

# Contribution Margin Percentage

Contribution margin equals revenue minus variable costs. Closely related to the contribution margin is the contribution margin percentage. The contribution margin percentage is the contribution margin divided by revenues. And it indicates what percentage of additional sales will show up as contribution margin. This money can be used to pay fixed costs.

Because fixed costs do not change as revenue increases, operating income also increases by the contribution margin percentage multiplied by revenues as revenues increase. However, it is important to understand that contribution margin and operating income are not the same thing.

Contribution margin and contribution margin percentage are very useful concepts in estimating a firm's fixed costs, and marginal costs. These numbers are instrumental in trying to ascertain how efficiently a firm is operating and how efficiently it will operate in the future.