

## Understanding how to read the GMROI reports

What is this fancy schmaltzy “GMROI” thing anyhow? Not another dumb report which doesn’t help me!

Actually the whole retail world studies their GMROI reports. It’s the only way to know if your inventory is doing what you hired it to do. GMROI measures how well you’re handling inventory and how much money its making you. If you’re like most retailers you only look at how much money you made when you sold an item. **That’s not the most important number!**

Let’s say you buy 10 chains from Leslie’s Chain Company at a cost of \$100 a chain and you intend to sell them for \$225. You bought 10 so you’ve invested \$1000 in total with Leslie’s.

Lets say in a year you sell 3 chains. Did you make a profit? Yes. The 3 chains cost you  $100 \times 3 = \$300$  and you sold all 3 for \$675. So you made \$375.00.

**But do you HAVE any money?** The answer is NO! You did make a profit but you had to pay Leslie’s \$1000 and only took in \$675. You’re still short \$325.00.

So you made money but have none. That’s GMROI. If this had been one full year then you should have stocked only 3 chains, not 10. Then you would have made money and also HAD some money.

So instead of looking at Gross profit Per Sale you should be looking at three numbers, not just one.

1. Gross profit dollars, plus...
2. Average inventory during the year.
3. Turn, how often the item sells in a year.

These 3 numbers make up GMROI with only 3 Point of Sale programs giving it to you (InCom is one of the 3) .

So GMROI tells us how much money we are making or losing on ALL INVENTORY. That means we look at the money from the items that sold plus the “loss” we had from items that didn’t sell.

On the next page is GMROI report totals for a jewelry store, I’ve left out the details.

The first thing you want to look at is the totals for the store, usually on the last line. So lets go to the next page and get started.



Retail Price Range	current Total Cost in Inventory	current QTY in Inventory	Number of Units sold	Summary Cost of Sales	Summary of Sales	Gross Profit per Piece	Gross Profit Margin [%]	Gross Profit	average Inventory Cost Level (12 point accuracv)	Inv. Turn	Gross Margin ROI [%]
Summary ---->>>	\$22,515.07	172	>> 78	\$6,013.01	\$11,018.20	\$64.17	45.4 %	\$5,005.19	<< \$14,927.00	0.4	33.5 %
	<b>6</b>	<b>8</b>	<b>7</b>	<b>2</b>	<b>1</b>	<b>unim- portant</b>	<b>4</b>	<b>3</b>	<b>5</b>	<b>9</b>	<b>10</b>

Although this may sound odd, we're going to use this report, sales aren't typical for a year in a store, but play with me here. Heres' a description of each number:

1. Sales for the whole year
2. Cost of those sales we made.
3. Gross profit dollars from those sales.
4. The margin we made on those sales
5. The amount of inventory we had "on average" during the past 12 months that allowed us to make those sales.
6. The current inventory level. Could be more or less than #5 as after the year we might stock up and inventory would be higher.
7. The number of units we sold. This is important because of the next line.
8. Number of units left in stock today. (A tip for you: In a year if you sold 78 units, that's all you'll need if sales are expected to be the same. Notice here we sold 78 and **have** 172. Over 100 too many pieces!)
9. Out turn. Funny number. To find out how many **days** our inventory stayed around until it was sold, divide the turn ("0.40" by 365 days in a year) and you'll see for this store inventory stays 912 days before it leaves. That's 2.5 years! We pay for it in months and it stays for years before it sells! Yuk!
10. #10 is the most important number. It reads 33.5 percent, but I'd rather talk in money. Move the decimal point to the left 2 digits and you have 33 cents (I'm ignoring the 1/2 cent). This number should be above \$1.00 and this store is 33 cents. The probably have lots of debt and have a problem paying vendors.

Where does the GMROI number come from? Simple, #5 (average inventory) is divided by #3 (gross profit dollars). \$5005.00 in gross profits dollars divided by an average inventory level (#5) of \$14,927. Doing the division math gives you 33.5%.

