Trade Operations in Planning and Managing Sales

- Processes used in planning and managing sales

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Content of the presentation

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PLANNING AND MANAGING SALES IN POINT OF VIEW OF TRADE OPERATIONS

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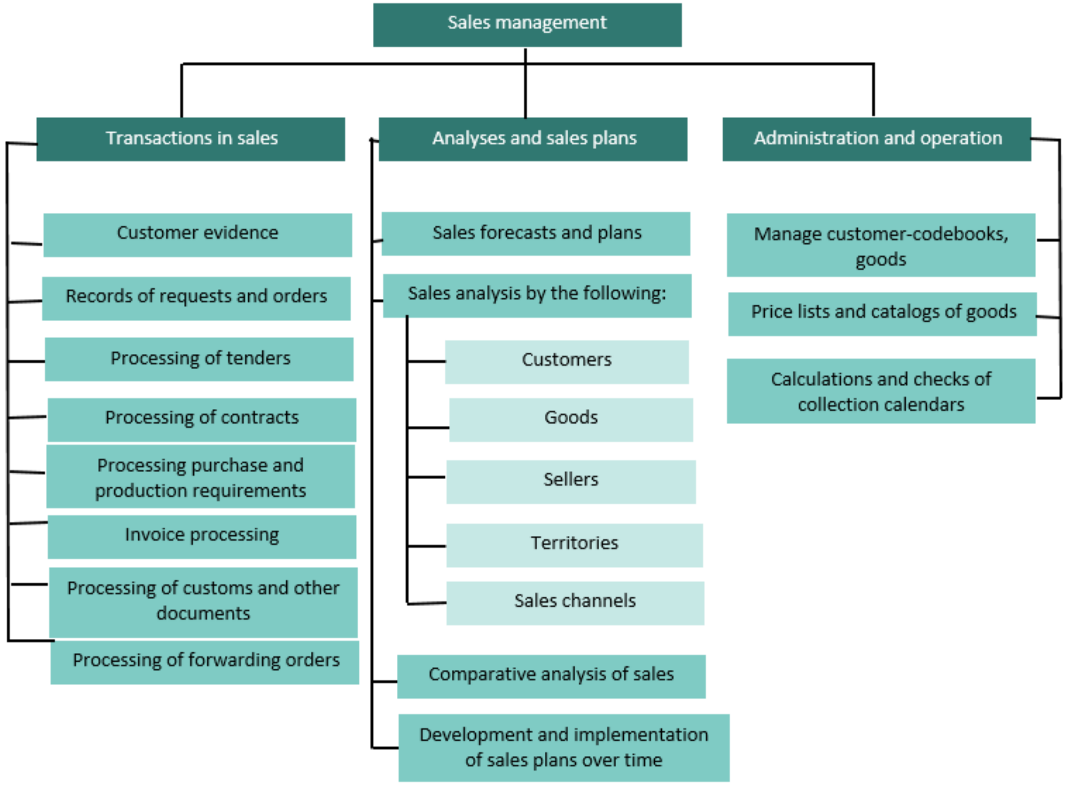
Sales management focuses not only on the **creation of sales plans**, but also on **other essentials associated with sales** (for example sales quality, cost of sale, price of goods and services, payment schedule, business conditions, or sales success index) (Janišová and Křivánek, 2013).

Today, **sales management** is also supported by sophisticated information systems that record and store information for further use, such as for better customer relationship management. (Pour, 2006) The functionality, thus provided by the functions of such systems, is shown in Figure 1.

Retail management cannot be seen as merely managing its own business operations and managing employees, as some small traders understand. The management of retail organizations has a broader concept, for which the company uses a wide range of tools (Starzyczná, 2014).
These main tools of business organization management include optimization of company organizational activity, choice of distribution channels, material business instrumentation, choice of location and character of business operation of units, financial management of the company, management of business enterprises in the narrow sense and marketing (Jindra, 1996).

Figure 1: Functionality of information system for sales management



Source: Pour, 2006

Background of Sales Planning

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Planning is based on **certain assumptions**, **past experience** and **analysis of various factors**, but in trade it is very problematic and in practice almost impossible **to estimate exactly the future development of trade** (Žůrková, 2007).
The experience of larger foreign companies confirms that it is commonly planned in the business in longer time horizons from **3 to 5 years**. Smaller businesses are also advised to consider the future of at least five years. (Starzyczná, 2014)

However, according to Starzyczná (2014), long-term planning should not involve planning a detailed plan, but rather identifying trends concerning:

- **Position** of the business organization on the market, maintaining or improving its position.
- The nature of the **organizational-legal form**, its preservation or changes caused by the growth of the company.
- **Location** of retail and distribution networks.
- Assessment of **spatial and personnel capacities** for maintaining profit.
- **Cost level**.

External Factors Affecting Retail Planning

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When planning sales, sales managers must consider, in particular, the following external factors:

- **Demographic factors**

-Population, household structure, population growth potential, consumer lifestyle, income potential, age and education structure, employment.

- **Transport and availability**

-Number and type of vehicles in the area, vehicle access to point of sale, number and type of sidewalks and pedestrian crossings, public transport accessibility, motorway accessibility, street congestion level, physical barriers to store access.

- **Retail competition**

-Number and types of stores in the area, analysis of key players in the area, competitiveness of other traders, number and location of direct competitors in the area, possibility of joint promotion with local traders.

