

Gross Profit Margin Ratio

The **gross profit margin ratio** expresses the gross profit as a proportion of sales (note: [gross profit](#) is used to calculate the gross profit margin ratio).

The gross profit margin ratio is used as one indicator of a business's financial health. It shows how efficiently a business is using its materials and labour in the production process and gives an indication of the pricing, cost structure, and production efficiency of your business. The higher the gross profit margin ratio the better.

[Gross profit](#) = income – cost of goods sold (COGS)

Gross profit margin ratio = gross profit ÷ income

The gross profit margin is simply the gross profit margin ratio expressed as a percentage:

Gross profit margin (%) = (gross profit ÷ income) x 100