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# Department Store Accounts: Financing and Controlling a Division or Department

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# Department Store Accounts*

## FINANCING AND CONTROLLING A DIVISION OR DEPARTMENT

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In financing and controlling a division or department we must consider both the advance of capital and the conduct of the business and, in our case, both in their relation to the general enterprise, i. e., a department store business.

### STARTING THE BUSINESS

1st. Proper location and requisite control thereof.

2nd. Is the particular line conducted

(a) primarily as a money making proposition in itself, or

(b) merely as an adjunct to the general business, as a complement to the department store plan?

If (a) then the return on the investment is the prime motive, but if (b) then the least expense for the greatest convenience is the moving consideration.

3rd. What is required in the way of preparation to make a correct start?

4th. The arrangement of the requirements in budget form so that a proper check may be made at stated intervals of the operation figures against the budget forecast.

The capital employed is of two kinds:

1st. Fixed capital.

2nd. Circulating capital.

The fixed capital is that invested in the premises or department site in which the business is done and in the furniture and fixtures necessary for the sale of the merchandise, such as counters, shelves, show-cases, display stands, etc.

The circulating capital is that required for merchandise and for the operating expenses of the business prior to receipts from operation. That part of the circulating capital invested in merchandise should be kept turning as rapidly as the nature of the business will permit, as the profit or loss depends thereon.

*The substance of a lecture delivered at Columbia University, New York, January 19, 1915, and forming part of the author's work on department store accounting.

Each article turns in accordance with certain fixed principles, certain goods turning faster than others; but there is a general relation between rate of turnover and percentage of profit per turn, both of which should be carefully watched.

Certain articles will turn six times a year at a gross profit of 20% a turn, making a total gross profit of 120% on the investment in merchandise; while others will turn, say, four times a year at a gross profit of 30% a turn, making a total also of 120% on the investment in merchandise. (It should be noticed that we say investment in merchandise, as that is often only a small part of the real investment, which includes that in real estate leasehold, furniture and fixtures, certain overhead charges, etc.)

When all is brought back to net return on the amount of actual investment it will be observed that all net profit tends to a normal and fair rate throughout. Therefore the individual who enters into a business because he thinks a big profit apparent without considering his fitness for the said business is likely to lose his money for his experience.

Let us consider a business to be operated at a profit in itself. Assuming the location as satisfactorily determined and the equipment in furniture and fixtures adequate we take up the matter of service conditions so that everything may be in order for our prospective campaign.

### SELECTION OF MERCHANDISE

The merchandise should be selected with the idea of having the investment in only the best articles in the respective grades so that a complete assortment of the most salable goods may be installed for the least investment. The department manager should make up his scale of purchases in advance of his trip to the market so that his stock may be completely forecast before he spends a dollar. He should plot his department section by section and article by article until he has his lay-out completed. He will thus be able to "cut his garment according to his cloth."

If the division is a large one it is divided into sub-divisions and sections with a responsible head in charge of each sub-division and often a "head of stock" for each section as well.

### TURNOVER OF STOCK

The stock must be kept turning in accordance with the best usage of the particular business in order to provide a proper return on the investment. The required rate of turnover should be kept constantly in mind as any diminution means an accumulation of stock on the shelves which will have to be sold at greatly depreciated prices, therefore:

Frequent inventories on the part of the section heads are absolutely necessary.

Each department manager must be kept informed as to the amount of stock on hand, what goods are not selling and the reason, if it may be determined.

Goods that do not move as promptly as may be expected may be turned into money while the season is "on" often at a slight sacrifice of profit when if held to the close of the season they would have to be "cut to the bone."

Large stock rooms are often a great drawback to the successful turning of merchandise and may be graveyards in which dead stock is buried to be exhumed at a most inopportune time for the investor. Therefore it should be the duty of a responsible assistant to take charge of the stock room.

The buyer or department manager must require frequent detailed reports of stock on hand both reserve (stock room) and forward (on the selling floor); and, while he should have assistants trained to furnish detailed records, he must be the star of his company.

### ORDERS AND VALIDATION OF SAME

Advance orders are placed in advance of the season in which the goods are to be sold and must be prepared most carefully. The aim is to plot out the purchases, having each of the assistants make up his respective requisitions, which in turn are checked back by the buyer before he is ready to go into the market. In connection with the requisitions each head of stock should present his inventory of goods on hand duly classified.

The taking of inventory brings to notice the excesses in the stock as well as the wants, and if properly classified inventories are kept the work will be easy and most profitable.

By planning out the prospective purchases the buyer gets his knowledge of the amount of money necessary to spend to complete his stock before he enters the market. This prevents cancellations after he has selected merchandise—which are always to be avoided as indications of incompetence.

The orders as a rule are validated by the financial division of the establishment, in which are kept tally records so that a comparison of the operations of the department may be made at all times.

THE BUDGET

At the beginning of each fiscal period a budget is made up showing the proposed order of business for each division.

This should present:

1st. The amount of capital involved in the conduct of the particular division.

