

I wrote this up for a loan officer for a new franchise store we planning to open. He wanted to know how Other Mothers makes money, and our markup on merchandise. I thought it would be helpful for our owners to determine if they are following our standard practices. Remember also that owners that change how and when they pay people or limit trade-in hours to fit owner's needs rather than those of the customers quickly get into financial trouble. We have found it counter-productive to offer credit only instead of cash or credit and limit when we will accept trade-ins. The "while you wait" system of quickly getting the trade-ins done while the customer is in the store, is far superior to the "drop-off" system, cutting off trade-in's early in the day, or not accepting trade-ins for certain periods of time. If you have too much inventory (except in change of season) than you are not pricing your items correctly or you are taking too much junk. If you have too little inventory, than you are not paying your customers the way the system was designed. Do not be tempted to go to a credit only system when times are tough, it will kill you in the long run!

Other Mothers' total cost of goods (cost of goods sold plus exchange credit) averages 40% to 42% of sales. Total cost of goods is paid to both customers that sell us their items and to manufactures of new merchandise. Customers receive payment in the form of exchange credit, cash (under \$30), or a check for larger purchases. New manufactures that supply us with toys, Mobey wraps, c.d.'s for children's, etc. are paid by check or credit card.

Stores following current pricing and buying guides have 20 to 25 % of gross sales from store credit. The rest of the 40% to 42% of the cost of goods is paid to the customer or manufactures of new goods. Other Mothers makes it's profit and pays it's expenses on the 58% to 60% markup on the items purchased.

When customers brings things to sell us the exchange card they fill out lists the various percentages of the retail price they will receive from their items. For furniture and very large toy items they receive their choice of 55% store credit or 45% cash (or check). For in-season clothing they receive 45% store credit or 30% cash for the total of their items. For out-of -season clothing they receive 35% store credit or 20% cash on our retail pricing of their clothing. Generally, the mark up on the items from the new manufactures is 50%. Because the bulk of our business is in the in-season clothing and toys, a properly run store will have and over all cost of goods 40% to 42% for **all** items sold in the store (note that this falls between the 45% store credit offered and the 30% cash offered for our main category).

We have adjusted these percentages over the years but for the past 8 years percentages paid to customers (indicated above) have been very stable. Customers are satisfied (so they will continue to sell to us) and cash flow is acceptable for store owners. Store owners who vary from these percentage, try to offer only store credit, or only offer the lower cash percentages can run into difficulties in terms of lack of inventory, lack sales, too much inventory or not enough cash flow.

Our pricing is designed for the high turnover rates of merchandise that our business model requires. We can quickly tell from a storeowner records (because their exchange credit purchases are higher than 25% and overall cost of goods is more than 45%, or they are experiencing mushrooming inventory) that they have changed the system in some significant way. Usually they have either raised their prices too much, lowered their quality of items taken in, changed how exchanges are done or changed the way customers are paid. Sometimes they do a combination of these things without realizing they are only damaging their own reputation. We can spot problems, and guide storeowner back to profitability, if they are willing to learn from their mistakes. The guidelines we set are based on experience and careful calculations of the stores and customers needs and will only be changed if there is a valid/scientific reason to do so. **I hope this is helpful, Melinda**