**The secret to HAVING money in a jewelry store is Gross profit Dollars (#3) should be HIGHER than Average Inventory (#5).**

If you look at #4 this store has a 45.45 margin, very respectable in today's retail market. Their problem is they have way too much inventory. \$9922 to be exact. Where is that inventory? Typically it hides in 2 places:

1. Old inventory. "Old" is anything over a year old and remember this store's inventory doesn't sell in 1 year (365 days) it takes over 900+ days to sell!
2. In addition to old typically there is also way too much inventory in the higher price points.

So now lets go look at a particular jewelry category and analyze it. Now we'll have a better idea of where to put our selling dollars and which categories we need to weed out specific items. Go to the next page.

Retail Price Range	Average Number of Days in Inventory (*)	current Total Cost in Inventory	current QTY in Inventory	Number of Units sold	Summary Cost of Sales	Summary of Sales	Gross Profit Margin [%]	Gross Profit	average Inventory Cost Level	current Total Cost in Inventory	Inv. Turn	Gross Margin ROI [%]
\$ 0 - \$ 100	197	\$ 2,059	188	517	\$ 5,284	\$ 9,574	44.8 %	\$ 4,290	\$ 1,983	\$ 2,059	2.7	216.3 %
\$ 100 - \$ 200	161	\$ 2,518	155	>> 40	\$ 3,200	\$ 5,804	44.9 %	\$ 2,604	\$ 2,175	\$ 2,518	1.5	119.7 %
\$ 200 - \$ 300	283	\$ 5,519	72	>> 18	\$ 3,996	\$ 4,651	14.1 %	\$ 656	<< \$ 4,781	\$ 5,519	0.8	13.7 %
\$ 300 - \$ 400	591	\$ 3,811	33	>> 9	\$ 2,004	\$ 3,158	36.5 %	\$ 1,154	<< \$ 3,545	\$ 3,811	0.6	32.5 %
\$ 400 - \$ 500	540	\$ 2,403	16	>> 4	\$ 1,000	\$ 1,787	44.0 %	\$ 786	<< \$ 2,320	\$ 2,403	0.4	33.9 %
\$ 500 - \$ 600	760	\$ 2,893	16	>> 3	\$ 815	\$ 1,608	49.3 %	\$ 793	<< \$ 2,700	\$ 2,893	0.3	29.4 %
\$ 600 - \$ 800	598	\$ 5,239	24	>> 3	\$ 1,059	\$ 2,025	47.7 %	\$ 966	<< \$ 5,152	\$ 5,239	0.2	18.8 %
\$ 800 - \$ 1,000	407	\$ 1,357	5	>> 0	\$ 0	\$ 0		\$ 0	<< \$ 1,357	\$ 1,357	0.0	0.0 %
\$ 1,000 - \$ 1,250	558	\$ 1,799	5	>> 0	\$ 0	\$ 0		\$ 0	<< \$ 1,799	\$ 1,799	0.0	0.0 %
\$ 1,250 - \$ 1,500	1078	\$ 2,347	5	>> 0	\$ 0	\$ 0		\$ 0	<< \$ 2,347	\$ 2,347	0.0	0.0 %
\$ 1,500 - \$ 2,000	553	\$ 3,838	6	>> 0	\$ 0	\$ 0		\$ 0	<< \$ 2,864	\$ 3,838	0.0	0.0 %
\$ 2,000 - \$ 2,500	107	\$ 2,416	3	>> 0	\$ 0	\$ 0		\$ 0	<< \$ 2,416	\$ 2,416	0.0	0.0 %
\$ 3,000 - \$ 4,000	578	\$ 3,229	3	>> 0	\$ 0	\$ 0		\$ 0	<< \$ 2,729	\$ 3,229	0.0	0.0 %

Summary --->>>		\$ 39,428	531	594	\$ 17,358	\$ 28,607	39.3 %	\$ 11,249	\$ 36,168		0.5	31.1 %
	11	6	8	7	2	1	12	4	3	5	9	10

