



## Common Margin Terms and Definition

Margin: The percent of sales that is profit.

Gross profit: The actual dollars of profit, used to pay bills.

Gross margin: Used interchangeably with gross profit.

Applied margin: Margin applied to a product cost to create the SRP.

Achieved margin: Margin reported on financial statements-includes all impacting factors, both positive (e.g. purchase discounts) and negative (all forms of shrink).

Realized margin: Exactly same as achieved margin.

Target margin: The margin you are trying to achieve.

Shrink: All factors (known and unknown) that reduce your applied margin to create your achieved margin.

Margin goal: The realized/achieved margin you want to produce.

Variable margin: Applying different margins to different products or categories.

Category margin: Typical margin you apply to an entire product category (usually about 70%-80% of the products carry this applied margin).

Contribution margin: The margin from a product, sub-category, category or department that feeds into total margin you achieve.

Weighted margin: Exactly same as contribution margin.

Contribution margin spread sheet: Excel tool used to understand the effect of variable margins on total margin.

Cost of Goods: The cost of all your product purchases.

Cost of Goods Sold: The cost of your products used to produce your sales (as determined by physical inventory counts and purchases).

Inventory: All the products your store has (floor, back room and any storage areas) valued at the wholesale cost.

Average inventory: Your last five physical count inventories divided by five.

Back out margin: Margin used to back out of retail pricing to achieve a wholesale value.