

Mercer Island Thrift Store margin illustration¹

The scenarios below are intended to illustrate what net operating margin the Thrift Store could achieve after a potential remodeling that would boost production efficiency and store selling space. This scenario assumes that if the store achieves higher volume after the remodeling, variable costs will increase along with volume, but fixed costs would increase at a slower pace. Please note: this model is not a forecast; it's meant to illustrate how much bottom-line impact would occur if sales are increased as a result of increased selling space and a removal of donation processing from the current location.

Some of the positive factors that will contribute to growth include a good record of growth at the store over the past few years, the improvements in selling space and production as a result of the remodeling, and the potential to improve donations by providing a more convenient drop off place as well as less congestion in the parking lot of the store. On the other hand, when the store reopens after the current closure there are several uncertainties about future volume, including (a) restrictions on employee staffing and customer volume, based on COVID19-related factors (b) the overall health of thrift store sales given pressure on the economy. Therefore, there are a range of projections to illustrate what type of improvement could result over time as the positive impact from the remodeling are realized.

Thrift Store sales increase scenarios

	Base case	Increased volume scenarios			
	2019	20%	30%	40%	50%
Revenue (\$)	1,964,702	2,477,533	2,677,744	2,877,955	3,078,166
Net margin after all costs (\$)	1,010,910	1,299,769	1,418,531	1,537,293	1,656,055
% margin	51%	52%	53%	53%	54%
Margin increase vs base (\$)		288,859	407,621	526,383	645,145

Key assumptions in this model include:

- Unit sales increases result from a 50% increase in selling space under the remodeling under consideration and an improvement in merchandise production efficiency in a new layout.
- Personnel hours for production will increase along the volume, which will result from increased paid staffing. This model assumes that volunteer hours are already at capacity, and makes the conservative assumption that volume increases will drive more paid personnel. It may actually be the case that there will need to be a further substitution of paid staff for volunteers even at current volumes due to many volunteers being in high risk groups
- Other cost increases in this model include (1) an increase in vehicle costs (to move merchandise from the recycling center to the store) (2) an increase in occupancy costs (to include the utilities, maintenance, etc. at the new production center in the recycling center) (3) an increase in marketing costs (to help drive an increase in donations and store traffic to support the increase volumes) and (4) an increase in disposal cost for unsellable merchandise because the store may be at peak "Free" disposal capacity today (estimate needs to be confirmed).
- There are no assumptions included here for increased costs from operating in a post-COVID19 world. These costs could include (1) increased supplies, maintenance and cleaning costs (2) the cost to install and maintain protective measures, such as Plexiglas shields at the cash register and (3) decreased productivity in merchandise processing resulting from new spacing regimens for employees. It could be useful to generate a new "baseline" forecast for operations in the post-COVID19 world, and then compare the remodeled forecast against that new baseline.
- Other factors that the team may want to look at include (1) ensuring there is adequate seasonal storage once the Recycling Center is reconfigured and (2) ensuring that the parking lot at the existing store would be able to accommodate increased traffic once the donations traffic is moved to the current Recycling Center.

¹ Revised June 11