## Unit II Retail Pricing and Repricing of Merchandise

- One way to ensure the highest possible profit is through skillful pricing of goods
- With the large number of comparable assortments available for purchase price is one of the weapon's to earn a customers loyalty
- Pricing decisions are the strategy of upper management and execution of the buying line



## Unit II Retail Pricing and Repricing of Merchandise

- This unit is composed of 3 sections:
  - Section I, Retail pricing
    - Price lining will be the subject here
  - Section II, Markup
    - A critical component of the retail mix, can refer to individual units, groups, or classifications, department's, store's or an entire division
  - Section III, Repricing
    - Generally means price reduction, or markdowns, a critical element in the pricing mix



## Unit II Retail Pricing and Repricing of Merchandise

- **Section I, Part A:** Structuring Price Lines
  - **Price range** denotes the spread from highest to lowest prices carried
  - **Price zone** refers to a series of price lines; when more than 2 price lines are stocked, a price zone exists
    - **Price zones are:**
      - Promotional , or low pricing
      - Volume, or middle pricing
      - Prestige, or high pricing

## Unit II Retail Pricing and Repricing of Merchandise

- Section I, Part B: Setting Prices
  - Price must cover merchandise cost, general expenses **and** generate a fair profit
  - Many factors influence the pricing decision:
    - Wholesale costs
    - Competition
    - Manufacturers "SRP"
    - Handling and selling costs
    - Store policies
    - Nature of the goods, I.e. risk involved with fashion goods
    - Department consistency
    - Supply and demand



## Unit II Retail Pricing and Repricing of Merchandise

- Section I, Part C: Advantages of Price lining
  - Simplifies consumer decisions, encouraging purchases
  - Simplifies buying by limiting wholesale cost range
  - Enables wider assortments at best selling price lines
  - Reduces stock figure, increasing turn and decreasing markdowns
    - This simplifies stock control
    - This in turn reduces marking costs
    - Which in turn helps the stock to sales ratio



## Unit II Retail Pricing and Repricing of Merchandise

- Section I, Part D: Price line reports
- See page 56
  - N.b. 2 different price lines, up to $20 and up to $29 are shown
  - All jeans price lines are shown as well as the entire class
  - How did (5) on hand for price line up to $29 become negative?

# Unit II Retail Pricing and Repricing of Merchandise

- Section I, Part E: Basic pricing factors and how they relate to each other
  - A retailer buys a top for $10 and sells it for $18; what is the markup?

| | | |
|---|---|---|
| | Cost of goods sold | $10 |
| + | Markup | + 8 |
| = | **Retail price** | = 18 |



# Unit II Retail Pricing and Repricing of Merchandise

Section I, Part E: Basic pricing factors and how they relate to each other:

- Understand that the 3 basic elements, retail, cost and markup are as follows:
  - Retail always equals 100%, while markup and cost always equal retail, or 100%
  - Therefore, markup and cost are complements, and the markup percentage is often called the "cost complement"s



# Unit II Retail Pricing and Repricing of Merchandise

- Section II, Part A: Basic markup equation
  - Markup percentages can be calculated on the retail or cost prices
  - Percentage based on retail is the more common formula

- Markup % =

Dollar markup

Retail price

What is the markup % when markup is $8 and the retail is $18?

MU% = $8/ $18

= 44.4%

# Unit II Retail Pricing and Repricing of Merchandise

Section II, Part B: Markup calculations used in buying decisions

A buyer ordered 10 coats at a cost of $59.75, retailing at $100 and 6 coats costing $79.75 retailing at $150. What is the markup percentage on the entire order?

| # pcs | unit cost | unit m/u | total m/u | unit retail | total retail |
|---|---|---|---|---|---|
| 10 | 59.75 | 40.25 | 402.5 | 100 | 1000 |
| 6 | 79.75 | 70.25 | 421.5 | 150 | 900 |
| | | | 824 | | 1900 |
| Markup= | total markup/total retail | | | | |
| | 824 | or | 43.4% | | |
| | 1900 | | | | |



