Store Number Crunching

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STORE NUMBER CRUNCHING

FALSE DATA LEAD TO BAD DECISIONS

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COMMONLY USED FORMULAS
(Quick Reference)

- **COST OF GOODS SOLD** (COGS) =

  BEGINNING INVENTORY + PURCHASES – ENDING INVENTORY

- **GROSS MARGIN RUPEES** = SALES – COST OF GOODS SOLD

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- **GROSS MARGIN % =**

  GROSS MARGIN RUPEES / NET SALES RUPEES
  (multiply by 100 to express as percentage)

  or

  (SELLING PRICE – COST) x 100 / SELLING PRICE

- **Rs COST** = Rs RETAIL X (100 - GM %) / 100

- **MARK UP %** = (Rs RETAIL x 100 / COST) - 100

- **Rs RETAIL** = Rs COST x (100 + MARK-UP %) / 100

- **Rs MARKDOWN** = ORIGINAL RETAIL PRICE – LOWER RETAIL PRICE

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- **MARKDOWN % =** Rs MARKDOWN / Rs NET SALES (multiply result by 100 to express as percentage)

- **PLANNED STOCK** = PLANNED MONTHLY SALES **X** STOCK TO SALES RATIO

- **STOCK TO SALES RATIO** = BEGINNING OF MONTH Rs STOCK / SALES FOR PERIOD

- **AVERAGE STOCK** = SUM OF EACH PERIODS BEGINNING OF PERIOD STOCK **+** THE LAST END OF PERIOD STOCK **/** # OF PERIODS

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Introduction

Figures are the language of business. Without them we'd be hard pressed to run a successful company. As we enter the period post Covid with business coming back to normal, we're going to be talking a lot about figures, i.e. where we find them, how we gather the most important ones, and how we turn them into hypotheticals that drive opinions and sales.

What is Retail KPIs?

A retailer will know how their business is performing by keeping track of a quantifiable factor called Key Performance Indicators (KPI's). It's important to note that different retail KPIs to cover can track colourful pretensions. For most retailers, the primary objective to be reached is adding Year on Year profit. Still, retailers can also track other areas of their business, similar as average sale value, COGS, units per transaction, and online Vs in- store deals. Overall, retailers with the help of KPIS' can figure out the negatives in a business strategy, areas of prospects, and areas of strength.

The Common retail KPI's are

1 Conversion rate

2 Client retention

3 Foot Traffic.

4 Digital business

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Conversion rate is of utmost significance, as transformations add to the Year-on-Year profit of a retailer. Since client retention is crucial to growing as a retailer, it's important to cover how your consumers are responding to your business. Retailers that use an omnichannel marketing style frequently prioritize the Foot traffic Business Vs. Digital traffic Business KPI, as it tells retailers where they're performing well. This allows them to fill in the gaps or concentrate on the store presence that has the topmost performance measures. These are only a many of the retail KPIs to cover as a retailer. This composition will take a deep dive into the numerous retail KPIs, what they mean, how to measure them, and their significance to any retailer’s success.

There are four primary types of retail KPIs to cover, with each serving a different purpose

• Evaluation of Sales Data. Deals - KPI’s measure the effectiveness of the current sales and strategies in place. Their end objective is to enhance the processes to increase sales.

• Evaluation of client Habits- Client engagement KPIs are used to strive and improve the client experience to drive sales.

• Merchandising KPIs - Indicate how the merchandise is being offered to consumers is either helping or hurting the goal of increased profit.

• Financial- Financial & Fiscal KPIs are used to keep track of financial stability & progress.

