

Calculating Markup: A Merchandising Tool

Part 2: 2-2 Individual Markup and Gross Markup

There are several types of markup: individual, average, cumulative, initial, and maintained.

Individual markup is the markup calculated for **one item** of merchandise or for **one stockkeeping unit** (SKU) in a retailer's inventory. This is the markup or amount of dollars added to the wholesale cost to determine the retail price for one item.

As previously discussed in *Part 2: 2-1* of **Section 1**, the following formulas are used to calculate **markup dollars** and **markup percent**:

$$\text{Individual Markup \$} = \text{SKU Retail \$} - \text{SKU Cost \$}$$

Example:	Markup \$ = ?	Markup \$ = Retail \$ - Cost \$
	Retail \$ = \$150.00	= \$150.00 - \$65.00
	Cost \$ = \$65.00	= \$85.00

OR

$$\begin{aligned}\text{Individual Markup \$} &= \text{SKU Retail \$} - \text{SKU Cost \$} \\ &= \$150.00 - \$65.00 \\ &= \$85.00\end{aligned}$$

Usually retailers omit the SKU terminology and use the formula: **Markup \$ = Retail \$ - Cost \$**.

Additionally, the formula for **Markup % on one stockkeeping unit** is as follows:

$$\begin{aligned}\text{Markup \%} &= \text{Markup \$} \div \text{Retail \$} \\ &= \$85.00 \div \$150.00 \\ &= 56.67\%\end{aligned}$$

If there are multiple units of merchandise, the markup is a **Gross Markup**. Gross markups may be calculated for multiple units of merchandise and for entire departments as well as all of the merchandise in a store and/or company.

The formula for calculating **Gross Markup Dollars** is as follows:

$$\text{Gross Markup \$} = \text{Markup \$ per unit} \times \text{Number of Units}$$

Example:	20 necklaces	Markup \$ = Retail \$ - Cost \$
	Cost per necklace = \$50.00	= \$110.00 - \$50.00
	Retail per necklace = \$110.00	= \$60.00

OR

$$\begin{aligned}\text{Gross Markup \$} &= \text{Markup \$ per unit} \times \text{Number of Units} \\ &= \$60.00 \times 20\end{aligned}$$

= \$1200.00

The retail merchandiser or buyer uses the above formulas when performing their day-to-day job responsibilities. Many times the retail buyer will buy different product classifications for a particular department. When writing the **order copy** or the contract of purchase for various types of merchandise (in specific styles, colors and sizes) at specified wholesale costs for each item, with terms (i.e., discounts, dating, shipping), retailers may write several different product classifications on the same order form. Usually all of these items differ in wholesale cost.

For example, different types or styles of sweaters from a branded apparel company will be available to the buyer at varying prices. Or jewelry buyers may order earrings, necklaces and pins on the same order copy from a particular vendor. There will be multiple but diverse units with varying wholesale costs on the order copy.

Therefore, **the gross markup percent for the total order copy cannot be calculated by averaging the markup percent of the individual items.** Percents can only be averaged if quantities of each item are identical in quantity. The average markup is calculated by determining total cost dollars, total retail dollars and total markup dollars in order to calculate the markup percent on the total order.

For determining the markup percentage on a group of items with varying costs and retail prices, follow the steps listed below. Additionally, the spreadsheet used on page eleven can be modified for calculating the gross markup percent on the order copy.

Steps for calculating markup percentage on group of items with varying wholesale costs and retail prices:

- Step 1. Calculate the retail price for each of the items.
- Step 2. Calculate total retail on **all** items.
- Step 3. Calculate total cost of **all** items.
- Step 4. Calculate overall total cost and overall total retail.
- Step 5. Calculate total markup dollars.
- Step 6. Calculate markup percentage for the total order.

Example:

The following order copy was written by the jewelry buyer in a large department store. This buyer has decided to calculate the markup by using a **keystone markup plus \$10.00** since the merchandise was an exclusive produced by the vendor for that particular store.

