

# How to add \$250,000 Gross Margin by Improving GMROI, Without Increasing Prices!

## Got your attention?

If you can increase the speed and efficiency of handling your merchandise, your cash flow and profit will sky rocket! This is due to receiving a higher return on your investment and lesser associated inventory carrying costs. It takes thinking outside the box and really concentrating on distribution efficiencies to make it happen without simply increasing price.

The traditional formula for GMROI (Gross Margin Return On Investments) is gross margin (GM) dollars produced over a year per dollars of inventory invested on average (GMROI = GM \$ / IN \$). It is simple to see that if you just increase gross margin and



decrease inventory you will increase GMROI. The trouble with using this easy to understand equation is that the actions to make GM go up or inventory go down are sometimes less than creative.

Figure 1	
<b>STORE A</b>	
Turns = 3 times per year	
Number of days to turn inventory = 365 / 3 = 121 days	
<b>STORE B</b>	
Turns = 3.3 times per year	
Number of days to turn inventory = 365 / 3.3 = 110 days	



To increase GM, many people automatically think of increasing price or not selling at discounts. And, to decrease inventory on hand, clearance sales or sweeping discounts are a favorite. Unfortunately, these are counter productive strategies, as gross margins are offset. Clearance sales may have their time and place, however, there are many other more productive ways to increase your GMROI and you can do it without increasing prices or holding inventory clearance sales.

Figure 2	
<b>STORE A</b>	
GMROI = 3 x .45 / .55 = \$2.45	
<b>STORE B</b>	
GMROI = 3.3 x .45 x .55 = \$2.7	

Let's look at an alternative GMROI formula:

$$\text{GMROI} = \text{Turns} \times (\text{Gross margin \%} / \text{Cost of goods \%})$$

Now the creative juices can flow more freely. And so can your merchandise! **The secret is that by flowing your inventory faster (higher turns), you can obtain a much higher GMROI.**



So what's it worth?

Let's look at two examples and keep GMROI constant at 45%:

Store A	Store B
Turns = 3 times per year	Turns = 3.3 times per year
Number of days to turn inventory = $365 / 3 = 121$ days	Number of days to turn inventory = $365 / 3.3 = 110$ days

Difference: Store B turns inventory 11 days faster than Store A. So, .3 more turns a year equates to 11 days. Doesn't seem like much, right?

Now, let's look at the GMROI impact of flowing inventory 11 days faster:

Store A	Store B
GMROI = $3 \times .45 / .55$	GMROI = $3.3 \times .45 \times .55$
\$2.45	\$2.7

Difference: Store B makes .25 cents more for every dollar it invests in inventory than store A. So, what's that value of a quarter?

**Its' MASSIVE!!!**

At a \$1 million in inventory .25 cents in GMROI equates to \$250,000 in gross margin produced!

Using the traditional GMROI formula of GM \$ / Inventory \$, and holding inventory constant, some simple algebra shows us that the increase in GM \$ is the GMROI Increase x Inventory value

$$\text{GM \$ Increase} = .25 \text{ cents} \times \$1 \text{ million} = \$ 250,000.$$

Figure 1	
<b>STORE A</b>	
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Where else can you find \$250,000 lying around?

Do you think it is worth it to improve your inventory flow efficiency to turn your merchandise 11 days faster? Of course...

Here are some ways to get your 11 days and the extra \$250,000:

Figure 2	
<b>STORE A</b>	
GMROI = $3 \times .45 / .55 = \$2.45$	
<b>STORE B</b>	
GMROI = $3.3 \times .45 \times .55 = \$2.7$	

Quick Ship

Margins are not everything. Speed matters. Vendors that allow for faster order fulfillment enable you to carry fewer inventories. The best I've seen is a client in Australia that could get a custom, high end sofa delivered to a customer within a week.

Fast Receiving

Don't let merchandise sit on your dock unreceived in your system. Use the latest technology to get it registered in your inventory. The fastest operations are receiving via wireless scanners as the merchandise is unloaded. This creates a culture of 0 delay within a business.

Speedy Delivery Scheduling

Implement systems that show what merchandise can be scheduled, so you can book delivery times with customers, as fast as possible. You should seek to have the high majority of your complete sales scheduled.

Routing and Mapping Automation for More Efficient Delivery

Use these systems to schedule faster, fill trucks easier, and take the best routing. More customers' will be delivered faster and your costs significantly reduced.

Improve Customer Pick-up's

As with deliveries, contact customers ASAP to set a time for them to pick up their merchandise. Company's who do this are seen as being more professional, saving their customers and themselves time.

Display all Merchandise – FAST

This is an area where many stores can use improvement. How can you sell something if you do not display it? Build a process similar to this:

- Print all available merchandise that is in your warehouse that is not in a showroom (every day).
- Create a transfer order.
- Physically check merchandise and determine the best price point.
- Put new merchandise in a high traffic floor slot to properly test its value with your customers.

Efficient Customer Service

The return and repair process in the best companies is systematized so that it is a quick process for the store and their customers. You should know exactly how many customer service issues are outstanding, what needs to be repaired, and what needs to be replaced. You do not want damaged or opened merchandise choking your profits. The best clients I've seen in this process runs daily reports and takes actions to minimize this dead inventory, thus increasing his turns. He estimates this alone saves him over \$50,000 per year.

Best Seller Recognition

Great managers know winning merchandise and respective rates of sale, so that they can reorder them at the appropriate time in the appropriate quantity. Have this proven product available for your customer using a JIT (just-in-time), not JIC (just-in-case), inventory dramatically increases turns. How? By increasing sales, decreasing lead time and minimizing inventory.

Burn Your Dogs

“If it doesn't sell in 60 days, take it out to the front lawn and BURN IT!” from a client who get's a \$3 GMROI and over \$400 sales per square foot. Translation: Use a markdown aging strategy that turns inventory quickly.

Buy New Merchandise – At the Right Time

Create an “open to buy” that acts as your stoplight when bringing on new items. Red is when you are over inventoried, yellow is on the edge, and green is when you are at an efficient GMROI (over \$2) or Inventory to Sales (Under 20%). Best practice businesses have restraint and use these metrics to determine their new purchasing actions.

☑ Get Your People Up To Speed as Industry Professionals

Just like you get a lawyer to handle your legal issues and an accountant to handle your taxes, get an industry expert to help your people implement procedures that yield a fast GMROI. Productive and motivated people that produce the highest, are the key.

So there you have it: 11 ways that can help you turn your inventory 11 days faster and maximize GMROI. Implement this and you can make an extra \$250,000 in GM per million in inventory invested.

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