HOW DOES YOUR SHOP MEASURE UP?
How is your shop really doing in terms of profitability?
Are you doing as well as other shops of comparative size?

Ways to determine your shop's profitability.
1. Net profit percent of gross sales.
2. Annual gross sales per square foot

Both of these methods require financial figures from your shop's POS system or recordkeeping ledgers. If your shop maintains thorough financial records, it will be simple to calculate your shop's profitability.

MEASUREMENT STANDARDS
How can you compare your hospital gift shop's profitability with others, when shops across the country are operating under different financial recordkeeping systems?

Most shops have to reimburse their hospitals for payroll and some operating costs but some do not. This provides the shops that do not have to reimburse their hospitals with a higher net profit margin and an unrealistic sense of profitability.

It is important that shops not paying for some of their operating expenses factor all costs in when calculating profitability and when comparing their profitability with other shops. In other words, it doesn’t matter how or from where salaries are paid, they have to be included as an operating expense. Only then can benchmarks be applied as a criteria.

Managers and volunteer leaders must view their shop as a "retail business enterprise" the same way retailers on "Main Street" or in a mall view their businesses.

USING BENCHMARKS TO EVALUATE YOUR SHOP'S PROFITABILITY
(Benchmark means an industry standard by which something can be measured or judged.)

The following benchmarks will help you rate your shop's performance. Benchmarking your shop with other shops across the country will inspire you to set and reach for higher goals. (Make appropriate adjustments based on the different variables of your shop operation).
1. **ANNUAL GROSS SALES PER SQUARE FOOT**
Your shop’s average ‘annual sales per square foot’ is a vital tool in evaluating your shop’s profitability. Annual sales per square foot should be $500 or more.

**Formula**
Sales Per Square Foot = \( \frac{\text{Annual Sales}}{\text{Total Square Feet of Shop Space}} \)

*(Do not including stockroom space)*

*A number of shops around the country are generating over $1,000 in sales per square foot per year.*

NOTE: This benchmark applies to shops that are proportionate in size to their hospital’s number of employees and beds. A small shop in a big hospital should generate higher sales per square foot. A very large shop in a small hospital will generate lower sales per square foot.

2. **COST OF GOODS SOLD**
A shop’s ‘cost of goods’ should not go above 55%. Aim to keep the ‘cost of goods’ as low as possible.

**Formula:** COGS = Beginning Inventory (at cost) + Purchases* - Ending Inventory (at cost)

3. **GROSS PROFIT MARGIN**
The gross profit margin should be at least 37% or more of gross sales (less sales tax). Aim for a high (43%) gross profit.

- High cost of goods will reduce the gross profit.
- A discount for all hospital employees will greatly reduce your bottom line.

(Formula: Gross Profit divided by Gross Sales (after sales tax) = Gross Margin Percent)

4. **NET PROFIT MARGIN**  *(Net Profit Percent of Gross Sales)*
A good profit margin is the key to success. A shop can have very high sales, but if the net profit is low, something is eating up the profits along the way, such as: a high salary expense, cost of goods, operating costs or markdowns. A good manager must keep these factors in control.

An all-volunteer operated shop should achieve at least a **25% of gross sales** (preferably higher) net profit margin.

The net profit margin percent should be higher in an all-volunteer operated shop than in a shop with a paid manager due to not having salary expenses.

A shop with a paid manager should realize at least a **20% of gross sales** (preferably higher) net profit margin.

(All salaries must be considered an operating expense and must be subtracted no matter how or from where they are paid.)
**Paid Management**
Having a paid manager should result in increased sales and a higher net profit. A full-time experienced manager should be able to increase sales enough to pay for and justify their salary many times over. Paid managers insure day-to-day continuity of management and the maintenance of financial records and reports. Hiring an experienced manager should be viewed as a 'good business investment'.

**Markdowns and Shrinkage**
Markdowns and shrinkage should not go above *7% of gross sales*. Aim to keep it lower. Maintain a record of all markdowns taken. High markdowns sometimes indicate poor buying. Markdowns cut into your profit margin.
Shrinkage is due to shoplifting losses, breakage and accounting errors. Implement all measures to keep these losses below 3% of total sales.

**Operating Expenses**
Operating expenses will be lower for hospital gift shops compared to outside retailers because they don’t have overhead costs, such as rent, utilities, insurance and income tax.

Typical hospital gift shop operating expenses are: payroll, benefits, postage, telephone, travel, shop/office supplies*, printing/copying, equipment maintenance fees, credit card fees and other miscellaneous expenses.

* Shop supplies include: Bags, boxes, tissue, register tape, gift-wrap supplies, helium, shop signage, display items, marking/pricing equipment, etc.

(Operating expenses should be recorded separately from costs for merchandise.)
### ANNUAL FINANCIAL REPORT

**GROSS SALES**  (Excluding fundraising revenue)  
Less Sales Tax  

**NET SALES**  
Less Cost of Goods  (includes freight)  

**Formula:**  
Beginning Inventory  (at cost)+ Purchases (plus freight) - Ending Inventory  (at cost)  
If those figures are unknown, use the total of all merchandise purchases for the year.

**GROSS PROFIT ON SALES**  

*Operating Expenses*  
Salaries & Benefits  
Equip Maintenance  
Credit Card Fees  
Postage  
Telephone  
Travel  
Shop & Office Supplies*  
Printing/copying  

**LESS TOTAL OPERATING**  

**NET PROFIT**  

* Bags, boxes, tissue, register tape, office supplies, gift-wrap & ribbon, helium, shop signage, display items,  
Credit card fees, travel, pricing equipment and stickers and other operating expenses.

---

This information is based upon Cindy Jones’ general experience and knowledge of hospital gift shop management.

**Cindy Jones Associates**  
Consultant, Shop Designer, Speaker