Retail Operations: Financial Aspects

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Operations Management

Operations management involves the efficient and effective implementation of the policies and tasks necessary to satisfy the firm's customers, employees, and management (and stockholders, if a public company).

This has a major impacon both sales and profits.

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Profit Planning

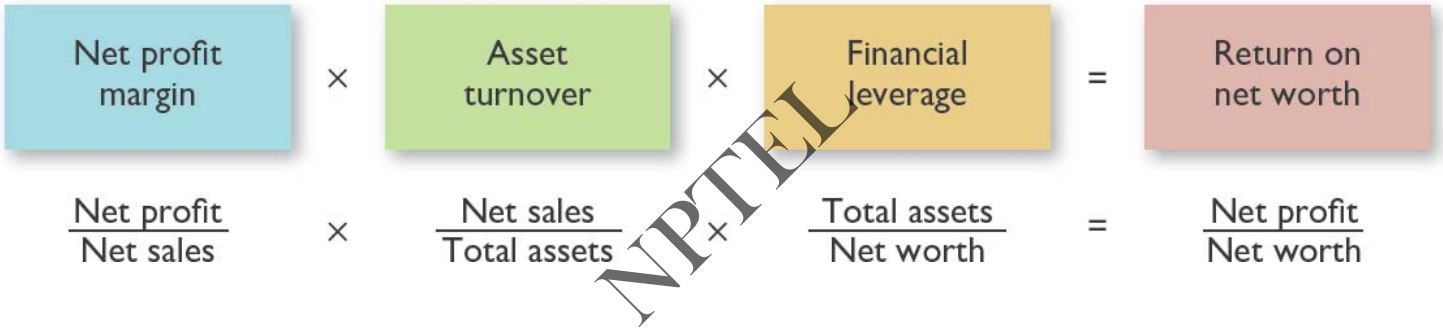
- Profit-and-loss (income) statement
  - Summary of a retailer's revenues and expenses over a given period of time
  - Review of overall and specific revenues and costs for similar periods and profitability

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Balance Sheet vs PNL Statement

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The Strategic Profit Model



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Increasing Profit Margins

- Increase sales of private label brands
- Centralize buying to increase bargaining power
- Reduce SKUs in each category to increase bargaining power
- Reduce operating expenses via self-service operations, and through “buy on line, pick up in-store” to reduce delivery costs
- Increase Web sales
- Reduce labor expenses through increased use of part-time help, better scheduling

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Increasing Asset Turnover

- 24/7 operations
- Outsource delivery and credit operations
- Lease instead of own assets (virtual corporation owns few assets)
- Reduce inventory levels through quick response, through reducing product proliferation, and through drop shipping
- Utilize second-use locations to reduce store renovation expenses
- Utilize inexpensive fixtures—pipe rack, cut case displays

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Other Key Business Ratios

- **Quick ratio**—cash plus accounts receivable divided by total current liabilities (due within one year).
- **Current ratio**—total current assets (including inventory) divided by total current liabilities.
- **Collection period**—accounts receivable divided by net sales and then multiplied by 365. (Aging accounts receivable).
- **Accounts payable to net sales**—accounts payable divided by annual net sales.
- **Overall gross profit**—net sales minus the cost of goods sold and then divided by net sales.

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Thank You

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