

ACCOUNTING

in the headlines

How does cost cutting at Best Buy impact its ROI?

Best Buy is struggling to thrive (and some would say it is even struggling to survive) as it competes with online giant Amazon.com. According to a recent article in Forbes (“Best Buy Suffers From Lower Electronic Sales, But Cost Savings Improve Profits,” May 23, 2014, www.forbes.com), one way Best Buy is aiming to improve its financial outlook is to cut its cost of goods sold through supply chain efficiency gains.

Questions

1. On what financial statement does *Cost of goods sold* appear?
2. Assuming everything else remains the same, how will cutting cost of goods sold impact Best Buy’s Return on Investment (ROI)? Explain your answer in terms of the impact on Sales Margin and Capital Turnover.
3. What are other ways Best Buy could improve its ROI?