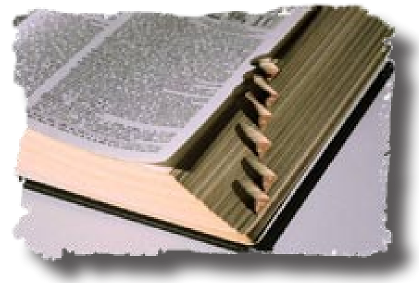
5 GLOSSARY



- Accounting Cycle: A period of time for which a financial performance analysis is conducted. Usually a month, quarter, or year.
- Accrual: The amount of funds earned through purchases over a stated period. Usually earned on the basis of so much per dollar or per item purchased.
- Accrual period: The period during which purchases accrue allowances.
- Ad scrip: A certificate entitling a retailer to a specified amount of co-op funding. Often used as a means to provide allowances to indirect customers. Sometimes called "co-o in a box".
- Advertising deadline: The last date by which advertising may take place if it is to qualify for reimbursement.
- Affidavit of performance: A sworn statement that provides information about certain advertising. Typically refers to a statement from a medium, such as a radio, cable, or television station or an outdoor supplier.
- Approved Source: This term can have more than one meaning. In legal terms, farmers are considered an approved source for food if they are in compliance with state food regulations. Approved source can also be used to indicate suppliers that are authorized by a food service management company or a distribution company to sell products to that company.
- Audit: A process by which a claim is analyzed and a determination made as to whether a claim falls within program guidelines and, if so, how much should be paid.
- Automatic inventory replenishment: An arrangement by which a retailer authorizes a manufacturer to monitor the retailer's inventory of the manufacturer's products and automatically ship additional products when inventory reaches certain levels.
- Back-Haul: A back-haul is moving freight from the destination point back to point of origin. If a trucker takes a load from point A to point B, the back haul is a load going from point B back to point A.
- Barter: The trading of merchandise instead of paying cash for advertising.
- Beginning Inventory: The wholesale dollar amount of inventory on hand at the beginning of an Accounting Cycle.
- Bill of Lading: A bill of lading is the shipping document that transfers the title, or ownership, of the freight from one party to another.
- Carryover period: A period after the end of a co-op program during which a retailer can spend funds left over from the program.

- Category killers: A relatively new class of exceptionally large retail stores that is devoted to one category of merchandise, examples are Home Depot, Best Buy. Also called superstores.
- Claim: The invoice from a retailer or other intermediary for reimbursement of the cost of advertising or promotion of a supplier's product or service.
- Cooperative advertising: Any arrangement by which a product or service is brought to public notice over the names of both the supplier and any intermediary who comes between that supplier and the ultimate purchaser. The intermediary may be a retailer who buys a product for resale, a distributor who sells to retailers or other form of intermediaries. This arrangement results in consumer advertising as well as other forms of promotion. The cost of the promotion may be shared by the supplier and the intermediary, or the supplier may pay all costs. The process commonly involves reimbursing retailers for advertising they create and place.
- Common Carrier: A common carrier is a freight transportation company or sole driver acting as his own company who serves the general public for transport jobs. He may offer a regular route or take unscheduled trips on irregular routes, depending on where he is authorized to serve.
- Cost Of Goods Sold (COGS): The actual cost of all items sold in a department (or entire store) during an Accounting Cycle. COGS includes the cost of an item plus freight, minus any purchase discounts.

  COGS is computed by: Beg. Inventory + Purchases - End. Inventory = COGS.

  Stated simply: We already had this much inventory, we added this much to it (through purchasing), we still have this much inventory, the difference must represent the cost of what we actually sold.

  Example: Beg. Inv. = $25,000, Purchases = $75,000, Ending Inventory = $23,000

  COGS = $25,000 + $75,000 - $23,000 = $77,000.
- Contribution to Margin: Contribution to margin represents one department's contribution to the total store's gross margin percent and is expressed as the number of margin "points" contributed by a department.

  Contribution to margin is computed by: Actual Department Gross Margin % x Department % of Total Store Sales.

  Contribution to margin data can be used to help create a Pricing Strategy that achieves gross margin targets, while remaining price competitive with other stores.

  Example: The total store needs to produce a gross margin of 34%:

  The Grocery department produces a gross margin of 34.53% and Grocery comprises 22.13% of total store sales.

  34.53% x 22.13% = 7.64%.

  Grocery contributes 7.64% "points" of the total store 34% target margin.

  A price analysis of our competitors shows that we cannot afford to increase the prices in the Grocery department. This means that the other departments must produce a combined margin contribution of 26.36% for the store to achieve the target margin of 34%.

34% - 7.64% = 26.36%.