2nd. The amount of merchandise on hand and how divided, section by section.

3rd. The amount of outstanding orders for undelivered merchandise and how divided, also section by section.

4th. The fixed charges.

5th. The current rate of expense.

6th. The total running expense of the division.

There is of course much more to be considered than the amount of merchandise involved. For instance, take a business requiring a stock of merchandise averaging $12,500, doing a business of $75,000 per annum, with an inventory of $10,000 at the beginning and end of the period and purchases of $52,500 for the period. The premises in which the department's business is conducted are valued at $50,000 and fixtures at $5,000. It is obvious that more than $12,500 would be required to run that business, yet you will often hear buyers state that they made so much money and that it is "a mighty big return on an investment of $12,500," reckoning, because a rental was charged, that the return resolved itself into a profit on the merchandise investment only.

It must be remembered that property or property rights are, or should be, secured for a term of years and require capital investment in order that they may be secured against an undue increase of rental, etc.

In the case in point say, for instance, that the property at $50,000 was purchased subject to a mortgage of $20,000. The division is charged with a rental of $3,750. (Of course these are arbitrary and not intended as working figures but merely for illustration.) Let us assume that the department made a gross profit on the sales of 3⅓% cash discount and 30% regular trading gross profit or a total of 33⅓% on the sales. The expenses were 27% on the sales made up as follows:

| | |
|---|---|
| Selling salaries | 7% |
| Non-selling direct salaries | 5% |
| Rent | 5% |
| Advertising | 4% |
| General and direct expense | ... |
| Sundries | 6% |

We would show a statement something after the following order:

| | | | |
|---|---|---|---|
| Trading account sales after deducting returns | | $75,000 | |
| Inventory at commencement of period | $10,000 | | |
| Purchases | 52,500 | | |
| | 62,500 | | |
| Inventory at close of period | 10,000 | | |
| Cost of merchandise sold inclusive of cash discounts | | 52,500 | |
| Income from merchandising (exclusive of cash discounts) equivalent to 30% on sales | | | 22,500 |
| Income from cash discounts equivalent to 3⅓% on sales | | | 2,500 |
| Total income from merchandising | | | 25,000 |
| Expenses: | | | |
| Salaries selling equivalent to 7% of sales | | 5,250 | |
| Salaries non-selling equivalent to 5% of sales | | 3,750 | |
| Rent equivalent to 5% of sales | | 3,750 | |
| Advertising equivalent to 4% of sales | | 3,000 | |
| Sundry general and direct expenses equivalent to 6% of sales | | 4,500 | 20,250 |
| Net profit equivalent to 6⅓% of sales | | | 4,750 |

If the return of \$4,750 is taken on the \$12,500 worth of merchandise it looks extraordinary, being 38% on the amount; but the investment is:

| | | | |
|---|---|---|---|
| Store premises | \$50,000 | | |
| Less mortgage | 20,000 | | |
| Net (not counting depreciation) | | 30,000 | |
| Fixtures (not considering depreciation here) | | 5,000 | |
| Merchandise | | 12,500 | \$47,500 |

The actual rate of return is thus not over 10% (notwithstanding the risks of business), and this does not take into consideration the amount of working capital necessary to carry the staff of employees over the lean periods until the returns come in. If the premises are carried clear of mortgage encumbrance the investment is \$67,500 instead of \$47,500 and the rate of return reduced to about 7%, so that the money in this as well as any other business must be worked for at a serious risk.

#### TIMES TURNED

In the example given the stock actually turned 4 1-5 times. That is:

| | |
|---|---|
| Sales | \$75,000.00 |
| Cost thereof, i.e., 70% | 52,000.00 |
| Divided by average stock (\$12,500) = | 4.20 |

This means that on an average the goods were on the shelves nearly three months before they were sold. Some goods are sold the same day as received while others are held for months; but on the average the goods will be held from two to four months. The selling and general service staff must be employed ahead of time and duly drilled from the general manager to the member on the lowest rung of the ladder. All this must be financed. The installation represents a certain amount of invested capital, varying according to the size and conduct of the business but permanent in a greater or less degree.

#### RATE OF TURNOVER

The rate of turnover is calculated by various standards:

1st. By dividing the average stock at retail price for a stated period into the net sales at retail prices for the same period.

2nd. By dividing the average stock at cost price for the period into the cost of net sales for the same period.

3rd. By dividing the average stock at cost into the amount of net sales at retail prices for a stated period.

4th. By dividing the average of the two inventories (at beginning and end of a period) into the sales for a period. (This is not true turnover unless it should happen that the average of the inventories is identical with the average stock, which it rarely is.)

The first plan we think is the best, but the main thing is to have the comparisons equitable and the relation between rate of turnover and gross profit on investment properly identified.

In considering the matter of turnover of capital invested in merchandising it of course makes a difference whether goods are bought or sold for cash or on a credit basis. For instance, if one should turn his capital invested in merchandising once every three months and then give one month's credit he would have to wait for four months until the income on his turn was realized and therefore practically would decrease his rate of turnover 25%. In other words the effect would be that of a three times turnover instead of a four.