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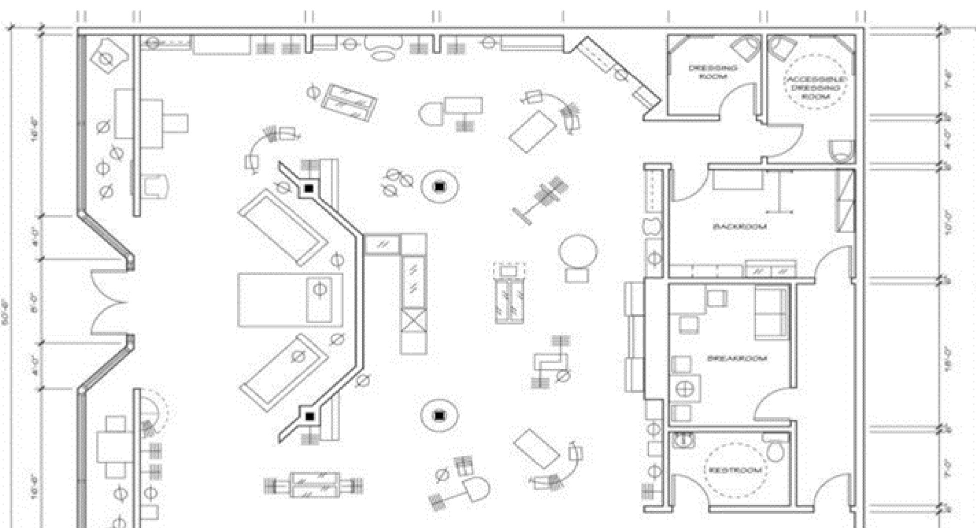
Type #1: Sales Data Driven KPI

In order to reach their desired goals, the sales KPI’s help the sales team and manager with the data they need to continue or alter their strategies. Sales KPI’s can also be used to identify new trends entering the market just like other KPI’s.

Sales per Square Foot (KPI #1)

Retailers use sales per square foot, or SPF, as a sales metric to understand how much money is made per square foot in a store. Reasons to monitor it: Sales per square foot is a crucial and practical store KPI to monitor since it indicates a company's effectiveness and how well it makes use of its resources to succeed. This can be used to identify areas for growth potential and to compare with competition.

Sales per Square Foot is calculated as Revenues / Retail Space.



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KPI#2: Sales Growth Year Over Year Definition:

Retailers compare sales over a given period to the same period in the prior year to determine year-over-year (YoY) sales. Reasons to monitor it: Keeping track of YoY sales enables a retailer to have access to the financial data over an entire year and compare it to previous years. It pinpoints the period that led to a decline in sales, if any. This will also help to determine which strategies work and which need to be changed.

Formula: Year-over-Year Growth (Year on Year) = (Current Period Value / Prior Period Value) – 1

(Current Year / Previous year-1) x100= % Growth or Decline

KPI #3: Average Transaction Value (ATV)

Definition: The average amount spent by a customer during a visit is the average transaction value.

Why you should track it: Tracking the ATV allows a retailer to analyse the amount of revenue from an individual consumer. When the average transaction is high, it means that customer engagement is high. Retailers may achieve high levels of consumer engagement and boost revenue by monitoring this KPI.
Formula: Average Transaction Value = Sales/Transactions

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KPI #4: Sales per Employee

Definition: To calculate the financial productivity of each employee, a retailer's annual sales are divided by the number of employees. This yields the sales per employee indicator.
Reasons to monitor it: Any company that invests in its workforce and depends on them to help it meet revenue targets should be keeping an eye on this retail KPI.

Employee pay and benefits are the majority of a company's largest expense, thus it's critical to make sure that workers are effective in generating revenues.
Formula: Sales per Employee is calculated as follows
Annual Sales / Total Employees

Definition: Cost of goods sold relates to all of the expenses needed for the production of the goods offered by a retailer, including indirect costs like distribution.

Why you should track it: COGS can directly relate to the net income, either lowering it or raising it. If the cost of goods sold is high, it tells retailers that they need to cut or adjust costs of goods production to positively affect their net income.

***Formula:* Cost of Goods Sold = Beginning Inventory + Purchases – Closing Inventory**

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KPI #5: Online vs. In-store Sales

Definition: Online and in-store deals can be found by basically following the income from each channel. These numbers are at that point compared against each other to see the efficiency of both. Why you ought to track it: Retail measurements appear that 78% of buyers lean toward an omnichannel involvement, so it's critical for retailers to execute an omnichannel promoting procedure

Tracking online and in-store execution permits a retailer to understand where their success is basically coming from, also to uncover the regions of opportunity, to move forward their omnichannel strategy.

