

Calculating Markup: A Merchandising Tool

Part 4: 4-2 Types of Markdowns

Errors in Buying

The buying process is both a science and art. Therefore, the process is impacted by the buyer's intuition. Even though technology aids the buyer in planning purchases, buyers have a difficult job of selecting the right merchandise at the right price and having it in stock in the right quantities and in the right place at the right time in order to meet customer expectations and demand. Nonetheless, customers are fickle, change their buying patterns or seek fresh, innovative product instead of the retailer's carefully planned merchandise mix. Remember that retail buyers must purchase merchandise six to twelve months before it is delivered to the store for the peak selling season; therefore, the customer may have moved to newer trendy merchandise other than merchandise ordered in the market six months before.

Sometimes buyers plan unrealistic sales goals for economic market conditions. At other times those conditions change so quickly that the buyer does not have the opportunity to react in a timely manner in order to meet customer demand. If a buyer does not have knowledge of the store clientele's desires and wants in product value or does not closely monitor the fashion preferences of the customers, merchandise selected does not meet customer expectations and does not sell. On the other hand, the buyer may select his preferences in a merchandise classification instead of what the customer desires to purchase. Other buyer errors include untimely deliveries, ordering merchandise in the wrong size range, color and style for the customer base, and not merchandising and promoting key product classifications. All merchandise not sold within the appropriate amount of time in order to meet planned sales goals must be reduced in price. The objective of buyer error reductions is usually to produce cash flow and move overstocked merchandise in order to replenish the unwanted product with fresh, trendy merchandise.

Managerial Operational Devices

Many times management utilizes markdowns to build store traffic or to meet the competitor's retail prices. In fact, some retailers run end of the month (EOM) sales constantly and actually purchase promotional goods for these sales in order to add to the regular price reduced goods. This technique is also often used to build the store's sales volume. These reductions are recorded as markdowns and are needed for doing business in today's competitive economic environment.

Even if a merchandise classification sells quickly, leftover product that did not sell from the classification always remains. For example, some sizes, styles or colors might not sell during the peak selling season, although the product classification sold quickly. In retail terminology, the leftover merchandise is labeled as **odd lots** and **broken sizes**. Odd lots and broken sizes can actually hinder the sale of other merchandise and must be reduced to make space for more desirable goods. Also, frequently during the

selling season, items become soiled, damaged or shopworn. These items must be reduced in order to reflect the actual value of the merchandise and attract customer attention.

Merchandising Devices

Retailers usually identify and record promotional markdowns separately from those taken as managerial operation devices or buyer errors. As explained in the previous section on **pricing policies** (*Part 3: 3-3 Pricing Policies*), many retailers purchase merchandise, establish a premium price on the merchandise and then reduce the price of the merchandise for special events and sales promotions.

Regardless the type of markdown, retailers must plan the amount and type of markdowns that are needed for the store in order to meet planned sales and profit goals. The plan must include policies or procedures for taking markdowns on a timely basis and in an organized process in order to maintain consistency and accuracy in the markdown records. The next section explores how to establish effective markdown strategies.