The relation of turnover and gross profit should always be remembered. When the rate of turnover is calculated on average of stock at cost divided into sales at retail price the times turned should be multiplied by the profit per cent reckoned on the sales; but when it is calculated on average stock at cost divided into cost of goods sold or average stock at retail divided into retail prices of goods sold the number of times turned is multiplied by the rate of profit on the cost.

Example of rate of turnover and gross profit taken together

| Inventory | | Average stock | | Net sales | | Gross profit | |
|---|---|---|---|---|---|---|---|
| Beginning | Ending | Cost | Retail | Cost | Retail | Cost | Retail |
| $8,000 | $8,000 | $10,000 | $15,000 | $40,000 | $60,000 | 50% | 33⅓% |

| | |
|---|---|
| Plan No. 1 Average stock at retail $15,000 into net sales at retail $60,000 = 4 times @ 50% profit per turn equals 200% profit on amount invested ($10,000) or........ | $20,000 |
| Plan No. 2 Average stock at cost $10,000 into cost of net sales $40,000 = 4 times @ 50% profit per turn equals 200% profit on amount invested ($10,000) or........ | $20,000 |

| | | | |
|---|---|---|---|
| Plan No. 3 | Average stock at cost \$10,000 into net sales at retail \$60,000 = 6 times @ $33\frac{1}{3}\%$ profit per turn equals 200% profit on amount invested (\$10,000) or | | \$20,000 |
| Plan No 4 | Inventory at beginning......... | \$8,000 | |
| | " " closing........... | 8,000 | |
| | Average of two inventories...... | 2:16,000 | |
| | | 8,000 | |
| | times turned, i.e., \$8,000 into sales at cost \$40,000 = 5 times at 50% on the cost = 250% on amount *figured* as turned, viz., \$8,000 = | | \$20,000 |
| or | times turned, i.e., \$8,000 into sales at retail \$60,000 = $7\frac{1}{2}$ times at $33\frac{1}{3}\%$ on the retail or 250% on amount *calculated* as turned, viz., \$8,000 or..................... | | \$20,000 |

Therefore if the gross profit is always shown in its relation to the amount invested in merchandise and the expenses are figured in their proper relation the actual return must be correctly shown.

Let us assume that in the present example the expenses amounted to \$16,200 or 27% of the amount of net sales, or $40\frac{1}{2}\%$ of the amount of the cost of the said net sales; so that the total rate per cent of expenses to amount invested in merchandise would be 4 times (cost into cost) $40\frac{1}{2}\%$ or 162% on \$10,000 or...................................... \$16,200 or 6 times (cost into sales) 27% or 162% on \$10,000 or \$16,200 showing the net profit of \$20,000 — \$16,200 or \$3,800 on an investment of \$10,000 in merchandise (but of course considerably more counting capital invested in premises including fixtures and furnishings, etc.)

It should be observed that the rate of expenses as compared with cost of goods sold and selling price thereof will vary according to the rate of profit on the goods sold. For example, while expenses are generally reckoned in relation to sales it is often well to show their percentage relation to cost in order to impress on the department manager the load which his goods have to carry before any profit can be taken.

The expression of expenses to sales in terms of the percentage of expenses to cost will vary according to the margin of profit, for instance:

| Sale price | Bill cost | Expense per cent to sale price | Expense per cent to cost price |
|---|---|---|---|
| $1.25 | $1.00 | 30% | 37½% |
| 1.40 | 1.00 | 30% | 42% |
| 1.50 | 1.00 | 30% | 45% |
| 1.75 | 1.00 | 30% | 52½% |
| 2.00 | 1.00 | 30% | 60% |

If we assume that on a business of $75,000 there is a charge of $22,500, or 30%, it would mean that an average of over 30% gross profit must be made on the sales to yield any net profit at all. Therefore if all the department's business were done on goods bought for 75c. and sold for $1.00 it would mean a loss of 5c. on every sale, or 5% on the sales. In other words, when the expenses were 30% on the sales and the profit 25% thereon (goods sold for $1.00 costing 75c. would be at a profit of 25% on the sales) the loss was 5%. On sales of $75,000 this would mean a loss of $3,750.

The buyer must very carefully watch the course of his business to see that a proper ratio of profit to sales is maintained. This is often overlooked. The writer has often found buyers nonplussed over the poor profit showing at the end of the year and saying, "My stock always shows a good mark up." Investigation invariably revealed that the sales were not of those "good mark up" goods.

If a buyer will take a few moments in the early part of each day to look over the sales schedules of his selling force and the daily returns of merchandise not kept by customers he will be amply repaid for his effort.

In some establishments the cost of the goods sold is often noted on the schedules in code either for a stated period or as a permanent rule, and the cost and selling prices of the goods sold are tabulated by clerks. The result shows the profit on the actual goods sold.