This type of analysis may be performed on every item within a department in the same manner. This can help you to be price competitive within your department while still achieving gross margin targets.

- Credit memo: An alternative to cash as reimbursement to customers for cooperative advertising. The supplier issues a credit memo that authorizes the retailer to deduct that amount from the next payment to the supplier.
- Days in Turns: Number of days it takes to sell the entire inventory of a given department, or the total store. This is an Inventory Productivity ratio.

  Days in turns is computed by: Days in the Accounting Cycle divided by Inventory Turnover ratio.

  Example: Inventory Turnover = 12. Annual Accounting Cycle of 365 days.

  365 / 12 = 30.42 (rounded to 30 days in turns.)

  Actual data is compared to industry targets and store historical performance for analysis.
- Deadhead: A deadhead is a truck driving without a trailer.
- Deal/deal period: A time frame during which a manufacturer offers products to its customers at unusually low prices and/or with other inducements, such as increased co-op accruals or volume rebates. Most common in the packaged goods industry. Some deals may induce a customer to buy more products than can be sold during the deal period, leading to diverting.
- Deduction: A retailer's subtraction of co-op charges from the supplier's invoice.
- Direct customers: Customers who buy directly from the manufacturer without going through a wholesaler.
- Discount Recovery: For products you put on sale, discount recovery refers to the increase in sales needed to produce the "usual" gross margin dollars the item generates.
- Diverting: The practice of buying a product on deal in one area and reselling it in another area where it is not on deal. Often done by retailers who resell to other retailers or to other divisions of their own company.
- Efficient consumer response (ECR): A catch all term covering a variety of actions undertaken by many food and packaged goods manufacturers, distributors, and retailers to improve distribution practices and clean up abuses in the industry. Trade allowance practices including deductions, are a major component of the process.
- Electronic data interchange (EDI): A variety of techniques by which firms communicate with each other, generally through computers tied into dedicated networks using standardized formats.
- Ending Inventory: The wholesale dollar amount of inventory on hand at the end of an Accounting Cycle.
- Failure fees: Payments made to retailers when a product is discontinued due to lack of movement.
- GAP/GHP: The purpose of the Good Agricultural/Good Handling Practices (GAP/GHP) audit program is a voluntary, audit-based program that verifies conformance to generally recognized good agricultural practices and good handling practices as outlined in the Food and Drug Administration's

Guide to Minimize Microbial Food Safety Hazards for Fresh Fruits and Vegetables.

- Going In Gross: The gross margin percent used to determine the retail price of an item. Because of Shrinkage, going in gross is seldom realized.
- Gross Margin Dollars: The sales dollars left over after paying for COGS.

  Example: If sales = $100,000, and COGS = $67,000, then Gross Margin dollars = $33,000. $100,000 - $67,000 = $33,000.
- Gross Margin %: Gross Margin Dollars expressed as a percentage of actual sales.

  Computed by: Gross Margin Dollars divided by Sales

  Example: $33,000 / $100,000 = 33% Gross Margin.
- HACCP (Hazard analysis and critical control point): Food production, storage, and distribution monitoring system for identification and control of associated health hazards. It is aimed at prevention of contamination, instead of end-product evaluation. In place of relying on food inspectors to detect food safety problems, HACCP shifts the responsibility to the food producer to ensure that the product is safely consumable.
- Inventory Productivity: Data used to evaluate the financial performance of the asset Inventory. Some Inventory Productivity ratios are: Inventory Turnover, Days in Turns, Inventory per square or linear foot.
- Inventory Turnover: A ratio describing the number of times in a year that the entire inventory of a department (or the whole store) sells or "turns over".

  Inventory Turnover is computed by: COGS divided by Average Inventory.

  Example: Beg. Inv. = $28,000 End. Inv. = $33,000 COGS = $530,000

  First compute average inventory: 28,000 + 33,000 = 61,000

  61,000 divided by 2 = 30,500, so average inventory = $30,500

  530,000 divided by 30,500 = 17.38. The inventory turnover rate is 17.38 turns per year.

  This ratio is an indicator of Inventory Productivity. Actual data is compared to industry averages and store historical performance. A high number is considered "fast" turnover and a low number "slow". Fast turns are generally desirable but in some circumstances may indicate that you are losing sales through not having enough product on hand. Slow turns may suggest that there is excess inventory in a given department, or that the pricing, product mix and merchandising need modification.
- Just-In-Time: The concept of cutting inventory costs by ordering supplies only as needed. Pioneered in manufacturing by the Japanese, now increasingly popular among retailers.
- Key market funds: Funds over and above the normal co-op allowances made available by suppliers for use only in certain markets in which they have a strong interest.
- Mark-up: Term used to describe the ratio of the Gross Margin Dollars of an item divided by the Cost of the item. Many people use the terms Margin & Mark-up as though they mean the same thing but they are very different!