KPI #6: Shrinkage

The shrinkage KPI measures the rate of stock lessening due to acts of pilferage, shortages, or defective record keeping.

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Why you ought to track it: Keeping track of shrinkage allows retailers to recognize the root cause of stock lessening and take preventative measures to lower the chances of shrinkage in the future.

Formula: Inventory in Book of Accounts - Inventory in Physical Existence is the formula for inventory shrinkage.

KPI #7 Sell Through

Definition: Sell through rate is a metric utilized to measure the rate at which items are sold amid a particular period compared to the number of items received from the manufacturer amid that same period outlined. Why you ought to track it: Measuring an offer through sale guarantees that items are sold rapidly and productively, whereas moreover telling the retailer when an item is not doing well or unsold. It permits the retailer to sell quick the prevalent items and permits them to make changes to items that have a lower sell through rate.

Formula: Sell through rate is calculated as follows: number of units sold / number of units received times 100.

KPI #8: Gross Margin Return on Investment (GMROI)

Definition: GMROI is one of the most common KPIs for retail, allowing retailers their capacity to turn stock into profit. Why you ought to track it:

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Following and understanding a GMROI can guarantee that a retailer knows the techniques of sales, and out of stock situations. This guarantees that a retailer is genuinely benefitting, or maybe breaking even or going negative.

Formula for GMROI: Gross profit / Average Inventory cost

Type #2: Retail KPIs to Assess Customer Habits

KPIs that throws light to customer habits are apparently a few of the most critical retail KPIs to track, as clients are the reason of a company's success. In reality, 85% of marketing strategies distinguish client engagement measurements as one of the most vital aspects when making their marketing strategies. Utilizing client engagement techniques and similar instruments to collect information on shopper's habits will permit retailers to alter their methodology to meet the needs of the shopper and drive increment in sales.

KPI #1: Customer Retention Rate

Definition:

Definition: The percentage of consumers who return to make more purchases is tracked by the customer retention rate.

Reasons to monitor it: Retailers can use this KPI to track their customer loyalty and determine what more needs to be done to keep customers coming back.

Formula: (Ending Customer – New Customer) / Beginning Customers x 100 = Customer Retention Rate

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KPI #2: Customer Satisfaction

Definition: Customer satisfaction can be measured using a customer satisfaction score and is used as a way for consumers to communicate their overall shopping experience with a retailer.

Why you should track it: Measuring customer satisfaction is a great way to understand customer experience in multiple areas. Customers can indicate their satisfaction with a product, experience, or service, which can help retailers know what areas to focus on improving or maintaining.

***Formula:* Customer Satisfaction Score = Number of satisfied customer / Total Responses x 100**

KPI #3: Traffic

Definition: Traffic is identified as the total number of customers that visit a retailer, whether that be online or in-store.

Why you should track it: Traffic is a useful metric to measure due to its versatility and comparability.

As indicated above, companies can use these metrics to compare traffic for specific deals/holidays or to compare traffic with competitors. This tells retailers to determine the scope of their reach.

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KPI #4: Units per Transaction

Definition: Units per transaction (UPT) measures the average amount of products customers purchase at one transaction.

Why you should track it: When customers are purchasing more products, it means that retailers are increasing their revenue.

This metric also tells retailers that they understand their consumers by offering products that are of value to them and placing them in a manner that makes them accessible throughout a customer's shopping journey.

***Formula:* UPT = Number of Units Sold / Number of Transactions**

Type #3: Merchandising Retail KPIs

Merchandising is identified as the way that retailers make their products available in-store and online. Tracking merchandising KPIs is an effective way for retailers to gain intelligence on how their merchandising strategy is performing. It can tell retailers that they need to alter the way they present products to customers, so that they have a better chance of continuing with a purchase.

