Planning Markdowns

The next step in merchandise planning is to plan markdowns or retail reductions. In true definition, reductions reduce the retail value of the inventory and include markdowns, discounts to employees and customers, and stock shortages. Each must be anticipated, estimated, and included in the planning process. Because markdowns are the largest component of reductions, most retail firms plan only markdowns rather than total reductions.

In establishing the merchandise plan, markdown percents are estimated on the basis of past experience, as well as on current factors that may increase or decrease those percents. The merchandise planner must determine reductions as realistically as possible. Markdowns are expressed as a percent of net sales. As discussed in Chapter 6, the markdown percent is calculated by dividing the dollar amount of net markdown by net sales.

$$\text{Markdown \%} = \text{\$ Amount of Markdown} \div \text{Net Sales}$$

Conversely, planned dollar markdowns can be determined by multiplying planned net sales by the planned markdown percent:

$$\text{Planned \$ Markdowns} = \text{Planned Sales} \times \text{Planned Markdown \%}$$

The merchandise planner reviews and totals last year's markdowns for each month to calculate the season total markdowns. The percent of markdowns for the last year's season as a whole and for each month are determined. Applying the organizational goal expressed in an expected percent change in season markdowns, the dollar amount of the planned season markdowns is calculated. Based on last year's percentage reduction each month adjusted for other internal and external factors, planned markdowns are then distributed among the months in the season.

Example 8-20

Last year's markdowns for the fall season were as follows: August, $7,441; September, $7,813; October, $8,686; November, $6,661; December, $3,902; and January, $4,789. (a) What was the total dollar amount of markdowns for the season last year? (b) What was the percent of markdowns for each month last year? (c) If the goal is to plan markdowns at approximately the same levels for the next season, what are the planned season markdowns in dollars? (d) Using the percentage of markdowns for each month from last year as a guide, distribute the planned markdowns among the months in the season. (e) What is the resulting percentage change in markdowns for each month?

Solution:

FALL	August	September	October	November	December	January	SEASON TOTALS
LY Markdowns	$7,441	$7,813	$8,686	$6,661	$3,902	$4,789	$39,292
PL Markdowns	$7,448	$7,840	$8,624	$6,664	$3,920	$4,704	$39,200
Revised							
Actual							
% Change	0.09%	0.35%	−0.71%	0.05%	0.46%	−1.77%	−0.23%
% of LY Markdowns	18.94%	19.88%	22.11%	16.95%	9.93%	12.19%	
% of Plan Markdowns	19.00%	20.00%	22.00%	17.00%	10.00%	12.00%	

(a) Last Year's Markdown Dollars for the Season = August Markdowns + September Markdowns + October Markdowns + November Markdowns + December Markdowns + January Markdowns

$7,441 + $7,813 + $8,686 + $8,661 + $3,902 + $4,789 = $39,292

(b) **Last Year's Markdown Percent for August = Last Year's Markdown Dollars for August ÷ Last Year's Markdown Dollars for the Season**

$$\$7,441 \div \$39,292 = 18.94\%$$

(c) **Planned Season Total Markdowns = Approximately Last Year's Season Total Markdown Dollars**

In this case last year's markdowns totaled $39,292 so this year's markdowns could be planned at $39,200

(d) **Planned Markdown Dollars for August = Planned Season Total Markdowns × August Percent of Planned Markdowns**

$$\$39,200 \times 19.00\% = \$7,448$$

(**Note:** 19.00% approximates last year's August Markdown Percent of 18.94%)

(e) **Planned Percentage Change in Markdowns for August = (Planned Markdowns for August − Last Year's Markdowns for August) ÷ Last Year's Markdowns for August**

$$(\$7,448 - \$7,441) \div \$7,441 = 0.09\%$$

Planning Purchases

A primary objective of merchandise planning is to assist the buyer in timing the purchase of goods in order to maintain a balance between stocks and sales throughout the season. **Planned purchases** are the amount of merchandise that is planned for delivery to the store or department during a given period without exceeding the planned closing stock for that period. Planned purchases for a month must be adequate to cover the sales and reductions to be made during that month, as well as provide an ending inventory that will allow the following month's sales to be made. Purchases must be based on planned sales, stock, and markdown figures. To plan monthly purchases, use the following formula:

Planned Purchases at Retail = Sales + EOM Stock + Markdowns − BOM Stock

Example 8-21

Determine planned purchases for the month of September, given the following information:

Sales for September	$190,000
Stock for September 1	$318,200
Markdowns	$16,500
Stock for October 1	304,800

