

WHAT'S MOST IMPORTANT?

- ✓ REVENUE
- ✓ PROFIT MARGIN
- ✓ INVENTORY TURNOVER

BUYING FOR SUCCESS

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An abstract painting featuring bold, expressive brushstrokes. The dominant color is a vibrant red, which covers most of the canvas. Interspersed with the red are streaks and patches of green and yellow, particularly on the right side. The overall effect is one of dynamic energy and movement, with visible texture from the paint application.

OUT OF CHAOS COMES REVENUE



OUT OF ORDER COMES PROFIT

WHAT DOES GOOD LOOK LIKE?

Revenue	\$500K	\$1mm	\$3mm
COGS	58%	56%	54%
Payroll	10%	15%	17%
Occupancy	9%	7%	6%
G&A	10%	9%	8%
Marketing	4%	3%	3%
Freight In	2%	1.8%	1.5%
Profit (EBITDA)	7%	8%	10%

Step 1--PLAN
THE BENCHMARK

RETHINK IT

OPERATING INVENTORY

- ✓ BEST PRODUCT IN BEST CATEGORY
- ✓ HIGH VOLUME/LOW CHANGE
- ✓ RELIABLE SUPPLY CHAIN

STRATEGIC INVENTORY

- ✓ YOUR POINT OF VIEW
- ✓ DISTINGUISHES YOU FROM OTHERS
- ✓ INTANGIBLE BENEFITS

HIGH VOLUME

- ✓ FRANCHISE STYLES
- ✓ PROGRAM MONTHLY
- ✓ METRICS EXCEED TARGETS

LOW CHANGE

HIGH VOLUME

- ✓ IMPORTANT BUT DANGEROUS
- ✓ FILL OR KILL
- ✓ CALENDAR IS KING

HIGH CHANGE

LOW VOLUME

- ✓ NICHE PRODUCTS
- ✓ FILL IN TO MODEL STOCK
- ✓ KEEP SPECIALTY SPECIAL

LOW CHANGE

LOW VOLUME

- ✓ STRATEGIC PRODUCTS
- ✓ TASTE AND CHASE
- ✓ CONTINUALLY REASSESS

HIGH CHANGE

PRODUCT SELLING BEHAVIOR



- ✓ SUPPLY CHAIN RELIABILITY
- ✓ VENDOR FLEXIBILITY
- ✓ SALES PROGRAMS
- ✓ SALES REP

Step 3 -- EXECUTION
KNOWING YOUR OUTS



ESTABLISHING YOURS

WHY A PLAN?

- ✓ SETS THE COURSE
- ✓ SETS THE BUDGET
- ✓ CAN BE MEASURED
- ✓ MUST BE NUMERICAL

Step 1 -- PLAN

WHAT DOES GOOD LOOK LIKE?

(Industry)

Q1 2011	% of Bus	% Growth	Turnover
Footwear	71%	6%	4.2
Apparel	12%	25%	2.7
Accessories	17%	8%	3.7
Total	100%	8.5%	3.7

Step 1--PLAN
THE BENCHMARK

WHAT DOES GOOD LOOK LIKE?

(Karnan Associates)

Targets	Sales \$	Mgn \$	Mgn %	AIC	Turn	GMROI
Footwear	\$700,000	\$294,000	42%	\$96,250	4	\$3.06
Apparel	\$150,000	\$67,500	45%	\$25,000	3	\$2.70
Accessories	\$150,000	\$75,000	50%	\$15,000	5	\$5.00
Total	\$1000000	\$436,500	43.6%	\$136,250	3.9	\$3.20

Step 1--PLAN
THE BENCHMARK

WHAT'S MOST IMPORTANT?

BOTTOM LINE

- ✓ GMROI OF \$3.00
- ✓ PROFIT MARGIN OF 43%
- ✓ ANNUAL TURNOVER OF 4

WHAT'S GMROI?

Annual GM\$ 450,000

Average Inventory @ Cost \$150,000

\$3.00 ROI

WHY GMROI?

- ✓ REVENUE DOESN'T CARE ABOUT INVENTORY
- ✓ TURNOVER DOESN'T CARE ABOUT MARGIN
- ✓ GMROI CARES ABOUT EVERYTHING

HIGH VOLUME—60%

✓ 44% MARGIN

✓ 5 TURNS ANNUALLY

✓ GMROI OF \$3.93

LOW CHANGE

HIGH VOLUME—15%

✓ 40% MARGIN

5 TURNS ANNUALLY

0

HIGH CHANGE

LOW VOLUME—15%

✓ 50% MARGIN

✓ 3 TURNS ANNUALLY

✓ GMROI OF \$3.00

HIGH CHANGE

LOW VOLUME—10%

✓ 2.5 TURNS ANNUALLY

✓ GMROI OF \$1.67

HIGH CHANGE

GRAND TOTAL--100%

✓ 44% MARGIN

✓ 3.9 TURNS ANNUALLY

✓ GMROI OF \$3.04

PRODUCT SELLING BEHAVIOR

Step 2--APPROACH

RETHINK IT



RETHINKING YOUR APPROACH

WHAT DOES GOOD LOOK LIKE

INITIAL OPERATING AND STRATEGIC PRODUCT PLAN

JUNE	JULY	AUGUST	TOTAL
SALES 100,000	SALES 100,000	SALES 100,000	SALES 300,000
MARGIN 45,000	MARGIN 45,000	MARGIN 45,000	MARGIN 135,000
EIR 300,000	EIR 300,000	EIR 300,000	AIR 300,000
EIC 150,000	EIC 150,000	EIC 150,000	AIC 150,000