As a special guard against low profit selling, etc., the plan is excellent and in the writer's experience has been very successfully done.

I have said if the buyer would take the early morning to look over sales schedules it would be well, because so many buyers neglect to take advantage of the early hours, apparently not understanding that the morning hour has gold in the mouth. The man who is promptly at his post early in the day enlivens his whole working force. He can see that his merchandise is made most attractive and new goods brought forward, backward goods repriced if necessary or rewrapped or freshly ticketed at any rate, and in fine make a success rather than a failure of his business.

If goods are backward and do not move readily a department manager should not hide them away, to have them reappear like Banquo's ghost, but take counsel with his superior officers and originate a plan of action to get rid of them. Some will sell such goods at auction or to pedlars as a wholesale clearance but this should never be done except with the direct approval of the head of the house. In one instance this was done and a competitor secured the goods for a song and sold them in the same territory and to the customers of the former merchant at a good profit and with a gain in prestige merely by attractively merchandising the goods.

A section or division of the establishment is often set apart in which certain goods are offered for sale at special prices. This often stimulates the sale by inducing the trade of customers who would ordinarily trade elsewhere and at the same time avoids the association of customers of uncongenial tastes.

A new location, a change of sales-people, a different mode of display will often be successful in facilitating the sale of goods which would otherwise remain unsold. The buyer must organize his department and infuse into each individual a spirit of responsibility proper to his station so as to cover adequately all the phases of his business and continually check up the operations of his department to see that the spirit is maintained.

I submit herewith a table showing how goods must be marked up from the cost to show a stated per cent of profit on the retail (the expenses being calculated generally in their relation to sales, gross profit should likewise be shown in the same relation).

TABLE OF CORRESPONDENCE OF RATES OF PROFIT ON COST AND RETAIL BASES.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| To | make | 1% | on | sales | add | to | cost | 1.01% |
| " | " | 2% | " | " | " | " | " | 2.04% |
| " | " | 3% | " | " | " | " | " | 3.09% |
| " | " | 4% | " | " | " | " | " | 4.17% |
| " | " | 5% | " | " | " | " | " | 5.26% |
| " | " | 6% | " | " | " | " | " | 6.38% |
| " | " | 7% | " | " | " | " | " | 7.53% |
| " | " | 8% | " | " | " | " | " | 8.70% |
| " | " | 9% | " | " | " | " | " | 9.89% |
| " | " | 10% | " | " | " | " | " | 11.11% |
| " | " | 11% | " | " | " | " | " | 12.36% |
| " | " | 12% | " | " | " | " | " | 13.64% |
| " | " | 12½% | " | " | " | " | " | 14.29% |
| " | " | 13% | " | " | " | " | " | 14.94% |
| " | " | 14% | " | " | " | " | " | 16.28% |
| " | " | 15% | " | " | " | " | " | 17.65% |
| " | " | 16% | " | " | " | " | " | 19.05% |
| " | " | 16 2-3% | " | " | " | " | " | 20.00% |
| " | " | 17% | " | " | " | " | " | 20.48% |
| " | " | 18% | " | " | " | " | " | 21.95% |
| " | " | 19% | " | " | " | " | " | 23.46% |
| " | " | 20% | " | " | " | " | " | 25.00% |
| " | " | 21% | " | " | " | " | " | 26.58% |
| " | " | 22% | " | " | " | " | " | 28.21% |
| " | " | 23% | " | " | " | " | " | 29.87% |
| " | " | 24% | " | " | " | " | " | 31.58% |
| " | " | 25% | " | " | " | " | " | 33⅓% |
| " | " | 26% | " | " | " | " | " | 35.13% |
| " | " | 27% | " | " | " | " | " | 36.99% |
| " | " | 28% | " | " | " | " | " | 38.89% |
| " | " | 29% | " | " | " | " | " | 40.85% |
| " | " | 30% | " | " | " | " | " | 42.86% |
| " | " | 31% | " | " | " | " | " | 44.93% |
| " | " | 32% | " | " | " | " | " | 47.06% |
| " | " | 33% | " | " | " | " | " | 49.25% |
| " | " | 33⅓% | " | " | " | " | " | 50.00% |
| " | " | 34% | " | " | " | " | " | 51.52% |
| " | " | 35% | " | " | " | " | " | 53.85% |

