

Calculating Markup: A Merchandising Tool

Part 2: 2-6 Maintained Markup

Maintained Markup is the markup on the merchandise that is sold to the consumer, or the difference between the cost of goods and the actual retail price of the goods when sold. It is based on actual sales, not planned sales, and actual happenings such as markdowns in the retail store. In other words, it is not the “hoped for” planned initial markup. It is the markup that relates the wholesale cost of goods and other costs charged by the vendor as well as the costs of handling of goods to the profitability of the store.

Maintained markup is calculated when the Profit and Loss Statement is calculated and may be expressed in both dollars and percent. However, it is usually expressed as a percentage and calculated as a percent of net sales. Even though maintained markup could possibly be the same as initial markup, it is usually lower than the initial markup due to reductions (i.e., markdowns, shortages, discounts, customer returns) that must be taken in day-to-day retail store operations. Maintained markup does not account for the impact of cash discounts and alteration costs as gross margin does. (This will be discussed in further depth in **Section 2: Manipulating Profit Variables: Merchandising for a Profit.**)

The following formulas are needed to calculate maintained markup dollars and maintained markup percent:

$$\text{Maintained Markup \$} = \text{Net Sales \$} - \text{Gross Cost of Goods Sold \$}$$

OR

$$\text{Maintained Markup \$} = \text{Net Sales \$} - \text{Invoiced Cost of Goods \$} - \text{Transportation \$ (including Insurance)}$$

OR

$$\text{Maintained Markup \$} = \text{Net Sales \$} \times \text{Maintained Markup \%}$$

$$\text{Maintained Markup \$} = \text{Alteration \$} - \text{Cash Discount \$} + \text{Gross Margin \$}$$

OR

$$\text{Maintained Markup } \$ = \text{Alteration } \$ - \text{Cash Discount } \$ + \text{Direct Operating Expenses } \$ \\ + \text{Indirect Operating Expenses } \$ + \text{Profit } \$$$

(Note: The above formula will be discussed in Section 2: Part 2: 2 - 4.)

AND

$$\text{Maintained Markup } \% = \text{Maintained Markup } \$ \div \text{Net Sales } \$$$

Example: (The figures below are found on page 26 and were used in the Initial Markup Percent problem!)

Calculations for Maintained Markup examples (both dollars and percent) are based on the dollar figures below:

Problem:	Gross Sales \$ = 150,000	Customer Return \$ = 1,000
	Net Sales \$ = 130,000	Markdown \$ = 15,000
	Expenses \$ = 60,000	Cash Discount \$ = 2,800
	Profit \$ = 10,800	Transportation \$ = 1,200
	Discounts \$ = 1,000	Alteration \$ = 800
	Shrinkage \$ = 3,000	Cost of Goods \$ = 70,000
		(Invoice Cost \$)

Problem:

$$\text{Maintained Markup } \$ = \text{Net Sales } \$ - \text{Invoiced Cost of Goods } \$ - \text{Transportation } \$ \text{ (including$$

Insurance)

$$= \$130,000 - \$70,000.00 - \$1,200.00$$

$$= \$58,800.00$$

$$\text{Maintained Markup \%} = \text{Maintained Markup \$} \div \text{Net Sales \$}$$

$$= \$58,800.00 \div \$130,000.00$$

$$= 45.23\%$$

Or, the maintained markup may be calculated using a spreadsheet for the Expanded Profit and Loss (P & L) Statement. (For more detailed information see Section 2: Part 3: 3-4.) A partial example using the above figures is given below.

Expanded P & L Statement

Component	Dollar	%
Gross Sales	150,000.00	115.39
-Customer Returns	1,000.00	00.77
-Employee Discounts	1,000.00	00.77
-Markdowns	15,000.00	11.54
-Shrinkage	3,000.00	02.31
= Net Sales	130,000.00	100.00
-Invoice Cost Goods	70,000.00	53.85
-Transportation	1,200.00	00.92
= Maintained Markup	58,800.00	45.23
-Alterations	800.00	00.62
+Cash Discount	2,800.00	02.15
= Gross Margin	60,800.00	46.77
-Operating Expenses	60,000.00	46.15
= Operating Profit	800.00	00.62

Using the above formulas and figures, practice calculating maintained markup dollars and maintained markup percent.

In summary, the basic retail components of pricing with their corresponding merchandising mathematical formulas have been discussed. Examples of the calculations of day-to-day retail problems provide a step by step explanation for calculating individual markup, average markups, cumulative markup, initial markup and maintained markup. Initial markup and maintained markup will be discussed in greater depth in **Section 2: Manipulating Profit Variables: Merchandising for a Profit, Part 3: 3-4 Maintained Markup**.