KPI #1: Inventory Turnover

Definition: Inventory turnover shows how long it takes a retailer to sell and replenish its inventory.

Why you should track it: This retail KPI to monitor shows retailers how well they are managing their inventory.

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This can help a retailer create more effective strategies when it comes to pricing, manufacturing, marketing, and purchasing inventory.

Formula: **Inventory Turnover = COGS/Average Inventory**

Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory

KPI #2: Conversion Rate

Definition: Conversion rate measures the ratio of customers that visit a store, either online or in person, to the number of customers that convert or actually buy.

Why you should track it: Conversion rate provides retailers with information on their consumers that make it through the funnel so they can effectively make the necessary changes to ensure an increase in conversions.

Conversion rate is also useful for tracking more than just purchases — it can track factors including newsletter sign-ups, demo downloads, and other omnichannel conversions.

Formula: **Conversion Rate = (Number of Conversions x 100%) / (Number of Visits)**

Conversion Rate = Number of visitors who convert / Total Number of Visitors X 100

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KPI #3: Shopper Dwell Time

Definition: This metric deals with the amount of time a customer spends on a product display, remains in a specific area, or stays on a web page.

Why you should track it: Studies show that the longer a consumer spends at a display, the more likely they are to make a purchase. Monitoring shopper dwell time and finding ways to improve it can lead to increased sales.

KPI #4: Click-through Rate (CTR)

Definition: CTR is the ratio of users that are exposed to a link compared to the number of users that click the link.

Why you should track it: CTR shows retailers the effectiveness of their online campaigns.

Formula: **Click-through Rate = Total Clicks / Total Impressions**

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Type #4: Financial Retail KPIs

KPI #1: Operating Expenses (OPEX)

Financial retail KPIs are essential in any retailer, as they measure the performance of retailer efforts toward financial goals like revenue and profit. These metrics can be used to show retailers how they compare to competitors.

Knowing the financial health of a business allows retailers to know where to focus their investments and where to fine-tune areas that may be causing a financial loss.

KPI #2: Quick Ratio

Definition: This retail KPI to monitor assesses the number of current assets (not including inventory) available to pay off current liabilities.

Why you should track it: This can show retailers their ability to pay off liabilities without needing to sell inventory and assets, which gives them insight into their overall financial health.

Formula: Quick ratio = Current Assets – Inventory / Current Liabilities

KPI #3: Current Ratio

Definition: This retail KPI monitors and measures a retailer's financial health by gauging their ability to cover their debts.

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Why should you track it: This can help a retailer better balance their assets and liabilities, ensuring that they can meet their short-term financial goals.

Formula: **Current Ratio = Current Assets / Current Liabilities**

KPI #4: Accounts Payable Turnover (APT)

Definition: This ratio shows how often a retailer repays its suppliers on average toward their outstanding liabilities.

Why you should track it: Monitoring this metric helps retailers ensure that they will have enough revenue to pay off suppliers.

Formula: Accounts Payable Turnover = Supplier Credit Purchases / Average Accounts Payable

KPI #5: Day of Inventory Outstanding (DIO)

Definition: This metric refers to the time a company takes to sell its products to the market, starting from the time they receive the inventory.

Why you should track it: This retail KPI to monitor measures a retailer's efficiency when turning their inventory into revenue. It can help a retailer improve its operations to achieve quicker DIO.

Formula: **DIO = Average Inventory / COGS x 365**

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KPI #6: Days Sales Outstanding (DSO)

Definition: DSO is another retail KPI to monitor, measuring the time it takes a retailer to collect its account receivables.

Why you should track it: This can help a retailer manage their cash flow effectively.

***Formula:* DSO = Accounts Receivables / Net Credit Sales x Number of Days**

KPI #7: Days Payable Outstanding (DPO)

Definition: This tells a retailer how long it takes them, on average, to pay off their bills and invoices.

Why you should track it: This is a vital retail KPI to monitor, as it can help a retailer balance the amount of time it takes to pay bills. Taking a longer time may allow the company to retain and use its funds more efficiently, whereas taking too long could lead to poor credit rating.

