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régionale

Canada

Key Performance Measures for Retail Businesses

TABLE OF CONTENTS

INTRODUCTION 1

I. OVERALL VIRGINIA KEY PERFORMANCE MEASURES FOR RETAIL BUSINESSES 2

 Measures of Profit and Growth 3

 Measures of Cash Flow and Liquidity 4

 Measures of Costs 5

II. EMPLOYEE STANDARDS 6

 Measures of Employee Performance 6

III. MARKETING AND MERCHANDISING STANDARDS 11

 Measures of Marketing Performance 11

 Measures of Merchandising Performance 14

IV. INVENTORY STANDARDS 16

 Measures of Inventory 16

V. QUALITY STANDARDS 19

 Measures of Quality 19

VI. FINANCING & PERFORMANCE 21

VII. PRINCIPLES OF ACCOUNTING EXPANSION 24

VIII. DEFINITION OF TERMS 26

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TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
I OVERALL FINANCIAL AND ADMINISTRATIVE STANDARDS	1
Measures of Profit and Growth	1
Measures of Cash Flow and Liquidity	4
Measures of Costs	6
II EMPLOYEE STANDARDS	8
Measures of Employee Performance	8
III MARKETING AND MERCHANDISING STANDARDS	11
Measures of Marketing Performance	11
Measures of Merchandising Performance	14
IV INVENTORY STANDARDS	16
Measures of Inventory Performance	16
V FACILITIES STANDARDS	19
Measures of Space Performance	19
VI ESTABLISHING A PERFORMANCE MEASUREMENT PROGRAM	21
VII SOURCES OF ADDITIONAL INFORMATION	24
VIII DEFINITION OF TERMS	30

INTRODUCTION

Over the years a wide range of performance measures has been developed to provide retailers with a practical method of evaluating their own performance. Despite large differences between retail firms, there are certain standard assessment methods that are applicable to a broad range of business activities. This booklet has been designed to help retailers develop their own measurement program. Once integrated into regular management routine, a consistent performance measurement program will provide critical information with which to identify potential areas of improvement and plan future strategy.

Performance measures are an excellent method of assessing a company's status in the areas of profitability, productivity and efficiency. Although there are many performance measures available, this publication outlines some of the most useful ones to start with. The key is to select the measures, or performance indicators, that are the most appropriate to a specific operation.

To perform the calculations for the measures suggested in this booklet requires putting regular records to new uses. Accounting records, cash register tapes, payroll records, supplier records, etc., will generate most of the information needed. In a few cases, however, it may be necessary to generate new information on operating procedures to make use of a particular measure.

Chapters 1 to 5 outline KEY MEASURES and ADDITIONAL MEASURES. KEY MEASURES are those commonly used in retailing and are the starting point for an assessment of overall efficiency. ADDITIONAL MEASURES assist in understanding or identifying the reasons for a given level of performance.

Chapter 6 is a guide program for the individual retailer in establishing a performance measurement program.

Retailers who wish to add to the performance measures contained in this publication or do comparison studies of their results with other businesses, may refer to the listing of additional sources of information in Chapter 7.

A selection of working definitions is contained in Chapter 8.

Suggestions for improving this publication are welcomed. Please contact:

Distribution Service Industries Division
Service Industries and Consumer Goods Branch
Department of Regional Industrial Expansion
235 Queen Street
Ottawa, Ontario
K1A 0H5

I OVERALL FINANCIAL AND ADMINISTRATIVE STANDARDS

The performance measures in this chapter deal mainly with the overall financial performance of a business. They include some of the most common standards for measuring profitability, growth, liquidity and costs. A number of the measures (or ratios) should be included as a central part of regular management and planning.