First, set up the spreadsheet and follow the steps above for calculating the gross markup percent on the following order. (Hint: on order forms, cost figures are usually listed first since the vendor provides the wholesale cost of each item and then each retailer decides upon the markup for the order. However, for ease of calculations, the example below is formatted with retail price first for clearly viewing all formulas.)

Order for the Jewelry Department

Item	Quantity	Retail Price	Total Retail	Cost	Total Cost*	Markup
Earrings	24	\$50.00	\$1200.00	\$20.00	\$480.00	
Necklaces	12	\$70.00	\$840.00	\$30.00	\$360.00	
Pins	18	\$60.00	\$1080.00	\$25.00	\$450.00	

Overall Total			\$3120.00		\$1290.00	\$1830.00
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(*For this example only, to differentiate cost and retail dollars, numerals in blue are always cost and those in black are always retail.)

1. Calculate retail price for each item, using the keystone plus \$10.00 dollar markup.

$$\text{Keystone} = (\text{Cost } \$ \times 2) + \$10.00$$

$$\text{Retail Price Earrings} = (\$20.00 \times 2) + \$10.00$$

$$\text{Retail Price Earrings} = \$40.00 + \$10.00$$

$$\text{Retail Price Earrings} = \mathbf{\$50.00}$$

$$\text{Retail Price Necklaces} = (\$30.00 \times 2) + \$10.00$$

$$\text{Retail Price Necklaces} = \$60.00 + \$10.00$$

$$\text{Retail Price Necklaces} = \mathbf{\$70.00}$$

$$\text{Retail Price Pins} = (\$25.00 \times 2) + \$10.00$$

$$\text{Retail Price Pins} = \$50.00 + \$10.00$$

$$\text{Retail Price Pins} = \mathbf{\$60.00}$$

2. Calculate total retail for all items.

$$\text{Total Retail} = \text{Retail } \$ \text{ Per Unit} \times \text{Number (\#) of Units}$$

$$\text{Total Retail (Earrings)} = \$50.00 \times 24$$

$$= \mathbf{\$1200.00}$$

$$\text{Total Retail (Necklaces)} = \$70.00 \times 12$$

$$= \mathbf{\$840.00}$$

$$\text{Total Retail (Pins)} = \$60.00 \times 18$$

$$= \mathbf{\$1080.00}$$

3. Calculate total costs of all items.

$$\text{Total Cost} = \text{Cost } \$ \text{ Per Unit} \times \text{Number (\#) of Units}$$

$$\text{Total Cost (Earrings)} = \$20.00 \times 24$$

$$= \mathbf{\$480.00}$$

$$\text{Total Cost (Necklaces)} = \$30.00 \times 12$$

$$= \mathbf{\$360.00}$$

$$\text{Total Cost (Pins)} = \$25.00 \times 18$$

$$= \mathbf{\$450.00}$$

4. Calculate overall total retail prices and cost. (Refer to total columns).

$$\text{Total Retail } \$ = \text{Total } \$ \text{ Item A} + \text{Item B} + \text{Item C}$$

$$\text{Total Retail } \$ = (\text{Earrings}) \$1200.00 + (\text{Necklaces}) \$840.00 + \text{Pins } \$1080.00$$

$$= \mathbf{\$3120.00}$$

$$\text{Total Cost } \$ = \text{Total } \$ \text{ Item A} + \text{Item B} + \text{Item C}$$

$$\text{Total Cost } \$ = (\text{Earrings}) \$480.00 + (\text{Necklaces}) \$360.00 + \text{Pins } \$450.00$$

$$= \$1290.00$$

5. Calculate total markup dollars.

$$\text{Total Markup \$} = \text{Total Retail \$} - \text{Total Cost \$}$$

$$\text{Total Markup \$} = \$3120.00 - \$1290.00$$

$$= \$1830.00$$

6. Calculate markup % for the order.

$$\text{Markup \%} = \text{Total Markup \$} \div \text{Total Retail \$}$$

$$\text{Markup \%} = \$1830.00 \div \$3120.00$$

$$= 58.65 \%$$

In the following segment, *Part 2: 2*, other types of average markups used in the day-to-day operations of the retail buyer will be explored, and appropriate mathematical formulas will be identified in order to calculate needed data for future planning.