

Understanding Gross Margin — The Only Profit Metric That Actually Matters

Revenue alone doesn't determine business health, and net profit often hides underlying issues. Gross margin, however, reveals whether the core business model works by showing how much value remains after delivering your product or service.

Gross margin is calculated by subtracting direct costs from revenue and dividing by revenue. Direct costs include materials, labor, shipping, hosting, and any other expense tied directly to fulfillment. A strong gross margin means the business can support overhead and fuel growth.

Industries vary widely. SaaS margins often exceed 75 percent, while agencies operate between 40 and 60 percent. E-commerce margins tend to fall between 30 and 50 percent due to product and shipping costs. Falling below your industry range generally indicates underpricing or inefficiencies.

Improving gross margin usually requires adjustments in pricing, cost control, or operational efficiency. Smart price increases tied to value, reduced rework, better scheduling, and vendor renegotiations can all strengthen margin significantly.

A strong gross margin provides breathing room and stability. If it's healthy, almost every other challenge becomes manageable. If it's weak, even high revenue can't sustain growth.

For SMBs, gross margin isn't just another metric — it's the foundation of long-term viability.