TABLE OF CORRESPONDENCE OF RATES OF PROFIT ON COST AND RETAIL BASES.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| To | make | 36% | on | sales | add | to | cost | 56.25% |
| " | " | 37% | " | " | " | " | " | 58.73% |
| " | " | 38% | " | " | " | " | " | 61.29% |
| " | " | 39% | " | " | " | " | " | 63.93% |
| " | " | 40% | " | " | " | " | " | 66 2-3% |
| " | " | 41% | " | " | " | " | " | 69 49% |
| " | " | 42% | " | " | " | " | " | 72.41% |
| " | " | 43% | " | " | " | " | " | 75.44% |
| " | " | 44% | " | " | " | " | " | 78.57% |
| " | " | 45% | " | " | " | " | " | 81.82% |
| " | " | 46% | " | " | " | " | " | 85.19% |
| " | " | 47% | " | " | " | " | " | 88.68% |
| " | " | 48% | " | " | " | " | " | 92.31% |
| " | " | 49% | " | " | " | " | " | 96.08% |
| " | " | 50% | " | " | " | " | " | 100.00% |
| " | " | 55% | " | " | " | " | " | 122.22% |
| " | " | 60% | " | " | " | " | " | 150.00% |
| " | " | 65% | " | " | " | " | " | 185.71% |
| " | " | 66 2-3% | " | " | " | " | " | 200.00% |
| " | " | 70% | " | " | " | " | " | 233⅓% |
| " | " | 75% | " | " | " | " | " | 300.00% |
| " | " | 80% | " | " | " | " | " | 400.00% |
| " | " | 85% | " | " | " | " | " | 566 2-3% |
| " | " | 90% | " | " | " | " | " | 900.00% |
| " | " | 95% | " | " | " | " | " | 1900.00% |

and of course to make 100% profit on the sales the whole income must be profit.

The profit aim is generally directed by the master of the business and the department manager makes his calculations accordingly. To aim too high for profits is as bad as to aim too low—the one drives trade away and the other gives the goods away, and both wreck the business. The golden mean is the ideal. The department manager must see to it that his staff is fully informed in regard to the merchandise to be sold, each according to his position and capacity.

### DIRECT EXPENSE

The selling expense as well as the non-selling in his division and the ratio of salary to sales are kept tabulated and accumulated from pay day to pay day throughout the fiscal period. The percentage of cost of selling salaries should be kept and shown separately from the non-selling, the aim being to specialize as much as practicable in order to make the employees as productive as possible. These items are of course charged directly to the department in which the operators are employed. Direct items are as far as possible charged from the requisitions of the department manager.

RENT

Rent is agreed upon at a fixed figure and should be very carefully considered from all sides. It resolves itself into the space occupied, but this must be considered in both direct and indirect relation as each department uses more or less the receiving room, marking room, advertising offices, book-keeping and claim adjusting department, delivery, etc. Therefore a basis of agreement should be reached as to method of distribution of charge.

The space on first or main street floor is the most valuable as it is easiest of access for the most customers, regular as well as transient. The upper floors owing to the convenience of the elevators are more nearly on a par, the basement stores being in a class by themselves.

My suggestion would be to divide the space

1st. By floors, each floor being considered as worth a fixed price.

2nd. Charge in proportion thereto the space directly occupied by each department both for selling and individual stock on the said floor.

3rd. Apportion the general space, in accordance with ratio of net sales of each department to the total net sales, taking into consideration any special conditions warranting a variation. For example, the furniture department, if it operates a regular furniture delivery service and has no use of that of the main store should not have to bear any proportion of the expense. Other special conditions must be taken into consideration as well.

At certain periods a department has the use of special tables in other parts of the store, the idea being to take every advantage of the buying possibilities latent wherever customers pass and repass on their way through the establishment often without any idea of buying the goods displayed for sale. Every advantage should be taken of legitimate possibilities to sell goods.

Supplies are charged directly according to use. They are furnished on requisitions signed by the buyer or qualified assistant, and copies are kept on file in the department to be checked against receipt of goods from the supply department.

Advertising should be charged according to space used, a general distribution being made of the charge for general space taking into consideration special conditions affecting any particular division. The use of shop windows and space in other departments should be correctly apportioned. For instance a bed set up in a bed-spread department would display two articles at once and the space should be charged proportionately.

The distribution of general expense is usually made according to the ratio of net sales of department to total net sales, taking into consideration any exceptional circumstances which would tend to vary the rule.

### OPERATION OF THE DEPARTMENT

The buyer is the manager of the department but his department is considered:

1st. As an individual investment.

2nd. As one of the units of the store union.

As in the United States certain state rights must be given up to obtain certain privileges, so the individual store must sometimes submit for the general good. Thus the store policy may and often does require the sacrifice of individual ideas of store operation to the general plan and perhaps against the real or fancied advantage of the business of the individual store.

All matters of policy and management however should be decided "off the floor." The position of the buyer should be respected and not, as is sometimes the case, should differences of opinion lead to an exhibition of wrangling between the local and the general management to the detriment of the morale of the business.

### RECORDS OF THE DEPARTMENT

Each buyer should have his budget as a guide throughout the fiscal period together with collateral records showing:

1st. Stock on hand at beginning of period as per inventory.
2nd. Purchases less returns.
3rd. Sales " "
4th. Estimated current inventory.
5th. Outstanding orders.
6th. Account of mark downs and mark ups.
7th. Expenses for the period.

### PERPETUAL INVENTORY

The perpetual inventory should be verified repeatedly by having each section head furnish the amount of actual stock on hand.

It is not necessary to make expert accountants out of the buyers for this work as it may all be done very rapidly from the figures furnished by the statistical department.

