

## 9.12: Putting It Together- Financial Strategies in Retail

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As we began this module, we asked, “how does a retailer know the right prices to charge to ensure they’re able to manage operating costs and mitigate risk associated with holding inventory?” While this is an important question, it really just served as a way to introduce concepts in accounting like cash flow, income statements, balance sheets, and performance ratios. As you now know, these are powerful tools for assessing the financial performance of a firm.

While it is certainly important to offer the right goods at the right time, place, and price, it is absolutely essential to understand how to measure and track profitability. Simply, a business will cease to be a business if it is not profitable. Fortunately, accounting provides ways for us to express what is happening in the business across different periods.

Note that at its simplest, there are four components that make up this profit management path:

- Net sales
- Cost of goods sold (COGS)
- Gross margin
- Operating profit margin

With these tools, we can compare performance, making adjustment to improve long-term profitability. Ratios and calculations like asset turnover and return on assets are similarly helpful, while the current and quick ratios reflect the overall financial health of the organization. Financial analysis and planning like this is the foundation of retail management, an important component of the retail strategic plan.

Before you go, consider reviewing the following article, which gives a worthwhile comparison of financial components of leading retailers:

[Amazon vs. Top U.S. Retailers: Margins and International Sales](#)

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