- **Location**

-Number of parking spaces available, distance between parking areas, ease of van / truck access, visibility of the site from the street, site history, land size and shape, ease of access for disabled customers, building security restrictions, zone type, signage restrictions.

- **Costs**

Rental conditions, basic rental payments, rental duration, local taxes, building operation and maintenance, restrictive rental clauses, membership in a local merchant association, voluntary local merchant regulations.

EXPLANATION OF PROCESSES IN THE SALES DEPARTMENT

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In general, planning is part of a management process that consists of several phases (Starzyczná, 2014). Sales planning, according to Dutta (2011), includes eight phases: **assessing the current situation, setting goals, determining market potential, forecasting sales, choosing strategies, budgeting, implementing and managing sales.**

In the **first phase**, an **assessment and analysis** of where the organization is today and where it will be if no changes are made is needed. Prospects can be obtained by reviewing the organization's past performance and assessing its progress towards competition and its success in achieving its goals. (Dutta 2011)

This is followed by a **goal setting phase** using an environmental study (SWOT analysis). **The internal** (SW - strengths and weaknesses of the company) and the external (OT - opportunities and threats arising from the external environment) **environmental factors are properly evaluated** to determine to what extent they will help achieve the objectives. Specific factors belonging to the external retailing environment that these organizations should include in their research are outlined in the previous slide (External Factors Affecting Retail Planning). Of course, **the specific factors for wholesale vary slightly**, given that wholesale is based on the purchase of goods in large volumes and their subsequent sale without substantial adjustments to other business entities for their activities (Mulačová and Mulač, 2013).

EXPLANATION OF PROCESSES IN THE SALES DEPARTMENT

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Strengths and weaknesses are then assessed to formulate feasible and useful plans (Dutta, 2011). Objectives should be specific, measurable, achievable, realistic (in terms of resources), time-bound (Steffens, 2015), and defined within the company's goal (Dutta, 2011).

The **sales forecasting phase** includes predicting sales volume, product quality and design for the overall market and for each market. Sales forecasts are based on last year's revenue records by territory, local conditions in each market, and company strengths and weaknesses. The data are compiled at the company's headquarters and a specific forecast is made about the expected sales volume. The likely effects of all factors are assessed to determine their effect on sales volume for each individual market. (Dutta, 2011)

Once goals have been set and sales forecasts are made, the next step is to **select strategies to determine how to achieve these goals.** Strategic decisions give the organization an overall action plan that helps the company better meet the needs and wishes of its customers, capitalize on the weaknesses of its competitors and capitalize on its strengths. (Dutta, 2011)

The next step is to **determine the budget**, i.e. the determination of the individual resources (monetary, material, labour) estimated by planners. The overall objective of the budget is to coordinate and control the company's resources during the period covered by the sales forecast.

EXPLANATION OF PROCESSES IN THE SALES DEPARTMENT

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The **implementation phase** concerns the specific activities to be carried out in the future. At this stage, the order in which the specific activities will be carried out by the resellers is determined and the resources to be allocated between the sales force and the branches are decided. Implementation can include **customer classification, focus on product line, sales approach, and new design of sales methods**.

The **last stage is sales control** as the planning process requires a built-in monitoring device to help **management control** the planned steps in the compiled plan. The monitoring equipment should make regular measurements to check progress towards specific targets and detect deviations over time so that corrective action can be taken and the reality is again in line with the set plan. If possible, these measurements should be quantitative. (Dutta, 2001)

Planning is the basic management tool through which the strategic, tactical and operational activities of the company are corrected and regulated. We use **various methods of planning and forecasting** to prepare individual plans. (Starzyczná, 2014)

Methods of Forecasting and Planning

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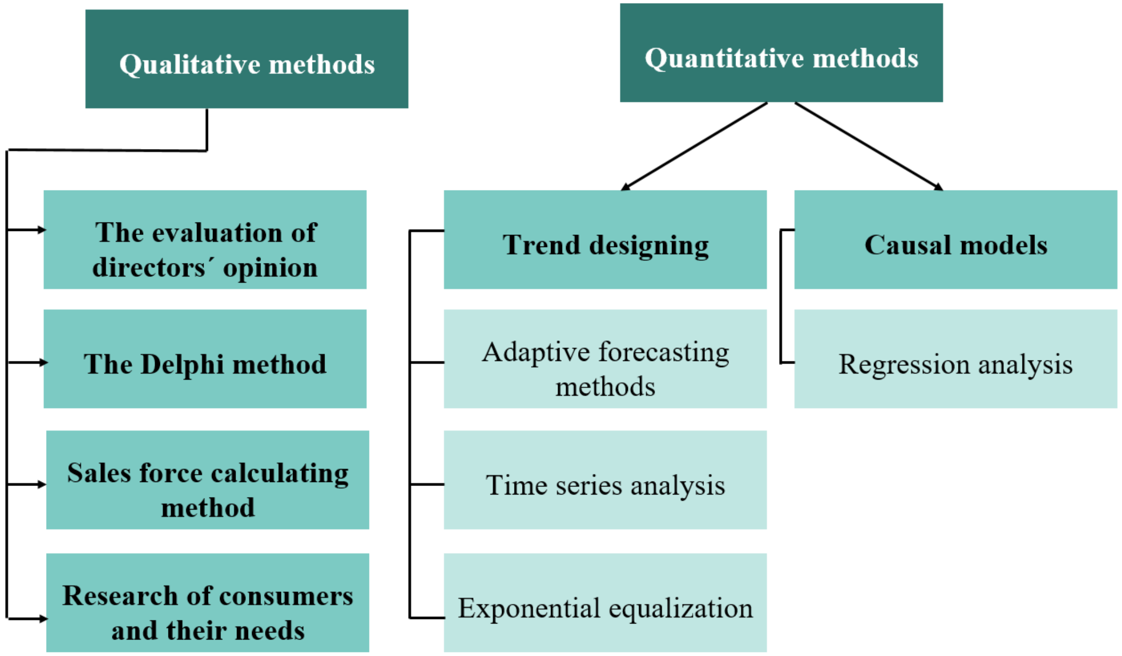
Companies **are forced to forecast** in order to plan, for example, their **investments, offer new products and services, or decide to stop selling some of them**. The sales forecasting process is critical for most businesses. The key decisions that are derived from it include the following (Dutta, 2011):

