gmroi guide

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"Focus my store on GMROI?"
"Nah, I'd rather embrace mediocrity!"

Consider The Three Little Pigs...

One little pig built his store out of straw. He believed that the best way to survive in retail was to focus on top line growth. And lots of inventory.

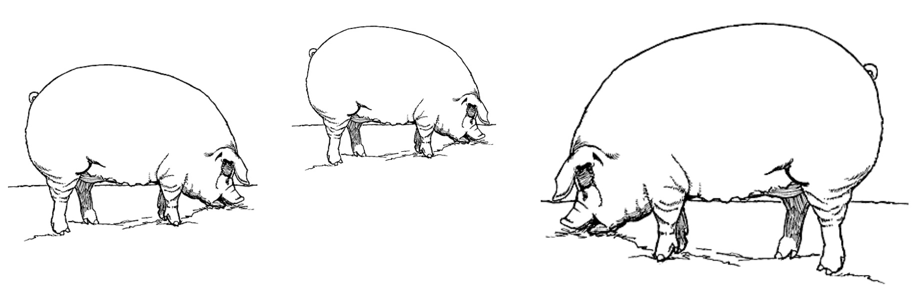
But...the winds of competition blew his store away!

The second little pig built his store out of sticks. He believed that the way to prosper was to focus on high initial mark-up, skimping on operating expenses.

But...the winds of competition blew his store away too!

Meanwhile, the third little pig built her(!) store out of brick. She decided the best approach was to manage the inventory more expertly than her competition. *"Earn and turn"* was her motto!

The winds of competition could not blow her store away! So she "brought home the bacon!"



?

For each dollar you have invested in inventory,
how much profit *are you getting back?*

The #1 Measure of Retail Inventory Productivity

1. Know the ROI of your largest asset? From 60-80% of a retailer's total assets are in inventory. GMROI lets you measure the financial return you are getting on the largest investment in your retail business.

2. "Earn and turn"
GMROI is a dynamic measure. It reflects the relationship between margins and turns.

3. Affects profits AND cash
Increase margins - and GMROI goes up. Increase turns - and GMROI really goes up. Or, increase both, and see what synergy is all about!

4. What it shows
A GMROI of $1.85, for instance, means that you are getting back $1.85 in gross profit for each $1 you have invested in inventory.

5. Best use of GMROI? Comparisons!
Calculate GMROI by department. Or store. Or vendor. Even by customer groups. Have an objective tool for knowing when and where to "sharpen your pencil" (or get your vendors to sharpen their pencils!)

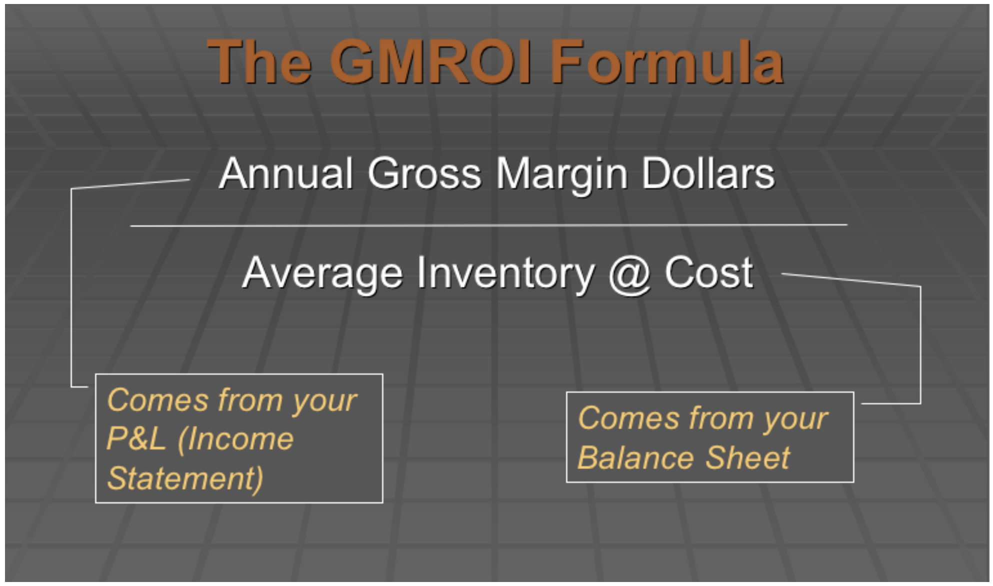
Beneficial Side Effects of Managing GMROI