A. MEASURES OF PROFIT AND GROWTH

1. Key Measures

a. Percent Profitability

$$= \frac{\text{Net Profit This Period}}{\text{Net Sales This Period}} \times 100$$

This percentage can be used for setting profitability targets, forecasting based on past data or comparing different operating periods. A higher figure means higher profitability. Net profit may be expressed either before or after interest and taxes, as long as there is consistency in the method chosen. To allow for comparison over different time periods, any extraordinary gains (e.g. sale of a major asset), or losses, or any non-operational income and expenses should be removed.

b. Percent Profit Growth

$$= \frac{\text{Net Profit This Period}}{\text{Net Profit Last Period}} \times 100$$

This percentage helps the retailer track the growth of a company's profit over time. Use it to compare annual results or to check monthly performance against an earlier month. Net profit can be defined before or after interest and taxes and before or after extraordinary items.

c. Percent Sales Growth

$$= \frac{\text{Net Sales This Period}}{\text{Net Sales Last Period}} \times 100$$

Use this percentage to track the sales growth of a company (division or department) over time. This can be calculated in either current or constant dollars. Constant dollars includes an adjustment to correct for the impact of inflation on costs and prices. Some retailers use the Consumer Price Index (CPI) or specific retail sector indices with which they have become familiar. For example, a sales increase of 3 per cent in current dollars and a CPI increase of 4 per cent indicates sales have declined by about 1 per cent in constant dollars.

d. Percent Return On Investment

$$= \frac{\text{Net Profit After Tax}}{\text{Average Shareholders' Equity}} \times 100$$

Return on Investment (ROI) is one of the most common performance measures used in retailing. It gives the percentage return on invested capital that an operation yields. It also provides a standard for comparing such an investment with the cost of investment capital and with the rate of return offered by competing investment opportunities. For small businesses, note that the owners' intake (salary and bonus if applicable), may greatly affect this ratio.

e. Percent Return On Sales

$$= \frac{\text{Gross Margin}}{\text{Net Sales}} \times 100$$

This percentage indicates how much return is being generated through sales before operating expenses not directly related to the merchandise, are taken into account. A drop in this figure could mean problems with pricing, inventory management or markdowns.

B. MEASURES OF CASH FLOW AND LIQUIDITY

1. Key Measures

a. Working Capital

$$= \text{Current Assets} - \text{Current Liabilities}$$

This subtraction gives the dollar value of working capital available. For many retailers, this measure is a useful means of approximating cash flow. Many retailers also find it useful to monitor cash position relative to average day's cash needs.

b. Short-Term Liquidity

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Expressed as number of times, this measure reflects a company's immediate debt paying ability. It indicates the retailer's ability to pay short-term debts with assets that can be converted to cash during the period in which the claims come due. Also known as the "current ratio", the total increases as short-term liquidity improves.

2. Additional Measures

a. Quick Or Acid Test Ratio

$$= \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

Expressed as number of times, this measure indicates short-term liquidity adjusted for the value of inventory at cost. The number increases as short-term liquidity improves. Retailers use it when circumstances prevent selling inventory quickly in return for cash or short-term receivables.

b. Days Outstanding In Receivables

$$= \frac{\text{Average Accounts Receivable}}{\text{Total Credit Sales}} \times 365 \text{ Days}$$

This measure provides the number of days of credit sales tied up at any one point in time in accounts receivable or the number of days it will take to collect on credit sales. It gives an indication of credit policies and the effectiveness of collection procedures. An unusual increase in this measure suggests that receivables should be examined carefully, either individually or by age.

c. Days Outstanding In Payables

$$= \frac{\text{Average Accounts Payable}}{\text{Total Credit Purchases}} \times 365 \text{ Days}$$

This measure gives the number of days of credit purchases represented by the average accounts payable level, or the number of days it takes to pay for goods purchased on credit. An increase in this ratio may indicate a deterioration in payment on time of current obligations and signals the possibility of problems in payable procedures.

C. MEASURES OF COSTS

1. Key Measures

a. Operating Costs As Percent Of Net Sales

$$= \frac{\text{Operating Costs}}{\text{Net Sales}} \times 100$$

This percentage is used to track operating costs over time. Retailers use it to compare cost performances on an annual or monthly basis. Unexpected increases in this measure could mean that operating costs are getting out of hand and that problems may exist in the components of the operating cost category.

