



Profit Matters

Lesson 2 – Gross Margin: A Deeper Dive

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PROFITMATTERS



Quick Review

PROFITMATTERS



Review: Basic Financial Concepts & Terms

Income Statement (P&L) Items

- Revenue
 - Operating (Sales)
 - Non-operating
- Cost of Goods Sold
- Expense
 - Operating
 - Non-operating
- Profit (Income)
 - Gross
 - Net

Balance Sheet Items

- Assets
 - Variable
 - Fixed
- Liabilities
 - Short-term
 - Long-term
- Owners' Equity



Today's Topics

- Gross Profit Concepts and Terminology
- Markup vs. Margin with formulas and examples
- Calculating Selling Prices for a target margin
- Margin Industry Norms
- Margin Leaks



Gross Profit Concepts & Terminology

- Selling Price
- Purchase Price (cost)
- Net Sales
- Cost of Goods Sold (COGS)
- Profit: Expressed in \$.\$\$ (dollars & cents)
- Markup: Expressed as a %%% (percentage)
- Margin: Expressed either in \$.\$\$ or %%%
- Goods **AND** Services
 - Product sales
 - Labor sales
 - Supplies
 - Services (cleaning/repair/etc.)



Net Sales

- Net Sales = NET dollars received for the goods and services sold

Sales (Dollars)

- Returns
- Allowances
- Sales discounts

= Net Sales



Cost Of Goods Sold (COGS)

Cost of Materials

+ Freight In

+ Installation sub-contract labor

+ Installation in-house labor

+ Supplies (job)

+ Use tax

- Purchase discounts

- Claims and allowances to you

= Cost of Goods Sold (COGS)



Calculation Examples



COGS 1st Half 2021 vs 1 Half 2020 Comparison

Industry Reporting for WFC



Industry Profitability ▾ / Company Averages ▾

= 2021/01

= 2021/06

= Year Over Year

= Cost of Sales

	Current	Current %	Prior Period	Prior Period %	% Change
Cost of Sales					
Cost of Materials	\$3,143,421	47.22 %	\$2,760,743	47.49 %	-0.27 %
Freight	\$93,933	1.41 %	\$79,446	1.37 %	0.04 %
Subcontractors	\$696,363	10.46 %	\$573,047	9.86 %	0.60 %
Salaries Benefits Installers	\$521,600	7.84 %	\$467,377	8.04 %	-0.20 %
(Purchase discounts)	-\$36,239	-0.54 %	-\$29,934	-0.51 %	-0.03 %
Claims	-\$3,833	-0.06 %	-\$2,518	-0.04 %	-0.01 %
Samples & Displays	\$5,794	0.09 %	\$6,870	0.12 %	-0.03 %
Use Tax Paid	\$37,472	0.56 %	\$33,270	0.57 %	-0.01 %
Cost of Sales - Other	\$59,791	0.90 %	\$56,154	0.97 %	-0.07 %
	\$4,518,302	67.88 %	\$3,944,456	67.85 %	0.02 %



Gross Margin % 1st Half 2021 vs 1 Half 2020 Comparison

Avg GM / Store

33.33%

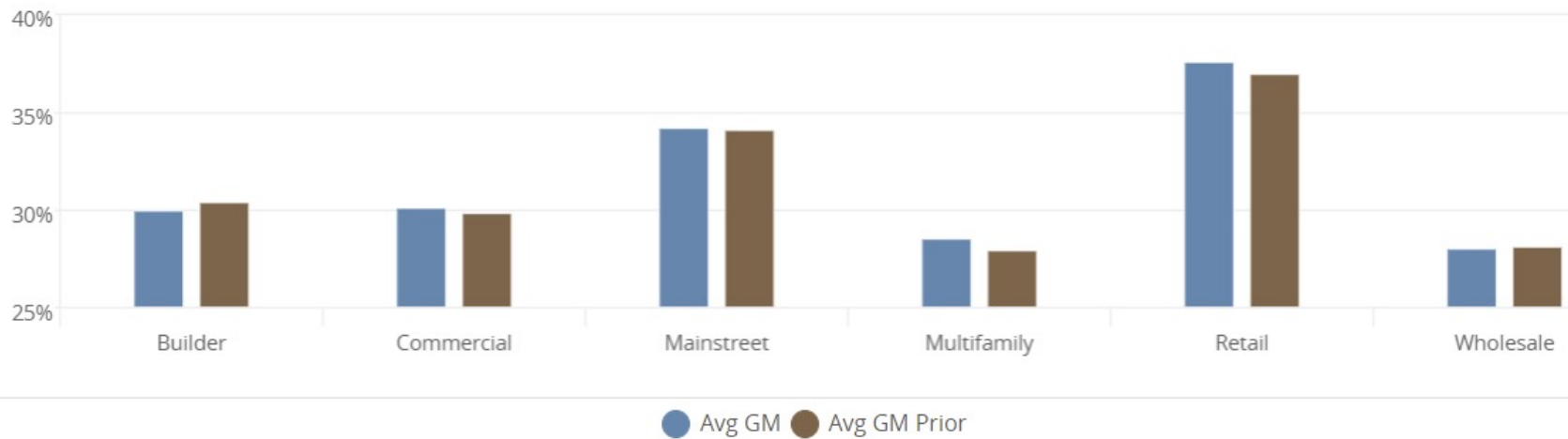
Avg GM / Store Prior

32.90%

Change

↑ 0.43%

Avg GM / Store by Store Type





Margin Leaks

On Revenue Line

- Using MARKUP to price your products
- Accommodations & errors
- Sales discounts
- Sales compensation model
- Product mix shifts
- Billing errors
- Estimating errors



Margin Leaks

- On COGS Line
- Lag in repricing after supplier increase
- Not taking purchase discounts (terms)
- Freight-in increases



Summary

- Primarily focused on:
 - Margin vs. Markup
 - Calculating Product Pricing for Target Margin
 - Product Mix Impact
 - Margin Leaks



Thank you!

Q/A

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