

Home-Based Business — Retail and Wholesale: How to Do Business Transactions

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Many people in home-based businesses are used to selling their product directly to the consumer. This may be done from their homes, at craft fairs or perhaps their own stores. Business conducted directly with the final consumer is said to be conducted at the "retail" level.

On the other hand, there are instances in which craftspeople may sell their products to a retail buyer who, in turn, sells them to the final consumer. Business conducted between a craft producer and a retail buyer is said to be conducted at the "wholesale" level.

Retail business transactions

Retail business transactions may occur in person, over the phone and/or through the mail. Important factors to consider in this transaction are price, payment, receipts and future sales.

Price

The price of your item is the retail price listed or labeled on the item. The price set has to include the actual cost to make the item plus a portion of all other costs associated with doing business including a profit. This additional amount is referred to as markup.

Payment

All transactions should be conducted on a cash basis, that is, with immediate payment. While called a cash basis, this payment may actually be in cash, check or money order. A check or money order is suggested for mail transactions. Once payment is received, the items ordered should be sent with an invoice and a brochure (if you have one) of your business or of other items you produce or sell.

Invoice

When you send the order to a customer, enclose an invoice. The invoice should include the following information:

- invoice number
- your name, address and phone number
- the date
- name and address of the person who paid for the goods
- the quantity sold
- a description of the item
- the price per item
- price for the total quantity sold of a particular item
- subtotal for all items listed
- tax
- the total amount due
- any disclaimer regarding returns or damaged goods.

There are also several options that can be included in a retail invoice as meet the need of your particular business. Some examples are as follows:

- type of transaction, such as sale or layaway
- payment method (cash, check or charge)
- special code description of merchandise
- seller's identification (signature or initials)

Figure 1 is a sample invoice. A printer can make invoice forms in duplicate for you. You should consider having this done since you will need to have two copies — the original which is sent to the customer, and a copy for yourself to be used as a receipt. If the copy is a different color, it will help filing. The cost of printing 250 duplicate invoices may range from \$35 to \$60. It pays to compare costs.

Future sales

A satisfied customer will often want other items you make or more of the item they purchased. You can encourage these future sales by sending a brochure that tells more about your business. A copy of the brochure can be sent along with the item purchased and the invoice. It is also advisable to develop an alphabetized mailing list of purchasers. You can use this to tell customers of a change in address or increase in inventory. (If you also summarize the amount and types of purchases with the mailing list, you can target repeat customers for special sales.)

Wholesale business transactions

Wholesale business transactions occur when you sell your product to a buyer for a retail store. The store, in turn, sells your product directly to the consumer. Factors to consider in this transaction are price, payment, invoices and future sales. These are handled somewhat differently in wholesale transactions than they are in retail sales.

Price

You will be charging a wholesale price. The wholesale price is less than the retail price. Your wholesale price must cover materials, labor and a markup. The markup covers a portion of your overhead costs and a profit. However, the retailer is now paying for actually getting your item to the customer.

Most commonly, retailers expect to sell items for twice the amount they paid for them. Therefore, they are likely to ask for a wholesale price that is one-half the retail price you have listed on your item. However, you may negotiate something other than one-half the retail as the wholesale price. Retail stores in other states, cities or tourist regions may be able to charge more than you can get at your outlets or may be willing to take a smaller profit themselves.

Another aspect of the sale you can negotiate is the minimum number of a particular item the buyer may purchase at the wholesale price. In addition, you may offer a discount for large orders. A common procedure is for one to five items to be purchased at the wholesale price, with additional items being purchased at a reduced price. Depending on the value and uniqueness of items, large quantity orders usually get a greater discount. The savings to you comes in a ready market that costs you no more advertising. You are also able to purchase materials in quantity because you know they will be sold.

Payment

The first time you deal with a store buyer, you should have him or her send you payment for the order before you actually send him or her the goods. With the first payment, you should request the following information: The names of three business references, (such as banks or other people they do business with) and a copy of the store's resale exemption certificate. This will help you to know that you are working with an established business. It is a Missouri State Law that you have a copy of the resale exemption certificate in your files to protect yourself. All payments you receive should include shipping charges.

However, you do not charge sales tax on a wholesale order. Charges are explained in the next section. After you have the store's credit references and have worked an order or two satisfactorily with a buyer, it is common to delay payment until after you have sent the goods.

Invoice

The receipt used for a wholesale order is also called an invoice. This invoice should be printed in triplicate (one original plus two copies). However, as you will notice in the example, (Figure 2), there are slight differences between the invoice used for wholesale sales and the one used for retail sales. The wholesale invoice should include the following information:

- invoice number
- your name, address and phone number
- date
- name and address of the retail buyer
- shipping address if different
- how the item is shipped
- the quantity sold
- a description of the item
- the price per item
- price for the total quantity sold of a particular item
- subtotal for all items listed
- shipping charges
- the total amount due
- buyer's signature
- any disclaimers regarding returns or damaged goods
- terms of purchase(when you expect payment)

Now let's say that you agree to sell the store buyer 10 teapots at a price of \$20 each. If this is the first time that you have worked with the buyer, ask her to pre-pay this first order. Ask her to include business references and a copy of the store's resale exemption certificate when she sends payment. If you have worked with the buyer before, send her the order and expect payment according to the terms of purchase, i.e. the number of days by which you expect payment of the invoice.

The invoice you send the retailer buyer (see Figure 2) will indicate that she has ordered a quantity of 10, a description of the item(s) (teapot), the unit price of \$20 and the total price of \$200. If any additional items are ordered, this information is also listed. The total price for all goods ordered is stated, in this case \$200. Shipping charges of \$35 are added on. These latter two figures are then added together to get the total invoice amount \$235.

Once you have completed a transaction, transfer the information to your account books. Don't depend on your memory. You should also keep information on the company in your files for future reference. The original goes to the buyer for the store. A copy goes in your files and one copy is sent as the invoice to be returned to you with payment.

Future sales

As with a retail customer, you should send wholesale customers a brochure if you have one. That way they can see what additional merchandise you have available for sale.

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