

<b>Chart A</b>					
number	definition		relation	example	
net sales per month	net sales per month after returns and credits		$\text{cost} / (100\% - \text{margin } \%)$ $\$9,000 / (100\% - 55\%)$	=	\$20,000
margin %	percent of sales that is gross profit		$(\text{sales} - \text{cost}) / \text{sales}$ $(\$20,000 - \$9,000) / \$20,000$	=	55 percent
cost of goods sold per month	cost of goods sold per month		$\text{sales} \times (100\% - \text{margin } \%)$ $\$20,000 \times (100\% - 55\%)$	=	\$9,000
turns	times/year that inventory was purchased and sold		$(\text{cost} \times 12) / \text{inventory}$ $(\$9,000 \times 12) / \$42,000$	=	2.5714 times
target value	total dollar value of inventory at cost		$(\text{cost} \times 12) / \text{turns}$ $(\$9,000 \times 12) / 2.5714$	=	\$42,000

  

<b>Chart B</b>					
month	fabric sales	gross margin	cost of goods sold	turns	desired average inventory
October	\$10,000	60% = \$6,000	$\$10,000 \times (100\% - 60\%) = \$4,000$	4	$(\$4,000 \times 12) / 4 = \$12,000$
November	\$10,000	50% = \$5,000	$\$10,000 \times (100\% - 50\%) = \$5,000$	4	$(\$5,000 \times 12) / 4 = \$15,000$
December	\$10,000	40% = \$4,000	$\$10,000 \times (100\% - 40\%) = \$6,000$	4	$(\$6,000 \times 12) / 4 = \$18,000$

An accurate picture of what is selling each month will allow you to stay well-stocked with the correct merchandise — the merchandise your customers are buying. A sales report by department is a good start. But, sometimes a more specific analysis is needed.

A retailer must know her critical numbers — numbers of sales, profit margin, cost of goods sold, inventory turns and target inventory value. These figures are interactive, interlocking and relational. In other words, you can calculate one of them if you have the others. These numbers are most beneficial if analyzed by each sales department (i.e., Fabric, Notions, Thread, Patterns, etc.). Look at the example in Chart A to define these terms.

Successful retailers understand the relationship between these five numbers. For each of your departments, you can set goals or benchmarks. If you stay within your goals, you know you will get the results you desire. If your numbers fall outside your goals or boundaries, it is necessary to understand the resulting impact.

Use your POS system to run reports and to analyze your numbers each month by department. Done on a regular basis, you will begin to notice if anything looks out of the normal/ desired range. Here are some reasons why you might see a change:

Sales that are low in a department can mean:

- You don't have enough inventory
- You don't have the right inventory
- You don't have enough traffic
- You are not merchandising the product properly
- The cost of the merchandise is not correct

Margins that are low (or cost of goods sold that is high) can mean:

- You are paying too much for the product sold
- The sales price is too low

Inventory turns that are low can mean:

- Too much obsolete inventory that is not moving
- Too much overall inventory

Inventory turns that are high can mean:

- Not enough inventory – may lose sales as a result
- Spending too much time ordering and receiving

Target inventory value that is high can mean

- Overpurchasing of inventory
- Slow-moving or non-moving items in inventory

As you can see, if one of the numbers changes from its goal, it has an effect on the other numbers within a department. The relationship between the numbers is a great tool for retail

## page 2

managers to isolate why the numbers may be outside of the desired range.

See Chart B for numbers that are specific to fabric sales. From this example, you can see that as your gross margin drops from 60 percent to 40 percent, you need to add more inventory to maintain fabric sales at \$10,000 per month, given a desired turn ratio of four times per year. To understand why this is occurring, you may want to run a sales report by department and by vendor to analyze the cost of your fabric.

In the next issue of *American Quilt Retailer* see how you can use your POS system to look at your numbers by department and by vendor! ★

*Susan Besand is the president of Micro-Solve, Inc.  
She lives in Oswego, Ore.*