


Erratum for the BIIAB Level 3 Profitable Business Portfolio

Amendments required to the Unit 6 Sales Promotions Handbook Version 3 for inclusion in Version 4

These changes will not affect the assessment of this qualification

Page	Section	Details of change (highlighted in red)												
32	4	 <p>Calculating Feasibility of Promotions</p> <p>Sales promotions are (as already discussed), effective in generating revenue.</p> <p>Remember! Profit needs to be protected in both monetary and percentage terms.</p> <p>1. Total costs</p> <p>Total costs need to be carefully calculated. The true cost of wages or flyers can be forgotten easily. It is also important to include costs of any extra administration for such events, but in the case of the Red Lion the expenses are given as:</p> <table><tr><td>Entertainment</td><td>=</td><td>£130.00</td></tr><tr><td>Staff - 8 hours @ £5.50/hour</td><td>=</td><td>£ 44.00</td></tr><tr><td>Posters</td><td>=</td><td><u>£ 25.00</u></td></tr><tr><td>Total</td><td></td><td>£ 199.00</td></tr></table> <p>2. Increased sales</p> <p>Sales during the event at the Red Lion are expected to increase from a normal £360 to £750. Sounds good and certainly higher than the calculated expenses - but will the sales promotion be 'profitable'?</p> <p>Not necessarily. VAT on the increased sales and the cost of the sales have still to be taken into consideration.</p> <p>Firstly, the VAT needs to be deducted from retail sales to get a true sales income projection:</p> <p>e.g. $£390 \div 1.175 = £331.91$ (Incremental retail sales \div 1.175)</p> <p>Then calculate the cost of sales (i.e. drink, food), either by using the latest gross margin figure or, if available, actual stock margins:</p> <p>e.g. Sales % = 100 cost of sales % = 55% gross margin % = 45%</p>	Entertainment	=	£130.00	Staff - 8 hours @ £5.50/hour	=	£ 44.00	Posters	=	<u>£ 25.00</u>	Total		£ 199.00
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e.g. Cost of sales therefore = $331.91 \times 55\% = \text{£}182.55$
 e.g. Gross profit = $\text{£}331.91 \times 45\% = \text{£}149.36$

In the case of the Red Lion the gross profit (**£149.36**) on the projected sales of **£750** does not cover the projected expenditure of **£199** and forecasts a net loss on the sales promotion of **£49.64**.

Financial information from The Red Lion shows that they normally make a profit of **£36.77** on Monday evenings.

Even though the Red Lion forecasts a doubling of sales, the likely costs would turn Monday night into a net loss.

3. Monetary terms

To protect existing net profit and break even, as a minimum there must be the same amount of profit generated with the sales promotion as there would be without it, after all additional expenditure has been accounted for.

A target sales figure for the promotion needs to be projected in order to achieve this. A good formula to use is:

100 divided by the gross margin	=	"X"	
Expenses multiplied by "X"	=	Extra sales required	
Extra sales required x 1.175 ¹	=	Extra retail sales required	

Using the Red Lion Charity event as an example, calculations show that **£524.29** is required in extra retail sales in order to **break even** to pay all costs and retain a profit of **£36.77**:

100 divided by 45 2.3 after rounding)	=	2.222 (say	
£199 x 2.3	=	£457.70	
£457.70 x 1.175	=	£537.80	

4. Percentage terms

The break even point must be achieved for a sales promotion to be worthwhile and it is also important (but not always essential) to maintain net profit margin. You are not able to bank a percentage but it is always important with a business to keep key ratios controlled.

The formula to use for this is:

100 divided by (gross margin minus net margin) = "X"

Expenses multiplied by "X" = Extra sales required

Extra sales required x 1.175 = Extra retail sales required

Again for the Red Lion Charity event this becomes:

100 divided by (45 - 12 = 33) = 3.03

199 x 3.03 = 602.97

602.97 x 1.175 = £ 708.49

£708.49 extra retail sales **required**, rather than the **forecasted** £390 - a significant difference!

¹ Remember that multiplying by 1.175 gives the sales price including VAT which equals the retail price.