- **Required amount and composition of employees.**
- **Communication mix.**
- **Investment in sales capacity**.

Preparing a sales forecast is not an easy task. This is all the more **difficult for new merchants** because they do not yet have data from the past (Starzyczná, 2014). Forecasting methods can be divided into two basic groups, i.e. **qualitative and quantitative methods.** The classification of individual methods is clearly shown in Figure 2.

Figure 1: The classification of individual methods of forecasting and planning



Source: own illustration

Qualitative Methods

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This type of method is specific by relying on subjective opinions or judgments (Dutta, 2011). The qualitative methods used for forecasting in commerce include the Evaluation of Directors' Opinion, the Delphi Method, Sales Force Calculating and Consumer Research. These methods are further specified as follows (Starzyczná, 2014; Dutta, 2011):

The evaluation of directors' opinion

Managers (store managers, store managers, buyers, sales managers, etc.) meet to exchange views and experiences to use to estimate the sales plan. Each selected group manager is asked to provide an estimate of future sales with a written justification, and views are then collected and analysed at the group meetings. The advantage of the executive opinion court is simplicity, but this method can be more time consuming for executives.

The Delphi method

It is a modification of the court of opinion of executives who prepare their assessment individually, not at a joint meeting. The submitted proposals are returned to the staff several times for consideration, in the last round decisions are taken. This method has the advantage over the executive opinion court that it eliminates the group pressure that is typical of executives' meetings.

Sales force calculating method

It is used in direct marketing, where sellers come up with realistic estimates of future sales of goods in their market segment. The main disadvantage of this method is that vendors may be a bad estimator of future sales levels or market conditions.

Research of consumers and their needs.

This method is a prognosis made by researching a limited and well-defined group of buyers. The disadvantage of this method is that the customer does not always have to do what he says and plans. The customer's purchasing behaviour may change in response to changes in the environment.

Quantitative Methods

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This type of method is specific due to use of statistical methods (Dutta, 2011). For statistical calculations, data on sales of goods from previous years are used (Starzycná, 2014). Quantitative methods include adaptive forecasting methods, time series analysis, exponential equalization, regression analysis and correlation analysis. These methods can be divided into two groups. The first group is trend designing and the second is causal models (Burstiner, 1991).

1) TREND DESIGNING

The methods belonging to this group are based on the trends of several previous years. If there is an upward trend, this value will be reflected in next year's estimate and vice versa. Trend design methods include the followings (Burstiner, 1991; Starzyczná, 2014):

- **Adaptive forecasting methods** - they use moving averages that, despite their simplicity, can provide good results and quality predictions.
- **Time series analysis**
- **Exponential equalization**

Trend Designing – Time Series Analysis

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Time series analysis is a projection of the average increase in sales changes into the future (Dutta, 2011). It can be performed from several perspectives at the same time, depending on the trend component, the economic cycle, seasonality and emergencies (Kotler, Wong, Saunders and Armstrong, 2007). The individual elements of the time series can be specified as follows (Kotler, Wong, Saunders and Armstrong, 2007):

➢ **Trend**

- long-term direction, monitors the ascending or descending volume of sales influenced by changes in technology, demand for a certain assortment, etc.

➢ **Business cycle**

- medium term, taking into account the impact of general economic equilibrium.

➢ **Seasonality**

- affects the annual sales flow in hours, weeks or months according to the product range.

➢ **Emergencies**

- these include climatic conditions, temporary fashion hobbies, strikes, rebellions, wars, panic. Their effect on past sales must be removed from the data so that forecasting results are not biased.

Quantitative Methods

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2) CAUSAL MODELS

This type of forecasting method looks for causal relationships explaining the reasons for the development of sales to date. This type of methods includes regression and correlation analysis.

Regression analysis

The aim of regression analysis is to identify factors that affect or are closely related to sales changes. Simple regression is a prognostic technique using only one independent variable, while multiple regressions use two or more independent variables. (Dutta 2011)

Regression (correlation) analysis refers to sales of goods as a dependent variable to other independent variables (Starzyczná, 2014). Independent variables generally include economic indicators, which Burstiner (1991) divides into indicative, identical or delayed indicators. These indicators can be specified as follows (Burstiner, 1991; Kotler, Wong, Saunders and Armstrong, 2007; Starzyczná, 2014):

- **Indicative indicators -** the movement of indicative indicators precedes changes in the sales activity of the population (e.g. a decline or rise in labour productivity, developments in income, consumption data). Many companies are involved in guiding indicators. These indicators are referred to as future indicators that change in the same direction, but slightly earlier than sales. An example is a building a shop, which may take into account the approval of government housing support when planning sales.
- **Identical indicators -** these indicators change along with actual sales (e.g. gross national product, company profit).
- **Delayed indicators -** The movement of the delayed indicators is delayed by changes in sales (e.g. discount interest rate, stock-to-sales ratio).

