20.48%
18%	21.95%
19%	23.46%
20%	25.00%
21%	26.58%
22%	28.21%
23%	29.87%
24%	31.58%
25%	33.33%
26%	35.14%
27%	36.99%
28%	38.89%
29%	40.85%
30%	42.86%
31%	44.93%
32%	47.06%
33%	49.25%
34%	51.52%
35%	53.85%
36%	56.25%
37%	58.73%
38%	61.29%
39%	63.93%
40%	66.67%
41%	69.49%
42%	72.41%
43%	75.44%
44%	78.57%

45%	81.82%
46%	85.19%
47%	88.68%
48%	92.31%
49%	96.08%
50%	100.00%
51%	104.08%
52%	108.33%
53%	112.77%
54%	117.39%
55%	122.22%
56%	127.27%
57%	132.56%
58%	138.10%
59%	143.90%
60%	150.00%
61%	156.41%
62%	163.16%
63%	170.27%
64%	177.78%
65%	185.71%
66%	194.12%
67%	203.03%
68%	212.50%
69%	222.58%
70%	233.33%
71%	244.83%
72%	257.14%
73%	270.37%
74%	284.62%
75%	300.00%
76%	316.67%
77%	334.78%
78%	354.55%
79%	376.19%
80%	400.00%
81%	426.32%
82%	455.56%
83%	488.24%
84%	525.00%
85%	566.67%
86%	614.29%
87%	669.23%
88%	733.33%
89%	809.09%
90%	900.00%



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