



# Retail Finance

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- Joint Venture
- Retail & Finance Committees
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# ■ Goals

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



# ■ Topics

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- 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

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



# Internal Analysis & Forecasting

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



# Internal Analysis & Forecasting

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- 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

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- Formula
- Discuss limitations





# Open To Buy program

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- 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

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



# Gross Margin

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- 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

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## ■ 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

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- Theft – Staff & Customers
- Ernst & Young Rule – 1% to 2% Sales
- Fun World June 2008
- Damaged Goods
- Sell By Dates
- Inaccurate Counting
  - 3<sup>rd</sup> 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
<b>Sales \$</b>	6,000	8,400	14,400
<b>COG's</b>	(1,800)	(2,700)	(4,500)
<b>Shrink</b>	(60)	(45)	(105)
<b>Gross Profit</b>	4,140	5,655	9,795
<b>COG's %</b>	30%	32.1%	31.3%
<b>Margin %</b>	69.0%	67.3%	68.0%

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



# Shrink Prevention

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- 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

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- 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

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- 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

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- Handout Discussion





# Q & A

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