

The GMROI Inventory PRODUCTIVITY Kit

Learn Gross Margin Return on Inventory Investment

Consider This:

Every retailer (and every organization) wants more sales.

Why can't retailers get more sales?

They think they don't have enough money to spend on growing sales.

Why don't retailers have enough money?

It's tied up in their excess inventory.

Why is that? Why is the money tied up in their inventory?

Because nobody has ever taught (or required) them how - or why! - to manage inventory.

(Unless an independent retailer has come from the training/ discipline/ enforcement of a major retailer, they likely don't know how to expertly manage inventory, e.g., turnover, margins, stock/ sales ratios, etc. In fact, at least 98% of independent retailers do not have a properly trained inventory manager.)

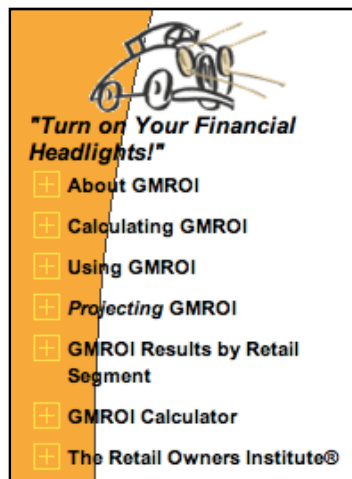
You want to raise sales?

It has to start between the ears of the independent owner. They must get more money from their inventory and put it toward promotion, etc.

There's a cause-effect, cause-effect connection between sales, inventory, profits, and cash. They are INTEGRATED. And now, that can be learned!

Buying inventory - and selling it for more - is the only way retailers make money.

By using the GMROI Inventory PRODUCTIVITY Kit, retailers can optimize their buying strategies before merchandise orders are placed! Retailers can buy smarter; avoid expensive merchandise mistakes.



Sales or even margins don't necessarily have to increase to increase profits. What matters is the productivity of each dollar of inventory.

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. Those who don't know are subject to failure.

One of the best tools for measuring and managing the productivity of inventory is G.M.R.O.I., which stands for Gross Margin Return on Inventory (Investment).

GMROI is fast and easy to calculate, and provides immediate new insights about merchandise mix.

Then, by *projecting GMROI*, retailers will be able to see in advance what combination of sales, margins and turns would be the most productive for their retail operation. That means buying priorities can be set based on what will produce the best return on the inventory investment.

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The GMROI Inventory PRODUCTIVITY Kit

Learn Gross Margin Return on Inventory Investment

Unique GMROI Calculator

7.1 The Retail Owners Institute's GMROI Calculator

Project Your Inventory's Productivity!

In the dark gray boxes, simply enter expected sales, margins and turns for whatever category you want to analyze and compare: departments, stores, vendors, even items. For each one, the GMROI Calculator immediately shows what the GMROI would be. And the Gross Margin dollars. And, the Average on-hand Inventory @Cost.

Make adjustments to sales, or margins, or turns. Immediately see the impact. What a great way to test out different buying strategies before you place the order!

Name (Dep't, Vendor, etc)	Projected Annual Sales	Projected AnnualGross Profit %	Targeted Inventory Turns	Annual Gross Margin \$	Average Inventory @Cost	GMROI \$
Department 3	450,000	44.0%	1.3	\$198,000	\$193,846	\$1.02
Department 5	380,000	49.0%	1.9	\$186,200	\$102,000	\$1.83
Department 9	345,000	32.0%	5.2	\$110,400	\$45,115	\$2.45
Department 12	225,000	38.0%	3.6	\$85,500	\$38,750	\$2.21
				\$0	\$0	
				\$0	\$0	
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				\$0	\$0	
TOTALS	\$1,400,000	41.4%	2.2	\$580,100	\$279,712	\$1.53

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The one-of-a-kind **GMROI Calculator** is new to the retail industry, worldwide.

It works "in the cloud"; nothing to download or install. The formulas are all built in. Sophisticated, accurate, and easy-to-use.

Enter planned sales and margins - by store, by department, by vendor, even by customer group! Immediately see the GMROI for each one.

Quickly compare and contrast the relative productivity of each grouping. Which ones are providing a good return on your inventory investment? Which ones are lagging behind in productivity?

Then, make some changes. Increase margins? GMROI goes up. Hmmm.... Increase turns? GMROI really goes up! Or, increase both, and see what synergy is all

about!

Now, you have a plan! You can focus your buying - and your negotiations with your vendors - where you will get the best return on your investment.

What's Included in The GMROI Kit?

