

Financial Metrics Every Retail Buyer Should Track

Retail buying, at its core, is not just about selecting products that resonate with consumers, but it's also about understanding the numbers that drive profitability. Retail buyers play an instrumental role in ensuring that inventory investments translate into profitable returns. To achieve this, they must be well-versed in specific financial metrics that determine both the store's and the product's success. Below are the essential financial metrics every retail buyer should track:

1. Gross Margin:

- Definition: Gross margin represents the difference between the sales revenue and the cost of goods sold (COGS), expressed as a percentage of sales revenue.
- Importance: It indicates the profitability of your products after considering the direct costs associated with producing or purchasing them. A healthy margin ensures that there's enough to cover operating expenses and still make a profit.

2. Inventory Turnover Rate:

- Definition: This metric calculates how often the inventory is sold and replaced over a specified period.
- Importance: A higher turnover rate suggests strong sales and effective inventory management, while a lower rate may indicate overstocking or product obsolescence. Regularly tracking this metric helps in optimizing stock levels.

3. Sell-Through Rate:

- Definition: Sell-through rate measures the percentage of units sold versus the number received.
- Importance: It helps retail buyers identify how well a product is performing in a given period. If the rate is low, it could suggest that the product isn't resonating with consumers, prompting possible markdowns or promotional efforts.

4. Average Inventory:

- Definition: This metric provides the average amount of inventory a retailer has on hand during a specific period.
- Importance: Knowing the average inventory helps buyers in making informed decisions about reorders, identifying potential stockouts, or recognizing overstock situations.

5. GMROI (Gross Margin Return on Investment):

- Definition: GMROI measures the profit return on your inventory investments.

- Importance: It's a powerful tool for evaluating the effectiveness of inventory investments. A higher GMROI means that for every dollar invested in inventory, there's a greater return in gross margin.

6. Open-to-Buy (OTB):

- Definition: OTB represents the budget available for a buyer to purchase inventory in a specific period.

- Importance: OTB ensures that buyers have a clear financial plan, preventing overbuying or underbuying. By regularly monitoring OTB, buyers can maintain optimal stock levels.

7. Weeks of Supply (WOS):

- Definition: WOS calculates the number of weeks it will take to sell the current inventory stock at the current sales rate.

- Importance: It helps buyers understand how long the existing inventory will last, assisting in planning future purchases.

8. Sales per Square Foot:

- Definition: This metric divides the total sales by the selling space's square footage.

- Importance: For brick-and-mortar retailers, this provides insights into the store's efficiency in generating revenue for every square foot. It's crucial for optimizing store layouts and visual merchandising.

9. Year Over Year (YOY) Growth:

- Definition: YOY growth measures the change in sales, revenue, or other metrics compared to the same period in the previous year.

- Importance: It provides a broader view of performance, allowing buyers to identify growth trends or areas of concern.

10. Customer Retention Rate:

- Definition: This metric calculates the percentage of customers who continue to shop at a store over a specific period.

- Importance: While it's typically seen as a marketing metric, buyers should also track this. A declining retention rate might suggest dissatisfaction with the product assortment, quality, or pricing.

11. Markdown Percentage:

- Definition: It represents the reduction in the selling price of an item compared to its original price.

- Importance: A high markdown percentage may indicate poor buying decisions, overstocking, or challenges in predicting market trends. Regularly tracking this metric ensures buyers adjust strategies for better profitability.

12. Stock to Sales Ratio:

- Definition: This metric divides the ending inventory value by the sales for the same period.

- Importance: It provides insights into whether the current inventory aligns with the sales trend. A high ratio might suggest overstock, while a low ratio could mean potential stockouts.

The retail landscape is dynamic, with shifts in consumer behavior, market trends, and economic climates. For retail buyers, staying on top of these financial metrics ensures that decisions are data-driven, optimizing inventory investments and ultimately driving profitability. As the retail adage goes, "You can't manage what you don't measure," making these metrics indispensable in a buyer's toolkit.

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About the Author:

Elias Amash, President of GRIP, is an industry veteran with more than 30 years of experience in global sourcing, manufacturing, distribution, retail merchandising, fulfillment, marketing, technology, and operations. He is a trusted partner to hundreds of retailers and has "leveled up" the industry with GRIP's undying commitment to offering only the highest levels of service to its customers. Amash has published several books: 8 Skills That Pay Off Forever, The Top 10 Most Important Lessons, The Retail Advantage: How to Win the War with Amazon, Retail Survival: Who Lives, Who Dies and Why, The 50 Most Important Lessons in Life, The Future of Retail, Importing from China: The Good, The Bad, and The Ugly, and 101 Bright Ideas: Winning Tactics to Increase Retail Sales.

About GRIP:

GRIP was incorporated by Charles Amash in 1980 and has grown into one of the nation's top suppliers of innovative products to the retail industry. Located just south of Grand Rapids, Michigan, GRIP features a 200,000 sq ft state of the art warehouse facility including a 2,000 sq ft product showroom. GRIP carries a product line of over 1,000 specialty tools, tarps, automotive, cargo control, cleaning, LED lighting, magnetics, outdoors, household items, impulse and general merchandise. GRIP has a proven track record of excellence in supplying retail clients with innovative products, timely fulfillment, and world-class customer support. At GRIP, everything is about

earning your business...one customer at a time. It's about building relationships and fostering business partnerships that will last long into the future. Our goal is to have Customers for Life. The future at GRIP is exciting and we're hoping that you can be a part of it as one of our many Customers for Life.

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GRIP Online Catalog: <https://gripontools.dcatalog.com/v/Grip-Catalog-2023/>

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