General Approaches to Planning Sales

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When planning sales, companies use **three common planning techniques** that have both advantages and disadvantages. These three approaches to planning and how they can be influenced usually depend on the business, system and ways of managing the company and the prevailing corporate culture (Fotr, 2012). These approaches include top-down method, bottom-up method and two-way planning method.

1) Top-down method

Management first evaluates **the overall economic situation** and **objectives of the company** in **accordance with its strategy**, then continues with the evaluation of past and current performance of the company and takes into account all changes in and around the company (strategy goals, plan). The plan **breaks down from the top into individual organizational articles** of the company to the **basic unit**, which is a store or warehouse. The disadvantage of this method may be the **excessive distance of the TOP management** from the shops and very **sensitive local influences** in their surroundings. (Starzyczná, 2014)

General Approaches to Planning Sales

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2) Bottom-up method

It is an alternative method, the so-called construction method. **Store managers, in collaboration with executive staff, prepare an estimate of future sales** and pass it on to senior management. Individual estimates are then collected at the company's headquarters. Here they are summed up and assessed by top management. The advantage is that those who are best acquainted with the business, its customers and facilities can better estimate the future development of each unit. However, a disadvantage may be **the deliberate distortion of future results** in order to improve the remuneration and bonus position in the event of an underestimation of the plan. (Starzyczná, 2014)

3) Two-way planning method

In this method it is a **combination of both previous approaches**. The scheduling is therefore synchronous both from top to bottom and from bottom to top. The resulting deviations between the two directions are continuously evaluated and corrected, and this method introduces an important **feedback element into the system**. The main advantage of the method is that it is more accurate than the above-mentioned methods, but the disadvantage of this method is that it is more time consuming and more demanding on the professional skills of managers. (Fotr, 2012)

SPECIFICATION OF PRODUCT PROFITABILITY CALCULATION

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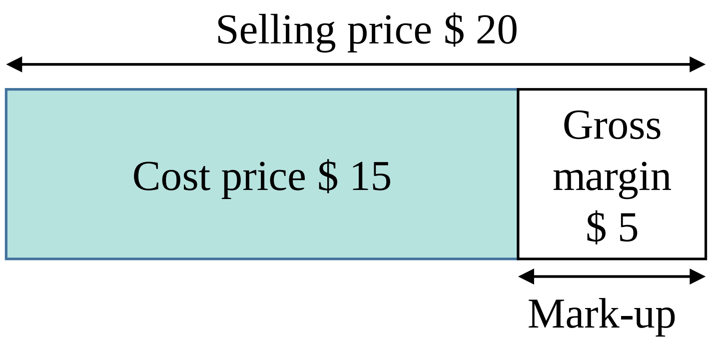
The price that a customer pays for a product is made up of two main components (Varley, 2013):

- The **cost of the product**, or the price than the retailer pays to a supplier.
- The **gross profit margin**, which is the selling price minus the cost of the product.

An expression that is often used in retailing is the **mark-up**, and normally this refers to the gross margin. The mark-up can therefore be expressed as (Varley, 2013):

1. A total amount in monetary terms ($5 in Figure 3).
2. As a percentage of the cost price.
3. As a percentage of the selling price.

Figure 3: The retail selling price



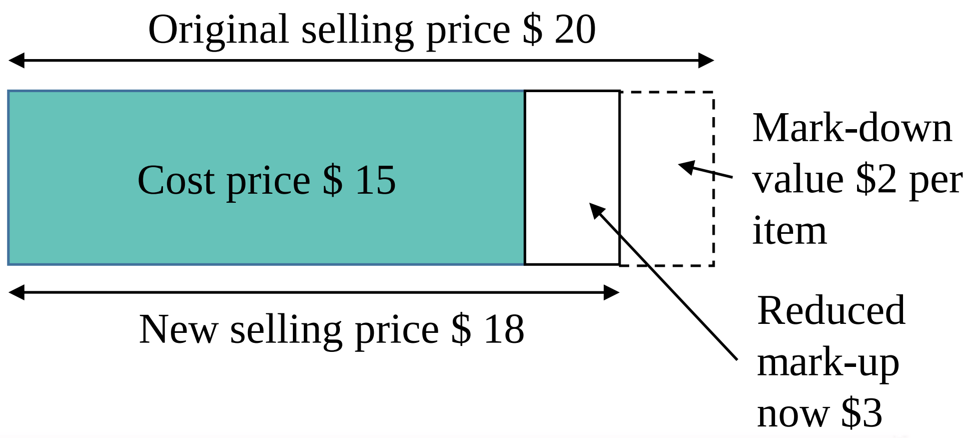
Source: adapted from Varley, 2013

Mark-down

It is a price reduction and relates to the difference between an original selling price and a new selling price. A mark-down can be expressed as a monetary figure or as a percentage of the original selling price (Figure 4).