The GMROI Inventory PRODUCTIVITY Kit includes an online, self-paced eLearning course and the dynamic GMROI Calculator. (See below for screenshots from a Sampler.)

Using the GMROI Kit, you will learn:

- What is GMROI?
- How to Calculate GMROI
- Using GMROI: A Case Study
- Case Study #2: Projecting GMROI
- GMROI Results by Retail Segment
- How to Use the GMROI Calculator to Analyze and Compare Buying Strategies
- How to Use GMROI to Improve Inventory Productivity

It likely will take less than an hour to go through the GMROI Course, read the entertaining Case Studies, and solve one of the Case Studies while practicing with the GMROI Calculator. Then, you can use the GMROI Calculator with your own numbers.


Our promise is that **'Everyone 'gets it'!**

Registered Users of the GMROI Inventory PRODUCTIVITY Kit have unlimited access, 24/7, to the GMROI Calculator, and the GMROI eLearning course for 90 days following sign up.

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GMROI Kit “Sampler”




“Turn on Your Financial Headlights!”

A Course Sampler
G.M.R.O.I. - #1
Measure of
Inventory
Productivity


- 1. About GMROI
- 2. Case Study #2:
Projecting GMROI
- 3. Thank You!

[Bookmark Page](#)

[Go To Bookmark](#)



Home



Site Map

1. Inventory Productivity Can Be Measured - and Managed!

GMROI (also known as GMROI) stands for Gross Margin Return On Inventory (Investment). This dynamic measure of inventory productivity expresses the relationship between your total sales, the gross profit margin you earn on those sales, and the number of dollars you invest in inventory to get those sales.


In this course from The Retail Owners Institute®, you will learn:

- the formula for calculating GMROI;
- how and why to use GMROI;
- how to use The ROI's *GMROI Calculator*;
- how to project GMROI for your operation;
- how to use GMROI to improve the productivity of your inventory.

It will take you less than an hour to work through the GMROI Course and the Case Study, where you can practice using the GMROI Calculator.

Then you will be ready to use the *GMROI Calculator* with your own numbers. Evaluate your own buying strategy, and gain more control over the productivity of the largest asset in your retail operation: your inventory!

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G.M.R.O.I. - #1
Measure of
Inventory
Productivity


- 1. About GMROI
- 2. Case Study #2:
Projecting GMROI
- 3. Thank You!

[Bookmark Page](#)

[Go To Bookmark](#)



Home



Site Map

1.1 Which is Best?


“Look at these four departments. Which one is best?”

A. Sales, \$315,400. Gross Margin %, 46%. Average inventory @ cost, \$102,400
B. Sales, \$220,100. Gross Margin %, 41%. Average inventory @ cost, \$53,000
C. Sales, \$210,500. Gross Margin %, 48%. Average inventory @ cost, \$86,100
D. Sales, \$186,500. Gross Margin %, 42%. Average inventory @ cost, \$33,700

Sounds familiar, doesn't it? As a retailer, you must deal with these kinds of questions all the time. Well, what would you say? **Which department is best?**

- ▶ If you favor **market share**, or believe that “bigger is better”, you would build on Department A. That has the highest sales volume.
- ▶ But, if you believe it is more important to **focus on profit**, then you might favor Department C. After all, it has a maintained margin of 48%!
- ▶ The banker-types in the crowd, of course, will be less impressed with top line sales. They care more about the **inventory levels**. So they might pick Department B or Department D.

What's your answer? Which of these departments would you focus on for your store's success?
Remember...your future does depend on you having the right answer!




Tip

This question can be answered only AFTER you have figured the GMROI for each department!

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A Course Sampler
G.M.R.O.I. - #1
Measure of
Inventory
Productivity

- 1. About GMROI
- 2. Case Study #2:
Projecting GMROI
- 3. Thank You!

[Bookmark Page](#)

[Go To Bookmark](#)



1.2 Decide with GMROI

Before you answer, here are the GMROI calculations for each of those four departments:


- A. Sales, \$315,400. Gross Margin %, 46%. Average inventory @ cost, \$102,400. **GMROI = \$1.47**
- B. Sales, \$220,100. Gross Margin %, 41%. Average inventory @ cost, \$53,000. **GMROI = \$1.70**
- C. Sales, \$210,500. Gross Margin %, 48%. Average inventory @ cost, \$86,100. **GMROI = \$1.17**
- D. Sales, \$186,500. Gross Margin %, 42%. Average inventory @ cost, \$33,700. **GMROI = \$2.32**


What GMROI shows is how much money you are getting back in Gross Margin dollars for each dollar you have invested in inventory. In this example, Department A is returning \$1.47 for each \$1 of inventory investment, while Department D is producing \$2.32 in Gross Margin dollars for every \$1 of inventory investment.