This is one category in the store, let's assume its **Diamond Bracelets**. The first thing to look at is the **GMROI**, which is 31 cents. :- (The difference is about \$25,000 **too much inventory!**)  
2nd thing to look at is the difference between the Gross Profit Dollars (#4) and the Average Inventory (#3).  
Now we start to analyze the price points on the left **in the same way**. Look above at the GMROI for the \$0—\$100 price point, first line. Its \$2.16. Great! Remember for the most part we're looking for an overall \$1.00 or better for the total. Some price points can be poor performers you just want the total to be a good one. Why is it so good? Simple, we made \$4290 in gross profit dollars off of an inventory level of \$1983. Inventory should be lower than gross profit and it is. The same goes for \$100-\$200, its good at \$1.19

But look at the \$200-\$300 price point. Gmroi is 13 cents. Why is it so bad? Look at column 12 "Gross Profit Margin %" on this price point is only 14.1%. So they discounted to get rid of stuff. But not nearly enough. This price point has \$4781 in average inventory and it only made them \$656 in profits. Profits should be LARGER than inventory (or inventory should be smaller than profits). Also look at columns 7 & 8. They sold 18 units but gosh almighty, they have 4 years worth-72 pieces in stock.

Look at the \$600-\$800 price range. The GMROI is 18 cents but the gross profit percentage is 47%. Not bad at all. So what's the problem? Again too much inventory (compare average inventory to gross profit dollars) and also they haven't sold a SINGLE unit but have 5 in stock. Look at column 11—598 days these items have stayed in stock.

Look at the two boxes I drew when price points gets to \$800-\$1000. Notice the second box when you get to that price points sale of units drops off to **nothing!** Look at the left box-still have 28 units in stock. The problem with this store is:

1.) The gross profit margin (39.3%) is low, 2) They have way too much inventory, 3) They have too much inventory in the higher price points. The store buys high end and customers cherry pick low end. In fact the store just plain outright buys more pieces than can be sold in 1 year.

Now for you folks who believe you can make money **SOME DAY!**..... (You know, better to wait and get full boat!)

I'm here to tell you that you can't make money once a year comes around, even if you don't discount. Each year you sell an item and then reorder it after it sells in December, replenishing your stock. Here's an example of buying a \$100 ring in January and selling it in December. Then the week after you buy another one to replace the sold one.

Bought	Cost	Date Sold	Selling \$\$	Profit
Jan 2005	\$100	Dec 2005	\$225	\$125
Jan 2006	\$100	Dec 2006	\$225	\$125
Jan 2007	\$100	Dec 2007	\$225	\$125
<b>TOTAL profit in 3 years</b>				<b>\$375.00</b>

Here's YOUR STORE. You buy it in January 2005 but it doesn't sell until 3 years later.

Bought	Cost	Date Sold	Selling \$\$	Profit
Jan 2005	\$100	It didn't	0	0
Jan 2006	Didn't buy one, still had it	It didn't	0	0
Jan 2007	Didn't buy one, still had it	Dec 2007	\$225	\$125
<b>TOTAL profit in 3 years</b>				<b>\$125.00</b>

Did you make \$125.00 after 3 years waiting for someone to buy it? **NO. You LOST \$250.00.** It was supposed to bring in \$375, so you LOST.

The only way to make the second example do as well as the first is to add in the missing profits each year and finally sell it for \$475.00 in the 3rd year. But could you? Could you sell something old and dated for a higher price when it didn't sell at a lower price? I don't think so.

Bought	Cost	Date Sold	Selling \$\$	Profit
Jan 2005	\$100	It didn't	0	0
Jan 2006	Didn't buy one, still had it	It didn't	0	0
Jan 2007	Didn't buy one, still had it	Dec 2007	\$475.00	\$375.00
<b>TOTAL profit in 3 years</b>				<b>\$375.00</b>

**I have found that stores that have a GMROI closer to \$1.00 have more cash and less debt.**

**Less than \$1.00 GMROI you'll see that your total OLD inventory level at cost is usually equal to your total debt, within 15-20%. Get rid of old inventory and you can get rid of old debt.**

What to do?

1. At 12-14 months start to discount it heavily
2. Double your commission on old stuff. Give the staff extra dollars to unload it.
3. Combine #1 and #2 above.
4. If after 18 months you can't get rid of it **SCRAP IT** even for a loss to get your money out of it and move it. I know this is hard to swallow but companies that do this **HAVE MONEY!**