

Merchant+

Math

Financial Definitions and Formulas for Garden Retail Business Management

This booklet is provided for informational purposes only. There are often more than one (and conflicting) definitions provided by others for many of these terms. Use at your own risk.



Definitions and Formulas

1. Earnings Before Interest, Taxes, Depreciation, and Amortization – (EBITDA) aka Operating Profit - Calculated as: Revenue - COGS, - wages & wage benefits, - operating expenses
2. Operating Profit – This is the same as EBITDA
3. Net Profit – The dollars remaining after paying operating expenses, wages & wage benefits, cost of goods sold, interest on operating loans and mortgages, taxes, depreciation, and amortization.
4. Cost of Goods Sold – COGS – The total cost of all merchandise (with associated freight), including shrink. Calculated as: Beginning Inventory + Purchases – Ending Inventory = COGS.
5. Cost of Sales – The cost of items sold through the POS system. This should include all discarded merchandise recorded as shrink.
6. Freight – Freight for purchased non-merchandise is recorded as operating expense. Freight expense incurred to transport items purchased for resale is part of the cost of goods and should be pro-rated to the number, weight, or volume of units.
7. Gross Margin Discounted – Retail selling price (minus markdowns, discounts, coupons, and rebates).
8. Margin Erosion – The difference between initial mark-in price minus attained margin after all forms of discounting and shrink.
9. Shrink – Cost value of lost inventory, vendor fraud, internal theft, and shoplifting. There is also an unknown opportunity cost from lost sales.
10. Markup – Price obtained by multiplying the cost (including freight and taxes) of the product times a simple markup factor that covers profit, operating expenses and wages (including wage benefits).
 - a. Do not use this process or term. Use Mark-In Margin instead.
11. Gross Profit – Difference between the selling price and the product cost.
 - a. Do not use this term because a profit may or may not occur – Use Gross Margin instead.
12. Gross Revenue or Gross Sales – Total sales dollars after shrink.
13. Gross Margin – Difference between the net selling price (after all forms of shrink and discounting) and the product cost. Calculated as: Selling Price – Cost of Goods = Gross Margin Dollars or, expressed as a percent (Gross Sales – Cost of Goods) / Selling Price
14. Mark-In Gross Margin – Price obtained by dividing the product cost by the sum of 100 minus the desired gross margin. Calculated as: (Selling Price – Cost of Goods) / Selling Price
15. Sales Tax – Sales Tax is a Balance Sheet item only, handled as an increasing liability when it is collected and a decreasing liability when it is paid. It should not be reported in Sales and/or Expenses on the Income Statement or P&L.

16. Gross Margin Return on Inventory Investment – (GMROI) – A ratio measuring the dollar amount returned for every dollar in inventory investment. Calculated as: $\text{Gross Margin Dollars} / \text{Average Inventory} = \text{GMROI}$
17. Days Sales In Ending Inventory – The number of days a retail business could operate without purchasing new inventory given (ending inventory and) the daily Cost of Sales in the prior period. Calculated as: $(\text{Ending Inventory}/\text{COGS}) * 365$
18. Operating Expenses – The general and administrative costs of operating the business which can be expressed in dollars or a percent of gross sales.
19. Wages and Wage Benefits – The cost of salaries, hourly wages, overtime, independent contractor labor plus payroll taxes, benefits, insurance, worker's compensation, unemployment insurance, and uniforms which can be expressed as dollars or a percent of gross sales.
20. Category Square Foot – The twelve-month average of the square footage used by a category. This includes the total footprint – displays, storage, and aisle space. (If two categories share an aisle, half of the aisle is assigned to each category.)
21. Sales Per Square Foot – Sales per square foot of total retail selling and storage space including aisles between product categories are measure to center of aisle. Calculated as: $\text{Net Sales} / (\text{Square Feet of Retail Sales Area and Storage})$
22. Margin Dollars per Square Foot = $\text{Margin Dollars} / \text{Square Foot}$ used for retail and storage. A better indicator of category or store productivity than Sales per Square Foot. Calculated as: $\text{Margin Dollars} / (\text{Square Feet of Retail Sales Area and Storage})$
23. Labor Full-time equivalent - $\text{Total Labor hours} / 2000$. A fulltime staff person averages 50 weeks (two weeks off) @ 40 hours per week. 24. Margin Dollars per Labor Hour - Calculated as: $\text{Margin Dollars} / \text{Labor Hours}$.
25. Owner's Compensation – Owner's salary and benefits at a fair and reasonable rate equal to local salary levels in comparable industries.
26. Equity – The value of the net ownership interest in the business. A true indicator of how you are using your money to increase wealth. Increasing Assets while lowering Liabilities improves Equity. Calculated as: $\text{Equity} = \text{Assets} - \text{Liabilities}$.
27. Budget - Projection of sales goals and expense budgets to arrive at a pre-determined level of Profit.
28. Projected Cash Flow – A pro-forma (before the fact) estimate of income vs. outflow of cash. The maximum deficit (negative amount) will be your maximum need for cash outside the normal business operations (Line of Credit)