Revealing, isn't it?

- Department D - admit it, frequently overlooked because it has the lowest sales and margins - is the **productivity winner!** It has the highest GMROI. Its lower margin is offset by its higher inventory turns.

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.

 **GMROI measures productivity. It makes apparent which part of your inventory is really working for you.**

 Quiz





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Measure of
Inventory
Productivity

- 1. About GMROI
- 2. Case Study #2:
Projecting GMROI
- 3. Thank You!

[Bookmark Page](#)

[Go To Bookmark](#)




1.3 Meet GMROI

GMROI is most often expressed as a dollar multiple. It tells you how many times you've gotten your original inventory investment back in one year.

GMROI is the #1 measure of inventory productivity available to retailers.

- "*Earn and Turn*" GMROI is a dynamic measure. It reflects the relationship between **margins and turns**.
- 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!
- What it shows: A GMROI of \$1.85, for instance, means that you are getting \$1.85 back in gross profit for each \$1 you have invested in inventory.
- Best use of GMROI? *Comparisons!* Calculate GMROI by department. Or store. Or vendor. Or even customer groups! Have an objective tool for knowing when and where to "sharpen your pencil" (or get your vendors to sharpen their pencils!)




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

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G.M.R.O.I. - #1
Measure of
Inventory
Productivity

- 1. About GMROI
- 2. Case Study #2:
Projecting GMROI
- 3. Thank You!

[Bookmark Page](#)

[Go To Bookmark](#)




1.4 The Power of Projecting GMROI

Projecting GMROI enables you to compare and contrast - ahead of time - the effects of changes in your inventory management.

By comparing and contrasting the outcomes of different changes, retailers gain more confidence and peace of mind about "the numbers" part of their business.

- "What would happen to my GMROI if I...increased margins?"
- "What would happen to my GMROI if...margins stayed the same, but I increased turns?"
- "What would happen to my GMROI if... my margins are lower, but turns are higher?"

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G.M.R.O.I. - #1
Measure of
Inventory
Productivity

- 1. About GMROI
- 2. Case Study #2:
Projecting GMROI
- 3. Thank You!

[Bookmark Page](#)

[Go To Bookmark](#)



2. "Shouldn't we project GMROI, so we can make better buying decisions?"

Helen Surviving, of the I. M. Surviving(?) Company, first learned about GMROI from her nephew Izzy, who she had hired to do an inventory project for her when he was home from college. As he pulled together his analysis, Izzy remembered how one of his classes had taught the concept of GMROI - Gross Margin Return on Inventory Investment.

So Izzy checked to see whether the POS system used by his aunt and uncle would produce GMROI reports. And sure enough, it did! Once he showed these to his aunt, she was very intrigued.

But, Helen being Helen, she quickly became the in-house expert! She searched the internet, learning as much as she could about GMROI. ("Izzy's a great kid," she thought to herself. "But I need to know this for myself!")

Helen was delighted that the Surviving Company's recently-acquired POS system could generate reports on GMROI. But Helen also recognized that those reports were only about the past. They just recapped (to the penny!) what already had happened.

Helen, on the other hand, was very much focused on the future! So, she was looking for ways to use GMROI when she was doing her other financial planning and projecting for the Surviving Company.

Let's see what she has come up with in order to project GMROI's.

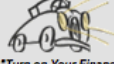
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A Course Sampler
G.M.R.O.I. - #1
Measure of
Inventory
Productivity


- 1. About GMROI
- 2. Case Study #2:
Projecting GMROI
- 3. Thank You!

[Bookmark Page](#)

[Go To Bookmark](#)



Home



Site Map

2.1 Look at this: a GMROI Calculator!

Helen was very excited to discover that The Retail Owners Institute has an online **GMROI Calculator**. She found that it was the perfect tool for the "What would happen if I...?" questions that she had about using GMROI.

- Helen liked how the *GMROI Calculator* had all the formulas built in.

All Helen had to do was to enter the department name, the planned sales and margins, and the targeted inventory turns in the dark gray boxes.

She already had a pretty good idea of all those numbers, so that was easy. The Calculator did all the number crunching. In nano-seconds!

7.1 The Retail Owners Institute's GMROI Calculator

Project Your Inventory's Productivity!

In the dark gray boxes, simply enter expected sales, margins and turns for whatever category you want to analyze and compare: departments, stores, vendors, even items. For each one, the *GMROI Calculator* immediately shows what the GMROI would be. And the Gross Margin dollars. And, the Average on-hand Inventory @Cost.

