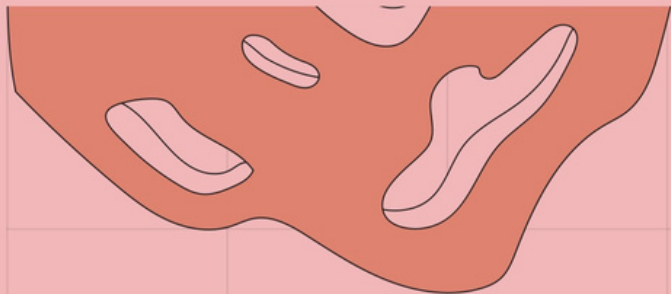


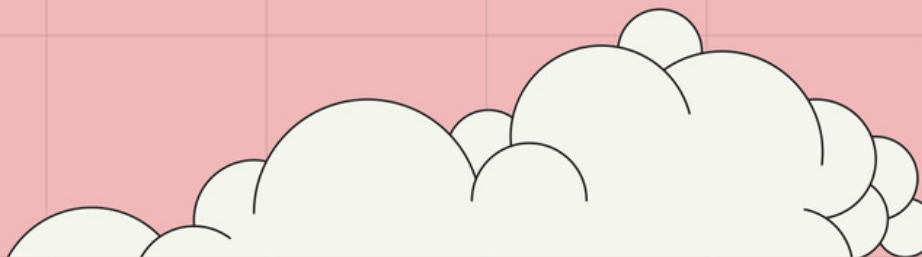


Ch.3 Markup Case Study

Lauryn Giddings



Section 1



Part A: Finding July's Retail

$$\text{Total Cost} = 15,000 + 7,500 + 5,000$$

$$\text{Total Cost} = 27,500$$

$$\text{MU\%} = 61.5\%$$

$$\text{Total Retail} = \frac{27,500}{100\% - 61.5\%} \rightarrow \frac{27,500}{38.5}$$

$$\text{Total Retail} = 71,428.57$$

$$\text{Total Retail} - \text{May \& June's Retail} = \text{July's Retail}$$
$$71,428.57 - (43,750 + 18,750) = 8,928.57$$

÷ by the number
of July's units (100)
= 89.2857 →

89.29 Retail
for July
(minimum)

Realistically, the July maxi dresses should be listed as 89.99 to be more appealing psychologically to customers.

Part A: Finding July's Retail

Maxi Dresses	Units	Cost	TTL Cost	Retail	TTL Retail	MU%
May	250	60	15,000	175		
June	150	50	7,500	125		
July	100	50	5,000	89.29		

Part B: Monthly MU%

May

$$\text{TTL Retail} = 175 \cdot 250 = 43750$$

$$\text{MU}\% = 43750 - 15,000 / 43,750$$

$$\text{MU}\% = 65.71\%$$

June

$$\text{TTL Retail} = 125 \cdot 150 = 18750$$

$$\text{MU}\% = 18750 - 7500 / 18750$$

$$\text{MU}\% = 60\%$$

July

$$\text{TTL Retail} = 89.29 \cdot 100 = 8929$$

$$\text{MU}\% = 8929 - 5000 / 8929 =$$

$$\text{MU}\% = 44\%$$

Part B: Monthly MU%

Maxi Dresses	Units	Cost	TTL Cost	Retail	TTL Retail	MU%
May	250	60	15,000	175	43,750	65.71%
June	150	50	7,500	125	18,750	60%
July	100	50	27,500	89.29	8,929	44%