2. Additional Measures

a. **Administrative Costs As Percent Of Net Sales**

$$= \frac{\text{Total Administration Costs}}{\text{Net Sales}} \times 100$$

Expressed as a percentage, retailers use this measure to determine if administrative costs are in proportion to net sales. Like the preceding ratio, it can be calculated for different time periods. Although time spent on administrative tasks, such as payroll management, depends on the size and type of operation, a significant increase in this ratio might mean that administrative procedures need reassessment.

b. **Occupancy Cost As Percent Of Net Sales**

$$= \frac{\text{Occupancy Cost}}{\text{Net Sales}} \times 100$$

This percentage gives the cost of the current premises as a percentage of sales. With the exception of percentage clauses in leases, this cost is usually fixed relative to changes in sales volume. Increases in this ratio may indicate that space costs have risen to a level where renegotiation or relocation should be considered.

II EMPLOYEE STANDARDS

The performance measures in this chapter deal with employee efficiency. They include methods of developing performance targets and ways of evaluating the volume of work employees are handling. Labour typically represents 15 to 25 per cent of net sales and 40 to 70 per cent of total operating costs. Thus improvements in the productivity of employees, and of each dollar spent on labour, can have a significant impact on retail profitability.

A. MEASURES OF EMPLOYEE PERFORMANCE

1. Key Measures

a. Net Sales Per FTE (Sales) Employee

$$= \frac{\text{Net Sales}}{\text{Total FTE (Sales) Employees}}$$

Expressed in dollars, this measure represents the average sales generated by each "Full-Time Equivalent" (FTE) sales employee. Use it to develop performance targets for sales personnel.

b. Labour Productivity

$$= \frac{\text{Total Labour Costs}}{\text{Net Sales}} \times 100$$

This percentage measures labour productivity by tracking the labour costs incurred to achieve a given sales volume. This measure can also be applied solely to sales employees.

2. Additional Measures

a. Gross Margin Per FTE (Sales) Employee

$$= \frac{\text{Gross Margin}}{\text{Total FTE (Sales) Employees}}$$

Expressed in dollars, this ratio indicates the gross profit generated per employee, and establishes a measure against which to gauge a sales employee's performance. This should not be the only measure of an employee's performance, but it does provide a starting point for closer examination. This measure can be adapted to apply to all employees or solely to buyers.

b. Suppliers Per Buyer

$$= \frac{\text{Total Suppliers}}{\text{Total FTE Buyers}}$$

This measure gives an average of the number of suppliers each full-time buyer in a company is dealing with. There is no ideal number, but by comparing the workload of individual buyers to this measure, management can see how well the buying load is being distributed among purchasing staff. Research has shown that an average buyer's ability to make appropriate decisions about buying declines as the number of suppliers increases. This measure should be looked at in conjunction with the number of stock-keeping units (SKU's) the average buyer handles, as well as with the replenishment cycles involved.

III MARKETING AND MERCHANDISING STANDARDS

The performance measures in this chapter are designed to help retailers monitor the effectiveness of their marketing and merchandising practices. Many of the measures can be applied to an entire store or a single department on an hourly, daily, weekly or seasonal basis. They include methods for determining a retailer's ability to convert potential customers into buyers as well as measures for assessing customer satisfaction and traffic flow.

A. MEASURES OF MARKETING PERFORMANCE

1. Key Measures

a. Transactions Per Customer

$$= \frac{\text{Number of Transactions}}{\text{Customer Traffic In}} \times 100$$

This percentage reflects the retailer's ability to turn a potential customer into a buyer. Also known as the "percentage yield rate" or the "walk to buy ratio", a low figure for this measure could mean that promotional activities are not being realized in sales, or that overall sales effort needs assessment. Unless automatic counting mechanisms are recording customer

traffic, periodic surveys of customer traffic are required to arrive at a representative figure for this measure. Information on transactions can be gathered from cash register tapes which keep track of the time of the sale, or by having staff record the number of transactions for selected periods of time.

b. Returns To Net Sales

$$= \frac{\text{Total Returns and Allowances}}{\text{Net Sales}} \times 100$$

This percentage gives an indication of customer satisfaction by expressing the value of returned goods and allowances as a percentage of net sales. An increase in this figure provides an early warning that the quality of the merchandise may need re-examination or that customers' expectations are not being met.

