



Important Distinctions Markup vs. Margin

Brought to you by the PSA Project Management Committee

PSA committee
PROJECT MGMT

Every Project Manager should understand the difference between using markup and margin to determine the sales price of a project. When the sales person informs you that the project was sold at 40%, knowing which method was used will keep you from miscalculating the expected costs of the project. As you will see in the examples that follow, there is quite a difference in the result.

Markup

VS

Margin

Markup is determined by first calculating the costs and adding a percentage of those costs to the project as profit. The common calculation for this is:

$$\text{Cost} \times (1 + \text{Markup}) = \text{Quotation Price}$$
$$\$71,428.57 \times (1 + .4) = \$100,000$$

Margin is derived as a percentage of the overall price of the project (which should be a larger number than your costs!). The common calculation for margin is:

$$\text{Cost} / (1 - \text{Margin}) = \text{Quotation Price}$$
$$\$60,000 / (1 - .4) = \$100,000$$

*Note that in these examples, the percentages are converted to decimals for the calculation.
In example, 40% becomes 40/100 = .4 for the calculation.

So, as you can see, both projects were sold for a price of \$100,000.00. The project calculated using markup will have expected costs of \$71,428.57 and the project calculated using margin will have expected costs of \$60,000.00.

The project won using the margin calculation should produce a higher profit, but if you misunderstand and your company used markup to calculate the price instead, you would experience an \$11,428.57 (19%) negative slip if the project performed as calculated.

Summary

All Project Managers should know how to use the above calculations and also be familiar with the way in which their company applies them to projects. Many project managers quote and process the change orders that occur within the projects they manage. Know when to apply margin versus markup and whether the percentage applied to change orders is the same as that applied to the base project. If you're not sure about how your company applies margin and markup, ask your sales team. Collaboration and communication foster a better working environment.