R.J. Calio Consulting, LLC

Retail Systems Consultant

Getting A Return On Investment From Your System

I have been involved for the last twenty years of my business career with Point of Sale, Inventory Control systems. My involvement has included selling and installing these systems and training retailers on how to use them. For the past five years I have focused on consulting to retailers on how to find the best system for them and how to actually utilize the system.

The key element in utilizing a system is getting a return on your investment. This is an inexact science however I feel through my experience with over five hundred installations there is an effective approach to this goal.

1. Cash control:
2. Gross margin management:
3. Inventory turn:
4. Life extension of your best customers:

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First and foremost we need to recognize that the retail business environment is highly competitive and key information is critical to survival. The key information should be presented in a format that will give the retailer a quick overview of the important data. The concept is for a retailer to quick determine the areas of his business that need further security. I designed a suite of reports Called "Key Indicator Reports" that will give a business critical information in an effective usable format. The goal is for a retailer to look at only critical data and to drill down when a problem is indicated. Some reports are daily, some weekly and others monthly. The entire suite of reports gives the retailer:

1. **CASH CONTROL:** This is the quickest return you will get from you POS. In addition to better cash control and cash drawer reconciliation the following controls will in be place: Pricing accuracy, voids and no-sales by clerk and a audit trail on all discounts by clerk.

2. **GROSS MARGIN MANAGEMENT:** This control will give you the most "bang for your buck". The erosion of gross margin is the silent killer of profit. In order to monitor gross margin and react immediately you need to run a report daily that shows your target gross margin per-cent by department and the actual gross margin per-cent attained from sales. For any department that has an actual gross margin per-cent lower that the target margin you need to run a report showing all items in that department that have a gross margin per-cent less than the target margin. The process will ensure that you catch gross margin erosion due to cost price changes and/or incorrect retail pricing immediately.

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3. **INVENTORY TURN**: Excess inventory results in profit erosion in many ways. Primary among them are higher carry costs, lower gross margin since older inventory has to be marked down or put on sale. At the end of year when an accounting is done for a P/L statement profit is stated as a dollar value, the fact is the $50,000 profit maybe $40,000 in excess inventory and $10,00 in cash. Obviously a retailer would prefer that value in cash rather than excess inventory. An example is the following:

   Store A: $2,000,000 in gross sales at a gross margin of 40% and an inventory turn- rate of six times a year:
   Inventory value at retail is $333,000 Value at cost is $199,999 (60% x $333,000)

   Store B: Has the same gross sales and the same gross margin of 40%, however they have an
   Inventory turn- rate of eight times a year.
   Inventory value at retail $250,000 Value at cost is $150,000

   Assuming both stores have the same overhead expenses store B has $49,000 more in cash than store A. Store A has $49,000 greater in inventory. There is a point where inventory turns can be too high causing out of stocks and increased cost of receiving and processing smaller orders. The key is to optimize your inventory to its most efficient level. Most industry associations can give the retailer the inventory turn rate for their retail segment.

4. **LIFE EXTENSION OF YOUR BEST CUSTOMERS:** This is the most difficult area to realize a return. In order to have a program to reward your best customers you have to collect sales and transaction data about them. Once you know who you're best and most profitable customers are you can you can build a marketing plan to attract more of that type of customer. The retention of a good customer is three to six times less costly than attracting a new customer to replace them. A customer referred from a loyal customer has a greater potential of becoming a loyal customer. Loyal customers are less price sensitive.

   The following is list of essential information a retailer needs to know about their customers"

   - What % of your customer do you lose each year?
   - What % of their business do you get in your product category?
   - Why do your most profitable customers shop in your store

SUMMARY

Now lets calculate an ROI for a store doing $1,500,000 in annual sales:

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1. Better cash control generates a .05% increase to the bottom line.	$ 7,500
2. Gross margin management yields 1%	$15,000
3. More effective inventory yields 1%	$15,000
4. Life extension of customers is a bonus for aggressive retailers	
Total Gross ROI:	$37,500

I have used very conservative figures to develop this Return on Investment example. My experience has shown a realistic return for a retailer who develops and adheres to a utilization plan for their system can reasonably be 3% to 4% of annual sales.

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