



ASK ABD:

What's the difference between Mark-up and Margin, and which should I use to figure pricing for my staffing company?

Mark-up and Margin are different views of the same information.

Mark-up is the amount we increase pay rate by to arrive at a bill rate. It represents the amount over cost that is profit. The formula for mark-up % is $(\text{Bill Rate} - \text{Pay Rate}) / \text{Pay Rate}$, while Margin (or Gross Profit) is a measure of how much of the sale we get to keep as profit. The formula for Margin % is $(\text{Bill Rate} - \text{Pay Rate}) / \text{Bill Rate}$.

Margin and Mark-up have a fixed relationship (a 50% mark-up always corresponds to a 33% margin) so, in the end, it doesn't matter which you use. But because the mark-up number will always appear larger (if you're actually making a profit) it's probably safer to use margin in your own decision making process.

A word to the wise: fixed costs (rent, administrative salaries, the electric bill, etc.) have no place in these calculations and will only cloud the issue. It's O.K. to include burdens because these are variable costs associated with making the sale.

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