2. Additional Measures

a. Transactions Per Hour

$$= \frac{\text{Number of Transactions}}{\text{Number of Hours}}$$

The number expressed by this measure helps retailers keep track of the number of transactions they are carrying out per hour, day, week or season. Hourly variations in sales activity can be an important factor in setting store hours and staff schedules, particularly for cashiers. The information can be gathered with cash registers which keep track of the time of the sale or by having staff periodically record the number of transactions for selected periods of time.

b. Sales Per Transaction

$$= \frac{\text{Net Sales}}{\text{Number of Transactions}}$$

This measure gives the dollar value of the average sale, net of returns and allowances. Use it to study sales trends over time, or in combination with other measures, to decide whether a high volume of sales is more important than a high dollar value on each sale.

c. Hourly Customer Traffic

$$= \frac{\text{Customer Traffic In}}{\text{Number of Hours}}$$

Retailers use this measure to track total customer traffic per hour, day, week or season. Apply it to an entire store or a single department and use it to

schedule hours and establish staff levels. Unless automatic counting mechanisms are recording customer traffic, periodic surveys of customer traffic are required to arrive at a representative figure.

B. MEASURES OF MERCHANDISING PERFORMANCE

1. Key Measures

a. Markdown Goods Percentage

$$= \frac{\text{Net Sales at Markdown}}{\text{Total Net Sales}} \times 100$$

This measure gives the percentage of sales generated by marked-down merchandise. If the ratio increases, it suggests a closer look at merchandising practices, particularly pricing. Markdowns may be symptoms of other problems, such as poor buying, advertising or store layout.

b. Percent Devoted To Merchandising Costs

$$= \frac{\text{Total Merchandising Costs}}{\text{Gross Margin}} \times 100$$

This measure gives the percentage of margin on sales, accounted for by merchandising activities, such as buying and advertising. It helps monitor the total cost of merchandising.

2. Additional Measures

a. **Percent Utilization Of Discounts**

$$= \frac{\text{Value of Discounts Taken}}{\text{Total Purchases}} \times 100$$

Expressed as a percentage, retailers use this measure to determine the extent to which their operation, or any individual buyer, has been taking advantage of supplier discounts on merchandise purchased. Similar measures can be constructed to assess the use made of other discounts or allowances.

IV INVENTORY STANDARDS

Inventory typically represents 40 to 60 per cent of a retailer's total assets. Thus improvements in inventory management can have a significant impact on retail profitability. The performance measures in this chapter will help retailers monitor their efficiency at managing inventory.

A. MEASURES OF INVENTORY PERFORMANCE

1. Key Measures

a. Inventory Turnover Rate

$$= \frac{\text{Net Sales}}{\text{Average Retail Value of Inventory}}$$

Expressed as number of times, this ratio indicates how often the inventory of a department, store or firm, is sold and replaced in a given period of time. Some retailers also use the ratio "Cost of Goods Sold" divided by "Average Value of Inventory at Cost". Both can be calculated for any time period. When either of these ratios declines, the possibility exists that inventory is excessive.

b. Percent Inventory Carrying Costs

$$= \frac{\text{Inventory Carrying Costs}}{\text{Net Sales}} \times 100$$

The importance of this measure (and the following one), has increased in recent years with the rise in inventory carrying costs, particularly interest rates. Retailers use this measure to track the percentage of their net sales represented by the fixed costs of maintaining their inventory.

c. Gross Margin Return On Inventory

$$= \frac{\text{Gross Margin}}{\text{Average Value of Inventory}}$$

Expressed in dollars, the "Gross Margin Return on Inventory" (GMROI) compares the margin on sales with the original cost value of merchandise to yield a return on merchandise investment. Inventory can be valued at retail or at cost, but for many retailers inventory valued at retail is more accessible than inventory valued at cost; however, using inventory valued at retail will not necessarily give an accurate indication of investment cost.

