Financial Glossary

Gross Profit Margin

A gross profit margin is the difference between sales and the cost of goods sold divided by revenue. This represents the percentage of each dollar of a company's revenue available after accounting for cost of goods sold.

If a company produces phones and earns $32 million in sales but pays $24 million for the items sold, then the company's gross profit margin would be ($32M - $24M) / $32M = 25 percent.

Cutting costs result in higher gross profit margins. If a company sells phones for 500 dollars and the cost of the producing the phone is $250, the current gross profit margin is 50 percent ((500-250)/500). If the company is able to reduce production costs from $250 to $200, the gross profit margin is 60 percent ((500-200)/500).

Note : Profit margins are very dependent on sector. Companies that sell bland potato chips may not have very high margins, but will sell a sizable quantity of potato chips. A company that sells consulting services will likely have higher profit margins, but sell lower quantities.

Formula

Gross Profit Margin (Quarterly) = (RevenuesQuarterly - CostsOfGoodsSoldQuarterly) / RevenuesQuarterly
Gross Profit Margin (TTM) = (RevenuesTTM- CostOfGoodsSoldTTM) / Revenues (TTM)

Related Terms

Cost of Goods Sold

Gross Profit

Gross Profit Margin

Operating Margin

Profit Margin