The buyer as a business man simply must see that he either has the stock charged against him or can show proper reason for not having it.

### MARK DOWNS

Where the stock is kept at retail figures it is very important that mark down records be duly reported as the reductions are made (or mark ups if there is any increase in price). Some buyers manipulate their figures so as not to be obliged to report their mark downs, but almost invariably they manipulate themselves into trouble.

### SHRINKAGE IN VALUE OF GOODS INVENTORIED

At the end of the period when inventory is taken, a special record should be taken of the reductions made at inventory time.

At this time the cost is also "marked down" so as to be in consonance with the marked down retail value. That is, if a garment cost $20.00 and was marked to sell for $32.00, but at inventory time was marked down to sell for $20.00, to bring the cost to the same ratio as it was originally the new cost figure should be marked $12.50 and a mark down slip put through at both cost and retail figure showing the shrinkage (the cost figure being used as a memorandum).

The cost of goods marked down is not reduced currently during the year, as it is presumed that the goods marked down will be sold at the marked down prices; therefore the shrinkage shows in the sales; but if any of such goods are on hand at inventory time the cost is marked down to correspond with the new selling price so as to provide a proper charge for the stock in commencing the new fiscal period.

The principle is that the goods should be taken at cost or value. If the value is more the inventory amount is generally not increased for fear of a fall in price before the sale is made, but no goods should be taken in inventory at more than the amount necessary to place them in the same condition as they are when taken.

The shrinkage on the goods inventoried becomes a charge against the period under accounting by reason of the lesser credit taken on its account in the inventory, thus reducing the buyer's gross profit for the period and often beyond his understanding.

For example, take a stock which has been taken at $10,000 cost and $16,000 retail, but was marked $11,000 cost and $17,600 retail, having been reduced at inventory time $1,000 at cost (or 2% on the total sales) and $1,600 at retail. On a business of $50,000 for the period and purchases of say $32,250 (marked at retail $51,600) and an inventory of, say, $10,000 at cost and $16,000 at retail we have the following (eliminating cash discounts):

| | Cost | Retail | Profit on retail |
|---|---|---|---|
| Inventory ................ | $10,000 | $16,000 | 37½% |
| Purchases ................ | 32,250 | 51,600 | 37½% |
| | 42,250 | 67,600 | 37½% |
| Shrinkage at inventory...... | 1,000 | 1,600 | 37½% |
| | 41,250 | 66,000 | |
| Sales .................... | 31,250 | 50,000 | 37½% |
| Stock on hand at inventory... | 10,000 | 16,000 | 37½% |

Let it be assumed that the buyer did not report his mark downs and feeling confident of his marked profit he would estimate that he made 37½% on his sales; but let us see what are the facts.

| | | |
|---|---|---|
| Inventory at beginning | | $10,000 |
| Purchases | | 32,250 |
| | | 42,250 |
| Inventory at closing (after deducting shrinkage) | | 10,000 |
| Apparent cost of goods sold | | 32,250 |
| Sales | $50,000 | |
| Cost as above | 32,250 | |
| Profit | 17,750 or 35.5% instead of 37½% | |

The actual cost of the goods sold was $31,250, but adding the shrinkage on the inventory to the cost made the figure $32,250 and reduced the profit from $18,750 to $17,750.

Many buyers are not aware of just how the shrinkage affects their profits, and others are so well aware of it that they attempt to manipulate the inventory by padding, etc., seeming to forget that the new inventory is always a charge on the next year's business and any falsifying is but sowing the wind.

### MERCHANDISE MANAGEMENT

Referring to the budget previously mentioned, a daily report is made by the buyer showing progress of business in relation thereto.

This daily report should include:

Amount of sales.
Amount of sales returns.
Amount of purchases (orders placed).
Amount of merchandise receipts (goods received on invoice).
Amount of merchandise returned to manufacturers.
Amount, estimated, of merchandise on hand.
Amount of outstanding orders.
Remarks (i. e., any extraordinary happenings).

The above should include a comparison with the figures of the previous period and also the budget.

This report should be made up on a regular form so that it need only be filled in by the buyer, but it should be done daily and a copy of it kept on file in the department.

The course of the expenses is checked at the regular statistical report periods, that is weekly, bi-weekly or monthly; but the sales, purchases and stock must be tended daily.

### PRICING OF MERCHANDISE

The buyer knowing his rate of expense must merchandise his department so as to cover the same and yield a profit; therefore he should know if his expense, for example, is 27% on his sales that every dollar of sales costs 27c. in expenses. Hence any goods bought at 75c. to sell for $1.00 mean a loss of money. We will grant that he obtains 6% discount for cash on the 75c. or 4½%—that is 4½c.—on the $1.00 of sales but this is offset by shrinkages from various causes and should not be considered in the pricing of merchandise.

Each buyer should have a "dead-line" of profit below which no goods should be sold without an extraordinary reason and never without considering that as many goods will have to be sold above the normal rate of profit as were sold below simply to "break even."

