

SECTION 2: Manipulating Profit Variables: Merchandising for a Profit

Part 1: Mathematics for Manipulating Profitable Variable

Part 1: 1-2 Terminology of Retailing Profit Variables

Terminology defined for “Manipulating Profit Variables: Merchandising for a Profit”.

Billed Cost (of Goods): gross wholesale cost of goods after deduction for trade and quantity discounts, but before cash discounts are calculated; invoiced cost of goods

Cash Discount: predetermined discount percentage deductible from invoiced cost or billed cost of goods if invoice is paid on or before the designated payment date

Competition: firms, organizations or retail formats with which the retailer must compete for the same business and target consumers in the marketplace

Industry: group of firms offering products that are identical, similar, or close substitutes of each other

Market: products/services seeking to satisfy the same consumer need or serve the same customer group

Closeouts: the leftover merchandise at the end of a vendor’s selling season; merchandise offered to retailer at a reduced wholesale cost

Contribution or Controllable Margin: amount of margin remaining after controllable direct expenses are subtracted from gross margin

Controllable (Direct) Expenses: expenses, such as salaries of personnel, advertising, supplies, cleaning and maintenance, receiving and marking, that specifically relate to the operation or activities and functions of a selling department and to the sales volume for that specific department

Cost of Goods Sold: the wholesale cost of merchandise plus the transportation cost, including insurance if applicable, minus cash discounts and returns to vendors

Customer Returns and Allowances: reduction, usually after the completion of sale, in the retail price due to soiled, damaged, or incorrect style, color, or size of merchandise

Dating: the time limit that applies to paying for merchandise; the last day on which cash discounts can be taken and the last day for payment before bill is considered overdue

Employee Discount: reduction in price on employee purchases; an employee benefit and incentive for employee to become familiar with stock

Fixed (Indirect) Expenses: expenses that bear little or no relationship to sales volume; these expenses occur regardless of sales volume; expenses that remain the same for the entire year or for every inventory. Examples are manager’s base salary, rent, or building insurance.

GMROI: Return on Inventory Investment (ROI) relates the merchandising variables of margin, markup and turnover. [ROI measures how much is invested in a department and how much profit (merchandising margin) is generated off the investment.]

Gross Margin: dollar or percentage difference between net sales and cost of goods sold

Gross Sales: total retail prices charged to a customer, both cash and credit, for all merchandise and services before any deductions in retail price

Invoice: vendor's bill or itemized statement of items shipped, unit and extended cost of items and charges for transportation and insurance (if applicable)

Maintained Markup: difference between net sales and gross cost of merchandise sold; difference between delivered cost of goods and retail that is actually realized

Markdowns: reduction in retail price of merchandise; reduction in original retail price of goods; expressed in dollars as difference between the previous retail price and new retail price; expressed in percent as a percent of net sales or markdown dollars divided by net sales dollars

Markup: amount of dollars added to the cost of goods to determine retail price; difference between retail price and wholesale cost of goods; must cover expenses, retail reductions and profit of retailer

Net Profit: net operating profit minus taxes

Net Operating Profit: money remaining after operating expenses has been subtracted from gross margin

Net Sales: gross sales less reductions; operating income; sales volume

Operating Statement: a Profit & Loss or Income Statement that pinpoints and relates the relationship between sales, cost of goods sold and operating expenses for a specific period of time, usually a month or year

Profit & Loss Statement: statement of revenue or net sales, cost of goods sold, operating expenses and profit for a specified period of time; Income Statement; Operating Statement

Retail Reductions: customer returns and allowances, employee discounts, markdowns, shrinkage

Shrinkage (Shortage): difference between paper inventory and physical inventory counts

Stock / Sales Ratio: ratio that exists between the stock on hand at the beginning of a month and the retail sales for the same month

Terms-of-Sale: cash discounts, dating, and delivery stipulations specifying the purchase agreement between retailer and vendor

Turnover: the number of times during a given period of time that the average inventory on hand is sold and replaced

Variable Expenses: expenses that change with time of year or sales volume such as utilities, grounds maintenance, etc.