

The Retail Management Advisors

MARKDOWNS

Markdown information is a very important management tool. Volumes have been written about markdowns, why they occur and what can be done about them. Markdowns should be planned to increase sales, help keep inventory at the proper level and clean up end-of-season merchandise. Markdowns are a function of and have a direct bearing on relative stock quantity. If inventory levels are too low, as a result of poor delivery or higher sales, then markdowns should be lower. If inventory levels are too high, due to overbuying or poor sales, markdowns should be higher.

Markdowns must equal to whatever it takes to keep from carrying over out-of-season, or slow-selling merchandise. The largest single cause of excessive markdowns is failure to plan with an Open-To-Buy. The next significant cause of excessive markdowns is failure to execute the Open-To-Buy, which is just as bad as not having a plan. The third largest source of markdowns is accepting merchandise shipments after the order cancellation date on seasonal goods. If you do not have enough time to sell merchandise at the original planned retail price, it is not worth the original price you agreed to pay the vendor. It becomes worth less and less as the clearance sale date approaches. The only excuse for accepting late shipments is if you need the merchandise desperately. And then, you should insist on a markdown allowance or reduced price from your vendor.

Markdowns should be computed as a percentage of sales. The resulting markdown percent is a valuable performance measurement and can be compared to your past performance, planned markdown % and industry norms.