# Unit II Retail Pricing and Repricing of Merchandise

Section III, Part A: Markdowns

- The most common type of price adjustment, a ***markdown***, is the lowering of the original or previous retail price
- ***Markdown percentage is expressed as a percentage of the net sales figure***
- **The repricing of goods for sale is constant, the causes numerous, and the skill required considerable.**
  - Purpose
    - Stimulate sales of slow moving goods
    - Attract customers via "bargains"
    - Meet competitive prices
    - Provide "OTB" money
    - Create special "promotions"



# Unit II Retail Pricing and Repricing of Merchandise

- Section III, Part A: Markdowns
  - Causes; the 3 main reasons
  - Buying errors
    - Pricing errors
    - Selling errors
  - Timing; done correctly reduces the amount of markdown necessary to sell the merchandise. They should be taken when
    - Merchandise becomes "slow selling", I.e. not too early
    - Demand is still sufficient to sell with a minimum reduction, I.e. not too late

## Unit II Retail Pricing and Repricing of Merchandise

- Section III, Part A: Markdowns
  - Amount; the right amount depends on a variety of **factors** which fluctuate:
    - Nature of merchandise
    - Point in the selling season
    - On hand quantity
    - Original markup



## Unit II Retail Pricing and Repricing of Merchandise

- The purpose is to sell merchandise quickly so the markdown must:
  - Be sharp enough to move goods
  - Attract customers previously uninterested in the merchandise
  - Appeal to customers in the next price zone
  - Not create suspicion
  - Not be so small as to be ineffective, creating a series of small markdowns resulting in loss



## Unit II Retail Pricing and Repricing of Merchandise

- Calculating dollar markdown
  - Dollar markdown = Original retail price – New Retail price
- Calculating the markdown percentage
  - Dollar markdown = Percentage x present retail price
  - Markdown % = $ markdown / $ net sales

## Unit II Retail Pricing and Repricing of Merchandise

- ***Point of sale (POS) markdown***
  - Electronically programmed temporary markdowns which are taken at the cash register
  - They allow the retailer to take markdowns **only** when the merchandise is sold
  - They do not increase OTB



## Unit II Retail Pricing and Repricing of Merchandise

- Employee discounts
  - Is a type of adjustment that lowers the priced of goods for employees, and lowers the value of the merchandise.
  - Stated as a percent off the retail price
- Additional markup
  - An adjustment that raises the price of merchandise, it rarely occurs



## Unit II Retail Pricing and Repricing of Merchandise

- Markup cancellations
  - A downward adjustment offsetting an original markup
  - It can be used for "comparable value" items
  - It is also used to offset erroneous markups
- Price change procedures
  - are critical to ensure the accurate execution of the price change document
  - It helps keep book inventory accurate between physical inventories and identify potential shortages on an ongoing basis

# Unit II Retail Pricing and Repricing of Merchandise

- Repricing and profit
  - ***Every*** price change impacts margin and profit
  - Stores classify price adjustments to

    ***Analyze***

    ***Plan***

    ***Control***

  The markdown which decrease sales, margin and profit

  While markdowns are anticipated, they require constant attention



# Unit II Retail Pricing and Repricing

| | | $ | % |
|---|---|---|---|
| | Sales | $105,000 | 100.0% |
| less | CGS | $49,980 | 47.6% |
| | GM | $55,020 | 52.4% |
| less | Op expns | $45,990 | 43.8% |
| | NI/NL | $9,030 | 8.6% |
| | | | |
| A $5,000 markdown halfs the profits: | | | |
| | | | |
| | Sales | $100,000 | 100.0% |
| less | CGS | $49,980 | 50.0% |
| | GM | $50,020 | 50.0% |
| less | Op expns | $45,990 | 46.0% |
| | NI/NL | $4,030 | 4.0% |