It would not be useful to express the mark-down as a percentage of the cost of the product, but the new price will of course now have a different (reduce) mark-up. As the gross profit margins represents the income from which a retailer has to pay the expenses of running the retail business, allocate funds for business development and pay the shareholders of the company, the prices set are crucial to the success of the business.

Figure 4: Price mark-down



Source: adapted from Varley, 2013

SPECIFICATION OF PRODUCT PROFITABILITY CALCULATION

The profit that a product generates to contribute to the costs of running a retailers´ business **depends on two important variables.** The first is **the gross margin** that is applied per item according to the selling price set. The second is **the amount of products** of a particular type that is sold; this is referred to as the sales volume, and is often expressed as the number of items sold in a particular time period (rates of sales). At one time it was fairly common practice for retailers to apply a uniform **mark-up policy**´ throughout the store, so that every item had the same percentage gross margin. However, whilst simple to administer, this method did not allow the retailer to exploit the opportunity to charge higher margins where the market would stand it or to accept lower margins in the face of competition. Now, most leading retailers are able to **conduct profit margin analysis at the SKU** (stock keeping unit) **level**, so the contribution to profits of **every single item within the store is known** and **prices are set individually** for each item.

Some products sell very frequently and generate very little profit margin, while others sell much more slowly but have a larger profit margin. **In order to compare the overall profitability of products with differing rates of sale and profit margins** a measure called **the gross margin return on investment (GMROI) can be calculated.** This is a simple calculation where a **product´s gross margin is multiplied by its rate of sale within a time period (sales turnover),** and it allows retailers to compare the amount of profit generated on a product line with the level of investment made in the stock. (Varley, 2006)

SPECIFICATION OF PRODUCT PROFITABILITY CALCULATION

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The higher the GMROI, the more work an item of merchandise is doing for the profitability of your business. GMROI calculations can be made at **different levels** within the retail organisation, for example at SKU level, product category level, or at department level.

The GMROI calculation is a simple analysis that will **indicate to the retailer those products that are making the largest contribution to its overall gross profits** in relation to the financial investment made in that stock. However, **not all products within a retail offer require the same amount of resources in order to sell.** Some products require much larger amounts of space; other products require a high level of personal service to sell and with these resources go costs. More refined retail product profitability measures therefore take the costs that can be attributed to the various areas of product management that apply.

In **Table 1**, product categories with different gross margins and different turnover rates result in the same GMROI value

In **Table 2**, the gross margin is equal for all three product categories, and the resulting GMROI shows considerable variation.

Table 1: Example of the same GMROI value situation

Product category	**Gross margin (%)**	**Turnover ratio**	**GMROI (%)**
Baked beans	10	12	120
Biscuits	20	6	120
Boxed chocolates	40	3	120

Source: adapted from Varley, 2006

Table 2: Example of the different GMROI value situation

Product category	**Gross margin (%)**	**Turnover ratio**	**GMROI (%)**
Baked beans	25	12	300
Biscuits	25	6	150
Boxed chocolates	25	3	75

Source: adapted from Varley, 2006

Approaches of Setting Retail Prices

Retailers used different approaches of setting their product prices. The most known are (Varley, 2013):

- **Price sensitivity**
  - Price elasticity is a key principle to be observed in the setting of prices. This is the extent to which demand for a product responds to change is price. As a guiding principle, the more discretionary a purchase, the more opportunity for retailers to use price elasticity in their pricing strategy; on the other hand, today´s complex shopper does not act as a rational economically driven consumer, and the demand for products is affected by a whole host of variables other than price.
- **Uniform mark-up (cost-oriented method)**
  - At one time it was fairly common practice for retailers to apply a uniform mark-up policy throughout the store, so that every item had the same percentage gross margin. However, whilst simple to administer, this method did not allow the retailer to exploit the opportunity to charge higher margins where the market would stand it or to accept lower margins in the face of competition. It also did not take into consideration the effects of sales volume on overall profits.
  - Retailers then began to adjust margins according to departments or categories, which generally had the effect of raising margins on less frequently purchased merchandise and lowering margins on volume products. Now, most leading retailers set prices individually for each item.
- **Demand led pricing**
  - This approach to pricing considers price from the perspective of the product market. This means the price which the market is willing to pay. Prices are set according to the demand for the product, the availability of substitutes and the prices that the competition is charging.

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PROVIDING AN EXTIMATION OF EFFECTIVE DEMAND -Retail

Sales planning and estimation of purchasing demand are different for retail and wholesale. The sales plan is the basic tool of the company's sales policy, and it sets out the performances that, depending on the types and their scope, will or will be implemented in the given planning period (Martinovičová, Konečný and Vavřina, 2014).

The basic element of retail planning at retail level is the retail unit. Sales planning varies depending on the stage of the shop's life cycle. Otherwise, we proceed if the store is already established on the market and differently when opening a new store. Also at the level of the wholesale cell, planning varies according to whether it is an established unit or a newly established wholesale. (Starzyczná, 2014)

A) Sales plan for an established retail unit

If we plan to sell at an established store, it is necessary to know the sales turnover for the last year, the trend and the business cycle. Specification of bases of sales planning for an established retail unit include the last year´s retail sales, trend and economic cycle. These parts are explained as follow (Starzyczná, 2014):

- **Last year's retail sales** (overall and by structure, physically and in value).

