



Retail Finance

- Joint Venture
- Retail & Finance Committees
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■ Goals

- Basics of Retail Buying & Planning
- Don't Fear Math
- Real Life Examples
- Simple
- Because simple works
- Drive Profit



■ Topics

- Buying
- Selling Price; Cost plus
 - Gross Margin
- Margin Analysis
 - Shrink
 - Effects on Margins
 - Prevention
 - Sales Analysis Tools
 - Stock Turn
 - Slow Moving Stock & Write Offs
 - Handouts
- Q&A



Buying

- Internal Analysis & Forecasting
- Market Trends & Fashion
- Gut Feel
- Quantity Discounts
- Sale or Return
- Optimal Re-Order Quantity
- Open To Buy program



Internal Analysis & Forecasting

- “Best Sellers” Reports
- Slow Moving Stock Reports
- Anecdotal
- Prior Year trends
- Weather reports



Internal Analysis & Forecasting

- Per capita
 - \$1,000,000 sales / 500,000 guests = \$2.00 PerCap
- Per rider
- Per square foot
- Trend analysis
- Location analysis
 - Within particular shops
 - Across shops



Optimal Re-Order Quantity

- Formula
- Discuss limitations





Open To Buy program

- Basic Formula;

$$\begin{aligned} & \text{Sales @ Cost} \quad \blacksquare \\ + & \text{ Target Ending Inventory @ Cost} \\ - & \text{ Beginning Inventory @ Cost} \\ & \text{Open to Buy \$\$} \end{aligned}$$



Selling Price

- Cost Plus; Gross Margin
- Experimentation
- Branded Goods ■
- What the market will bear
- Markdowns



Gross Margin

- Sales less costs expressed as a percentage of sales
 - What % of sales is PROFIT?
- Used for:
 - Performance Assessment
 - Measure average profitability
 - Compare product types & areas



Gross Margin by Item

Product	Cost	Retail	Gross Margin
Apples	\$30.00	\$100.00	70% (100-30)/100
Pears	\$9.00	\$28.00	68% (28-9)/28
Total	39.00	128.00	69% (128-39)/128



Gross Margin

■ Unit Margin

	Apples	Pears
Unit P\$	100	28
Unit C\$	(30)	(9)
Gross Profit	70	19
Margin % ■	70%	67.9%

■ Sales Margin

	Apples	Pears
Sales		
Unit Sales	60	300
Retail Revenue	6,000	8,400
COG's	(1,800)	(2,700)
Gross Profit	4,200	5,700
Margin %	70%	67.9%



Shrinkage

- Theft – Staff & Customers
- Ernst & Young Rule – 1% to 2% Sales
- Fun World June 2008
- Damaged Goods
- Sell By Dates
- Inaccurate Counting
 - 3rd party Inventory Service



Shrinkage

- Stock Reconciliation

	Apples	Pears	Total
Beg. Of Year Qty.	0	30	30
Qty. Bought	80	325	405
Qty. Sold	(60)	(300)	(360)
Book Qty	20	55	75
Year-End Count	18	50	68
Shrink Qty.	(2)	(5)	(7)
Unit Cost	30	9	
Shrink Cost	(60)	(45)	(105)



Shrinkage; effects on Margin

	Apples	Pears	Total
Sales \$	6,000	8,400	14,400
COG's	(1,800)	(2,700)	(4,500)
Shrink	(60)	(45)	(105)
Gross Profit	4,140	5,655	9,795
COG's %	30%	32.1%	31.3%
Margin %	69.0%	67.3%	68.0%

	Apples	Pears	Total
Sales \$	6,000	8,400	14,400
COG's	(1,800)	(2,700)	(4,500)
Gross Profit	4,200	5,700	9,900
COG's %	30.0%	32.1%	31.3%
Margin %	70%	67.9%	68.8%



Shrink Prevention

- Cycle Counts
- Written Policies & Procedures to avoid human error
 - One person creates a transfer; a different person has to check-in the inventory.
 - AP processes; one person receives inventory; a different person processes the invoice.



Shrink Prevention

- Damage Reports
 - Monitoring mark-outs/disposal of inventory.
- Direct Receiving vs. Warehouse Receiving
- Accurate Cost recording on Purchase Orders.
- Upgrade Infrastructure.



Sales Analysis - Stock Turn

- How quickly is stock used (“turned”)?
- Cost of Sales divided by Year End Stock
- Use Dollars – not units
- Used to Identify Slow Moving Stock

	Apples \$	Pears \$	Total \$
Cost of Sales	1,800	2,700	4,500
Year End Stock	540	450	990
Stock Turn	3.3	6.0	4.5



Sales Analysis - Slow Moving Stock & Write Offs

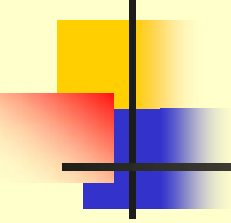
- Characterised by
 - Poor Sales
 - Low Stock Turn
- Action
 - Lower Price (Markdowns) and/or
 - Reduce cost in accounts
 - “Bundle Packaging” (eg 2 for 1; Free gifts)



Sales Analysis

- Handout Discussion





Q & A