Managing the "numerator" in the formula helps you better manage PROFIT

Managing the "denominator" in the formula improves CASH and FINANCIAL STRENGTH in your business

GMROI

Gross Margin Return on Inventory Investment



Consider this store:

Annual Sales = $700,000
Annual GM% = 46.6%
Annual GM$ = $326,000
Average Inventory @Cost = $157,800

GMROI = $326.0 / $157.8 = $2.10

(Or, during the year, they're getting $2.10 back in GM$ for every $1 invested in inventory.)

Okay, now we know GMROI for this whole store. But here's the key issue: *which of their departments (or vendors) have a GMROI above $2.10, and which ones are pulling them down?*

That is the true power of GMROI: comparing!

New! Calculate GMROI Online, 24/7

Quick • Easy • Accurate • FREE! • Only at The ROI

For each department you want to compare, just enter these approximate numbers:

- Annual Sales
- Annual GM%
- Average Inventory @Cost

And that's it!

Now click "Calculate Now"

The Power of GMROI: Compare Departments

Department Name	Approx Annual Sales	Approx Annual Gross Profit %	Approx Average Inventory @Cost	Turnover Rate	GMROI $
1	200000	52	60000		
2	200000	48	47300		
3	150000	44	28000		
4	150000	40	22500		

Load Sample Data Clear All Calculate Now

The Power of GMROI: Compare Departments

Department Name	Approx Annual Sales	Approx Annual Gross Profit %	Approx Average Inventory @Cost	Turnover Rate	GMROI $
1	200000	52	60000	1.6	1.73
2	200000	48	47300	2.2	2.03
3	150000	44	28000	3.0	2.36
4	150000	40	22500	4.0	2.67

Load Sample Data Clear All Calculate Now

Is my GMROI "good"?

Wonder how you compare to other businesses like yours?

Go to RetailOwner.com. Find your Retail Segment, and see Benchmark Numbers for stores like yours.

Quickly see how you compare with your peers.

Are You Up to "The ROI Challenge"?!

There are lots of ways to effectively use GMROI. Array the analysis by department, by classification, by vendor, by store, or by region. Prosperous retailers have used GMROI in these ways – and others – for many years.

However, we don't know of a retailer who, as yet, has used GMROI the very best way: by Customer Types. Truly...do you know which Customer Type is your most "productive"?

Be a leader. Use GMROI by Customer Type. Then put out a press release about it. Retailing needs leaders!

The Questions Facing Retail Owners:

- ✦ *Which merchandise line do I emphasize for the future?*
- ✦ *Where can I safely cut back?*
- ✦ *Why?*

A Financially-Driven Answer

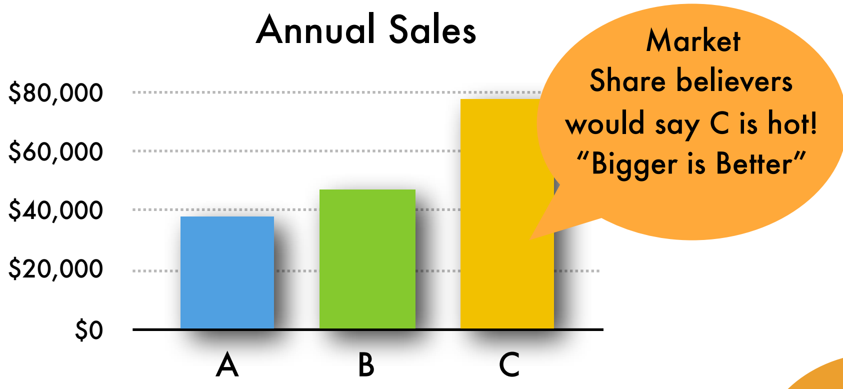
(A Great Tool...As Far As It Goes)

