Instore Magazine – Key Inventory Companion Metrics

I am often asked what the key numbers that a jewelry retailer needs to pay attention to effectively manage their inventory. There are a lot of numbers out there – Sales Revenue, Inventory Turn, Margin %, Margin Dollars, Mark up, GMROI, ROI – enough numbers to make your head spin!

Obviously, we all fall somewhere in the continuum of having an affinity for reports and data, or not. I find that it is difficult to have quickly turning inventory generating strong profits, without focusing on some numbers. That being said, I also believe if the data in a report does not guide me to specific actionable steps then I am wasting my time. Too often we review a report, think to ourselves "now, that is interesting", and walk away and do absolutely nothing as a result of reading that report.

Merchandising is an interesting combination of creativity and numbers. You really cannot have one without the other. So, my objective is look at data that quickly tells me what is working and what is not. Both require action – I want to understand what is working and how do I leverage that – and I want to understand what is not working and why, and then quickly deal with eliminating that inventory.

There are two basic parts to merchandising – the *sales* and the *inventory*. I like to look at what I call "Key Companion Metrics" – numbers that address both parts from the same perspective.

Here are a few examples:

- **Sales Trends/On Hand Levels** – A "this year/last year" comparison of a department with variance percentages for a YTD or Rolling 12 report gives me a good read on what product is trending up or down. I then compare the sales variance to a "this year/last year" variance of inventory levels. For example: if my sales are down versus last year in a department and my inventory is down versus last year in excess of the sales, the decrease in sales might be a result in lack of inventory. Conversely, if my sales are way up and my inventory is not, we may starve the sales and the performance can decline.

- **Fast Selling Sales/Fast Selling On Hand** – In addition to the above, if I can see what percentage of my sales by department are in Fast Sellers, compared to what percentage of my on hands are in Fast Selling inventory – I get a clear view of how "fresh" my assortment is. If my sales are down from the prior year, and my on hand is all old inventory, chances are that may be the culprit.
- **Average Sale/Average On Hand** – By comparing the average sale to average on hand within a department, I can see if the assortment is price pointed appropriately. For example: if my average sale is $1000 and my average on hand is $1800, I know that my on hands are weighted to the higher price points and I may be stocked out or have an insufficient assortment of the lower price points.
- **Gross Profit Sold/Maintained Mark up** – Maintained Mark up is the Gross Profit of your on hand inventory of a department (or total company). In other words if you were to sell everything today at no discount, that would be your Gross Profit. If your Maintained Mark up in a particular department is too low to achieve your budgeted Gross Profit in sales, then you know you have a problem. It is important to be proactive on profitability rather than reactive.

These metrics allow me to quickly and efficiently hone in on things that might need my attention. Even though I appreciate the stories that data can tell us, no one like to feel that they are overwhelmed with data that may or may not be meaningful. Too little information and you will surely miss opportunities, so you want to spend your time reviewing the data that is relevant and actionable.