When a store must discount an item, how much do they lose?

Business Mathematics
Class notes
Markdown and Reduced Selling Price (section 8.3)

When a store cannot sell an item for its original selling price, they often discount it. This is called **markdown**. Technically, the markdown of the item is the difference of the original price and the **reduced selling price**. Stated another way, we have

Reduced Selling Price = Original Price – Markdown

Here, we are using markdown as a dollar amount. However, we can also talk of markdown as a percentage of the original price.

expl 1: What is the percent of markdown and the reduced price for the item below?

Original price: $860
Markdown: $215

Recall,
Percent = Part / Whole.

expl 2: What is the original price and the amount of markdown for the item below?

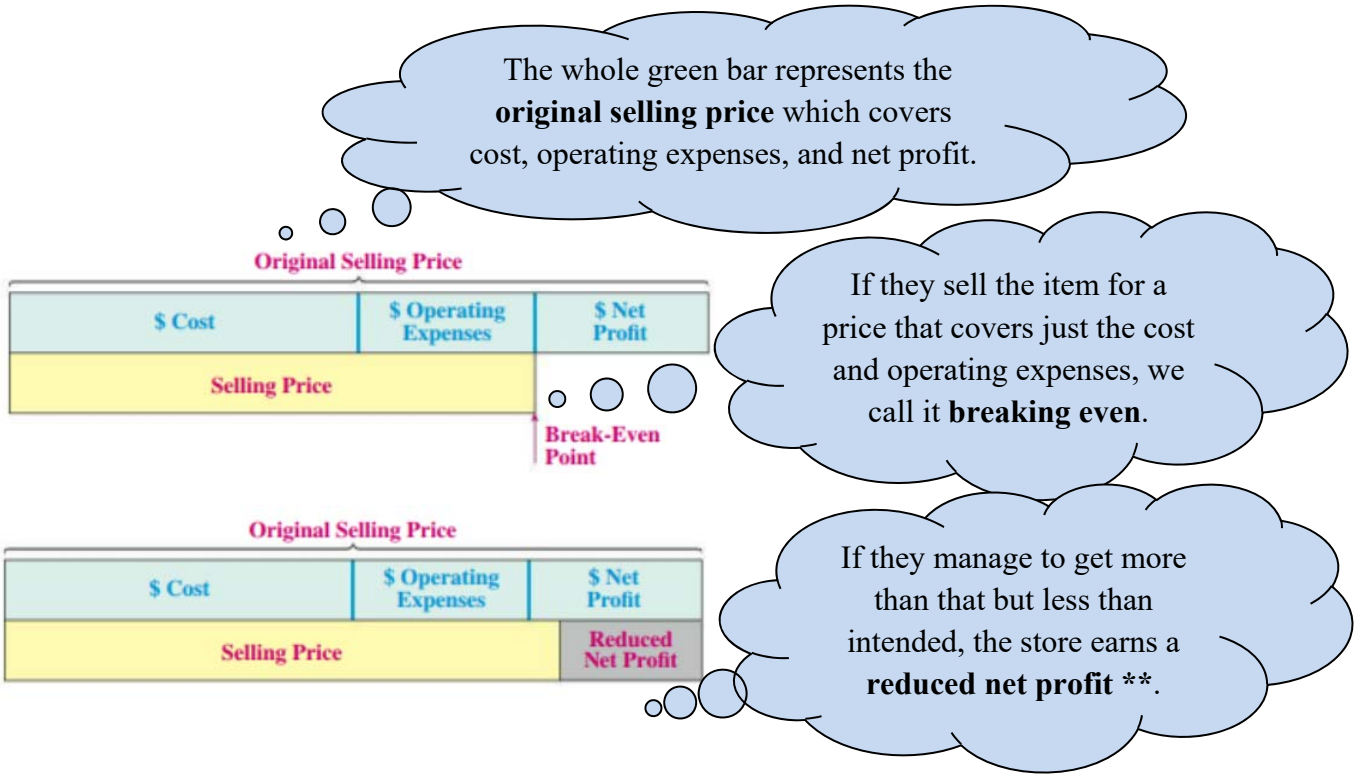
Percent markdown: 66 %
Reduced price: $3.10

If the item was marked *down* 66%, then what percent of the original price is paid (which is the reduced price)?

