

Instore Magazine Article

So how do you measure up?

This month, we want to talk about two KPIs, **Mark-up** and **Stock turn** which combined produces your **Return on Investment (ROI)**.

| 12 Month KPI Analysis to Mar-09 | Average Store | Your Store |
|---------------------------------|---------------|------------|
| Total Sales | 1095322 | |
| Sales # | 6261 | |
| Ave Sale | \$174.95 | |
| Gross Profit | \$546830 | |
| COS | \$548492 | |
| Markup % | 100% | |
| Closing Stock | \$730583 | |
| Stock turn | 0.7 | |
| ROI | 70 | |

Note: These 12 Month averages above are calculated from the performance of a large number of independent Jewellery stores across the US for the 12 months ending March 2009. The Sales figure above of \$1095322 is made up of the 6261 items sold multiplied by the Average Sale value of \$174.95 (some rounding does apply).

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 stock. 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 performing invested in inventory for your store. An ROI of 200 means the owner has generated \$200 of Gross Profit for every \$100 invested in stock.

In the above statistics, the average ROI across the stores measured is 70, or a return of \$70 for every \$100 invested in stock. This is calculated by multiplying the Mark-up of 100% by the Stock turn of 0.70 times per annum. Stock turn measures how often an item sells – a stock turn of 1 means every item in the shop is selling, on average, once per year. Of course some items will sell three or four times while others won't sell at all. A stock turn of 0.70 as measured above means, on average, seven out of ten items are selling once and the other three don't sell at all.

Is an ROI of 70 good? In a word – no. Sadly this is an average for the US which indicates far too many stores are not utilising funds effectively in their business – creating unnecessary cash flow pressures for themselves by carrying too much inventory or applying too little mark up. Successful stores are able to achieve ROI's of 200 or more, often combining mark ups of 130% plus with a stock turn of 1.5 times or better. A business achieving these sorts of returns can expect to have a more profitable business or less money invested in inventory. If you currently hold \$500000 of inventory on hand and are achieving a stock turn of 0.70 then realistically you could be achieving the same sales and profit with half that inventory level. That's \$250000 you could be using to pay off debt, buy a new home, or invest. Would you put \$250000 into a bank account for ten years that pays you no interest? Then why do it with your business?

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 0.70 stock turn in line with the industry average but your Mark-up was only 90% compared to the average above of 100%.

Your Store 0.70 x 90% = 63 ROI
Average Store 0.70 x 100% = 70 ROI

Comparing your store to one achieving the industry average you would be generating an annual Gross Profit of \$252,000 with a \$400,000 stock investment (\$400,000 x 0.70 x 90%). The average store with the same stockholding would be generating \$280,000 in annual Gross Profit (\$200,000 x 0.70 x 100%), an improvement to the bottom line of \$28,000. 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.

How do you achieve a better mark up or stock turn?

Very simple. You ask for it. By putting more mark up on your inventory and by controlling your purchasing so your inventory reflects the level you need to achieve sales. Carrying too much inventory doesn't automatically generate more sales – in fact it can cost you sales if the old bloated inventory is stopping your customers from seeing the better pieces you have to offer. Nothing puts customers off more than a window or cabinet jammed packed with items. They often can't see that special piece amongst the assortment of other items crammed alongside. **If you have a stock turn of less than 1 then it is almost certain that you have more money tied up in inventory than you need.**

Is your store giving you the sorts of return you deserve?

Is your inventory working for you or are you working for it?

Other jewellers are achieving these sorts of returns. Why shouldn't you?

If you would like to know more about the industry mark ups that are achievable and how to get that surplus inventory back out of your business and into your bank account contact:

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