Part C: IMU%

$$\text{Retail Reduction \%} = \text{MD \%} + \text{ED \%} + \text{Coupons \%} + \text{Shortages \%}$$

$$\text{Retail Reduction \%} = 35\% + 0\% + 0\% + 1.75\%$$

$$\text{Retail Reductions} = 36.75\%$$

$$\text{MD} = 35\%$$

$$\text{GM} = 48\%$$

$$\text{Shortages} = 1.75\%$$

$$\rightarrow \text{RR \%} = 36.75\%$$

$$\text{IMU \%} = \frac{\text{GM \%} + \text{RR \%}}{100\% + \text{RR \%}}$$

$$\text{IMU \%} = \frac{48\% + 36.75\%}{100\% + 36.75\%}$$

$$\boxed{\text{IMU \%} = 61.97\%}$$

Part D: CMU%

Cumulative Retail = what they already spent + my spendings for the 3 months = retail for everything spent

$$\text{Cumulative Retail} = 750,000 + 71,428.57 = \underline{821,428.57}$$

$$\text{3 months' CMU\$} = 71,428.57 - 27,500 = 43,928.57$$

$$\text{Company's Opening CMU\$} = 750,000 \cdot 54.5\% = \$408,750$$

$$\text{Cumulative CMU\$} = 43,928.57 + 408,750 = \underline{452,678.57}$$

$$\text{Cumulative MU\%} = 452,678.57 \div 821,428.57 = 55.108\% \rightarrow$$

$$\boxed{\text{Cumulative MU\%} = 55.11\%}$$

Part E: MMU%

$$\text{MMU}\% = \text{IMU}\% - [\text{RR}\% \cdot (100\% - \text{IMU}\%)]$$

$$\text{MMU}\% = 61.97\% - [36.75\% \cdot (100\% - 61.97\%)]$$

$$\text{MMU}\% = 61.97\% - [36.75\% \cdot 38.03\%]$$

$$\text{MMU}\% = 61.97\% - 13.976\%$$

$$\text{MMU}\% = 47.994\% \rightarrow 47.99\%$$

$$\boxed{\text{MMU}\% = 47.99\%}$$

$$\begin{aligned} 0.3675 \cdot 0.3803 \\ = 0.13976 \end{aligned}$$

Part F: Open-to-Buy

The Open-to-Buy Plan for maxi dresses is \$65,000 at retail.

$$\begin{array}{l} \nearrow \text{(total retail for maxi dresses)} \\ 71,428.57 - 65,000 = \boxed{\$6,428.57 \text{ Over the Open-to-buy for dresses}} \end{array}$$

Conclusion

Section 1

The required departmental cumulative markup goal is 58.0%. However, the buyer's cumulative markup on maxi dresses planned over three months is 55.11%. Therefore, the buyer's cumulative markup is short by 2.89%, resulting in a failed plan. In order to fix this, the buyer must go back to the wholesaler and either negotiate the costs or lower the retail price of the maxi dresses. The buyer can also do a combination of the two to meet or exceed departmental cumulative markup goals.

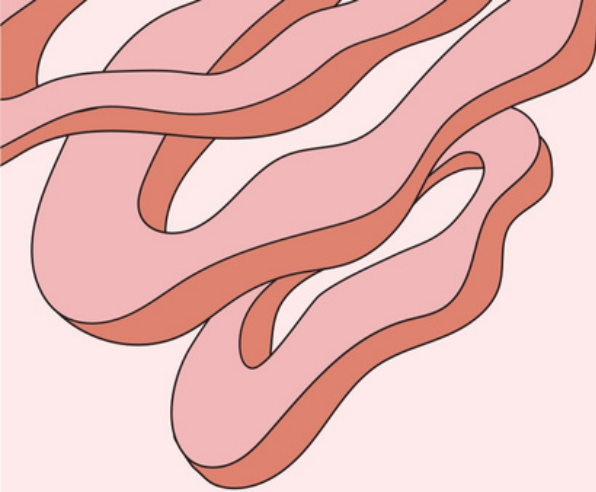
If the buyer cannot lower the cost and/or retail prices of the maxi dresses, they should find an alternative that will allow them to reach the departmental cumulative markup goals as planned. However, given time constraints, this may not be possible.

If the buyer fails to lower costs and/or retail prices to reach the cumulative markup goal, the company will fall short on profits, creating a storm of problems. People will have to be laid off, and some departments or stores in different geographic regions may have to be shut down. If people are fired, certain areas in the company could become understaffed, creating an unhappy work environment. The buyer's job will be at risk since they cannot carry out the plan. The company may cut wages or cut back on other departments. They may have less money to invest in departments within the company, such as marketing or the sales force. With a lack of funding in these areas, the company may take a hard blow in building value in relationships between the customers and the company. All of these scenarios can affect the company's reputation and how the public sees them, which can impact its mission, values, and value chains.