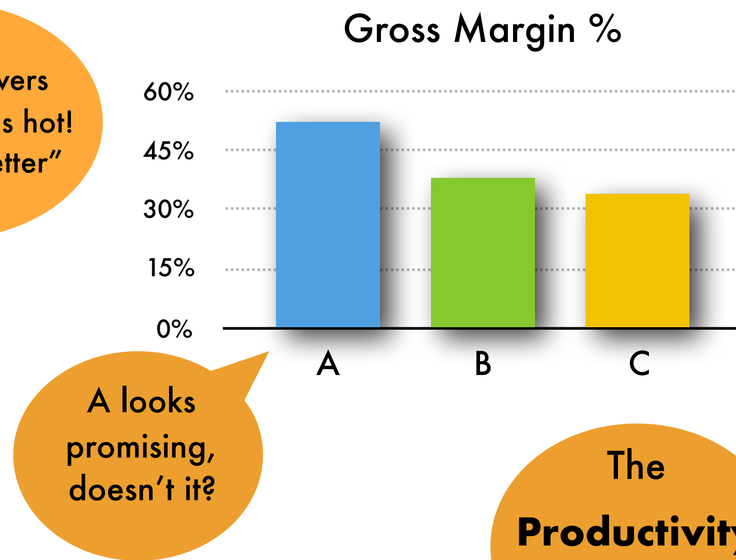
Look at the four charts on the top of the next page. These illustrate four different ways to analyze a retail business by comparing the "performance metrics" of three merchandise lines, "A", "B" and "C."

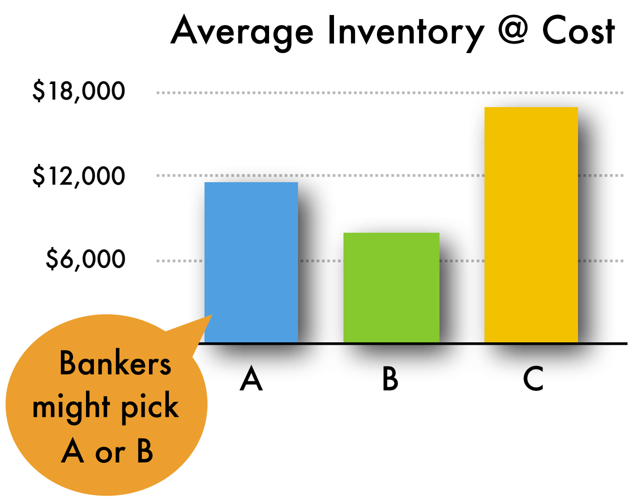
The first graph compares their respective sales volumes. If you favor gaining market share, or believe that bigger is better, you would build on merchandise line C.

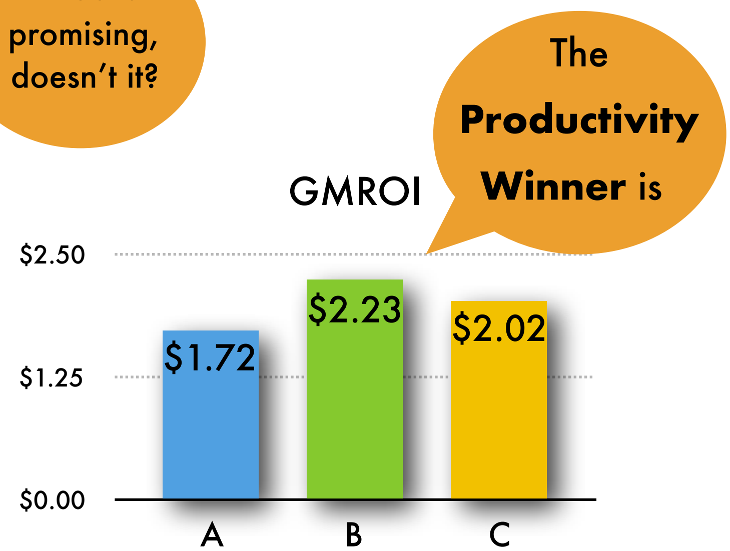
Now, consider the next chart, comparing gross margins of the three different lines. In this instance, if you believe that profit is the key, then merchandise line A is your future.

There's yet another way to analyze your business. This time, let's evaluate the average investment in inventory. The third chart compares our three product categories. You can see that the bankers in the crowd would favor either the A or B merchandise lines.









The fourth chart depicts the merchandise productivity calculation, or GMROI. *(Gross Margin Return On Inventory Investment is calculated this way: Gross Margin Dollars ÷ by Average Inventory at Cost.)* Using this GMROI calculation, we quickly see that category B is the most productive, and is where we should focus our resources.