***Formula:* DPO = Accounts Payable x Number of Days / COGS**

Days Payable Outstanding = Average Accounts Payable / COGS x 365 days

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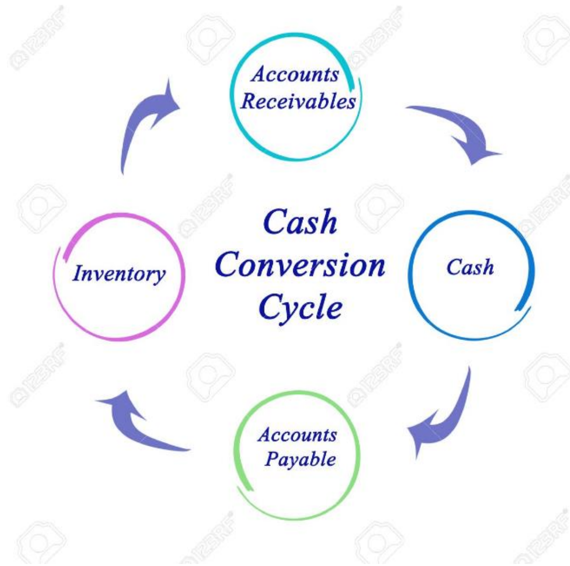
KPI #8: Cash Conversion Cycle (CCC)



Definition: The cash conversion cycle demonstrates a retailer's ability to turn their investment in inventory into cash.

*Why you should track it: T*his metric allows retailers to ensure that they are efficiently using their resources to create a profit.

Formula: Cash Conversion Cycle = DIO + DSO – DPO

KPI #9: Net Profit Margin

Definition: Net profit margin is probably one of the most crucial retail KPI to monitor. It measures what percentage of profit retailers make from their total revenue.

Why you should track it: A healthy net profit margin shows investors that a retailer is collecting enough profit from their sales.

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Formula: **Net Profit Margin = Net Profit / Total Revenue x 100**

How to enhance KPI performance in Retail

Considering your business/marketing objectives, prioritize and concentrate on the most significant retail KPIs to track.

Assign responsibilities and form small teams to oversee and conduct one or more optimization experiments each week, according to the type of KPI.

Steer clear of meetings if you want to be productive. Rather, conduct one in-depth monthly reporting session and one weekly catch-up call (i.e., every Monday for 15 to 30 minutes).

Track retail KPIs more effectively by using automated reporting solutions.

Put creative efforts into retail methods that set you apart from rivals (e.g., purchasing an AI-powered video editor and incorporating videos into the store to help customers).

Pay attention to the retail KPIs that support your company's vision and mission.

It's critical for retailers to understand that their requirements, goals, and cultures differ from those of other retailers. It is essential to focus on retail KPIs to monitor that best fit the needs of your business.

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Since each KPI has a distinct function, it is crucial to establish the main objectives of your business before deciding which KPIs to track. In terms of KPIs, evaluating additional measures related to your objective will enable you to comprehend the significance of every retail KPI to track, hence optimizing your chance for higher growth rates. Reaching and even surpassing your corporate goals requires knowing which retail KPIs to track and how to use those numbers.

What can KPI’s tell us and what they can’t

KPIs can offer insightful information about how well a firm is performing. However, if they are not applied appropriately, they may result in false conclusions and unwise choices. As a result, it's critical to comprehend what KPIs in retail mean and what information they can and cannot provide.

What can KPIs therefore tell us? Here are few instances:

Progress toward precise, measurable goals: KPIs can be used to monitor the accomplishment of particular targets and goals. Retailers can monitor retail sales KPIs to determine whether they are on pace to accomplish goals such as increasing sales by ten percent.

Performance in comparison to benchmarks: KPIs can be used to compare an organization's performance to that of its rivals or to industry norms. Retailers can use this to determine what areas they need to improve in order to remain competitive.

