Terminology of Retail Pricing

Retail pricing terminology defined for *"Calculating Markup: A Merchandising Tool"*.

Billed cost of goods: gross wholesale cost of goods after deduction for trade and quantity discounts but before cash discounts are calculated; invoiced cost of goods

Competition: firms, organizations or retail formats with which the retailer must compete for business and the same target consumers in the marketplace

> **Industry**: group of firms which offer products that are identical, similar, or close substitutes of each other

> **Market**: products/services which seek to satisfy the same consumer need or serve the same customer group

Cost: wholesale, billed cost, invoiced cost charged by vendor for merchandise purchased by retailer

Discounts: at retail, price reduction in the current retail price of goods (i.e., customer allowance and returns, employee discounts)

> **Customer Allowances and Returns**: reduction, usually after the completion of sale, in the retail price due to soiled, damaged, or incorrect style, color, size of merchandise

> **Employee Discounts:** reduction in price on employee purchases; an employee benefit and incentive for employee to become familiar with stock

Discounts: at manufacturing level, a reduction in cost allowed by the vendor

> **Cash Discount**: predetermined discount percentage deductible from invoiced cost or billed cost of goods on invoice if invoice is paid on or before the designated payment date

> **Quantity Discount**: discount given to retailer based on quantity of purchase bought of specific product classification or total sum of purchases over a specified period of time

> **Trade Discount**: series of discounts deducted from manufacturer's list price; invoice is billed with discounted price

Gross Margin: dollar or percentage difference between net sales and cost of goods sold

Invoice: vendor's bill or itemized statement of items shipped, unit and extended cost for items and charges for transportation and insurance (if applicable)

Keystone: doubling the wholesale cost of the item to calculate retail price

Markdowns: reduction in retail price of merchandise; reduction in original retail price of goods; expressed in dollars as difference between the original retail price and new retail price; expressed in percent as a percent of net sales or markdown dollars divided by net sales dollars

Markup: amount of dollars added to the cost of goods to determine retail price; difference between retail price and wholesale cost of goods; must cover expenses, retail reductions and profit of retailer

> **Average Markup**: markup over product classifications, groups of items, or over departments and stores; markup determined by using total cost and total retail of merchandise on order copy; markup on goods over period of time, or on entire inventory, a single purchase, or group of purchases

> **Cumulative Markup**: difference between total cost of goods and total retail of all merchandise handled to date or during a specified period of time; includes markup on beginning inventory and purchases during a given period of time

> **Individual Markup**: markup calculated for one item of merchandise or one stockkeeping unit (SKU)

> **Initial Markup**: original or first markup placed on goods; difference between delivered wholesale cost and original retail price of merchandise

> **Gross Markup**: difference between total retail and total cost on group of items

> **Maintained Markup**: difference between net sales and gross cost of merchandise sold; difference between delivered cost of goods and retail that is actually realized

Operating Expenses: all expenses, direct (controllable) and indirect (fixed and variable), incurred while operating a business

Pricing: planning retail price for retailer's inventory or determining the amount of money charged by the retailer for a product or services; planning strategies and policies to price merchandise in retail store

> **Policies**: procedures and guidelines for determining retail price for retailer's inventory

> **Strategies**: pricing policies, action plans and techniques, and guidelines for price adjustments for implementing policies

> **Types**: pricing models to implement pricing strategies

Procuring goods: sourcing, searching for, selecting and buying merchandise

Profit: results when operating expenses do not exceed net sales or revenue; money remaining after operating expenses has been subtracted from gross margin

> **Operating Profit**: money remaining after operating expenses has been subtracted from gross margin

> **Net Profit**: operating profit minus taxes

Profit & Loss Statement: statement of revenue or net sales, cost of goods sold, expenses and profit for a specified period of time; Income Statement; Operating Statement

Retail Price: the price the consumer pays for the merchandise or the dollar value of the merchandise the consumer pays to the retailer when making a purchase

Retail Reductions: customer returns and allowances, employee discounts, markdowns, shrinkage

Sales: revenue or sales volume for retail store
       Gross Sales: total retail prices charged a customer, both cash and credit, for all merchandise and services before any deductions in retail price

       Net Sales: gross sales less reductions; operating income; sales volume

Shrinkage (Shortage): difference between book inventory and physical inventory counts

Terms of Sale: cash discounts, dating, and delivery stipulations specifying the purchase agreement between retailer and vendor

Vendor: manufacturer, contractor, importer, jobber, wholesaler, other retailers; source from which retailer purchases goods

Wholesale cost: see cost