

Brightpearl

Retail KPI:
Gross Profit Margin



Be better retailers

How profitable is your business?

In any business, you need to know whether you are profitable. Profit is surfaced on the Income Statement (Profit and Loss report), but usually only at a company level. To make the day-to-day decisions that are going to grow your business, you'll need much more detail, and you'll need it up-to-date and available at any time.



What's in the guide?

This guide aims to equip you with the knowledge you need to understand your Gross Profit Margin and profit reporting, plus some actionable advice you can take away for how you can improve your reporting.

In this guide, we'll cover:

1. Examples of detailed profit reporting

2. The differences between gross and net profit

3. When you should report on profit

4. How to calculate profit margins

5. Actionable advice to improve the accuracy of your reporting

Diving into Profit Reporting

When evaluating how profitable your business is, there are several different reports you can use to segment the data. From products to sales and even customer reports, the world is your oyster regarding which profit reports to use. Here are a few examples to get you started:

Which products are profitable?

If sales of a particular item are strong, but your selling price has been driven down by marketplace competition, your profitability reporting needs to show that you are in fact not making any money on these lines. If you find a certain product is particularly profitable, you could use some of the margin to market it more heavily, or reduce the price if sales are low. When cash is limited and you can only spend on certain product lines, make sure they are the ones where you are going to make the most money. To see this detail, you need to be able to produce profit reports at the product level.

“Modelling your product, commission and tax costs at sku level is vital but is not enough. Once you know your margins and understand profit ranges, complement your product level reporting with a repricer to dynamically adjust your prices.”

Ian Lilburne, Managing Director, Herbert Sports

Which sales channels are most profitable?

You should also be able to see whether a product is more or less profitable depending on where it's sold. Perhaps it's profitable when sold via your website, but when sold via Amazon there's just no money to be made. Launching and managing multiple sales channels requires significant effort, and you need to know how they compare against each other financially.

This needs profit reporting at the **sales channel** level.

Which customers are most profitable?

You also need to be able to report on profit by customer group. Perhaps you're a wholesaler selling to customers that have their own negotiated prices, or perhaps you're selling internationally and you want to see how profitable each geographic region is. Or maybe you want to see whether that student discount you produced last year is worth running again this year.

This needs profit reporting at the **customer group** level.

Gross Profit or Net Profit?

Now that we've seen the level of detail that a growing business needs, we'll take a look at whether we measure gross profit or net profit. Your gross profit is given by calculating revenue less cost of goods sold and direct costs. Your direct costs are those that scale in direct proportion with sales, such as shipping invoices from your carriers – sometimes known as variable costs.

Here's how the Gross Profit calculation looks:

Gross Profit = Sales revenue – Cost of Goods Sold (COGS) + Direct expenses (variable costs)

From the gross profit, you need to pay your other business expenses; such as rent, wages, marketing and other overheads. Once you've paid these, you are left with your net profit, which is calculated by:

Net Profit = Gross profit – Overheads (fixed costs)

Let's assume that your overheads are pretty much fixed. Short of firing staff or shutting down

a warehouse, you're not going to be able to affect the net profit much by making day-to-day buying, selling or marketing decisions. Also, a net profit report uses more data from your accounting software, which means that you need to complete all your bookkeeping processes before you can see what's going on.

Gross profit information is more useful. It's fast to produce – as soon as the order is placed, you know your sales revenue, you usually know the cost price you paid for the goods, and you know the price you're paying for carriage to the customer. You'll also know the variable costs associated with each sales channel. If you record your costs appropriately, you can get enough information in the gross profit data to be able to make the decisions that affect your inventory purchasing, channel management and marketing. But it needs to be accurate.

Analyzing the Gross Profit

We're focusing on the gross profit in this article for comparative purposes, so you can choose one product over another, one sales channel over another, or a certain customer segmentation over another, when it comes to investing further.

The profit margin is calculated as follows:

Profit amount (\$) = Revenue – Costs

$$\mathbf{\$50 - \$45 = \$5}$$

Profit margin (%) = (Profit amount * 100) / Revenue

$$\mathbf{(\$5 * 100) / \$50 = 10\%}$$

You need to see the monetary profit amount and total number of items sold on your reports, as well as a percentage margin. You may have an especially profitable product, but if you only sold one in the last month, it's not worth investing more in inventory, but it may be worth dropping the price or marketing it more heavily.

Note that all calculations need to be done on net (tax exclusive) product prices. In sales tax regions like the USA, the tax component of the revenue is paid to the IRS, so it's not your profit. In VAT based regions like the UK, the VAT component of your revenue is paid to HMRC, and the VAT on your purchase price is claimed back. So VAT is the tax on the difference between buying and selling price (your profit) and should not be part of the calculation of the profit itself.



How to Improve your Profit Reporting

Now that we've established just how detailed you can get with profit reporting, let's take a look at some actionable advice tips you can take away to help improve your own reports:

- **Make sure that you're tracking sales revenue at the product level,**

customer level and sales channel level. This sometimes requires you to add fields to your sales software, so that each order contains enough information to produce the reports later. Going back over historic sales to add the missing data is usually not worth the effort, so the sooner you start capturing all the data you need, the better.

- **If you're selling the same product on multiple sales channels, make sure you're using the same SKU (product code).**

This ensures like-for-like comparisons can be made. Take a look at our "Understanding SKUs" guide for more information.

- **Record accurate costs for each incoming delivery of inventory.**

This enables you to produce Cost of Goods Sold values when the inventory is later sold, using the same SKU as on your sales channels.

