

GLOSSARY OF RETAIL TERMS

AVERAGE FIRST MARGIN

Definition: Average First Margin is the weighted average % of 1st margin on all items purchased for a selected period. The total margin mix of all products in the range is averaged out. This is the most important management statistic that all retailers must know.

Formula:

Item Purchased	Cost Price	Sell Price	% Average First Margin
Item 1	\$A	\$B	$= \frac{(B-A)}{B} \text{ as a \%}$
Item 2	\$C	\$D	$= \frac{(D-C)}{D} \text{ as a \%}$
Total	Sum of Cost Price	Sum of Sell Price	$= \frac{\text{Sum of Sell Price} - \text{Sum of Cost Price}}{\text{Sum of Sell Price}} \text{ as a \%}$

Example:

Item Purchased	Cost Price	Sell Price	% Average First Margin
Item 1	\$50	\$80	37.50%
Item 2	\$100	\$220	54.50%
Item 3	\$50	\$100	50.00%
Claim 1 (return)	-\$30	-\$60	-50.00%
Total	\$170	\$340	50.00%

AVERAGE (1ST) FIRST (GROSS PROFIT) MARGIN: is the mix of the (1st) first margin on all items purchased for a selected period. The total margin mix of all products in the range is averaged out.

BEGINNING INVENTORY: (OPENING STOCK): The approximate amount of retail inventory that the turnover rate suggests to be on hand at the beginning of a period to cover the next complete cycle of sales. It can be calculated at cost or retail; same as ending inventory of previous period.

COST OF GOODS SOLD

Definition: The total cost of a product that is sold. The total cost can include everything from manufacturing to shipping and handling to get that product available for sale.

Formula:

Cost of Goods Sold = Opening inventory + purchases - closing inventory.

Example:

Opening inventory	\$150,000	+
Raw Materials	\$25,000	+
Transportation	\$5,000	= \$180,000
		-
Closing inventory	\$75,000	\$75,000
Cost of Goods Sold		= \$105,000

Other terms used: Gross Cost of Merchandise Sold, Total Merchandise Costs, or Cost of Sales

COST OF GOODS SOLD: The price paid for the product, plus any additional costs necessary to get the merchandise into inventory and ready for sale, including shipping and handling. This can be calculated for total stock holding by adding the sum of the opening inventory, plus purchases at cost, minus the closing inventory at cost. Other terms used: Gross Cost of Merchandise Sold, Total Merchandise Costs, or Cost of Sales.

COST INSURANCE & FREIGHT: A freight term highlighting that the retailer pays the cost plus insurance and freight in the purchasing cost.

COST & FREIGHT: A freight term highlighting that the retailer only pays the cost price of the product plus freight charges in the purchasing cost.

DELIVERED EX SHIPPING: A freight term highlighting that the wholesaler pays all onboard charges to port of destination, buyer pays customs and taxes.

ENDING INVENTORY (CLOSING STOCK): The approximate amount of retail inventory that the turnover rate suggests be on hand at month-end to cover the next complete cycle of sales. For example, if your planned turnover rate is 4.0, at any given month-end you would want enough inventories (at retail) on hand to cover the next three months (of sales). (12 months ÷ 4.0 = 3 months "supply".)

FINAL ACHIEVED GROSS PROFIT is what is left over from first Gross Profit margin, after all the markdowns and shrinkage is deducted.

FREIGHT TERMS

- **EXW** – ex works - buyer pays all charges from factory
- **F.A.S.** – free alongside ship - buyer pays all charges from dockside or airport (loading)
- **F.O.B.** – free on board – buyer pays all charges once goods are placed on board
- **C.& F.** – costs and freight - seller pays all costs and freight to named destination, buyer pays insurance)
- **C.I.F.** - costs, insurance, and freight – seller also pays insurance
- **D.E.S.** – delivered ex ship – seller pays all charges onboard to port of destination, buyer pays customs & taxes
- **F.I.S.** – free into store – seller pays all costs including duties and taxes and delivers direct to buyer

GROSS MARGIN (OR GROSS PROFIT): Amount of money remaining after "Cost of Goods Sold" is subtracted from sales; can be calculated as a percentage or in dollars. An increase in your gross margin is favorable.

GROSS MARGIN PERCENT: (Gross Margin Dollars divided by Sales). A financial ratio which indicates the percent of sales dollars remaining after costs related to purchased merchandise are recognized; an increase in your Gross Margin Percent is generally favorable.

G.M.R.O.I. (Gross Margin Return on (Inventory) Investment): (Gross Margin Percent times Annual Sales divided by Average Inventory at Cost) Measures productivity; how much is returned in Gross Margin Dollars for each average dollar invested in inventory – particularly useful in comparing one merchandise department against another. Can also be computed by dividing Gross Margin (annual) Dollars by Average Inventory at Cost.

INITIAL MARKUP:

The sum added to the cost of new merchandise to arrive at the first retail price. (Note: the "Initial Markup Percent" may be used for "Gross Margin Percent" when markdowns and shrinkage are not included.)

INVENTORY TURNOVER: (STOCKTURN) =(Sales divided by Average Inventory at Retail) OR (Cost of Goods Sold divided by Average Inventory at Cost) Financial ratio which measures velocity or how often (theoretically) entire inventory is sold and replaced within a given period of time. Inventory Turnover in Days equals Number of Days in Period divided by Inventory Turnover.

MARKDOWN: A reduction in the original or previous retail price of a piece of merchandise. For comparative purposes, markdowns are stated as percentage of net sales.

MARKUP: Difference between landed cost of a product and its selling (retail) price.

NET PROFIT: Bookkeeping figure derived by subtracting all Operating Expenses and all other expenses such as taxes, depreciation and draws from Gross Profit. Found on Income Statement.

OPEN-TO-BUY (OTB): An inventory purchasing plan based on anticipated sales and desired inventory turnover rate for various categories of merchandise, departments or entire operations.

PROFIT: A term for the excess of revenue, proceeds, or selling price over all related costs.

PRO FORMA: A forecast or projection.

STOCK COVER: How much stock is owned as a measure against sales. This is can be calculated into days/weeks/months to know how long it will take you to sell out. (to calculate if you need to re-order)

STOCKTURN:(INVENTORY TURNOVER): Financial ratio which measures velocity or how often (theoretically) entire inventory is sold and replaced within a given period of time. Inventory Turnover in Days equals Number of Days in Period divided by Inventory Turnover (Sales divided by Average Inventory at Retail) or (Cost of Goods Sold divided by Average Inventory at Retail)