

THE GIFT THAT KEEPS ON GIVING

Gift Card sales continue to be a good news story, even in today's tough economic climate. The Australian gift card market is defying the downturn, and is on track to grow to \$6 billion by 2010. Through Westfield's Gift Card program you can tap into a lion's share of this sales opportunity. There are lots of ways to promote Westfield Gift Cards within your stores, so talk with your Retail Manager to discover how your store can take advantage of Westfield Gift Cards.



A Retail Business Challenge

Previously we have addressed the importance of the customer and how we engage with them.

Another challenge - how to make money out of them!

In order to understand the financial levers that can make or break a retail business, we need to have a good understanding of retail mathematics. Let's start with the purchasing cycle. You are with your supplier discussing the merits of a new range of product they've just launched. Actually there probably is little discussion, they will be telling you what a fantastic mark up you will get particularly if you double up the initial order, pay for it in seven days and take delivery in three months time (two months before the launch date - that's so you will qualify for the competition, winning a holiday of a lifetime).

The issue of whether it fits in to your range is obviously an issue - we'll address that in a later Newsletter. But let's consider the issue of 'mark up' and the difference between 'mark up' and 'margin'.

Your supplier will talk 'mark up'. Why? Because a bigger number sounds more impressive.

'Mark up' reflects the % increase of the retail price over the cost price. If the cost price is \$10 and the sell price is \$20 then the 'mark up' is 100%. 'Margin', however reflects the % of the retail price that you make as profit - a much more important number.

So if the cost price is \$10 and the sell price is \$20 then the margin is 50%. So 'mark up' relates to the cost price and 'margin' relates to the sell price. One reason it helps to talk 'margin' is that we can relate it to the overall costs and measures within the business. We refer to two types of margin, first and final.

The first is the margin established when deciding to buy the product from your supplier - you pay a cost price of \$10 and set a retail price of \$20 - giving you a first margin of 50%.

However, you quickly realise the item isn't selling, so you reduce the sell price to \$15 - now your final margin has just reduced to 33%.

So final margin is the margin you actually achieve once you sell the item - less markdowns and also factoring in shrinkage/theft.

So if we know that rent and wages represent about 30% of turnover and other general expenses represent about 7%, we have a problem, as our margin would not cover outgoings. Final margin 33%, outgoings 37% = loss of 4% of turnover.

Do you know what your final margin is (often referred to as GP) as a % of turnover?

Do you know what your total outgoings are as a percentage of turnover?

What is your breakeven point? i.e. how much does my turnover need to be to cover my current costs?

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