Solution:

Planned Purchases at Retail = Sales + EOM Stock + Markdowns − BOM Stock

$$= \$190,000 + \$304,800 + \$16,500 - \$318,200$$

$$= \$193,100$$

Example 8-22

Determine planned purchases for the months of June, July, and August, given the following information:

Month	Planned Sales ($)	Planned BOM Stock ($)	Planned Markdowns ($)
June	12,500	42,000	1,900
July	17,400	39,000	2,800
August	19,000	43,000	2,200
September	20,500	44,000	1,600

Planned Purchases at Retail = Sales + EOM Stock + Markdowns − BOM Stock

	June	July	August
Planned Sales ($)	12,500	17,400	19,000
+Planned EOM Stock ($)	39,000	43,000	44,000
+Planned Markdowns ($)	1,900	2,800	2,200
−Planned BOM Stock ($)	−42,000	−39,000	−43,000
Planned Purchases ($)	11,400	24,200	22,200

Converting Retail Value to Cost Value

Planned purchases are determined at retail and must be converted to cost if cost value is desired. This is done by using the following formula:

Planned Purchases at Cost = Planned Purchases at Retail × (100% − Planned Markup %)

Example 8-23

If planned retail purchases for the month were $208,000 and the planned markup was 45%, determine planned purchases at cost.

Solution:

$$\text{Planned Purchases at Cost} = \text{Planned Purchases at Retail} \times (100\% - \text{Planned Markup \%})$$
$$= \$208,000 \times (100\% - 45\%)$$
$$= \$208,000 \times 55\%$$
$$= \$114,400$$

Example 8-24

Last year's planned purchases at retail fall season were as follows: August, $60,928; September, $42,420; October, $54,404; November, $74.424; December, $26,600; and January, $62,967. Using a planned initial markup percent of 54.39%, calculate the planned purchases at cost for each month of the season.

Solution:

		August	September	October	November	December	January	SEASON TOTALS
PLANNED PURCHASES AT RETAIL	LY Purchases @ Retail	$61,530	$41,704	$53,264	$74,330	$26,884	$61,753	$319,465
	PL Purchases @ Retail	$60,928	$42,420	$54,404	$74,424	$26,600	$62,967	$321,743
	Revised							
	Actual							
PLANNED PURCHASES AT COST	LY Purchases @ Cost	$28,008	$18,984	$24,245	$33,825	$12,238	$28,119	$145,420
	PL Purchases @ Cost	$27,789	$19,348	$24,814	$33,945	$12,132	$28,719	$146,747
	Revised							
	Actual							

Planned Purchases at Cost for August = Planned Purchases at Retail for August
× (100 % − Planned Markup %)
$$= \$60,928 \times (100\% - 54.39\%) = \$27,789$$

1. If markdowns in the shoe department were $7,680 and net sales were $48,000, what was the markdown percent for the month?

$$7680 \div 48000 \times 100 = 16\%$$

2. Calculate planned June purchases at cost, given the following information:

June Sales	$175,000
Reductions	$20,000
BOM Stock for June	$250,000
BOM Stock for July	$150,000
Markup	48%

Acct 2010
MDSE 3510, 301

3. Determine planned purchases (a) at retail and (b) at cost for a month with the following planned figures:

Sales	$ 40,000
Markdowns	$2,000
BOM Stock	$98,000
EOM Stock	$101,000
Markup	46%

4. Determine the planned purchases for September (a) at retail and (b) at cost for the children's department when the seasonal merchandise plan indicates the following planned figures:

Sales	$75,000
Markdowns	9%
BOM Stock	$68,000
EOM Stock	$54,000
Markup	48%

Preparation of the Merchandise Plan

Although merchandise plans often display many factors, the minimal factors shown on a merchandise plan/budget are sales, stock, markdowns, purchases, and initial markup percent. Prior to planning for the next season, last year's actual monthly figures would be entered on the form. Showing last year's figures on the merchandise plan provides an easy comparison. Season turnover, as well as percents for expenses, reductions, profit goal, cash discounts, and gross margin, are planned and entered on the form.

When working through Example 8-25, refer to Figure 8-1, along with the discussion of each step required to complete the merchandise plan. Example 8-25 utilizes the stock-sales planning method for planning inventories. Remember that this is only one of several methods for planning inventory levels. The steps involved in developing a merchandise plan are the same, regardless of the inventory planning method. The following steps serve to complete the merchandise plan: