

# Takin' Care of Business



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## Differences: Merchandising & Service Businesses

Various costs are incurred by both merchandising and service businesses. Both may hire employees, both may need equipment in order to be in business and both types of business structures have customers who pay for goods or services. The main difference between a merchandising company and a service industry company is that the merchandising company must stock inventory.

### Merchandise

A merchandise business sells merchandise. Good examples of merchandising businesses include retail clothing, grocery stores and bookstores. Many people use the term "widget" to refer to any merchandise a business offers for sale when discussing business issues and dynamics. For example, a sale in which a customer receives two widgets for the price of one may refer to any type of merchandise. It could mean two pairs of shoes for the price of one or two boxes of pasta for the price of one.

### Service Industry

A service business sells things that are not tangible. A service company does not stock inventory, but it may need to stock tools and supplies. For example, a

### Accounting Issues: Merchandising versus Service Business

The nature of your business can determine future costs your company will incur and need to budget for.

**Source of Revenue.** Merchandise-based businesses rely on the sale of tangible goods to make money. Service-based businesses measure results and time spent on a project as a basis for revenue.

**Inventory.** Because merchandise-based businesses make revenue and profits off inventory, it is imperative that current and future inventory be kept in reserves. Paying for the storage of this inventory can be a major.

**Freight Costs.** Merchandise-based businesses typically transporting inventory to other locations. These costs must be budgeted and accounted for. Service-based business usually do not have freight costs.

**Operating Cycles.** Merchandise and service businesses operate on different cycles. Merchandise-based businesses typically receive cash, buy inventory, merchandise the inventory, sell the goods and account for sales. Service-based business have fewer transactions that generally only consist of receiving cash, performing services and accounting for sales.

gardener comes to mow the lawn for a fee. He is selling a service. He may need to supply his own lawnmower, which is a cost of doing business. A maid sells the service of cleaning houses, but she may or may not need to bring her own cleaning supplies. After selling a service, there is no widget to pack up.

### Online Businesses

Online businesses may be either merchandising or service businesses. A customer buys a book online via a merchandising business. The online bookstore needs to stock the book somewhere before mailing it to a customer. Another customer buys the service of having her manuscript edited by a

professional book editor. They send each other PDF files via email, so the business is transacted online. The customer is not buying a widget but the service of having her manuscript improved.

### Restaurant Industry

The restaurant industry is an example of a business that sells both widgets and service. Restaurants are categorized as merchandising businesses because without the food there is no business. But many restaurants also sell the service of being waited on. Customers pay the bill for their food and tip the waitress for her service.

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