



Measure Your Success

Cost Per Sq Ft.

Well-run Store:

\$33

(Typical is \$55)

Inventory Investment

Inventory Cost \div Square Footage

Annual Turns

Well-run Store:

4.75

(Typical is 2.2)

Product Turns

COGS \div Ending Inventory
for the Period

GMROI

Well-run Store:

365%

(Typical is 150%)

Gross Margin Return on Investment

Gross Profit Dollars \div Inventory Investment \times 100

Inventory Investment

Determining the cost of your current inventory investment for each square foot of retail space is a fast and easy way to determine if you're carrying the right amount of inventory.

When calculating the total square footage of your retail space, remember to exclude areas not directly involved in a retail activity such as bathrooms, break rooms, storage areas, and offices. Once you arrive at a square footage number, be consistent. Use the same number in future calculations to accurately track your progress.

$$\text{Inventory Cost} = \$455,000 \mid \text{Total Square Footage} = 9,500$$

$$\$455,000 \div 9,500 \text{ sq. ft.} = \$47.89 \text{ Inventory Investment Per Square Foot}$$

Typical Cost Per Square Foot: \$55 | Well-Run Store: Less than \$33

Product Turns

This metric tells you how many times you sold and repurchased your inventory over a given period of time, usually a year.

First, you need to determine how much money was spent on inventory over an entire year. This is the COGS or Cost of Goods Sold. This number will be on your company's income statement.

The amount of inventory on hand at the end of that same year (ending Inventory) can be found on the company balance sheet.

$$\text{COGS} = \$975,000 \mid \text{Ending Inventory for the Year} = \$362,750$$

$$\$975,000 \div 362,750 = 2.7 \text{ Turns Per Year}$$

Typical Turns Per Year: 2.2 | Well-Run Store: 4.75 or More

GMROI (Gross Margin Return on Investment)

GMROI indicates how profitable an inventory item is by comparing the gross profit to the amount invested in the product. A GMROI of 200% indicates one dollar earned for each dollar invested in inventory.

In the following example, we'll look at the sales of a paint brush over one year.

First, find gross profit dollars for your normal stocking period. Multiply the result to learn how much profit you'll earn over one year. Finally, divide the gross profit dollars for the year by the amount of inventory investment for your normal stocking period.

Example:

The store sells three of these brushes a week.

This example examines a two-week period.

The cost of our paint brush (our inventory investment) is \$4.50.

Over two weeks, six brushes would cost \$27.00.

The selling price is \$12.00. Over two weeks, six brushes would bring in \$72.00 in sales.

Total sales over 2 weeks	\$72.00
Total inventory investment	- \$27.00
Gross profit dollars (for two weeks)	\$45.00

To find gross profit dollars for a year, multiply the gross profit dollars (\$45.00 for two weeks) by 26 to show the total for one year.

$\$45.00 \times 26 \text{ weeks} = \$1,170.00$ Gross Profit Dollars over 52 weeks.

Finally, divide the Gross Profit Dollars for the year by the 2-week inventory investment. Multiply the result by 100 to find GMROI percentage.

This is an extreme example. This product has a high markup. Most GMROI percentages won't be this high.

$$\text{Gross Profit Dollars (One Year)} = \$1,170 \mid \text{2-Week Inventory Investment} = \$27$$

$$(\$1,170 \div \$27) \times 100 = 4333\%$$

Typical GMROI: 150% | Well-Run Store: 365% or More