

Markup

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- Why do I have to learn this stuff
- 1) It is on the exam
- 2) It is used a lot as a measure of efficiency
- 3) It is used as simple way for retailers to set their selling price based on the invoice cost

- Markup on Price is the crucial one!!!!
- Markup on Cost
- Converting form cost to price

- Markup on price, M_p , is defined as
- The dollar markup divided by the selling price
- $M_p = (P-V)/P$
- Markup on cost, M_v is defined as the dollar markup divided by the variable cost per unit
- $M_v = (P-V)/V$

- If you have selling price of $P = \$5$ per wagon and you have a variable cost of $\$2$ per wagon
- What is you markup on price?
- $M_p = (P-V)/P = (5-2)/5 = 3/5 = 60\%$
- You are 60% efficient in converting revenues into profits!

- You have bought a wagon for a cost of $\$2$.
- To make a fair and normal profit you must sell it with a 60% markup on price
- What is the selling price you must set on it.
- $M_p = (P-V)/P$
- $60\% = (P-2)/P$
- Solve for P or $P = V/(1-M_p)$
- $P = \$2/(1-0.60) = \5

- Convert 25% markup on cost to a 20% markup on price
- $25\% = 25/100$
- Add top part to the bottom part
- $25/(100+25) = 25/125 = 1/5 = 20\%$