

EXAMPLE 2 Finding a Markup Percent



You live near a designer handbag outlet store. The store sells discontinued and slightly damaged handbags at prices that are well below normal retail prices. You buy a handbag for \$195. The handbag normally retails for \$895. You then put the handbag on eBay® and sell it for \$395.



- a. What is your markup and markup percent?
- b. Is your markup the same as your profit? Explain.

Study Tip
 “Wholesale price” is a relative term. In Example 2, you are the retailer, so the price you pay at the outlet store becomes your wholesale price.

SOLUTION

- a. Your markup is

$$\text{Markup} = 395 - 195 = \$200.$$

Your markup percent is

$$\begin{aligned} \text{Markup percent} &= \frac{\text{Markup}}{\text{Wholesale price}} \\ &= \frac{200}{195} \\ &\approx 1.026 \\ &= 102.6\%. \end{aligned}$$

- b. Your markup in this transaction is *not* the same as your profit. To find your profit, you must also subtract your expenses.

eBay® insertion fee	\$2.00	Fee charged for listing
Final value fee	\$35.55	9% of \$395
PayPal fee	\$11.76	2.9% of \$395 + \$0.30
Sales tax	\$11.70	6% paid at outlet store
Shipping	\$22.50	Mail handbag to customer
Other expenses	<u>\$35.00</u>	Supplies, transportation
Total	\$118.51	

Your profit is

$$\begin{aligned} \text{Markup} - \text{Expenses} &= 200.00 - 118.51 \\ &= \$81.49. \end{aligned}$$

So, your markup is not the same as your profit. If you spend 5 hours in traveling, shopping, Internet use, correspondence, wrapping, and shipping, then your hourly wage is \$16.30.

✓ Checkpoint

A bookstore pays \$140 for a textbook and sells it for \$200. The bookstore manager determines that the retail price of the book is a 30% markup because \$60 is 30% of \$200. Is this a correct use of the term *markup*? Explain your reasoning.

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