Measure Your Gift Shop's Profitability

Against industry benchmarks

How Does Your Shop Measure Up?

How is your shop really performing in terms of profitability? Is your shop doing as well as other shops of similar size?

There are *two primary measurements* used to determine your shop's profitability:

Annual gross sales per square foot	Net profit percent of gross sales

We'll calculate these below, using your shop's 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 gift shop's profitability to other shops across the country when they are operating under different financial standards?

For example, some shops have to reimburse the hospital for payroll costs, while in other shops, the hospital picks up the payroll costs, providing those shops with higher net profit margin and a false sense of success.

Most shops pay for their own operational expenses, (i.e., telephone, copying and postage). However, the hospital might pay for the operating expenses in other shops. Again, a false sense of success.

A few shops even have to pay rent to the hospital, which means a lower net profit margin.

These factors all effect a shop's net profit margin. Shops that do not pay some or all of the operating expenses must still factor in these costs when comparing their profitability performance with other shops. It's unrealistic to view a hospital gift shop's profitability without including the cost of all its operating expenses. In other words, no matter how or from where expenses are paid, they have to be included as an operating expense. *Only then can benchmarks be applied as a criterion!*

Managers and volunteer leaders must view their shop as a *retail business enterprise* unto itself, just as retailers on "Main Street" or in a mall view their business.

The hospital gift shop industry must work towards a standardized format for evaluating and comparing shop profitability so that everyone is on a level playing field. Hospital gift shop performance benchmarks can then be applied as criteria.

Operating expenses, paid management, as well as markdowns and expenses are further discussed below.

Profitability Benchmarks

We will use benchmarks for Annual Gross Sales and Net Profit Margin to determine your shops profitability. A *benchmark* is the industry standard by which something can be measured or judged.

These 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.

NOTE: Make adjustments based on specific variables that are different in your shop's operation.

#1. Annual Gross Sales Per Square Foot

Calculate your shop's Gross Sales per Square Foot by dividing your annual sales at retail by your shop's total square footage. Do not include stockroom space.

✏️ Formula

$$\text{Annual Gross Sales Per Square Feet} = \frac{\text{Annual Sales (at retail)}}{\text{Total Square Feet of Shop Space**}}$$

*****Do not include stockroom***

Gross sales per square foot is a vital success barometer. Gauge your shop's success against the following benchmark.

🎯 Benchmark

A shop's annual sales per square foot should be $500 or more.

Maximize selling space, offer credit card purchases, as well as employee payroll deductions to increase sales. This is doable!

NOTE: A small shop in a large hospital should have higher sales per square foot than a large shop in a small hospital. A large shop in a small hospital (e.g., an 800 square feet shop with only 1,500 employees) may not be able to achieve $500 in annual sales per square foot.

#2. Net Profit Margin (Net Profit Percent of Gross Sales)

Calculate your shop's Net Profit Margin using net sales divided by gross sales.

✏️ Formula

Net Profit Margin =	Net Sales
(Net Income Percent)	Gross Sales

A shop can have very high sales, but if its net profit is low, what good are the high sales? Many things influence a shop's net profit margin, such as, salaries, operating costs and markdowns. A good manager keeps these factors in control and meets or exceeds the following benchmarks.

🎯 Benchmark

ALL-VOLUNTEER SHOP

All-volunteer operated shop should receive a *25% or higher* net profit margin.** The net profit margin percent will be higher in an 'all volunteer-operated shop' than in a shop with a paid manager due to salaries costs.

**Assumes standard operating expenses are taken

PAID MANAGER SHOP

A shop with a paid manager should aim for at least a *20% or higher* net profit margin.

All salaries must be included as an operating expense and must be applied no matter how or from where they are paid.

Additional Performance Measurements

Cost of Goods Sold (COGS)

✏️ Formula

Beginning Inventory (at cost)
+ Purchases
– Ending Inventory (at cost)
Cost of Goods Sold

🎯 Benchmark

A shop's "cost of goods sold" should not go above 55%. Aim to keep the "cost of goods" as low as possible!

Gross Profit Margin

✏️ Formula

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Gross Sales}}$$

🎯 Benchmark

The gross profit margin should be 37% or more of gross sales. Aim for a high (43%) gross profit.

High state sales taxes will lower the gross profit. Across-the-board hospital employee discounts will greatly reduce the gross profit. Shop employee and volunteer discounts also reduces the gross profit.

What affects profitability?

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 3-4% 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 include: payroll, benefits, postage, telephone, travel, shop/office supplies*, printing/copying, equipment maintenance fees, credit card fees and other miscellaneous expenses.

Operating expenses should be recorded separately from costs for merchandise.

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

Paid Management

Having a paid manager should result in increased sales with 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 while also maintaining financial records and reports. Hiring an experienced manager should be viewed as a 'good business investment'.

Space Allocations

Consider profit margins when you allocate space to the various categories in your shop. Jewelry and balloons offer the highest profit margins. Magazines (19%) offer the lowest profit margins.

High Margins	Low Margins
Jewelry	Flowers
Balloons	Candy/Snacks
Gifts	Sundries
Plush	Magazines/Books
Baby	
Apparel	
Cards	
Toys	