  One of the main differences:

Mark-up %, being based on cost, is seldom realized due to shrinkage, while Margin %, being based on actual sales, represents what has actually been achieved.

In some instances it is beneficial to know how to convert mark-up to margin, and vice versa.

- Market development funds (MDF): Extra funding given to specific retailers for specific purposes, such as a major seasonal promotion, by the manufacturer's sales and/or marketing management. These funds generally are not given out on a proportional basis, when this is the case; they are of questionable legality (Robinson-Patman Act).
- Merchandising: Refers to the display and promotion of products.
- Multi-vendor programs: Programs in which two or more manufacturers jointly offer a promotion to their retailers.
- Off-invoice: The practice of taking an allowance directly off the price of the product, rather than submitting a claim for payment of the allowance.
- Overbill: A practice among some retail buyers who ask suppliers to bill in excess of the regular price and hold the excess funds at the buyer's disposal to be used for promotional or other purposes. Sometimes stimulated by management pressure on the buyer to seek money over and above the supplier's regular allowance. In other cases, buyers use this approach when they want to promote an item for which no store funds are available. In some industries, called "price loading"
- Pay for performance: Programs offering to pay retailers a specified amount for each unit of the manufacturer's product sold during a specified period usually based on scanner data.
- Pricing Strategy: A formal plan that determines how the store will achieve target Gross Margin. Often neglected in co-ops, the pricing strategy is a key factor in creating a positive price image for the store. Through the use of Variable Margins the purchaser strives to maintain competitive pricing while achieving target Gross Margins.
- Purchases: The net cost of items plus freight, minus discounts during an Accounting Cycle.
- Push money: The practice by which a manufacturer offers cash or other inducements to retailer's salespeople to encourage them to recommend its products to potential buyers. Most common format is to offer the salesperson a certain amount per unit sold during s specified time period. A common variant is to offer points, which the salesperson can use to buy various merchandise from a manufacturer-supplied catalog. Also known as "spiffs".
- Reefer: This is a nickname, or trucking term, for a refrigerated truck.
- RFID: Radio Frquency Identification or RFID is used to locate a product in transit anywhere in the world, according to the IRS. RFID tags can be very small, as small as a grain of rice, notes the IRS.
- Sales contest: A form of push money in which, instead of offering cash incentives, the manufacturer offers participating retail salespeople the opportunity to win some kind of prize, either through a drawing or by achieving defined levels of sales.
- Shrinkage: Lost Gross Profit Margin due to spoilage & breakage, mispricing, misringing, discounting, and theft.
- Soft dollars: Promotional allowances.

- Stock-keeping unit (SKU): Each item inventoried by a retailer. For example, "Widget" might represent several SKUs for typical grocery store, one SKU for each size, style, etc. The more shelf space required, the more inventory cost.
- "Stock To" Level: A predetermined, target on-hand inventory level for each item in a given department.

  The purchaser conducts a count of inventory on-hand, compares the result to the "Stock To" level and places an order for the difference.

  This is a valuable tool for maintaining good Inventory Turnover.

  When determining the "Stock To" level, you want to make sure that there is enough product to create an attractive display, while minimizing back-stock.

  **Often vendors will offer quantity purchase discounts on some items that may justify exceeding "Stock To" levels. Understanding Turn & Earn ratios will help to determine if it is advantageous to buy these items in quantity.
- Trade loading: The practice of inducing retailers or distributors to take on unusually large amounts of merchandise, generally by offering exceptional prices or terms. Often done at the end of a quarter or other financial reporting period in order to reach quotas.
- Turn & Earn: A purchaser strives to achieve high Inventory Turnover. You also want to earn maximum Gross Margin Dollars. Sometimes these two factors work against each other.

  For example, if a vendor is offering a discount on quantity purchases of an item you may want to take advantage of this to earn extra Gross Margin Dollars. However, to do so requires a greater investment in inventory that will lower Inventory Turnover ratios.

  To reconcile these two elements, the Turn & Earn ratio was developed.

  Turn & Earn is computed by: Inventory Turnover x Gross Margin %.

  At the end of an Accounting Cycle, if inventory has increased but Turn & Earn remains constant, you may assume that the inventory increase was due to quantity discount purchasing. If the Turn & Earn ratio goes down, then the inventory increase has been caused by other factors that you will want to investigate.
- Variable Margins: Refers to the application of different Gross Margin % to items in the same department.

  To be priced competitively on high-visibility items (a key element of the Pricing Strategy), you may have to use a lower Gross Margin % on those items. In turn, to meet department target Gross Margin % you will have to price other items above the target to make up for items priced below target.