



RETAILING in the TWENTY-FIRST CENTURY

second edition

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*On May 15, 2001, Steve Jobs announced the opening of Apple's first retail store during a press conference. Jobs said that Apple hoped to eventually open twenty-five retail stores in the United States and that the first two stores would open that weekend.

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Part Four

Buying and Merchandising

Chapter 16

The Concepts and Mathematics of Merchandise Pricing

Markup

- The difference between the amount the merchant paid for the goods and the price they will be sold to the consumer

$$\text{Retail (selling price)} - \text{Cost} = \text{Markup}$$

Markup Example

- A dress is purchased by the buyer for \$100. If it retails for \$200, the dress would have a markup of \$100

$$\text{\$200 (retail)} - \text{\$100 (cost)} = \text{\$100 (markup)}$$

Markup Percent on Retail

- Markup percent computations are generally based on retail
- Advantages include
 - Facilitates the calculation of estimated profits
 - Can determine the inventory at cost, sales associates' commissions, and management's bonuses
 - Can calculate markup at a lower percentage as compared to the percentage based on cost

$$\frac{\text{Markup}}{\text{Retail}} = \text{Markup \% based on retail}$$

Percent Based on Retail Example

- A merchant purchases a set of luggage for \$150 and sells it for \$200
- What is the markup percent based on retail?

$$\text{— } \frac{\$50 \text{ (markup)}}{\$200 \text{ (retail)}} = 25 \% \text{ (based on retail)}$$

Markup Percent on Cost

- Some retailers rely on markup based on cost
- Products with prices that vary day-to-day due to supply and demand use this markup method

$$\frac{\text{Markup}}{\text{Cost}} = \text{Markup \% based on cost}$$

Markup Percent Based on Cost Example

- A camera cost the retailer \$66 and retails for \$88.
What is the markup percent based on cost?

$$\frac{\$22 \text{ (markup)}}{\$66 \text{ (cost)}} = 33 \frac{1}{3} \% \text{ (based on cost)}$$

Supreme Court Pricing Decision

- In 2007, with a 5 – 4 ruling, the Court ended a 96-year-old ban on minimum pricing agreements, allowing brands to enforce the lowest price at which their products could be sold.

Factors that Affect Pricing

- The buyer's judgment of the merchandise appeal
 - Examines markup percentages of specific items
 - Determines which merchandise are worthy of higher or lower markups
 - Targets the overall average markup based on the entire inventory

Factors that Affect Pricing

- Competition
 - Shoppers compare prices
- Exclusivity
 - Manufacturer's that are relatively unknown sign exclusive agreements with limited retailers in a specific trading area
 - Higher markups can be achieved by having exclusive relationships with vendors

Factors that Affect Pricing

- Categories that require higher markups
 - Women's apparel and accessories
 - Precious jewelry
 - Seasonable merchandise like swimsuits
 - Perishable merchandise like fresh cut flowers
 - Bulky merchandise like carpeting, furniture, and rugs

Factors that Affect Pricing

- Stock turnover
 - Higher turnover rate, lower markup, and vice versa
- Services
 - Alterations, personal shoppers, and gift registries
- Pilferage
 - The loss of sales due to shoplifting and internal theft

Factors that Affect Pricing

- Retailer promotional endeavors
 - Merchants must allocate large sums of the budget for advertising campaigns and special events
- Membership clubs
 - Prices at these retailers are affected by the breadth and depth of their membership

Pricing Strategies

- Keystone pricing
 - Retailers double the wholesale cost to determine the retail price
 - This method covers the retailer's expenses and brings an expected profit

Pricing Strategies

- Keystone plus pricing
 - Retailers double the wholesale cost and an additional amount is added to determine the retail price
 - This method is used when keystone pricing will not cover all the retailer's expenses

Pricing Strategies

- Overall uniform pricing
 - All items are marked up by a predetermined percentage
 - This strategy is most often used by off-price retailers

Pricing Strategies

- Department pricing
 - Retailers segment the merchandise into hard or soft goods and price accordingly
 - Full-line department stores price use this strategy to stay competitive with big box operations

Pricing Strategies

- Individual merchandise pricing
 - Pricing is often left up to the discretion of the buyer
 - An overall markup goal is given to maintain
 - Appearance of goods, competition, and exclusivity are considerations when determining markup

Pricing Strategies

- Negotiable pricing
 - Consumers are able to negotiate a different price from that of the asking price
 - This strategy is an accepted system throughout the world, but not in the United States

Pricing Strategies

- Average pricing
 - Retailers average all the markups that have been applied to the merchandise
 - Used to determine the markup percentage that would produce the greatest revenue for the company

Price Points

- Not every level can offer price points because
 - The size of the store limits price points
 - Goods from the same category but from different price points have different visual merchandising approaches
 - Upper and lower price points have different merchandising strategies
 - Customers know what to expect

Price Points

- Department stores carry a wide range, while specialty stores focus on a narrower range
- The popularity of specialty chains underscore the practicality of limited price points

Markdowns

- Items that do not sell as well as expected must be marked down in order to make room for new merchandise

Markdown Causes

- Buying errors
 - Overbuying an expected hot item
 - Reordering too late in the selling season
- Poor selling techniques
 - Sales associates cannot handle questions posed by would be purchasers

Markdown Causes

- Inadequate visual presentations
 - Failing to feature items in their best settings
- Insufficient promotional endeavors
 - Reduces the product's exposure and bring it to the customer's attention
- Inappropriate Initial Prices
 - Markups were considered too high by shoppers

Markdown Causes

- Adverse weather conditions
 - Rain affects swimsuit sales
 - Mild winters affects outerwear sales
- Inappropriate placement in the assortment
 - Selecting merchandise that does not fit with the remaining inventory

Timing Markdowns

- Traditional markdown periods are around the fourth of July and after Christmas
- Nordstrom uses a semiannual approach in its men's department
- More frequent markdown periods have become routine

Reasons for Early Markdowns

- The selling season is at its peak
- Revenues from sales can be used to purchase other goods
- Allows room for new items

Reasons for Late Markdowns

- Prevents customers from only making sale purchases
- Sometimes merchandise takes a longer time to sell but eventually does
- Markdown racks on a continuous basis affect the prestigious image of the retailer

Automatic Markdowns

- The goal of automatic markdowns is to turn the merchandise as quickly as possible without day-to-day input from the merchandiser
- Filene's Basement and Syms utilize this method

Determining the Markdown

- There are no uniform standards in the industry
- Some retailers begin with a 20 percent markdown
- Others use a more drastic markdown of 40 percent
- Minimal reductions of 10 percent are rarely effective

Markdown Percent Calculations

1) The dollar markdown must be determined.

$$\begin{array}{rcl} \text{original retail} & \times & \text{reduction percent} = \text{markdown} \\ \$100,000 & \times & .30 = \$30,000 \end{array}$$

Markdown Percent Calculations

2) Next, the actual sales are determined.

$$\begin{array}{rclcl} \text{original retail} & \times & \text{reduction} & = & \text{new retail} \\ \$100,000 & \times & \$30,000 & = & \$70,000 \end{array}$$

Markdown Percent Calculations

3) The markdown percent on sales is then determined.

$$\text{Markdown \%} = \text{Markdown} / \text{Sales}$$

$$42.86\% = \$30,000 / \$70,000$$