GMROI can be dramatically altered by changes in inventory turnover and gross margin.

2. Additional Measures

a. **Shrinkage To Net Sales**

$$= \frac{\text{Actual Inventory} - \text{Book Inventory}}{\text{Net Sales}} \times 100$$

Retailers use this control ratio to determine the percentage of net sales they are losing due to shrinkage. It does not indicate the cause of the shrinkage, but it does express the seriousness of the problem.

V FACILITIES STANDARDS

The performance measures in this chapter are designed to help retailers track the value they are getting from their expenditures on space. These ratios can be calculated with either Imperial or metric measures.

A. MEASURES OF SPACE PERFORMANCE

1. Key Measures

a. Occupancy Cost Per Square Metre Selling Space

$$= \frac{\text{Occupancy Cost}}{\text{Square Metres of Selling Space}}$$

Expressed in dollars, this measure translates occupancy cost into dollar value per unit of selling space. It gives an estimate of the amount of gross margin dollars each unit of selling space must generate just to cover occupancy costs, before consideration of labour, inventory, marketing and other costs. For a multi-unit retailer it is a helpful measure to use when comparing the performance of several locations. It can be calculated for any time period, such as a year or a month.

b. Sales Per Square Metre

$$= \frac{\text{Net Sales}}{\text{Square Metres of Selling Space}}$$

Expressed in dollars, this measure can be used to compare alternate uses of space involving different product lines, or to compare the performance of different departments or stores using a common standard. This ratio will vary by type of merchandise and merchandising methods.

2. Additional Measures

a. Percent Selling Space

$$= \frac{\text{Square Metres Selling Space}}{\text{Square Metres Total Space}} \times 100$$

Retailers use this measure to calculate the percentage of total space used for sales. This ratio will vary by type of merchandise and merchandising methods; for example, catalogue showrooms have little selling space, whereas shoe stores have little non-selling space. Changes over time, or in relation to competitors, can help track the efficiency with which space is being used.

VI ESTABLISHING A PERFORMANCE MEASUREMENT PROGRAM

A. SELECT THE MOST IMPORTANT MEASURES FOR YOUR FIRM

As a retailer, you are in the best position to decide which performance measures will provide the information most relevant to your business. Select the most important measures first; others can be added later on. The objective is to achieve an overall assessment of your business.

B. GATHER INFORMATION

To do the calculations for each performance measure requires specific information. First, establish what information is required and then, using your own records, assemble what information is readily available in a form that allows performance measurement. If the information is not available, a decision has to be made on whether the figures can be retrieved at a cost that does not exceed the value of the information to you. For example, it may be productive to change your point-of-sale procedures to gather information on transactions for later analysis.

C. CALCULATE PERFORMANCE INDICATORS

Once you have assembled your information, calculate those performance measures already selected as the most suitable to your needs and circumstances.

Because performance measures can be individually defined, it is important to maintain consistency in the way you perform the calculations. This will provide meaningful comparisons over time.

Where averages are referred to, the objective is to arrive at a representative figure for the period being considered. For example, sometimes the averaging of opening and closing figures will not achieve this; it may be necessary to take the average of monthly figures.

D. INTERPRET THE RESULTS

Performance measures are not absolute numbers, they acquire meaning in the context of comparison and analysis. Comparison with other measurement figures puts your own performance into perspective; analysis leads to an understanding of the reasons for a given level of performance.

Compare the results of your measures with other measures, selected either from within your own business or from related industry figures. When a comparison is being made with industry figures, choose points of comparison that are analogous to your own, and ensure that the definitions you use in calculating the performance measures are consistent with your own.

With a comparison set of reference points available, you can begin to analyze your own performance. What does it mean if sales per square metre have declined? Is it necessarily a bad sign? Perhaps your gross margin per square metre has increased because of changes in merchandise assortment or pricing procedures. Perhaps sales have not declined as much as they might have if, for example, you had not increased promotional activities earlier in the year. If your own analysis of a problem fails to give you a clear understanding of your situation, consider the value of doing additional calculations using the ADDITIONAL MEASURES. These are designed to focus on specific areas of operation. Do not, however, sacrifice your overall performance assessment for the sake of a detailed analysis of minor procedures. The purpose is to arrive at an understanding of the broad performance and trends in your own business.

