

A

Sales

The goods and services that a business sells, and the money it receives for them from customers, are its **sales**. Denise van Beek of Nordsee Marine **works in sales**. In fact, she is **sales director**, in charge of the **sales department**. Denise is talking to her **sales team** at a **sales meeting**.

‘Our **sales figures** last year were good and **revenue** or **turnover** – money from sales – was €14.5 million, on **sales volume** or **unit sales** of 49 boats. This was above our **target** for the year of €13 million. We estimate our **sales growth** next year at 10 per cent as the world economy looks good and there is demand for our products, so my **sales forecast** for next year is nearly €16 million.’



A sales meeting

Note

Sale and **sales** are nouns. **Sell** (**sold**, **sold**) is a verb. In shops, **the sales** are a period when goods are sold more cheaply than at other times. BrE/AmE: **sales revenue**; BrE only: **sales turnover**

B

Costs

The amounts of money that a business spends are its **costs**:

- **direct costs** are directly related to providing the product, e.g. salaries
- **fixed costs** do not change when production goes up or down, e.g. rent, heating, etc.
- **variable costs** change when production goes up or down, e.g. materials
- **cost of goods sold (COGS)** are the variable costs in making particular goods
- **overheads, overhead costs** or **indirect costs** are not directly related to production, e.g. administration

Some costs, especially indirect ones, are also called **expenses** or **operating expenses**.

Costing is the activity of calculating costs. Amounts calculated for particular things are **costings**.

Note

Overheads is much more commonly used than **overhead costs**, and **indirect costs** is the least frequently used.
BrE and AmE: **overheads** (plural noun); mainly AmE: **overhead** (uncountable noun)



C

Margins and mark-ups

Here are the calculations for one of Nordsee's small boats.

- **selling price** = €50,000
- **direct production costs** (= costs of raw materials, labour, etc.) = €35,000
- selling price – direct production costs = **gross margin** = €15,000
- **total costs** = €40,000
- selling price – total costs = **net margin, profit margin** or **mark-up** = €10,000

The net margin or profit margin is usually given as a percentage of the selling price, in this case 20 per cent.

The mark-up is usually given as a percentage of the total costs, in this case 25 per cent.

Exercises

27.1 Match the expressions (1–7) from A opposite with their definitions (a–f). Two expressions have the same definition.

- | | | |
|-------------------|--------------------------|---|
| 1 sales figures | <input type="checkbox"/> | a the money received from sales (2 expressions) |
| 2 sales forecasts | <input type="checkbox"/> | b sales hoped for in a particular period |
| 3 sales growth | <input type="checkbox"/> | c the amount of sales, either in terms of money or the |
| 4 sales revenue | <input type="checkbox"/> | number of things sold |
| 5 sales target | <input type="checkbox"/> | d increase in sales |
| 6 sales turnover | <input type="checkbox"/> | e statistics showing the amount sold, perhaps over time |
| 7 sales volume | <input type="checkbox"/> | f sales expected in a particular period |

27.2 Complete the sentences with the correct expressions from A or B opposite.

- Can your four cleaners clean 30 hotel rooms in five hours at 45 minutes per room? Your answer to this will affect your (unit sales / costings)
- The bank's CEO said operating (expenses / sales) rose due to a new wages agreement and higher staff numbers in Australia.
- Last Christmas, many people realized they could get far better value if they waited until (the sales / sales forecast) in January to buy their presents.
- Our (costings / sales) department specializes in organizing holidays and conferences tailored to individual group requirements.
- The costs for external consultants are (fixed / variable) as they change with the number of consulting days. The costs for internal consultancy, by contrast, comprise a large proportion of (fixed / variable) costs because setting up the internal consultancy – hiring permanent staff, renting offices, etc. – and maintaining it involves (fixed / variable) costs.
- Pricing your cheese sandwich at £3 when the variable costs of making it are £2.80 does not mean that you have made 20p profit. If your (overheads / unit sales) are £40,000 per year, you will have to sell 200,000 cheese sandwiches just to cover them.

27.3 Choose the correct expression from B opposite to describe Ford Motor's costs.

- the salary of an office receptionist (direct cost / indirect cost)
- heating and lighting of the building where cars are made (fixed cost / variable cost)
- the materials used in the cars, and the salaries of production workers (overhead cost / COGS)
- running the office (overhead cost / direct cost)
- metal used in making the cars (fixed cost / variable cost)
- the salary of a worker building the cars (direct cost / indirect cost)

27.4 Look at C opposite. Then read what this company owner says and answer the questions.

'I'm Vaclav and I own a small company in Slovakia that makes furniture for IKEA. For example, we make a very popular line of wooden chairs. They cost €36 each to make, including materials and production costs. We estimate overheads, including administration and marketing costs, for each chair at €4, and we sell them to IKEA at €50.'

- What is the gross margin for each chair?
- What is the net margin for each chair?
- What is the mark-up for each chair as a percentage of total costs?
- What is the profit margin for each chair as a percentage of the selling price?

Over to you

Think of the company you work for or one you would like to work for. Which of its products or services has the highest sales? What are its biggest costs?

UNIT 27 ANSWERS

27.1 1 e 2 f 3 d 4 a 5 b
6 a 7 c

27.2 1 costings
2 expenses
3 the sales
4 sales
5 variable, fixed, fixed
6 overheads

27.3 1 indirect cost 4 overhead cost
2 fixed cost 5 variable cost
3 COGS 6 direct cost

27.4 1 €14 3 25 per cent
2 €10 4 20 per cent

Over to you (sample answer)

McDonald's Big Mac has the highest sales of all its products. The company's main costs are its restaurants, staff and raw materials (food supplies).