### CHECKING PROFIT

The buyer should check the profit repeatedly by having the code cost of goods noted on the sales schedules and tabulated from time to time in order to know what is being sold and at what profit. This in conjunction with the frequent inventory will give him a good gauge of the course of business.

### RECORD OF PURCHASES

Invoices may be copied into a page and line book. When this is done the page number and line number on which each item of the invoice is entered is noted on the price ticket so that one may find the cost, date of purchase and from whom as well as quantity bought by reference to the page indicated.

Sometimes the information is codified and code numbers used in place of page and line. Of course in many instances where stock is in and out all the time and of irregular sorts and quantities different regulations are made.

### SCRAP BOOK OR FILE

A scrap book or file of advertisements, competitive as well as those of the immediate department, is kept so that the buyer may not only keep account of his own advertisements but also of those of his competitors, which may be helpful to him.

Into this book should also be noted the show window space during the year by day and date.

Any clippings relative to his business should be preserved and duly referred to as well as a notation of any extraordinary measures adopted for the furtherance of his business interests.

### THREATENED INSOLVENCY

It may sometimes be good business to show a buyer that he has become insolvent and make up a special balance sheet demonstrating the fact, showing his unpaid, although not due, merchandise bills which all possible returns from his department alone will be totally inadequate to meet.

However, let it be considered as a mutual difficulty and not one which he alone must face, as would be the case if he had a separate business—a situation in which he is to have all the help which the mutual association may offer, as the aim is to build up, not pull down.

### RECEIVERSHIP

As some one has expressed it, the circulation of the liquid capital of a business may be likened to the circulation of the blood in the body. If the circulation is poor the health of the business will be poor. The waste must be constantly thrown off and this of course requires a good circulation.

The diminishing rate of actual turnover often, if not invariably, marks the accumulation of waste which some department managers refuse to acknowledge until their business is ready for the receiver's hands.

Sometimes it may be necessary for the merchandise executive committee practically to place the department in the hands of a receiver, even if the department manager is subsequently restored to authority; but the need for a receiver would be a desperate situation indeed, from which may we all be delivered.

### ESTIMATED STOCK

The estimated amount of stock on hand at cost is figured by taking the amount of inventory at starting, plus purchases for the period, less sales for the same period after deducting the estimated profit.

The estimated profit is indicated by the previous experience in the same business for a corresponding time and season and varies according to the season, one part of the year being more profitable for trading than another.

If the stock is carefully watched and the shrinkages in retail figures taken on mark down sheets, the proportion may be quickly ascertained, but one must know his business, as the mark up of the stock at inventory is no criterion of average profit because the lower priced goods generally turn faster than the higher.

If a merchant has a stock of goods on which the marked profit shows 35% on the sales, made up of two parts at 25% and one part at 55% profit mark up, and sells four times as much at 25% as he does at 55% his rate of profit on his sales is reduced to 31%. Thus on sales of $100,000 by taking 35% as the estimated profit instead of 31% as earned the estimated stock would be $4,000 over the actual.

In a well managed department the rate of profit mark up on the current purchases is the better guide, but it should be depreciated by an estimated percentage to allow for shrinkage on various counts, and the estimated should be verified by taking an actual inventory at certain times in order to check up the estimated figures. (The sectionalizing of stocks and inventories is essential in order to do this economically.)

Example

| | Cost | Retail | Mark up |
|---|---|---|---|
| Inventory .................... | $10,000 | $16,000 | 37½% |
| Purchased for the period (say 2 months) .................. | 10,000 | 14,770 | 32½% |
| | 20,000 | 30,770 | 35% |
| Sales (let us assume that the goods were sold mostly at the rate of profit indicated by the purchases and that we allow 1% for shrinkage for the 2 months and thus estimate the profit at 31½% on the sales). | 10,960 | 16,000 | 31½% |
| | 9,040 | 16,000 | 43½% |

It may be noted that the high priced goods in stock are considerably in excess of the proportion at inventory time and so should be specially exploited or reduced in price and sold before the season is over. In other words, dead stock should be turned into live money. Of course one should not have to wait for two months to know that the high priced goods were not selling, but some apparently do not find the accumulation until inventory is officially taken.

### ACCOUNTING OF PURCHASES

The accounting of purchases should always be from the orders placed, not from invoices received, and always on the retail figure instead of the cost.

Stock is considered as going down when in fact it is often on the up grade instead. For example, suppose one's mark up is 37½% on the sales—in such case every $8,000 of sales of goods so marked on the sales means a reduction of stock of $5,000. However, if a buyer buys $6,000 of goods similarly marked, his stock increases actually $1,000 in that time at cost or $1,600 at selling.

It may seem to the buyer that buying $6,000 and selling $8,000 he is somewhat to the good, but the reverse is the fact. If his purchases were reported on the basis of sales instead of cost the books would have shown purchases $9,600 (cost $6,000 at 37½% on sales) and sales of $8,000 on an increase of $1,600 in the stock at retail figures.