E. SET PERFORMANCE GOALS

Setting performance goals for the future provides a basis upon which to develop strategy of action. In selecting a set of goals, proceed in steps. Deal with critical problems first and set up a measurement function as part of regular management to give you consistent feedback. Over time, broaden the scope of your data collection and analysis to make your performance assessment increasingly comprehensive. Performance goals reflect the conditions of the present and should be set within a range of possibility that allows room for change. A creative and flexible approach to setting goals based on careful assessment is the objective.

VII SOURCES OF ADDITIONAL INFORMATION

A. RETAIL TRADE ASSOCIATIONS

The following are examples of trade associations that publish material on retail performance.

1. Retail Council of Canada

210 Dundas Street West, Suite 600

Toronto, Ontario

M5G 2E8

Telephone No.: (416) 598-4684

Publication: The Operating Survey of Canadian Retailing

2. Canadian Retail Hardware Association

6800 Campobello Road

Mississauga, Ontario

L5N 2L8

Telephone No.: (416) 821-3470

Publication: Financial Survey for Hardware and Building Supply Stores

3. Canadian Pharmaceutical Association

1785 Alta Vista Drive

Ottawa, Ontario

K1G 3Y6

Telephone No.: (613) 523-7877

Publication: Annual Survey of Community Pharmacy Operations

4. Canadian Booksellers Association

301 Donlands Avenue

Toronto, Ontario

M4J 3R8

Telephone No.: (416) 467-7883

Publication: Case Studies of Independent Trade Book Stores

5. Canadian Sporting Goods Association

Suite 702

1315 de Maisonneuve Boulevard West

Montreal, Quebec

H3G 1M4

Telephone No.: (514) 845-6113

Publication: Cost of Doing Business Survey

B. STATISTICS CANADA PUBLICATIONS

1. Retail Operating Results

- ° Men's Retail Clothing Stores, 1983, Catalogue No. 63-603

- ° Retail Drug Stores, 1983, Catalogue No. 63-607

- ° Retail Florists, 1983, Catalogue No. 63-608

- ° Retail Jewellery Stores, 1983, Catalogue No. 63-609

These publications provide ratios of gross profit, detailed expense items and net profit as a percentage of net sales for incorporated and unincorporated firms. The ratios are stratified by sales size and by province or region wherever possible.

2. Small Business In Canada

A Statistical Profile, 1981-1983, Catalogue No. 61-521 and 1982-1984, Catalogue No. 61-231.

These publications provide a detailed distribution of firms by size and province for: clothing stores, appliance, television, radio and stereo stores, gasoline service stations, motor vehicle repair shops, florists,

hardware stores and jewellery stores. At the Canada level, balance sheet and income statement data are displayed.

3. Sales Per Selling Area Of Independent Retailers, 1986

Catalogue No. 61-522

This publication provides information on space utilization for 34 kinds of retail business.

4. Small Business Profiles, Annual

Catalogue No. 61-601 (Canada) and 61-602 to 61-613 (provinces and territories)

These small business profiles display liquidity, leverage and operating ratios for the year 1984 plus information on each industry's distribution of businesses, sales, and wages by province and size of firm. Initially profiles for 13 businesses were released in June 1987 and included such retail businesses as appliance, television, radio and stereo stores, gasoline service stations, toy, hobby and novelty and souvenir stores. By May 1989, it is anticipated that over 100 businesses will be covered including most major types of retail businesses.

5. Corporation Financial Statistics, Catalogue No. 61-207

Contains aggregate balance sheet, income and expense, profit and retained earnings information for 21 kinds of retail corporations at the Canada level. Data on 15 commonly used key ratios is also included.