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Improvement opportunities: Retailers can pinpoint areas in need of improvement by monitoring KPIs over time. For instance, a store can look into the reason and take action if their conversion rate is low.

Impact of initiatives and strategies: KPIs can be used to monitor the effects of various business efforts and strategies in order to assess their effectiveness. For instance, when a retailer launches a new marketing initiative, they can monitor how it affects sales.

That's a ton of useful data, but KPIs don't necessarily provide the complete picture. It's critical to understand their limitations and when to go beyond KPIs in search of further details. The following are some instances of what KPIs are unable to reveal:

Root causes of performance problems: KPIs are able to show us where performance is deficient, but they are unable to explain why. Once a problem area has been identified, additional research may be required to find the underlying source of the problem.

Effectiveness of internal processes: Key Performance Indicators (KPIs) display the results of processes, but they may not always indicate the effectiveness of those processes. It might take more investigation to determine how effective internal procedures are.

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Impact of external elements: External factors might occasionally have an impact on KPIs. For instance, daily sales may be impacted by the weather. KPIs are able to spot shifts in performance, but they are unable to link those shifts to certain outside causes.

How to Select and Monitor KPIs

KPIs are crucial indicators of the performance of retail businesses, but how do you choose which ones to monitor in the first place?

It's critical to never forget that KPIs are instruments, not ends in and of themselves. A KPI is only valuable if it aids in the accomplishment of your company objectives. Therefore, it makes sense to start by determining your goals before deciding which KPIs to track. For instance, you may choose to monitor average transaction value or products per sale and work to increase these metrics if you have a large customer base but low average transaction numbers.

But it's not always that easy. While knowing what a retail KPI means will help you select the best KPIs for your company, there are a few typical blunders to be aware of:

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Selecting the incorrect Key Performance Indicators (KPIs) might cause a mistaken performance interpretation and hinder advancement. For instance, if a store is more concerned with monitoring sales volume than profit margin and there is a problem with a particular product's profitability, they might never find the issue.

KPIs should be closely associated with company objectives rather than being out of alignment with them. Meaningful insights cannot be obtained from KPIs if they are not connected to company objectives.

Tracking too many KPIs: It's simple to get carried away with tracking too many KPIs, but this can be counterproductive given the abundance of data available to merchants today. The most crucial figures may get lost in a flood of data if there are too many KPIs. For this reason, it's critical to exercise caution when selecting KPIs and ensure that they align with your company's objectives.

Inconsistent KPI tracking: KPIs are only helpful if they are regularly monitored. If not, it could be challenging to recognize the patterns that can guide choices.

Not motivating action using KPIs: KPIs are ultimately meant to motivate development and action. KPIs are wasted if they are not being used to guide choices and taken into consideration. It's imperative that we actually use KPIs to identify areas for improvement and take action on them.

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OPEN TO BUY (OTB)

As you will see from the following explanations and calculation, Open to Buy is a formula used by Merchants and Buyers for the purpose of determining how much inventory they need to purchase in order to have enough merchandise to meet the sales plans.

Generally speaking, most companies develop an annual plan and then break it down by month in order to make it manageable and relevant.

Many changes can occur throughout a fiscal year and all areas of the company have to be able to flex and manage according to the realities.

Sometimes business turns out so good that buyers have to get more merchandise to sell and they can't get it quick enough, and other times the market is slow and buyers have to stall or cancel future orders to avoid the huge financial and logistical burden that comes with having too much inventory.

As in any other area of the business the buyers must perform a balancing act in order to have just enough but not too much.

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Their job is made more difficult by the fact that many retail buyers purchase goods well in advance of the date of delivery as a long lead time is needed for the manufacturer to produce the goods to the exact specifications of a particular retailer.

Needless to say, that although the OTB calculation is a fairly simple one but managing the process certainly is not.

Example Open to Buy - February

Planned EOM Inventory (this is the inventory we plan to have by the end of February): Rs 90,000

Planned (budgeted) sales for the month of February: Rs 30,000

Planned markdowns for the month of February: Rs 2,000

Inventory on hand at the beginning of the month (BOM) of February:

Rs 60,000

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Inventory already on order for February: Rs 26,000

Using the figures above, here is the calculation for Open to Buy for the month of February.