B generates $2.23 in gross profit for every $1 we have invested in its inventory. In fact, B has a GMROI that is 10% greater than C, and 30% greater than A!

Why GMROI? It Measures Productivity

As you can see, GMROI is a powerful performance measurement tool. Sales volume alone is not enough. Gross margin percentages by themselves can provide a misleading picture. And, bankers notwithstanding, average inventory investment is not an appropriate standard by itself for strategic decisions.

What is a good measure? GMROI. Why? Because it measures productivity. It makes apparent which part of your inventory is really working for you.

For years, many savvy retailers have been calculating GMROI and using it to help make demanding management decisions about how to grow the business and where to cut expenses.

Take It to the Next Level

We believe that when used only from a financially-driven perspective, GMROI proves too narrow, too restrictive. As retailers settle into the 21st century, they need an even better tool. By merging the financially-driven with the market-driven perspective, retailers can calculate GMROI in a new and powerful way. Instead of GMROI by merchandise category, we have a strategic retailing tool for the savvy retailer: ***GMROI by customer category!***

Group Your Shoppers by Lifestage

What is required to enable you to do the GMROI calculation by customer category? First, of course, is thinking about your customers by groups, rather than individuals. We encourage you to use the concept of "lifestages".

Lifestages recognize that our shopping behaviors are driven more by our stage of life than by demographics. That is, parents of pre-schoolers tend to have the same shopping needs for their kids, whether the parents themselves are 18 or 38 years old.

> ***GMROI by Customer Category enables the retail owner to focus on more than just what is being sold. It properly turns the strategic retailing focus to "who is buying?"***

To keep it simple, let's focus on just three lifestages.

Young SINKs and DINKs

This is "Single Income, No Kids" and "Dual Income, No Kids". On their own and spending for themselves.

Households with Children

Clearly a different Lifestage once kids are in the picture. New obligations and responsibilities, reflected in new shopping behaviors.

"Empty Nesters"

Once the kids have left the nest, some of these Empty Nesters are really "Reborn SINKs and DINKs!" They can once again spend on their favorite subject... *themselves!*

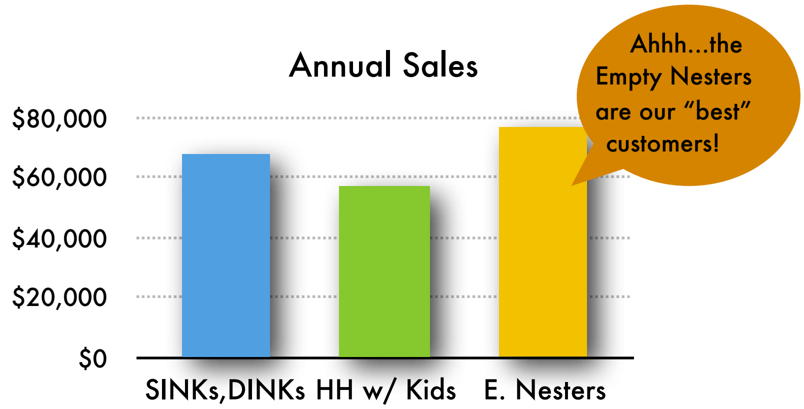
Whether your store sells books, groceries, apparel, home furnishings, or consumer electronics, the Lifestage of your predominant customer group will have a major impact on what sells most readily - and without markdowns! - in your store.

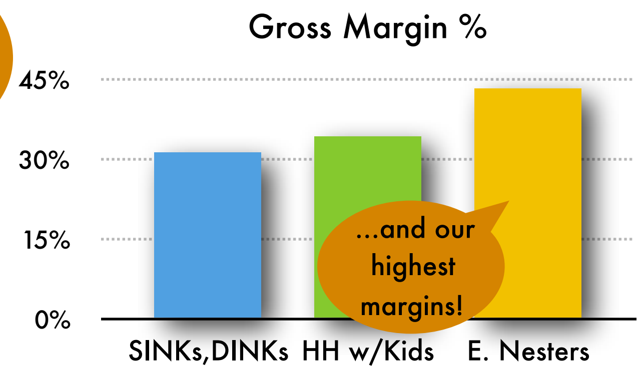
For many retailers, this exercise of thinking about their customers by these Lifestages is a major "Aha!" It finally (!) explains some of the "mysteries" in their store's sales performance.

