

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

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- 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

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- **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

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- **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

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- **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

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- **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?

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- 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

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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

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- 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 % =	What is the markup % when
Dollar markup	markup is \$8 and the retail
Retail price	is \$18?
	$MU\% = \$8 / \18
	$= 44.4\%$

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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				

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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"

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• 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

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- 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

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- 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

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- 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

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• 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

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• 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

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• 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

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- 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

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		\$	%
	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 halves 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%