PROVIDING AN EXTIMATION OF EFFECTIVE DEMAND -Retail

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- **Trend** (influenced by the overall economic conditions of the company and its strategy, expected changes in its own shop, changes in departments, work organization and business technology, change in the form of sales, choice of goods, etc.).
- **Economic cycle** (reflects macroeconomic changes in the surrounding area in the broadest sense with an impact on the store's radius of action, its demography and potential and competition, etc.).

To calculate the sales plan in case of established retail units can therefore use the following formula (Starzyczná, 2014):

$$\boldsymbol{MO_t = MO_{t-1} \pm T \pm HC \quad or}$$

$$\boldsymbol{MO_t = MO_{t-1} I_T I_{HC}}$$

Explanation of the formula components:

MO_t	**Planned sales (in currency or physical units)**
MO_{t-1}	Last year's sales (in currency or physical units)
T	Trend
HC	Economic cycles
I_T	Index of the trend
I_{HC}	Index of economic cycles

Example 1: Retail Sales Plan for an Established Retail Unit

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The drone sales company sold 356 drones last year and wants to forecast the drones sold in December this year. The long-term trend shows a 10% increase in drones sold per year. However, a recession is expected this year, which will probably result in a total of only 95% of the expected drones sold according to the long-term trend. December is in the drone sales above average, its seasonal index is 1.3. The Company does not expect any unforeseen events. How many drones will the company sell in December this year?

Calculation:

1) Trend:

$O_t = O_{t-1} \times I_T$

$O_t = 356 \times 1{,}1$

$O_{t'} = 391{,}6$ drones

2) Economic cycle:

$O_{t''} = O_{t'} \times I_{HC}$

$O_{t''} = 391{,}6 \times 0{,}95$

$O_{t''} = 372{,}02$ drones

Seasonality:

Average monthly sales:

$O_{12} = 372{,}02 / 12 = 31$ drones

December: $31 \times 1{,}3 = 40{,}3$ drones

Answer: The company plans to sell about **372 drones for the whole year**. The estimated drones sold in **December are around 40 pieces**.

PROVIDING AN EXTIMATION OF EFFECTIVE DEMAND -Retail

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B) Sales plan for newly established retail unit

For the planning of sales at a newly established store we start from the delimitation of the catchment area (action radius, number of potential customers) and the estimate of the sales plan, which includes the selected product range, average consumption expenditure, purchasing power estimate or analogies of other stores. (Starzyczná, 2014)

The following formula illustrates the starting points for the plan (Starzyczná, 2014):

$$MO_t = O_{lk} V_O I_{MR} I_{ks}$$

Explanation of the formula components:

MO_t	**Expected retail sales**
O_{lk}	Action radio population (Potential customers)
V_O	Average consumption expenditure,
I_{MR}	Index of the rate of implementation of population expenditures,
I_{KS}	purchasing power index.

The competition is estimated according to the extent of its interference with the action radio of the store. To evaluate the situation we will use field survey of customer preferences and estimation of competition performance. Depending on the size of a competitor's sales unit, it is possible to estimate its performance per m² of sales area and thus the threat level. It is recommended to start with a more pessimistic option. (Starzyczná, 2014)

CALCULATION OF SALES PLAN - established retail unit
-the task

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Individual work

Calculate the sales volume of mobile phones at an established retail unit for December 2023 knowing the following data:

- In 2022, the retailer sold 1,523,652 mobile phones.
- This year, the company plans to reduce unprofitable types of mobile phones, which will reduce sales by about 1.5%.
- Estimated development according to the business cycle suggests an increase in sales of 1%.
- The seasonal index for December is 1.4.

Calculation formula:

$$\boldsymbol{MO_t = MO_{t-1} \pm T \pm HC \quad or}$$
$$\boldsymbol{MO_t = MO_{t-1} I_T I_{HC}}$$

CALCULATION OF SALES PLAN - established retail unit
-the task

Individual work

Calculate the merchandise sales volume of a retail grocery store for November 2023 knowing the following data:

- The grocery retailer sold $150 million worth of merchandise in 2022. CZK.
- Management is planning changes to the store operations that are likely to translate into a 2% increase in sales.
- The 2023 economic cycle is expected to see an approximate growth of 1%.
- The seasonal index for November is 1.2.

Calculation formula:

$$\boldsymbol{MO_t = MO_{t-1} \pm T \pm HC \quad or}$$
$$\boldsymbol{MO_t = MO_{t-1} I_T I_{HC}}$$

CALCULATION OF SALES PLAN – newly established retail unit
-the task

Individual work

Calculate the expected retail turnover for the newly intended retail unit, knowing the following data:

- The population of the action radio is 25,000.
- The average consumer spending is 560 CZK.
- The index of the population's spending realization rate is 1.2.
- The purchasing power parity index is 1.3.

Calculation formula:

$$MO_t = O_{lk} \,.\, V_o \,.\, I_{MR} \,.\, I_{KS} \text{ - share of competition}$$

PROVIDING AN EXTIMATION OF EFFECTIVE DEMAND
-Wholesale

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A sales plan in the case of an established wholesale trade

For an established unit, we adjust the turnover of last year by the relevant trends, the stage of the business cycle and conduct research on current and potential customers. Unlike retail, we also need to add market research here. According to Starzyczná (2014), the specifications of the bases of sales planning for an established wholesale are as follows:

- **Last year's sales** - total and in structure.
- **Trend** - overall economic conditions of the company, considered changes in warehouse technology and work organization, use of warehouse capacity, transport fleet level.
- **Economic cycle** - changes around the unit in the narrower and wider sense.
- **Market research** - current and potential customers, their requirements, changes in contracts, competition, etc.

