# GROSS PROFIT MARGIN / AND MARK-UP

There is a major difference between **Mark-Up** and Gross **Profit Margin**.

**It is always helpful to resolve this key matter during the due diligence period between the Buyer and Seller.**

Here's are some helpful hints to resolve the issue before it become a problem at the closing table. Here is some helpful steps to explain this persistent problem:

1. The Inventory Company takes an inventory of items what is displayed as the public see in a store. This is also can be called as the retail prices as displayed on the shelves.

2. The exception to this fact is: Beer in cases, kegs and cigarettes. They are counted based on invoice price.

3. To reach accurate Sellers's cost, the Inventory Company must change /convert the Retail Price by the "Gross Profit Margin formula."

4. **Gross Profit Margin** is determined by the **Retail Price** X a Gross Profit Margin percentage.

5. Gross Profit Margin can be determined in 2 ways:

   A. From analyzing the Seller's tax returns, it can be determined by the percentage between Gross Sales and Cost of Goods
   B. By converting the Mark-up Percentage to Gross Profit Margin by a division calculation.

EXAMPLE:

$1.00 Cost sold for $1.50. This is a 50% Mark-Up.

However, if one uses 50% to get back to cost, the calculation would be $1.50 x 50% = $.75. This would not get the product back to cost.

However, $.50 divided by $1.50 = 33.33%. $1.50 x 33.33% = $1.00. The 33.33% is called Gross Profit Margin. This is what the inventory companies' use, because their programs are set up to multiply, not divide.

- SO IT IS EXTREMELY IMPORTANT TO BE CLEAR ABOUT WHAT IS BEING USED AS THE CALCULATION. IT IS NOT MARK-UP. MARK-UP MUST BE CONVERTED TO GROSS PROFIT MARGIN.