____% of original price = reduced price

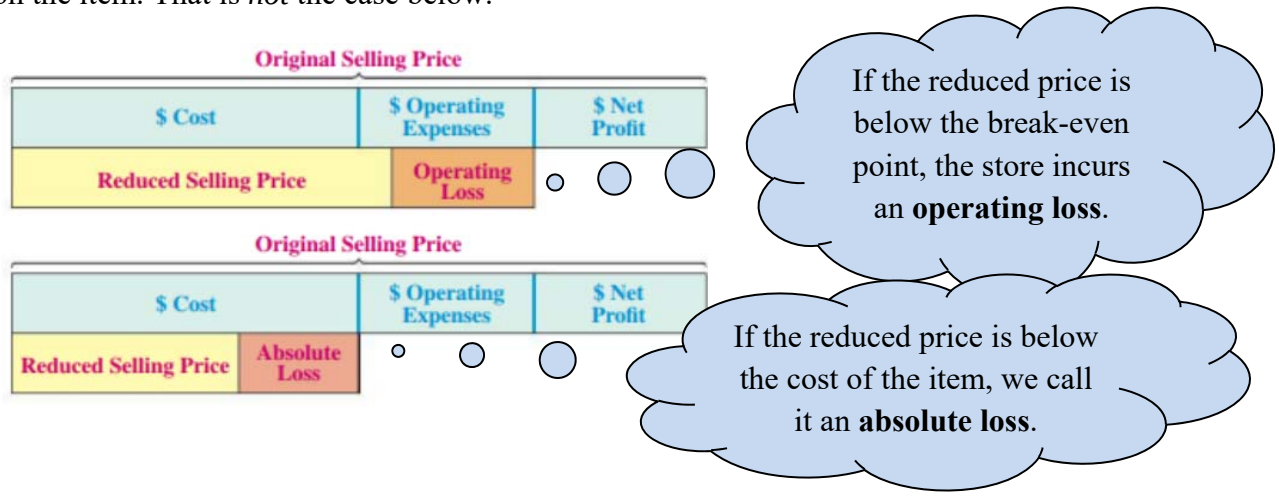
Break-Even Point, Loss, and Reduced Net Profit:

Recall, from the previous sections, that a store adds to an item's cost a markup which covers operating expenses and allows for a net profit. However, when the item must be marked down to sell, the store may lose its profit or even take a loss (considering the cost and operating expenses). Here we see a breakdown of the various possibilities.



** The reduced net profit is actually the difference between the (reduced) selling price and the break-even point.

The two scenarios above may *not* be what the store intended, but at least they *do not lose* money on the item. That is *not* the case below.



These two last scenarios, again, are when the store actually loses money on the item.

Some formulas may help you perform calculations and to simply understand the concepts better.

Break-even point = Cost + operating expenses

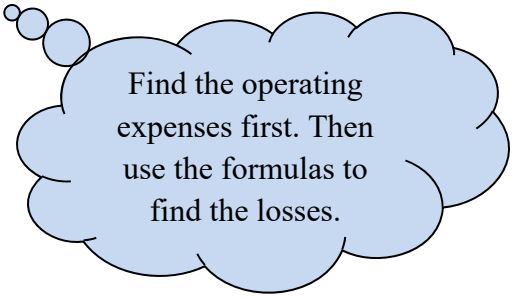
Operating loss = Break-even point – Reduced selling price

(or **Operating loss** = Cost + operating expenses – Reduced selling price)

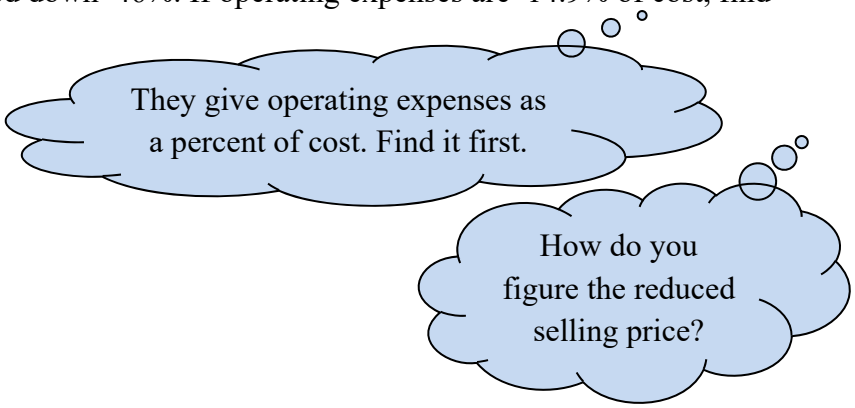
Absolute loss = Cost – Reduced selling price

expl 3: Given the information for a marked down item below, find the operating expenses and, if present, operating loss and/or absolute loss.

Cost: $12.50
Break-even point: $16.50
Reduced price: $11



expl 4: American Antiques paid $153.49 for a fern stand. The original selling price was $208.78, but this was marked down 46%. If operating expenses are 14.9% of cost, find
a.) the operating loss, and
b.) the absolute loss.



To further understand this situation, fill in the missing amounts in the diagram. It is *not* drawn to scale.