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 customer’s loyalty.
- Pricing decisions are the strategy of upper management and execution of the buying line.

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.

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

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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?
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?

\[
\begin{align*}
\text{Cost of goods sold} & = \$10 \\
\text{Markup} & = 8 \\
\text{Retail price} & = 18
\end{align*}
\]

- 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 % = \( \frac{\text{Dollar markup}}{\text{Retail price}} \)

- What is the markup % when markup is $8 and the retail is $18?
  - MU% = \( \frac{8}{18} \) = 44.4%
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?

<table>
<thead>
<tr>
<th># pcs</th>
<th>unit cost</th>
<th>unit m/u</th>
<th>total m/u</th>
<th>unit retail</th>
<th>total retail</th>
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</thead>
<tbody>
<tr>
<td>10</td>
<td>59.75</td>
<td>40.25</td>
<td>402.5</td>
<td>100</td>
<td>1000</td>
</tr>
<tr>
<td>6</td>
<td>79.75</td>
<td>70.25</td>
<td>421.5</td>
<td>150</td>
<td>900</td>
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</tbody>
</table>

Markup = total markup / total retail

824 / 1900 = 0.434 or 43.4%
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

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

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

<table>
<thead>
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<th></th>
<th>$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$105,000</td>
<td>100.0%</td>
</tr>
<tr>
<td>less CGS</td>
<td>$49,980</td>
<td>47.6%</td>
</tr>
<tr>
<td>less GM</td>
<td>$55,020</td>
<td>52.4%</td>
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<tr>
<td>less Op expns</td>
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<td>43.8%</td>
</tr>
<tr>
<td>Ni/NL</td>
<td>$9,030</td>
<td>8.6%</td>
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</table>

A $5,000 markdown halves the profits:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
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<td>$100,000</td>
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