

## **MARK-UP MATRIX**

There are two ways in which you can use the Mark Matrix for calculating Sell Price uplift:

- a) On an incremental basis, or
- b) On a linear scale basis

You set your choice in Settings and Parameters in Utilities under "Mark-up matrix to be incremental type Y/N"

The easiest way to understand the difference is by example below. For the purpose of explanation, we will assume the following Mark-up matrix has been created:

<u>Value of item</u>	<u>Markup</u>
From 0 to 10	100%
From 10 to 100	35%
All else	25%

### **(a) INCREMENTAL MARKUP**

Example 1 Item costs 9.98 - marks up to £19.96 ie 100%

Example 2 Item costs 15.00 - marks up to £26.75 . which is correct. How ?

First	10.00	makes	20.00	ie	100%
Next	<u>5.00</u>	makes	<u>6.75</u>	ie	35%
Total	15.00	sells@	26.75		

Exampe 3 Item costs 150.00 - marks up to £204.00. This is correct. How ?

First	10.00	makes	20.00	ie	100%
Next	90.00	makes	121.50	ie	35%
Last	<u>50.00</u>	makes	<u>62.50</u>	ie	25%
Total	150.00	sells@	204.00		

Thus in an incremental Matrix, the value of mark-up takes into account the preceding percentages

### **(b) LINEAR BASIS**

Example 1 Item costs 9.98 - marks up to 19.96 ie 100%

Example 2 Item costs 15.00 - marks up to 20.25 ie a flat 35%

Exampe 3 Item costs 150.00 - marks up to 187.50 ie a flat rate of 25%

Thus the mark-up is a simple flat rate and does not recognise the preceding percentages

## **SUMMARY**

Whilst the linear Markup is easy to understand and is supported in CAFAM, it is not a true Mark -up Matrix. Why ?

Consider this. In our example above, we had a part costing 9.98. Your sell price calculated as 19.96 in both cases. A good profit of 100%

Now consider a part costing 10.02:

In the incremental table your sell price will calculate as 20.01 (a good profit), whereas in the linear table your sell price will drop down to 13.52. (A loss !!!)

Effectively, it would have been better to price this item at 9.98 instead of 10.02 to give you good uplift.

In setting out the example above, we hope you will have a better understanding of the two types of Mark-up Matrix and choose one that suits your pricing policy.