It would make for a better understanding of the situation if the buyer would keep an estimated stock account, including as his purchases the orders placed, and add the same to his stock, deducting therefrom any goods received and any orders cancelled together with necessary corrections and adjustments from time to time.

### SELECTION AND TRAINING OF ASSISTANTS

The selection and primary training of assistants is generally under the jurisdiction of the general store management, but the special training is as a rule under the direction of the local department manager.

Each "head of stock" should have the supervision of a certain number of salespeople, instruct them in the details of their work involving the control of stock, the service to the customers, and the general observance of good conduct.

The buyer should exercise a vigilant supervision of the entire working of his store.

Any new goods should be the subject of special instruction and every opportunity should be afforded the staff to become acquainted with all the selling points in connection therewith so that no opportunity for the furthering of sales will be lost.

The entire staff should be inoculated with the inventory idea so that any excess of stock will be uncovered at the earliest possible moment.

GOODS ON MEMORANDUM

One should beware of goods shipped in on memo.; and when goods are charged to a department on memo. by a manufacturer a red book should be opened—red, a sign of danger, is a fitting color for such books.

The course of memorandum goods should be most carefully watched and in my personal opinion should be charged on receipt directly to the stock. This for two reasons:

1st. Because such goods as may be sold are credited in the sales of the department and reduce the stock by so much and should be charged at least accordingly.

2nd. Because it makes a buyer more careful to check up his memos. and return the unsold portion more quickly because charged to his stock than would otherwise be the case.

In conclusion I would sum up as follows:

The successfully merchandised department is the one in which is maintained

A proper rate of turnover,

At a fair gross profit,

With economical management.

In order to do this the manager must carefully sub-divide his stocks, placing a qualified lieutenant in charge of each sub-division and by constant observation prove his course, daily multiplying his efforts through the co-operation of his entire staff. He must take frequent inventory against the undue accumulation of stocks, which like rocks in the channels of navigation wreck the ship unless avoided or removed.

A proper sub-division makes the inventory easier to take and comparisons much more valuable, and it automatically points to the barnacles which reduce the speed of the bark.

I suggest permanent sub-divisions of departments by letter or other symbol and that the symbol of the sub-division be entered into each inventory record. If purchases and sales are likewise subjected to classification, the proof of inventory may be very simply effected.

Each buyer should, in fact, consider the amount of his expenses as practically fixed, excepting those incident to the "extra help," that is, persons whose employment is contingent on additional expenses due to the festival seasons of the year, and the contingent expenses relative thereto including of course that on the additional business done. We say amount as the rate of expense is greatly lessened by the increased business due to those festivals and the amount of extra cost is not increased in proportion to the business.

However, it should not be overlooked that most or all of the preparation is done very considerably in advance and the expense of that preparation is charged into the periods in which the expense was incurred instead of that of the business done (this is very important in case of fire insurance or other provision for recovery in case of loss as a matter of arriving at cost).

For example, toys are purchased and received long before the time of their sale, and buyers' and assistants' salaries and all charges incident to the buying, transporting, receiving, checking, assembling, marking and making ready for sale are spread over months, whereas the active season is very short.

The point to be kept in mind is that the expenses are in a great measure fixed. The important study is:

### VOLUME OF BUSINESS

What business is capable of being thoroughly developed in the territory and how thoroughly and satisfactorily may it be done?

Co-operation of the entire staff is most important in the development of business. What demand is there for the store's goods and how can it be most healthfully developed?

The amount of expense, as previously stated, being largely fixed, the volume must be carefully considered as to its possibilities.

If my expenses are largely fixed and amount to $40,000 on $100,000 of business and my total profit is 35% of my sales, or $35,000, I must lose $5,000, as my expenses amount to 40% of my sales and my total profit is 35%, so I lose 5% of $100,000, or $5,000.

However, if my sales are increased to $150,000 on the same ratio of profit without increasing my expenses, then the rate of my expenses is reduced to 26 2-3% of my sales, and my profit is then the difference between 35% and 26 2-3%, or 8⅓% on my sales.

It may thus be seen that it pays to work on volume, having always in mind that the buyer must consider the market possibilities of the goods he is buying to sell again. Cheapness is never of itself a criterion. He must consider what he can get for the goods, when he can get it and how much it will cost him to get it—in other words, how quickly he can turn his money. Goods marked at a high rate of profit and retained on the shelves pay no bills, and the buying appetite should not be forced and staled by indigestible merchandise.

The broad principles of inventory should be the axis of all effort.

It is not only merchandise which should be listed, but a summary of the day's transactions should be made by each individual and become the basis of improved action for the future—this in one form or another is absolutely essential for the success of every individual. To take as a model the master in each vocation is, we think, the best plan, as it enables one to compare and show progress.

As a mariner must have his course laid out to steer his ship properly and must continually take his bearings to know whether or not he is following his course, so should we set our course according to the most approved chart and hold fast to what is good.