

Measuring your Return on Investment

This month, we want to talk about two of your key performance indicators for measuring your business performance, **Mark-up** and **Stock turn** which combined produce your **Gross Profit** and **Return on Investment (ROI)**.

12 Month KPI Analysis to Nov 09	Average Store	Your Store
Total Sales	972784	
Sales #	6427	
Ave Sale	151	
Gross Profit	484529	
COS	488255	
Markup %	99	
Closing Stock	804582	
Stock turn	0.6	
ROI	59	

Note: These 12 Month averages above are calculated from the performance of a large number of independent jewelry stores across the US for the month of November.

The Sales figure above of \$972784 is made up of the 6427 items sold multiplied by the Average Sale value of \$151.

This month, our emphasis is on **Return on Investment** or **ROI**. This is a measure of how much you get back for every \$100 invested in inventory. It is a multiplier of **Mark-up** and **Stock turn** – in other words, how much profit you make on each item you sell times how often you can sell it.

ROI is an important measurement for any business as it determines how effective your investment has been. In the same way that interest rate per annum measures how effective your money has been performing for you at the bank, ROI determines how effective your money has been invested in inventory for your store. An ROI of 200 means the owner has generated \$200 of Gross Profit for every \$100 invested in inventory.

In the above statistics, the average ROI across the stores measured is 59, or a return of \$59 for every \$100 invested in inventory. This is calculated by multiplying the Mark-up of 99% by the Stock turn of 0.6 times per annum.

As the saying goes, there is more than one way to skin a cat and likewise there is more than one way to achieve a return on investment. Two stores may achieve an ROI of 200 in the following way:

Store 1: 150% Mark-up x 1.3 Stock turn = 200 ROI
Store 2: 100% Mark-up x 2 Stock turn = 200 ROI

Again the key to using this information each month is to compare it to your own store's performance in each area and to identify opportunities. For example, let's say your store was doing a 0.6 stock turn in line with the industry average but your Mark-up was only 85% compared to the average above of 99%.

Your Store	0.6 x 85%	= 51 ROI
Average Store	0.6 x 99%	= 59 ROI

Comparing your store to one achieving the industry average you would be generating an annual Gross Profit of \$102,000 with a \$200,000 stock investment ($\$200,000/100 \times 51$). The average store with the same stockholding would be generating \$118,000 in annual Gross Profit ($\$200,000/100 \times 59$), an improvement to the bottom line of \$16000. The same scenario would apply if you were achieving the industry mark-up but had a lower stock turn – an improvement in stock turn will put more money onto that bottom line.

It is important to point out that although a ROI of \$59 for every \$100 invested in inventory is the average this is by no means a stellar performance. In fact many stores are achieving a return of \$200 gross profit for every dollar invested in inventory and this should be the objective for any successful store. Both the average stock turn of 0.6 and the average store mark up of 99% are substantially below where they should be and a store achieving these averages should be looking to improve on two fronts:

1. Increase your mark up to a sustainable level. Putting a mark up of 100-120% on product is simply not sufficient. For comparative information on realistic mark ups that can be put on product we can be contacted for further assistance (details below)
2. Reducing discounting can help increase the actual mark up achieved.
3. Carry a realistic level of inventory. The average jeweller store requires approximately \$1 of inventory for every \$4 of sales achieved. In reality the average store is carrying almost \$1 of inventory for every dollar of sales, an excess of inventory of over half a million dollars. This is wasteful – the same level of sales can be achieved with almost a quarter of the inventory, freeing cash up to retire debt, use for personal purposes or reinvest into better investments (or inventory that yields greater sales). Sadly too many jewellers see this excess inventory as some sort of retirement fund that they can cash in when they sell the store. In today's competitive environment savvy business buyers would offer less than 50 cents on the dollar to purchase this underperforming product that has failed to sell..and who can blame them? There is no room for sentiment on this aged and bloated product.

If you would like to know more about how to contribute your own data and receiving a personalised Industry KPI report each month, or you need help to improve your Mark-up or Stock turn please feel free to email Carol Druan at carol@edgeretailacademy.com or call her toll free on (877) 5698657. Visit our website at www.edgeretailacademy.com