

Question 19 (8 marks)

- (a) Distinguish between a
- mark-up
- and a markdown.

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A mark up is the amount added to the cost price of an item to obtain the Sales price (may be a percentage of cost price). A markdown is a decrease in the price of an item for a particular reason.

- (b) Use ONE example to explain why retailers mark up prices.

2

Theft has a major impact on a retailers profits, therefore retailers are forced to markup prices on products by 5-8% to cover theft. Retailers may also mark up prices to cover other things, such as profits.

- (c) What are the impacts on profit when a retailer applies a markdown to a price?

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When a retailer applies a markdown to a price, then they are immediately decreasing their profit amount, or chance of gaining that increased profit.

However, by applying a markdown to a product, a retailer may be able to make more sales on that product, and therefore may be able to ultimately increase their profit.

If more of the items are sold for the marked down price, this may eventuate to a positive impact on profit, however if only a few items sell for the reduced price, this will have a negative effect on profit.

Also, by marking down the price of a product, the retailer is contributing to customer satisfaction, eventually leading into increase customers + loyalty, and therefore increased sales & profits.