

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.



RETAIL CONSULTANT TIP

In previous newsletters we have addressed the importance of customers and how to engage with them. Another challenge in any retail business is 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 take a minute to dwell on the difference between 'mark up' and 'margin'. Your suppliers will always talk 'mark up'. Why? Because it's a bigger number and sounds much more impressive.

Mark up reflects the % increase of the retail price over the cost price. So if the cost price is \$10 and the sell price is \$20 then the mark up is 100% ($\$10 \times 100\% = \20). Margin, however reflects the % of the retail price that you make as profit, a much more important number. So if the cost price is \$10 and the sell price is \$20 then the margin is 50% ($\$20 \times 50\% = \10). So mark up relates to the cost price and 'margin' relates to the sell or retail price.

One of the reasons it helps to talk 'margin' is that we can relate it quite simply to the overall costs and measures within the business. We tend to refer to two types of margin, first and final.

The first margin is the margin you establish when you make the decision 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 our rent and wages represent about 30% of our turnover and our other general expenses represent about 7%, we would have a problem, as our margin in the example above wouldn't be enough to cover the outgoings of the business.

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?

Janet Clough, Retail Consultant

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