

12.9: Reducing Product Markdowns

Learning Objectives

- Explain how retailers can reduce the amount of product that ends up in markdowns

Every retail buyer or store owner wants to reduce markdowns. The old-school adages that address this issue is “buy the right stuff” or “buy less and sell more.”

Markdowns should not be regarded as necessarily a bad thing—they are a constant factor in retailing and a cost of doing business. Therefore, markdowns should be part of the retailers seasonal and annual plan and factored in to financial performance expectations. Is there such thing as selling out of each and every product in a retailer’s inventory? Actually there is, but not at the original price—markdowns is the method by which retailers do sell out.

But to answer the question, there are several ways retailers can manage to reduce their markdowns.

First, we have to remember that the planning and purchasing of retail assortments is both an art and a science. Products that are considered seasonal or fashionable are the most volatile and difficult to predict. Inclement weather in a market can destroy sales of summer goods while an instant change in fashion tastes can derail a once-established trend. Retail buyers typically must make buying selections 6 to 12 months in advance in many cases.

So the first way a retailer can reduce markdowns is to have a strong supply chain. A strong supply chain can help reduce the lead time in the procurement process. For a volatile fashion category, some retailers have established supply chains that allow them to order 10 weeks in advance instead of 6 months. In seasonal categories, a sound supply chain can provide some flexibility to the later replenishment orders to help retailers compensate for slower sales.

A second method to reduce markdowns is timely receipts of product. If a retailer has purchased a quantity of goods based on planning a selling period of 18 weeks, and the vendor is two weeks late on delivering those goods, there will technically be a two-week surplus of supply for the retailer to deal with. Usually, the retailer will negotiate some sort of compensation for this type of issue, but on-time deliveries are a must to keep markdowns within planned guidelines.

A third method of reducing markdowns for multi-store or multi-channel retailers is the distribution of goods. Most larger retailers have specialists responsible for distributing incoming product to ensure the right quantities are routed to the right locations- either the right stores or regional warehouses for direct shipment to online buyers. This can be almost as tricky as the initial procurement function. There is nothing worse for a buyer than to sell out of product in one market while taking big markdowns in another due to poor distribution decisions.

Finally, the last method we will discuss to reduce markdowns is quick reaction by merchants to slow sellers. If an item is underperforming its forecasted rate of sale, it will only accumulate in quantity and tie up inventory dollars until it is liquidated—usually resulting in a big markdown at season-end. Recognizing slow sellers and taking immediate action will serve to give the item more time to sell at a price that may be more attractive to shoppers. Good retailers will not wait and hope that sales will magically increase but instead take a healthy initial markdown right away. The old retail adage “the first markdown is the best” can actually reduce markdown dollars overall and free up dollars to purchase better-performing items.

In reviewing all of the methods we have discussed for retailers to reduce markdowns, we find a common denominator: execution. Implementing a strong supply chain, pushing for timely receipts from your vendors, ensuring accurate distribution of product through your sales channels and being quick to react to underperforming items all involve the discipline of good execution of a plan.

Practice Questions

<https://assessments.lumenlearning.co...sessments/9281>

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