Sales plan for newly established wholesale

In the case of a newly established unit, it is necessary to conduct a market research of potential customers. Planning methods can be used the same as in retail. The plan is summarized at the middle level of management at the level of marketing and sales department. (Starzyczná, 2014)

CALCULATION OF PRICES IN INTERNATIONAL TRADE

There is no simple formula or pricing method for foreign trade pricing, as it is for domestic trading. When creating it, we have to take into account a number of factors, including (Mulačová and Mulač, 2013):

- Cost calculating
- Price of competing products
- Product and brand exclusivity
- Possibility of substitution of products on the target market by competing products
- Speed and continuity of supply
- Provision of after-sales services (e.g. warranty period)
- Demand interest
- Price elasticity on the demand side
- Pricing strategies used in the target market
- Legislative constraints and autonomous instruments

Calculation is an important tool for managing business operations. It is the basis for decision-making and the basis for the choice of alternatives that can be chosen in the export or import operation, in particular with regard to the choice of mode of transport, freight forwarding, storage, but also customs tariffs, currencies or payment instruments. (Mulačová and Mulač, 2013)

CALCULATION OF PRICES IN INTERNATIONAL TRADE

Calculations are mostly done on a per-order basis, but often vary on the specifics of the market. For the determination of the price in the bids, the starting point is a preliminary calculation whose task is to define negotiating space in the price area for negotiations with a foreign partner. After completion of the business operation, the resulting calculation is compiled. Its comparison with the calculation is of controlling importance and is a very important source for further decisions on prices and future operations.

The following paragraphs provide an overview of the activities and costs included in the calculations (Mulačová and Mulač, 2013):

- **Acquisition operation**
  - Commission for agents abroad
  - Mediation fees
  - Necessary acquisition costs
- **Closing and course of trade**
  - Document costs (verification, translation, legal services)
  - Export license fees, certificates
  - Trade license fees
  - Examination fees
  - Fees for certificates of origin
  - Special packaging fees (for example, shipping)
  - Insurance or supplementary insurance fees
- **Transport preparation phase**
  - Move goods to Rollo rail or sea port
  - Costs related to transshipment
  - Storage costs before shipping (port, airport)
  - Rental space (for containers, wagons)
  - Shipping charges
  - Duty
  - Commission to ship brokers

CALCULATION OF PRICES IN INTERNATIONAL TRADE

- **Transport**
  - Own transport cost:
    - Road, including tolls.
    - Rail (bulk or individual rates).
    - Air (basic fares, charter rates).
    - Shipping (tariffs by type of cargo - lump, bulk, oversized).
    - Cost of transshipment for combined transport.
- **After transport operations base**
  - Unloading costs
  - Import duties
  - Customs clearance fees
  - Special taxes
  - Handling costs
  - Storage costs
  - Import of the consignment to the consignee
- **Payment**
  - Costs related to the agreed payment terms (documentary collection costs, documentary letter of credit commissions, expenses related to export bills of exchange)
  - Bank charges
- **Financing of international trade**
  - Costs related to issuing a bank guarantee fees for creditworthiness evaluation for a foreign partner Guarantee fees for taking over the export risk Costs of hedging foreign exchange risks

Types of calculations in foreign trade can be divided as following:

- **Export**
- **Imports**

According to the method of compilation, the calculation is divided into:

1. **Cost oriented calculation**
2. **Demand-oriented calculation**

CALCULATION OF PRICES IN INTERNATIONAL TRADE

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1) Cost-oriented calculation

It is the most widespread and is based on increased export costs when the final price is referred to as the "bottom-up". Thus, the maximum price that is given by the sum of the production / sales costs and the costs related to the export of these products. These export costs include the costs of export administration, logistics, customs fees, distribution margins or retail margins. They arise from the negotiated terms and conditions. However, the resulting product price calculated using this method may make the product uncompetitive in the target market. The determination of the cost-oriented export price on the basis of a progressive sales calculation is carried out by means of an export calculation formula. The procedures are adapted to INCOTERMS conditions and differently designed for continental export operations or for exports outside Europe. (Mulačová and Mulač, 2012)

2) Demand-oriented export calculation

It is based on prices on the target market, the so-called top-down, where pricing in this way is the reverse of the previous method because the final price of the product is given by the target market. The gradual subtraction of export costs from this market price results in the production / purchase price of the product. By comparing the calculated production price with the real production price of the product, it is established whether the company is able to export the product to the selected target market. (Mulačová and Mulač, 2013)

Most of the principles and measures applicable to export calculations apply to import calculations. Obviously, the same types of special costs are involved, which are related to the commercial operation as such, but are only viewed from the other side of imports from the importer's point of view.