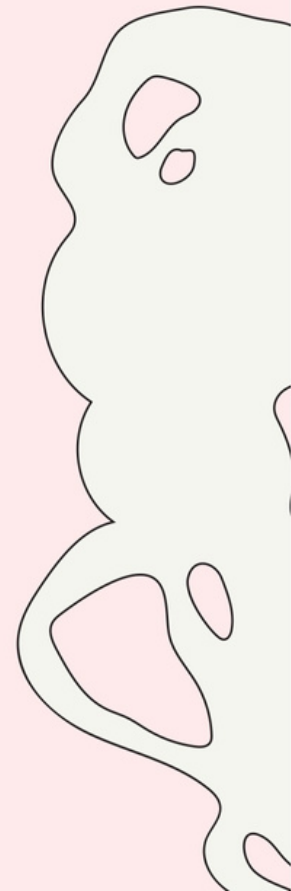
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Section 2



Part A: Retail

$$\text{Total Cost} = 15,000 + 7,500 + 4,000$$

$$\text{Total Cost} = 26,500$$

$$\text{MU\%} = 61.5\%$$

$$\text{Total Retail} = \frac{26,500}{100\% - 61.5\%} \rightarrow \frac{26,500}{38.5}$$

$$\text{Total Retail} = 68,831.168 \rightarrow 68,831.17$$

$$68,831.17 - (43,750 + 18,750) = 6,331.17$$

$$6,331.17 \div 75 \text{ units} = 84.42 \text{ Retail}$$

The buyer was able to negotiate the price of the remaining 100 dress to \$40.

The buyer also buys less units (75 instead of 100)

Part A: Retail

Maxi Dresses	Units	Cost	TTL Cost	Retail	TTL Retail	MU%
May	250	60	15,000	175		
June	150	50	7,500	125		
July	75	40	4,000	84.82		

Part B: MU%

May

$$\begin{aligned}\text{TTL Retail} &= 175 \cdot 250 = 43,750 \\ \text{MU\%} &= 43,750 - 15,000 / 43,750 \\ \text{MU\%} &= 65.71\%\end{aligned}$$

June

$$\begin{aligned}\text{TTL Retail} &= 125 \cdot 150 = 18,750 \\ \text{MU\%} &= 18,750 - 7,500 / 18,750 \\ \text{MU\%} &= 60\%\end{aligned}$$

July

$$\begin{aligned}\text{TTL Retail} &= 84.82 \cdot 75 \\ &= 6,361.50 \\ \text{MU\%} &= 6,361.50 - \\ &\quad 4,000 / 6,361.50 \\ \text{MU\%} &= 37.12\%\end{aligned}$$

Part B: MU%

Maxi Dresses	Units	Cost	TTL Cost	Retail	TTL Retail	MU%
May	250	60	15,000	175	43,750	65.71%
June	150	50	7,500	125	18,750	60%
July	75	40	4,000	84.82	6,361.50	37.12%

Part C: CMU%

Cumulative Retail = What they spent + my spendings
for the 3 months = retail for everything spent

$$\text{Cumulative Retail} = 750,000 + 68,831.17 = \underline{818,831.17}$$

$$3 \text{ Months CMU\$} = 68,831.17 - 26,500 = 42,331.17$$

$$\text{Company's Opening CMU\$} = 750,000 \cdot 54.50\% = \$408,750$$

$$\text{Cumulative CMU\$} = 42,331.17 + 408,750 = \underline{451,081.17}$$

$$\text{Cumulative MU\%} = 451,081.17 \div 818,831.17 = 55.088\% \rightarrow$$

$$\boxed{\text{Cumulative MU\%} = 55.09\%}$$

Part D: Open-to-Buy

The Open-to-Buy Plan for maxi dresses is \$65,000 at retail.

$$\begin{array}{l} \uparrow \\ \text{(total retail for maxi dresses)} \end{array} 68,831.17 - 65,000 = \$3,831.17 \text{ over the open-to-buy for dresses}$$