6. The Consumer Price Index, Catalogue No. 62-001

This publication provides a summary of retail price movements and the factors underlying them. Retailers who want to adjust their sales data for inflation may wish to refer to this publication.

7. How To Obtain Statistics Canada Information

Your local library, community college or university may have copies of the above publications. In addition, inquiries about the above publications can be directed to one of Statistics Canada's regional reference centres listed below.

REGIONAL REFERENCE CENTRES

St. John's	772-4073
Halifax	426-5331
Montreal	283-5725

Ottawa	990-8116
Sturgeon Falls	753-4888
Toronto	973-6586
Winnipeg	949-4020
Regina	780-5405
Edmonton	420-3027
Vancouver	666-3691

Toll free access is provided in all provinces and territories, for users who reside outside the local dialing area of any of the regional reference centres:

Newfoundland and Labrador	1-800-563-4255
Nova Scotia, New Brunswick and Prince Edward Island	1-800-565-7192
Quebec	1-800-361-2831
Ontario	1-800-268-1151
Manitoba	1-800-282-8006
Saskatchewan	1-800-667-7164
Alberta	1-800-222-6400
British Columbia (Southern and Central)	1-800-663-1551
Yukon and Northern B.C.	Zenith 0-8913
Northwest Territories	Call collect 403-420-2011

VIII DEFINITION OF TERMS

These definitions are intended as a guide for the reader. They do not represent official accounting or government definitions.

Accounts Payable:

The total amount that a retailer owes to creditors for merchandise or services purchased on short-term credit.

Accounts Receivable:

The total amount that customers owe a retailer for merchandise or services provided.

Current Assets:

Includes cash, accounts receivable, and inventory. Excludes more permanent or fixed assets, such as real estate and fixtures.

Current Liabilities:

Short-term debt, including accounts payable and bank loans due during the current fiscal year.

Customer Traffic:

The number of individuals passing through a retail business within a given period of time. In some cases, groups such as families may be considered as one customer.

Discounts Taken:

Discounts on the invoiced price of the merchandise purchased allowed by suppliers due to fast payment, volume buying, early ordering, or other negotiated conditions.

FTE Employee:

Part-time staff are converted to full-time equivalence based on the number of hours per week they work in relation to a full-time employee. For example, two half-time employees equal one FTE employee.

Gross Margin:

Net sales less the cost of goods sold. Includes net invoice cost, and if applicable, workroom and alteration costs, and distribution and warehousing costs.

Inventory Carrying Costs:

The sum of merchandise investment costs, storage space costs, shrinkage costs, and service costs, such as insurance and handling.

Liquidity:

A firm's ability to generate cash quickly.

Markdowns:

Reductions in initial retail mark-up to speed sales of slow-moving merchandise.

Net Profit:

Total income minus total expenses. This figure can be expressed either before or after interest and taxes, and adjustment for non-recurring or extraordinary items.

Net Sales:

Gross sales less returns and allowances.

Number of Transactions:

The total number of individual sales to customers.

Occupancy Cost:

The total direct cost of occupying a retail property. Includes property taxes, building and equipment depreciation or rental, maintenance, insurance, utilities, etc.

Operating Cost:

Includes all the costs of operating a retail business. Excludes financing costs and the purchase cost of merchandise.

Returns and Allowances:

The total value of merchandise returned by customers for refund or credit.

Shareholder's Equity:

The amount of money owners have invested in the business, including both capital and retained earnings.

Shrinkage:

The difference between actual inventory and book inventory. Shrinkage can result from customer or employee theft, spoilage or spillage of stock, or from accounting or inventory counting errors.

Square Metres Selling Space:

The proportion of store space devoted to sales. Includes displays, aisles, fitting rooms, etc., as opposed to storage or administration space.

Stock-Keeping Units (SKUs):

Each distinctly different item in inventory counts as a separate SKU. For example, two sweaters of the same size and cut but different colours constitute two SKUs.

Total Cost of Merchandising:

The sum of all expenses directly related to merchandising. Includes buyer's salaries, advertising, displays, travel, etc.

Total Labour Cost:

Total payroll costs, either including or excluding benefits.

