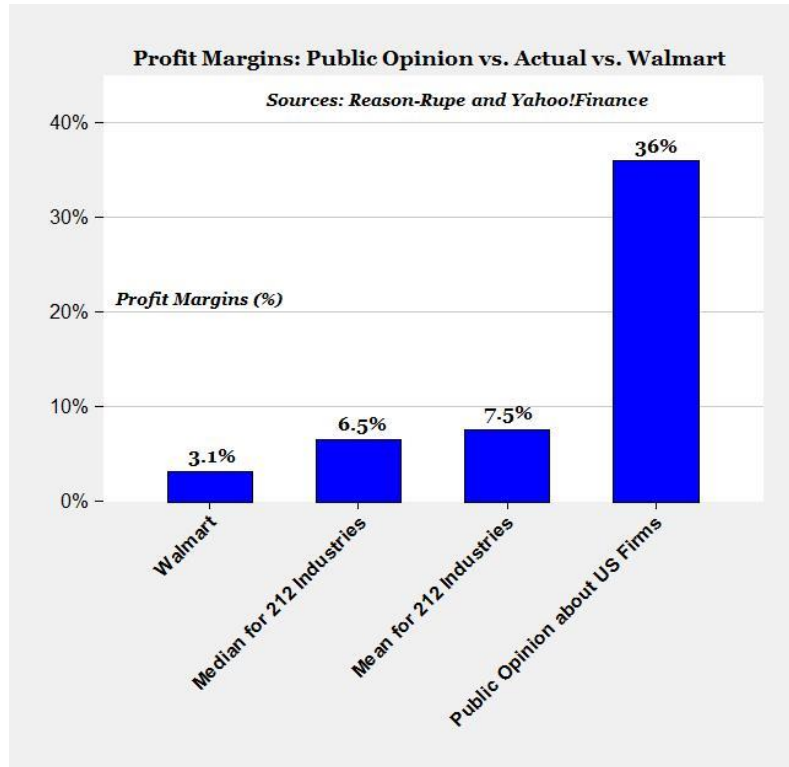


The public thinks the average company makes a 36% profit margin, which is about 5X too high

by Mark J. Perry

April 2, 2015



I find this totally fascinating, though not completely unexpected. When a random sample of American adults were asked the question “**Just a rough guess, what percent profit on each dollar of sales do you think the average company makes after taxes?**” for the [Reason-Rupe poll](#) in May 2013, the **average response was 36%**! That response was very close to historical results from the polling organization ORC’s polls for a slightly different, but related question: What percent profit on each dollar of sales do you think the *average manufacturer* makes after taxes? Responses to that question in 9 different polls between 1971 and 1987 ranged from 28% to 37% and averaged 31.6%.

How do the public’s estimates of corporate profit margins compare to reality? Not surprisingly they are off by a huge margin. According to this [Yahoo!Finance database](#) for 212 different industries, **the average profit margin for the most recent quarter was 7.5% and the median profit margin was 6.5%** (see chart above). Interestingly, **there wasn’t a single industry out of 212 that had a profit margin as high as 36%** in the most recent quarter. The industry “REIT-Diversified” had the highest profit margin at 33.5% followed by just one other industry – Wireless Communications at 30.9% – with a profit margin higher than 30%.

“Big Oil” companies (Major Integrated Oil and Gas) make a lot of profits, right? Well, that industry had a below-average profit margin of 5.1% in the most recent quarter. And evil Walmart

only made a [3.1% profit margin](#) in the most recent quarter (as I [reported recently](#)), which is less than half of the almost 7% average government take on retail sales in the form of state and local sales taxes. Think about it – for every \$100 in sales for Walmart, the state/local governments get an average of \$6.88 in sales taxes (and as much \$9.44 in Tennessee and \$9.16 in Arizona, see [data here](#)), while Walmart gets only \$3.10 in profits!

Bottom Line: The public's complete overestimation of how much companies earn in profits as a share of sales explains a lot. If \$36 of every \$100 in sales at a company like Walmart, McDonald's, Home Depot, Ford Motor Company or a local dry cleaner or restaurant really did turn into profits, then of course those companies could afford to pay unrealistic living wages of \$15 per hour, accept unreasonable demands from labor unions, provide all sorts of generous fringe benefits including weeks of paid holidays, long paid maternity leaves, and gold-plated pension programs, etc. The public that believes in the fantasy-world of sky-high 36% profit margins would naturally think companies are just being greedy and stingy when they don't pay higher "living wages" and have to be forced to do so through minimum wage, or living wage, legislation.

If the average person could realize that a 36% profit margin isn't even close to reality, and that the typical, median firm has a profit margin of only 6.5%, or almost *30 percentage points below what the public thinks is a normal profit margin*, then hopefully the average person would become a little more realistic about how the business world operates. Companies aren't being stingy when they pay competitive wages, they're just trying to survive on what are sometimes razor-thin profit margins, in a competitive environment where there's not a large margin of error. If they're not operating efficiently and watching costs very carefully, it's pretty easy for a business to go from a 6.5% profit margin to a 0% break-even situation, and then to losses and bankruptcy — just look at the more than half a million businesses that fail every year.