



Should Retailers Even Be Demanding Chargebacks and Markdown Money?

By Vicki M. Young



Apparel firms and retailers each will have to do a bit of give-and-take if they both want their businesses to survive. CREDIT: Adobe Stock

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Chargebacks and markdown money requests didn't go away just because retail doors closed during the coronavirus outbreak in the U.S., and the good news is that so far it doesn't appear that retailers went overboard in their demands.

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There's been reports of retailers across the different distribution channels putting in their usual asks at the end of the spring season for deductions, advertising dollars and markdown money. It's sometimes referred to as the scourge of retailing, while others see it as retail's big profit center. Market sources said some of the requests have been in the millions, in line with past requests, but that they were somewhat surprised to be on the receiving end since the coronavirus, or COVID-19, outbreak was out of anyone's control.

"From a general perspective, we haven't seen any significant increase in requests for markdown money or any chargebacks thus far. We think that if it was going to increase, we would have seen it already," said J. Michael Stanley, managing director at Rosenthal & Rosenthal and head of its factoring division.

And while the requests are an age-old practice in retail, the question remains whether retailers should even dare to ask for the financial support of their "vendor partners" in a COVID-19 world, and when they do ask, what options, if any, do vendors have?

Chargebacks and 'weird violations'

The two primary categories that affect apparel and footwear vendors are chargebacks and markdown money.

"Vendors get hit with a ton of deductions after each season," Jessica Butler, founder of chargeback and deduction advisory firm Attain Consulting Group, said. Many of those are covered under the rubric of chargebacks.

Chargebacks cover the logistics mistakes retailers claim vendors make, which can range from items missing in an order to product shipping with the wrong hangers or packaging, or even excessive packing material.

According to Butler, while "fashion includes more weird violations, whatever they are, than in other industries," these are charges that a vendor can fight back on. "If you do a good job of documenting why something is wrong, you can get your money back, but you have to back it up. A lot of fashion companies haven't been doing as good a job as they need to in keeping accurate records," she said.

“Some retailers are very honorable. They really try to work with their [suppliers](#) to make sure things are right,” Butler said, noting that she’s hearing right now of some vendors across the consumer space receiving e-mails from retailers offering a six-month waiver on certain charges.

Markdown money

Markdown money, or margin support, is a more creative approach where retailers come back at the end of the season asking for additional help because they had to promote the goods, which then impacts margins and how much in profits they were expecting to get on each sale. That is often a much harder request for vendors to fight back on.

“In my history of working with retailers, they all have a target for their margin expectation. We work together with the retailers to do everything possible to achieve that margin,” said Colleen Kelly, CEO at the better-priced special occasion dresses and separates firm Alex Apparel Group.

“If we don’t achieve that margin, the expectation of the retailer is that we will give them the amount needed to achieve that target. But there’s always room to negotiate based on any situation that occurred that season that impacted profitability,” she continued. “In addition, we always see if a retailer has reduced receipts going forward and then that can also become a position for negotiation. We have to see how the whole season played out.”

Kelly said some retailers did ask for margin support for spring 2020 merchandise, noting that there was “a little more softness” in the requests. Many said they understood the unique situation and “would appreciate anything” we could do, she added, declining to disclose how her company handled those requests.

However, retailers have been placing orders for fall. “While the majority of social occasion offerings are seasonless, they are asking for some deeper fall colors so they can bring in some freshness, some newness, to what they’re showing to customers. One of the biggest things we will ship for fall are some velvet pieces as they can easily be worn to an at-home holiday party,” she said.

The retail-vendor dynamic: a line in the sand

“For the most part, vendors will give up a little on the support request to ensure they continue to get future orders,” said Mary Ann Domuracki, a managing director at MMG Advisors. “I can give you X amount for a past order if I can ship Y amount that’s currently on order’ is what a vendor with a certain amount of clout might say to a retailer when negotiating the request for margin support.”

Domuracki believes some vendors “are more likely to shrink their business and sell less to a retailer than agree to the old terms.”

“They just can’t afford to give retailers everything they are asking for,” she said. “So maybe a \$10 million company might chose to be a \$7 million firm, but they’ll make more money as a \$7 million firm because they won’t have to give back so much markdown money. The problem for retailers is that if

more suppliers do this, they may not have enough goods for the time when business picks up.”

