



The Markup vs. Margin Guide

Using your target margin as a markup is the single most common contractor pricing mistake. This guide shows exactly what it costs on a real job, in dollars.

Margin and markup both describe profit as a percentage. They are not the same percentage of the same thing, and treating them as interchangeable is the most common, most expensive pricing mistake a contractor makes. It costs real money on every bid it touches, quietly, because the bid still looks reasonable.

Two different percentages of two different numbers

Margin is profit as a percentage of price: how much of what the customer pays is profit. Markup is profit as a percentage of cost: how much you add on top of what the job cost you. A 30% margin and a 30% markup are not the same dollar amount, because they are 30% of different bases, price versus cost, and price is always the larger number.

The formulas make the gap concrete. Price for a target margin: $\text{price} = \text{cost} / (1 - \text{margin})$. Price from a markup instead: $\text{price} = \text{cost} \times (1 + \text{markup})$. Confuse the two and you consistently underprice, because a markup percentage applied to cost always produces a lower price than the same percentage used correctly as a margin.

A worked example

Take a \$10,000 job cost and a 30% target margin. Priced correctly, required price = $\$10,000 / (1 - 0.30) = \$14,285.71$. Gross profit is \$4,285.71, an actual 30% margin.

Now make the common mistake: treat 30% as a markup instead. Mistaken price = $\$10,000 \times (1 + 0.30) = \$13,000.00$. That price looks like a 30% profit, but gross profit is only \$3,000.00 on a \$13,000 price, an actual margin of just 23.08%, not the 30% intended.

The shortfall on this one job: $\$14,285.71 \text{ minus } \$13,000.00 = \$1,285.71$ left on the table, on a single \$10,000 job. Run that same mistake across a season of jobs and the shortfall compounds into a real hit to the year's profit, invisible on any one bid because \$13,000 still looks like a healthy number.

Why this mistake is so easy to make

Markup feels more natural because it starts from a number you already know, your cost, and adds to it. Margin requires solving backward from the price you want relative to cost, division instead of

multiplication. Spreadsheets and mental math both default to the easier operation, which is exactly why this mistake is common even among experienced owners, not a sign of carelessness.

Key takeaway. A 30% markup is not a 30% margin. It is roughly 23%. Always solve for price using margin (cost divided by one minus margin), never markup (cost times one plus a percentage), if a target margin is the actual goal.

Assumptions

- The worked example uses a \$10,000 job cost and a 30% target margin, both illustrative round numbers chosen to make the dollar gap easy to check by hand.

Frequently asked questions

Which one should I actually use to price a job?

Margin, if your goal is a specific percentage of the final price to be profit, which is how most owners actually think about target profitability. Markup is a legitimate pricing method too, it just answers a different question (a percentage on top of cost), and produces a lower price and a lower actual margin than the same percentage used as a margin target.

Is there ever a reason to use markup instead of margin?

Some trades and material-heavy pricing conventions are built around markup by habit or industry norm. That is fine as long as you know your actual resulting margin, the mistake is not using markup itself, it is believing a markup percentage and a margin percentage are the same number.

Does this apply to material costs too, or just labor?

The math applies to any total job cost, labor, materials, subs, and equipment combined. Job Profit Check is where those pieces get added up into one total cost before this calculation runs.

How much does the gap between markup and margin grow at higher target percentages?

It grows, not shrinks. At a 10% target the gap is small. At 30% it is about 7 percentage points of actual margin (30% intended, about 23% actual). At 50% the gap is much larger, since the markup and margin formulas diverge faster as the percentage rises. Check the scenario table in the calculator at your own target to see the exact gap.

MarginWorkshop is a free set of transparent decision engines for contractor businesses. This guide is educational, not a guarantee of any outcome.