

## **SECTION 2: Manipulating Profit Variables: Merchandising for a Profit**

### **Part 3: Expanded Profit and Loss Statement: Calculating the P & L Components**

#### ***Part 3: 3-4 Maintained Markup***

As discussed in **Section 1: Calculating Markup: A Merchandising Tool**, in **Part 2: 2-6, Maintained Markup** was addressed as a type of markup. It was illustrated with the calculation of formulas and its position was shown on the Expanded P & L Statement. A condensed review of maintained markup, along with additional calculated formulas, is summarized below.

**Maintained Markup** is the markup on the merchandise that is sold to the consumer. It is the difference between the gross cost of goods (i.e., invoice cost of goods, transportation including insurance) and the actual retail price of the goods when sold. It is the markup that relates the wholesale cost of goods and other costs charged by the vendor, as well as the extra costs of handling of goods and additional income, to the profitability of the store. It is based on actual sales and actual happenings in the retail operation.

On the expanded P & L Statement, maintained markup is a line entry and is expressed in both dollars and percent however for use in the daily operations of a store, maintained markup is usually expressed as a percentage and is calculated as a percent of net sales. Even though maintained markup could possibly be the same as initial markup (i.e., when goods are sold at the original price), it is usually lower than the initial markup due to reductions (i.e., markdowns, shrink, discounts, customer returns) that must be taken in day-to-day retail store operations. Initial markup is planned; maintained markup is based on actual retail sales and cannot be planned in advance.

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

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

OR

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

OR

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

OR

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

AND

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

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

**Problem: Using the figures below, calculate maintained markup dollars and percent.**

**Example Figures for Calculating the Expanded P & L Statement**

Customer Returns & Allowances = \$15,000.00	Gross Sales = \$372,000.00
Employee Discounts = \$3,000.00	Net Sales = \$300,000.00
Markdowns = \$45,000.00	Gross Margin = \$139,500.00
Shrinkage = \$9,000.00	Contribution Margin = \$111,000.00
Invoice Cost of Goods = \$161,500.00	Maintained Markup = \$133,500.00
Transportation = \$5,000.00	Alterations \$3,000.00
Direct Operating Expenses = \$28,500.00	Cash Discounts = \$9,000.00
Indirect Operating Expenses = \$87,000.00	(Net) Operating Profit = \$24,000.00

**(Note: In a sequential order, beginning with the most condensed formulas and continuing to the most detailed formulas, the calculations for maintained markup are shown below.)**

$$\begin{aligned}
 \text{Maintained Markup } \$ &= \text{Net Sales } \$ - \text{Gross Cost of Goods Sold } \$ \\
 &= \$300,000.00 - \$166,500.00 \\
 &= \$133,500.00
 \end{aligned}$$

**(Remember: Gross cost of goods sold includes invoice cost of goods \$ and transportation \$.)**

$$\begin{aligned}
 \text{Maintained Markup } \$ &= \text{Net Sales } \$ - \text{Invoiced Cost of Goods } \$ - \text{Transportation } \$ \text{ (including} \\
 &\hspace{15em} \text{Insurance)} \\
 &= \$300,000.00 - \$161,500.00 - \$5,000.00 \\
 &= \$133,500.00
 \end{aligned}$$

$$\begin{aligned}
 \text{Maintained Markup } \$ &= \text{Alteration } \$ - \text{Cash Discount } \$ + \text{Gross Margin } \$ \\
 &= \$3,000.00 - \$9,000.00 + \$139,500.00 \\
 &= \$133,500.00
 \end{aligned}$$

$$\begin{aligned}
 \text{Maintained Markup } \$ &= \text{Alteration } \$ - \text{Cash Discount } \$ + \text{Direct Operating Expenses } \$ \\
 &\quad + \text{Indirect Operating Expenses } \$ + \text{Profit } \$ \\
 &= \$3,000.00 - \$9,000.00 + \$28,500.00 + \$87,000.00 + \$24,000.00 \\
 &= \$133,500.00
 \end{aligned}$$

**(Remember: Gross margin must be large enough to cover all operating expenses in order for a retailer to realize a profit.)**

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

$$= \$133,500.00 \div \$300,000.00$$

$$= 44.50 \%$$

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

$$= \$300,000.00 \times 44.50 \% (.4450)$$

$$= \$133,500.00$$

As previously discussed, maintained markup is usually expressed as a percent in order that the retailer may make comparisons across a department, stores or groups of stores. Maintained markup is the difference between net sales and gross cost of goods sold, while gross margin is the difference between net sales and total cost of goods sold. If a retailer does not offer alterations services, have workroom costs, or negotiation with vendors for cash discounts, maintained markup and gross margin is identical. However, that scenario is highly unlikely.

As illustrated in the previous Section, *Part 3: 3-3*, the expanded P & L Statement depicts the relationship of the subcomponents of maintained markup and provides figures for a clear comparison between maintained markup and gross margin.

A review and comparison of maintained markup and gross margin may be examined on the expanded P & L Statement below:

#### Expanded P & L Statement

Component	Dollars (\$)	Percent (%)
<b>Gross Sales</b>	<b>\$372,000.00</b>	<b>124.00%</b>
- Customer Returns	\$15,000.00	5.00%
- Employee Discounts	\$3,000.00	1.00%
- Markdowns	\$45,000.00	15.00%
- Shrinkage	\$9,000.00	3.00%
<b>= Net Sales</b>	<b>\$300,000.00</b>	<b>100.00%</b>
- Invoice Cost of Goods	\$161,500.00	53.83%
- Transportation	\$5,000.00	1.67%
<b>= Maintained Markup</b>	<b>\$133,500.00</b>	<b>44.50%</b>
- Alterations	\$3,000.00	1.00%
+ Cash Discounts	\$9,000.00	3.00%
<b>= Gross Margin</b>	<b>\$139,500.00</b>	<b>46.50%</b>

In the next part, the relationship of gross margin, operating expenses, contribution margin and (net) operating profit will be explained.