Make adjustments to sales, or margins, or turns. Immediately see the impact. What a great way to test out different buying strategies *before* you place the order!

Name (Dep't, Vendor, etc)	Projected Annual Sales	Projected Annual Gross Profit %	Targeted Inventory Turns	Annual Gross Margin \$	Average Inventory @Cost	GMROI \$
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Department 9	345,000	32.0%	5.2	\$110,400	\$45,115	\$2.45
Department 15	225,000	38.0%	3.6	\$85,500	\$38,750	\$2.21
				\$0	\$0	

Important Reminder:

This is just a Sampler of the *G.M.R.O.I. Course & Calculator*. Therefore, you only can see a screen shot of the *G.M.R.O.I. Calculator*.

Registered users of the *G.M.R.O.I. Course & Calculator* have unlimited access for 90 days to the entire *G.M.R.O.I. Course* and the fully-functional

2.2 Seeing the Results

As Helen entered numbers into the *GMROI Calculator*, she immediately could see the outcome of that particular combination of sales, margins and turns.


"This is SWEET!"


- Immediately, the *GMROI Calculator* produces the **projected GMROI** for each department.

It also shows the **Gross Margin dollars** that each department would produce (given the sales and margins she entered).

And, it shows the **Average Inventory @Cost**, based on the **turn rate** she entered.

- "This is amazing!", thought Helen, with a feeling of satisfaction. "If I don't like the GMROI that I would be getting from a department, I can begin to make some tweaks to my plan. Immediately I can see whether those tweaks make enough of a difference!"


Tip


Tell Me More

Want to know more about **inventory turns**? Click the "Tell Me More" button below!

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G.M.R.O.I. - #1
Measure of
Inventory
Productivity

- 1. About GMROI
- 2. Case Study #2:
Projecting GMROI
- 3. Thank You!

[Bookmark Page](#)

[Go To Bookmark](#)



Home



Site Map

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Learn Gross Margin Return on Inventory Investment

The screenshot shows a web browser displaying the "GMROI Inventory PRODUCTIVITY Kit" website. The page has a yellow header with a "Home" button and a "Site Map" button. On the left, there is a sidebar with a logo that says "Turn on Your Financial Headlights!" and a list of course samplers. The main content area is titled "2.2.1 'What are inventory turns?'" and contains text about inventory turnover, its formula, and average turnover rates. At the bottom, there is a copyright notice for The Retail Owners Institute and Outcalt & Johnson.

2.2.1 "What are inventory turns?"

Inventory turnover is essential to retailers, from the newest start-up to Fortune 500 chains.

Turnover measures how often, at your present rate of sales, your entire inventory is completely sold and replaced (theoretically) during a year. The formula is **Cost of Goods Sold divided by Average Inventory @Cost**.

Average turnover rates (or "turns") will vary by the type of retail store (e.g., apparel; shoes; furniture; books; building supplies; etc.) Also, within each store, departments will have different turn rates. (Consider a grocery store: the canned goods will have a lower turnover rate than the more perishable dairy items, or fresh produce, or meat department, etc.)

The Retail Owners Institute (www.RetailOwner.com) has much more information on inventory turnover, and shows benchmark turnover rates for 52 separate retail segments.

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Who's Behind The GMROI Inventory PRODUCTIVITY Kit?

For more than twenty years, the team of Pat Johnson and Dick Outcalt, principals of Outcalt & Johnson: Retail Strategists, LLC, have been dedicated to helping retailers better understand and prosper financially. In addition to having their how-to articles purchased and published over 1,100 times, for many years they performed their whiteboard training sessions all over North America.

For at least 12 years, they have been putting their "intellectual property" on a website, The Retail Owners Institute®, at www.RetailOwner.com. It is an online-only resource, serving retailers worldwide, 24/7 (18,000+ per month.)

Frankly, it's huge, much like a library. If you need to learn anything about retail financial topics like Open-to-Buy, GMROI, Cash Flow, Balance Sheets, etc., you'll find basic, down-to-earth answers and training there.

In 2010, in response to requests from professionals from both academia and the retail training world, they began developing **eLearning Kits**: more structured online training and "in the cloud" calculators. (Or, as some call them, "Learn It & Do It Now" programs.)

Franchisers, distributors, wholesalers and other organizations that are dependent on retailers for their own survival are the primary purchasers of these Kits. Their field representatives use them to learn retailing's financial terms and tricks. In turn, they sit with their retailers and together improve the financial results.