As retailers think about how to keep their business afloat, it’s no surprise that they continue to lean on their vendor base for help. “Retailers are notoriously aggressive for negotiating for everything they can possibly get. It’s no different now. They ask for the world and it’s up to the vendor to push back on the different components they’re asking for in their menu. Vendors have to draw a line in the sand on things that they will not accept,” Domuracki said.

The better-performing essential retailers such as Walmart and Target also are asking for better deals even if they’re not directly asking for markdown money.

“They legitimately have higher costs between sanitizing stores and shipping out more goods, but they also recognize that they need their vendors to ship goods,” Domuracki said. “They might not be asking for margin support after they go through the season’s receipts, but they are asking for help upfront. These retailers push for better terms so they can improve their margins, but then vendors have to think how they will be able to cut their costs and it creates issues in the supply chain.”

Addressing requests for monetary assistance to meet margins, Domuracki said it’s less about the asking and more about expectations. “There’s only so much to go around. We feel everybody has to take a step back and think, ‘We’re in this together,’ and then figure how they’re all going to make money together,” she said.

Many vendors plan for these scenarios upfront to ensure their margins remain intact.

“From a vendor’s perspective, very often they know that a certain percentage of the sale is forked over for chargebacks and markdown money,” said Michael Appel, founder of restructuring consultancy Appel Associates LLC. “So savvy vendors build that into their sales price. For commodity items, it’s less of an issue because the sell-through is pretty predictable, but even then it may not stop a retailer from asking. For fashion items, there’s more risk and therefore more markdown money requests.”

Appel believes retailers must reevaluate their vendor relationships, and maybe even rethink their money-grab requests.

“The question is: how far do you go? Retailers have to think about how far can they realistically push their vendors for the added costs,” he said. “They have to remember that they need someone to buy from so there should always be a back-and-forth negotiation.

“Everybody at the end of the day still needs to have their partnerships and everybody is going to have to take their share of some of the COVID pain,” he added. “That’s the right way to do it.”

Wall Street’s view: an ‘inter-dependent ecosystem’

The “in it together” mentality would behoove both the retailers and their pool of vendors, according to Simeon Siegel, senior retail and e-commerce analyst at BMO Capital Markets.

“We have inter-dependent ecosystems where one side needs to survive in order for the other to survive as well,” he said. “What’s needed here is everyone taking a little bit of the pain to make sure the systems can survive.”

In his vendor checks, Siegel said some of the largest brands are figuring out what portion of the pie they are willing to take. “Normally it can be clear who absorbs what cost. Now there’s a little bit more collaboration, and some vendors are pushing back as much as they can. Normally these talks can be a game of chicken, with one side, mostly retailers, not caring about anyone else. Post-COVID-19, this is not a zero-sum game. The retailer may need to win, but its vendors need to still be there for them to play [this game] again,” he said.

Retail consultant Walter Loeb doesn’t think the practice of retailers asking for vendor support will go away.

“The retailer’s thinking is, ‘You want another order? Then take this stuff back, or give me a large discount,’” he said. But should it stop?

“I think chargebacks and markdown money are evil, but manufacturers have lived with this for many years. It’s the way they’ve all been doing business,” he said. “However, in this environment, retailers who continue ask for concessions or other forms of monetary assistance are acting irresponsibly because manufacturers will get so hurt that many will not be able to survive.”

But not every vendor can fight back

The playing field isn’t exactly level for vendors.

“Retailers are in the better position because most likely there is always another manufacturer willing to produce goods for them,” said Howard Bader, managing partner at the law firm of Ballon Stoll Bader & Nadler P.C. “The opposite is true for vendors, especially as more retailers either reduce their store base or close their doors entirely. That can put many companies out of business.”

Bader said it’s become more difficult for vendors because, between store closures and bankruptcies, they now have fewer retailers to sell to. “When this first started in March, clients were saying they owe me this and I want to sue. But the question is this, ‘If it’s a big customer of yours, then who do you sell to next season?’”

“It’s not just markdown money or chargebacks. I have a lot of clients who are stuck with merchandise that were produced in China, Vietnam or Bangladesh,” he said. “The merchandise were never shipped or were on their way. Orders got canceled and then some of the merchandise came in.

“Now the warehouses are full of goods, and the stores are coming back buying the goods they ordered previously, but at a discount,” Bader added. “My clients have to sell [at the discounted prices] so they can get at least some money back.”

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