Conclusion

2 Giddings

Section 2

My departmental cumulative markup goal is at 55.09%; compared to the required 58.0%, I did not meet my goal. I believed that negotiating the cost of the July dresses from \$50 to \$40 and cutting back on their quantity from 100 to 75 would make the retail price more significant. Instead of merrily plugging in a random marked-up retail price, I wanted to see how these numbers would affect the model. Despite this, my idea went differently than planned. The decrease in quantity and cost did reflect in my open-to-buy reflection. This time, I was \$3,831.17 over the 65,000 plan compared to the \$6,428.57 in the buyer's plan. In comparing the two plans, I cut down by \$2,597.40.

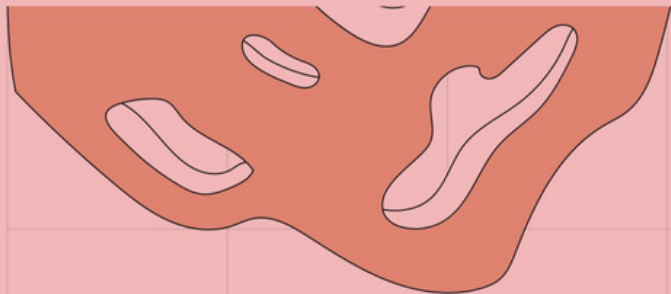
To meet my goal, I would have to increase my units instead of decreasing them while simultaneously reducing my cost. The more I can buy at a lower price, the more I can profit. If I had raised the units ordered instead of decreasing them, I could have gotten the most units in relation to the \$40 cost. This could have resulted in a slight increase in markups; however, I believe it wouldn't have been much because I would need a big discount to make a difference.

The organizational implications would be the same as stated before, at a less extreme level now that I cut back \$2,597.40 in my open-to-buy plan. Despite this, job loss, a decrease in future departmental plans, and the negative impact on value chains are still prevalent. Going over the plan can create a snowball effect. It would be advised to reflect upon this plan and develop a new one to meet the department's goals.

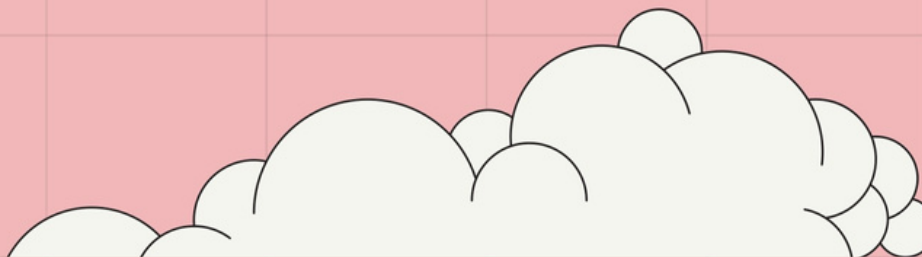
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Section 3



Conclusion

3 Giddings

Section 3

Although the buyer's plan is slightly closer to the cumulative markup goal of 58.0%, I recommend my alternate plan over the buyer's plan to the Divisional Merchandise Manager. My decision is based on the notion my alternative method does not go over the open-to-buy budget as the buyer does. As a result, I saved the company \$2,597.40 compared to the buyer's plan, in which their plan exceeds the \$65,000 budget by \$6428.57. Therefore, despite exceeding the \$65,000 retail plan, my plan allows for an easier financial recovery compared to the buyer's, which negatively impacts the company's finances.

My plan is a softer blow than the buyer's, which can result in laying off fewer people and other negative impacts on the company if we cannot meet our cumulative markup goals. On the other hand, that \$2,597.40 can strengthen the company in many ways, such as strengthening the weakest links in our value chain network, therefore supporting the company as a whole. My plan has room for improvement, and it's a better place to start than the buyer's.

My alternative plan is a step in the right direction. However, suppose new plan revisions cannot meet the cumulative markup goal of 58.0% while not exceeding the \$65,000 retail. In that case, the buyer should look elsewhere to see if they can get similar, on-trend maxi dresses at a lower price to sell in the summer months rather than the current ones.

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