

Table 3 shows that Gross Margin is simply sales minus cost of goods. In reality the Gross Margin has many layers to it, as shown in table 4.

To really understand what's driving margin it is key that all layers are regularly reviewed and understood. Lets look at table 4 at some of the different layers (or drivers). Remember each company will be different, so take time to understand what your drivers are.

Table 3: Company A Gross Margin

Company A		
Sales		£2,000
Cost of Goods and Services	£(500)	
Gross Profit		£1,500
<i>Gross Profit Margin %</i>		<i>75%</i>
Other expenses	£(400)	
Net Profit		£1,100
<i>Net Profit Margin %</i>		<i>55%</i>



Table 4: Company A detailed version of Gross Margin

Company A		
Sales		£2,000
Buying/Product Margin	£(450)	
Customer offers / discounting	£(100)	
Stock clearance activity	£(50)	
Supplier Funding	£100	
Total cost of goods and services	£(500)	
Gross Profit		£1,500
<i>Gross Profit Margin %</i>		<i>75%</i>
Other expenses	£(400)	
Net Profit		£1,100
<i>Net Profit Margin %</i>		<i>55%</i>