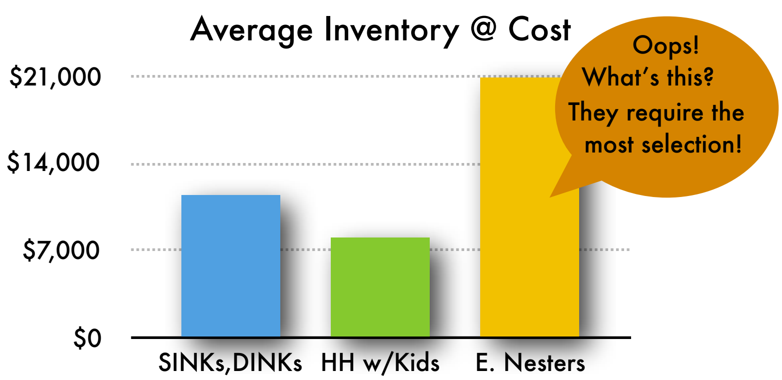
Identifying *"Who's Buying What's Selling?"*

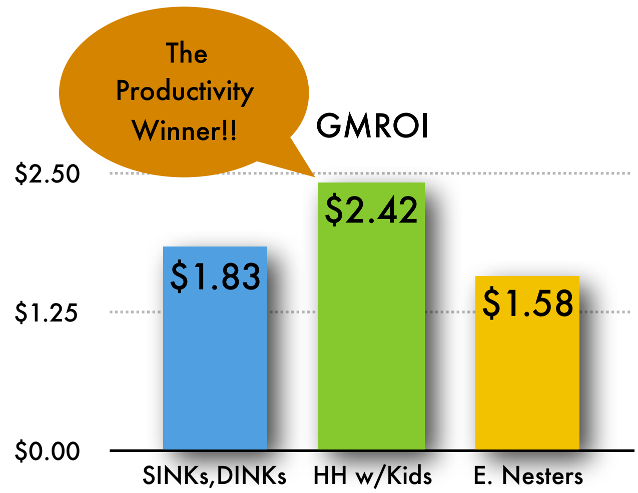
Some retailers really embrace this concept, to the extent that they capture customer Lifestage data at the point-of-sale (by entering a simple code into the transaction as it is rung up.) Similarly, they may code their merchandise as they ticket it, based on which Lifestage group they had in mind when they purchased it.

An alternative to this approach, for illustration purposes, is to simply "guesstimate" the distribution of your sales by Lifestage group, and the proportion of your inventory that is dedicated to each group. You now have all the elements in place to perform the GMROI calculation.









These charts show the same four analyses we did by merchandise category. This time, however, they are done by customer category. ***Once again, the GMROI calculation provides a dramatically different insight into the store's performance than we would get by looking only at sales volumes or relative gross margins or inventory levels.*** Now – finally! – we know which Customer Group is the most productive for our store.

When you must choose

- where and how to focus your (limited) resources
- where and how to make cuts
- where and how you might grow profitable

use ***GMROI by Customer Category*** to guide your decisions. That's "strategic retailing"!

Since 60%-80% of a typical retailer's total assets are in inventory (!), it is essential that retailers know how their inventory investment is performing. How do you find the "return *on* investment" of a retailer's largest investment? The GMROI calculation is the tool for the job!

Retailing. It's like a huge maze. As an independent retailer, you have to get through all kinds of obstacles. Competition is incredibly tough. Credit is tight. And customers are fickle. Getting through this maze – working smarter, not just harder – demands some new approaches.

To navigate the maze, learn to use some key financial tools; tools that provide quick feedback. By that, we don't simply mean computers and a great software package. Retailers need key information fast, in retail time.

One of the best tools for measuring and managing the productivity of your inventory investment is GMROI – Gross Margin Return on Inventory Investment. It's fast and easy to calculate. Best of all, it provides powerful insights specifically for retailers.

The Retail Owners Institute® empowers retail owners to *"Turn on their financial headlights!"*

An online resource, The ROI teaches the business of retail, 24/7, to retailers worldwide. The ROI's promise: "All it takes is a little desire...and a web browser!"

The ROI is determined to level the playing field for independent retailers. Bigger isn't necessarily better; *better* is better!