Description	Value in Rs
Planned End of Month Inventory	90,000
Plus Sales of February	30,000
Plus Mark Downs	2,000
Inventory Required	1,22,000
Beginning of Month Feb Inventory	60,000
Allowable Receipts	62,000
On order for February	26,000
Open to Buy (OTB)	36,000

SELL THROUGH

Sell-Thru is a key performance indicator (KPI) for retailers. Sell-Through allows us to understand the velocity with which inventory is being sold as it relates to our sales. Generally used by the Buying or Merchandise teams, sell-thru is a leading indicator which is very useful for tracking inventory performance and for predicting outcomes.

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Before determining the sell-thru formula that will be most beneficial for your use, you need to determine whether to use:

1) All available information – meaning all weeks of sales and inventory for the period
2) Most recent information – meaning only the weeks of sales and inventory you determine to be relevant (i.e. 4 weeks)

You will get different results depending on the choice you make. If the product being measured is a regular item which is replenished according to established minimum/maximum guidelines, you might want to use all information available. However, if the particular product being measured is strongly promoted and you want to see how the sales are affected by the promotions in a given time frame, then using information covering a shorter time span will be more beneficial.

Either way you will get accurate information, but using the one most applicable to the circumstances will give you better information on which to base decisions.

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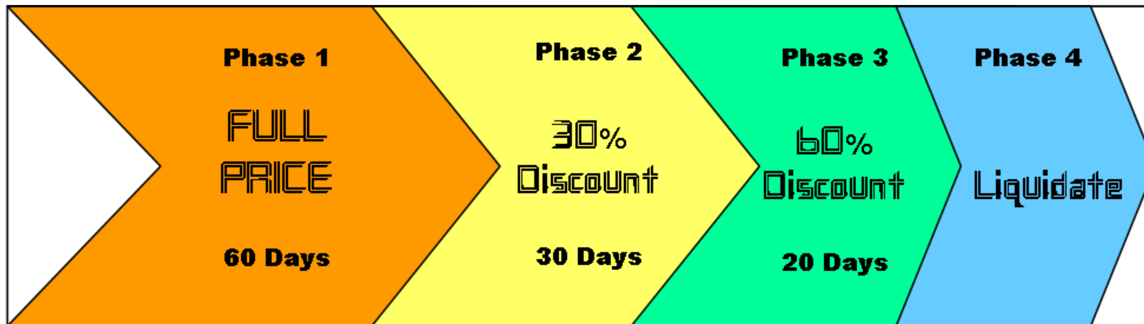
A Typical Mark Down / Sell Thru Cycle for a promotional product



To Obtain Different Scenarios, Try Changing MD Amount									
Mark-Down Timeline	Full Price	Sell Price	Margin %	Cost	Units Remaining	Units Sold	Sell-Thru %	Total Sales Rs	Total Margin Rs
Days 1-60	59.99	59.99	50.0	29.99	600	330	55	19,796.80	9,900.00
Days 61-90	59.99	41.99	28.5	29.99	270	108	40	4,534.92	1,296.00
Days 91-110	59.99	23.99	-20.0	29.99	162	48	30	1,151.52	-288.00
Days 110+	59.99	5.99	-80.0	29.99	114	114	100	682.86	-2,736.0
			31.23	**17,994**		**600**		**26,166.1**	**8,172.00**

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Conclusion

As you can see, having a solid understanding of arithmetic is crucial in business. Math skills are linked to cognitive talents and demonstrate an entrepreneur's capacity for critical thought and problem-solving.

Without a question, arithmetic proficiency is the cornerstone of entrepreneurship and the basis of a prosperous business.

If you wish to grow your company even further, you might need to combine it with additional skills and knowledge.

NOTE: Kindly check the Blog section of Retail Performance website on KPI Case Studies

https://www.retailperformance.in/

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