- **Use a software system to consolidate sales orders from all your sales channels, and give each order its own unique reference.**

You can then use this system to produce your sales reports, with the actual prices paid for inventory, and the SKUs sold. Record the channel on the order for channel-level reporting.

- **Record bills from your carriers so that the costs can be assigned to the relevant sales orders.**

If you can, ask for bills and invoices in electronic format so you can do some Excel work to link everything up by order reference or ID.



What is Brightpearl?

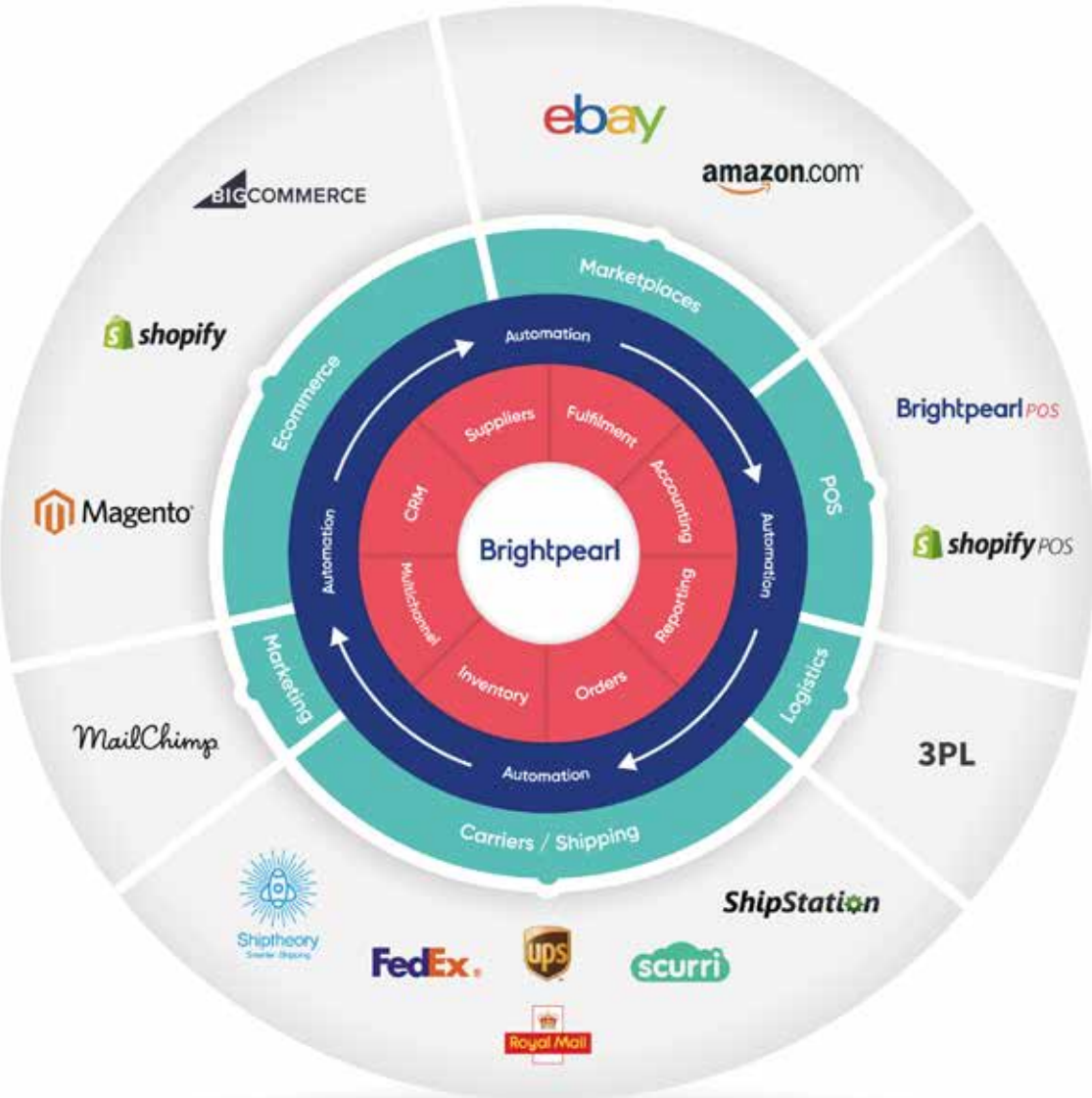
Brightpearl is the world's #1 omnichannel retail management system.

With Brightpearl, you can provide a truly omnichannel experience for your customers. The retail management system allows you to unify all of your sales channels by managing your orders, inventory, accounting, CRM, suppliers, fulfilment, reporting and POS in one single system.

With real time inventory updates across multiple channels, it means you can say goodbye to double selling, inventory errors and inaccurate stock

levels. Additionally, you can make better business decisions with instantly updated accounts to see your profitability across your channels, products and customers.

Brightpearl is 100% cloud-based so you can access your business data at anytime from any location, whether that's from the warehouse, office, shop floor, home or on the road.



In Summary...

Any business needs to know just how profitable it is in today's market. From knowing which products are your most profitable to which customer groups bring you the most profit, your profit reporting can get detailed, very quickly. With the help of an omnichannel retail system, like Brightpearl, you can ensure these reports are easy and quick for you to see and act on. Take note of the actionable advice given in this guide and watch your profits grow.

Further resources to help you tackle your profit reporting

Retail Management Tips: 15 Ways to Increase Profit Margins

by Bob Phibbs, The Retail Doctor

Profit margin calculator

by Shopify