Example of Calculation Formula for Continental Operation

The possible calculation formula for continental operation can included theses specifications:

1. Production / purchase costs + business agency costs.
2. Own costs - profit, export packaging, examination of goods, transport insurance, commissions to agents.
3. EXW-EX selling price (ex-works) - shipping costs, Rollo costs, shipping insurance costs storage costs
4. Selling price to the carrier - costs of export and transport documentation, export duties, rent of warehouses, containers, transport costs to the border of the consignee including transit costs of other countries, border transfer costs, advice fees
5. DAF selling price (frontier delivery) - transport cost from border to destination
6. Sale price DDU (place of delivery in destination country) - import document costs, document delivery fees, import duties, storage costs, handling costs, unloading costs
7. DDP selling price (place of delivery in the country of destination, including customs clearance) - payment-related fees, risk insurance fees, course hedging, financing costs
8. Total selling price

In cost calculations, the size of the exported and thus produced / purchased quantity of product and the use of the effect of the decrease of fixed costs per unit with increasing exported quantity represent an important pricing factor. Therefore, it is always necessary to make a qualified estimate of the size of exports and to match the price formed. Therefore, we usually calculate for the entire order.

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An Example of a Costing Formula for an Overseas Business Operation

The possible calculation formula for an overseas business operation can included theses specifications:

1. Production / purchase costs + business agency costs.
2. Own costs + export packaging, examination of goods, transport insurance, commissions to agents.
3. EXW-EX Works (ex-works) selling price + shipping costs, Rollo costs, port shipping costs, shipping insurance costs, storage costs and port charges.
4. FAS selling price (paid to the side of the ship) + costs of export and shipping documentation, export duties, rent of warehouses, containers, transport charges, handling costs and shipping costs.
5. Sale price FOB (free on board - ship paid + named port of embarkation) + consignment fees, shipping on ship.
6. CFR price (Cost and Freight - port of destination) + boat insurance
7. CIF (Cost, Insurance, Freight - Port of Destination) selling price + fees related to payment, risk insurance fees, course hedging and financing costs.
8. Total selling price

Relationship of sales plan to functional plans in the organization

The sales plan is a part of a number of functional plans developed in a business company. Specifically, the sales plan in quantitative and financial terms together with the sales support cost plan is a part of the marketing and business plans (Fotr and Souček, 2015) as well as the financial-business plan (Starzyczná, 2014). Therefore, the establishment of a marketing and sales department is very practical for the functional division of labor and for the objectification of estimates of sales of goods, which both departments can deal from a different perspective (Starzyczná, 2014).

Marketing department

The work of the marketing department has a much broader scope than the sales department. From the planning point of view, we are interested in the part of his activity that deals with the breakdown of the planned sales turnover (revenue side of the company budget). The estimate of the plan is expressed in the assortment breakdown, i.e. according to assortment groups and assortment types. (Starzyczná, 2014)

The starting point for the forecast is (Starzyczná, 2014):

- **Sales of last year** according to assortment groups.
- **Changes in market size** (growth or decline).
- **Price fluctuations** in individual assortment types due to supply and demand.

Relationship of sales plan to functional plans in the organization

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Sales department

The plan at the sales department is recommended to be prepared according to individual customers, territories and stores. This also takes into account all indicators as in the marketing plan (last year's sales, changes in market size and in prices). There is a close link between the marketing plan and the sales plan. Both departments should work out the same totals for each assortment group. However, if the results differ, the causes are sought and a thorough compromise of all 3 indicators (sales, market changes, price movements) is made. The sales plan should also include an estimate of the volume of supplies that we need to secure to achieve expected sales and a stock plan. The importance of the sales plan consists in verification of the accuracy of the data that the marketing department has worked on, creating documents for the revenue part of the financial plan, and the function of the starting base for the breakdown of sales quotas by operating unit and individual worker. (Starzyczná, 2014).

Business-finance plan

The sales plan is part of a more comprehensive plan of the company, because we cannot ignore our financial possibilities and cash flows. This general plan is usually called a business-finance plan that includes both revenue and expenditure. Business-finance plan is based on a financial plan that captures all the activities of a business company. The task of the financial plan is generally to manage and control liquidity. It captures the incomes and expenses of the company, creation and use of profits, links to the state budget, sources of financing and cash-flow. The financial plan is compiled on the basis of partial plans that the company compiles for this purpose and serves to summarize all the value relations of business activities (the number and representation of partial plans depends on the company). The revenue part of the financial plan contains a modified sales plan due to the correction of the marketing and sales plan. The expenditure side is represented by the marketing plan in terms of support activities, supply plan, inventory plan, material consumption plan, investment plan, transport plan, work plan and wages or other partial plans according to the specific needs of the company. (Starzyczná, 2014)

SUMMARY

- Trade operations in planning and managing sales focuses on the creation of sales plans and all processes associated with sales, when managers must consider **demographic factors, transport and availability, retail competition, location and costs.**
- Sales planning includes **assessing the current situation, setting goals, determining market potential, forecasting sales, choosing strategies, budgeting and implementing a managing sales.**
- Companies can choose various method of forecasting and planning, which can be divided into **qualitative** (e.g. the Delphi method, sales force calculating method) and **quantitative** (trend designing and causal models) methods.
- There is three general approaches to planning sales: **top-down method, bottom-up method and two-way planning method.**
- The price that customer pays for a product is made up of **the cost of the product** and **the gross profit margin**.
- Companies uses the **GMROI calculation** to indicate to the retailer those products that are making the largest contribution to its overall gross profits in relation to the financial investment made in that stock.
- **The sales plan** is a part of a number of functional plans developed in a business company, e.g. marketing plan, finance plan, business plan.

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