$300K/300K = 4$ TURNS ANNUALLY

$135K/150K = \$3.60$ GMROI ANNUALLY

RETHINKING YOUR APPROACH

INITIAL OPERATING PLAN WITH REDUCED MARGINS OF 38%

JUNE	JULY	AUGUST	TOTAL
SALES 100,000	SALES 100,000	SALES 100,000	SALES 300,000
MARGIN 38,000	MARGIN 38,000	MARGIN 38,000	MARGIN 114,000
EIR 300,000	EIR 300,000	EIR 300,000	AIR 300,000
EIC 150,000	EIC 150,000	EIC 150,000	AIC 150,000

$300K/300K = 4$ TURNS ANNUALLY

$114K/150K = \$3.04$ GMROI ANNUALLY

RETHINKING YOUR APPROACH

MARGINS OF 38% AND 10% MORE INVENTORY RECEIVED MONTHLY

JUNE	JULY	AUGUST	TOTAL
SALES 100,000	SALES 100,000	SALES 100,000	SALES 300,000
MARGIN 38,000	MARGIN 38,000	MARGIN 38,000	MARGIN 114,000
EIR 310,000	EIR 320,000	EIR 330,000	AIR 320,000
EIC 155,000	EIC 160,000	EIC 165,000	AIC 160,000

$300K/320K = 3.75$ TURNS ANNUALLY

$114K/160K = \$2.85$ GMROI ANNUALLY

RETHINKING YOUR APPROACH

WHAT DOES GOOD LOOK LIKE

INITIAL OPERATING PLAN RECEIVING 10% LESS EACH MONTH

JUNE	JULY	AUGUST	TOTAL
SALES 100,000	SALES 100,000	SALES 100,000	SALES 300,000
MARGIN 45,000	MARGIN 45,000	MARGIN 45,000	MARGIN 135,000
EIR 290,000	EIR 280,000	EIR 270,000	AIR 280,000
EIC 145,000	EIC 140,000	EIC 135,000	AIC 140,000

$300K/280K = 4.3$ TURNS ANNUALLY

$135K/140K = \$3.86$ GMROI ANNUALLY

Exercise

DRILLING WITH GMROI

- COMPANY –3MM IN SALES @ 45% MARGIN. AIC IS \$440,000

$$\text{GMROI} = \$3.07$$

- FOOTWEAR DEPARTMENT –2MM IN SALES @ 42% MARGIN. AIC IS \$280,000

$$\text{GMROI} = \$3.00$$

- VENDOR GARMIN –100,000 IN SALES @ 20% MARGIN. 6 TURNS ANNUALLY

$$\text{GMROI} = \$1.50$$

- BROOKS ADRENALINE –250,000 IN SALES @ 44% MARGIN. AIC IS \$25,000

$$\text{GMROI} = \$4.40$$

Rank	Category	Description		Sales	Cost of sales	Profit	Profit%	GMROI	Avg balance (cost)
		# of trx	Qty sld						
1	SHOES	Men's Shoes							
		120	112	9,818	3,905	5,913	60.2	0.4	40,284
2	ACCESS	Accessories							
		39	37	1,490	670	820	55.1	0.2	13,674
3	NUTRITION	Nutrition							
		39	37	637	303	334	52.4	8.4	106
4	WSHOES	Women's Shoes							
		30	24	2,632	1,130	1,502	57.1	0.6	6,592
5	MENS	Men's Clothing							
		20	14	579	100	479	82.7	0.1	14,528
6	WOMENS	Womens Clothing							
		12	8	734	258	476	64.9	0.0	32,479
Report totals		260	232	15,890	6,366	9,525	59.9	0.2	107,663

Step 3--EXECUTION
THE TOOLS



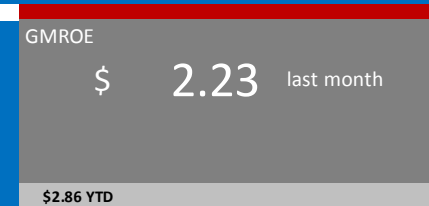
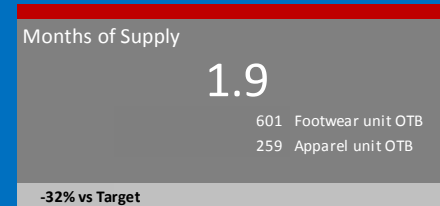
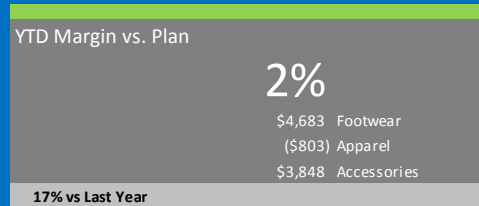
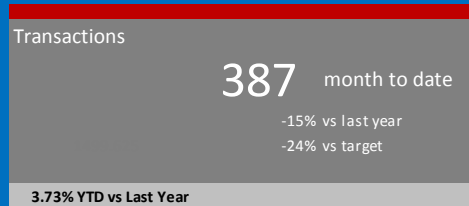
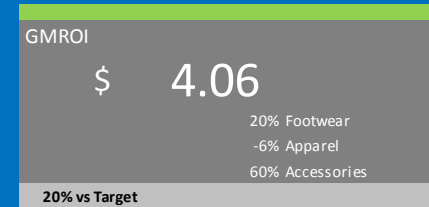
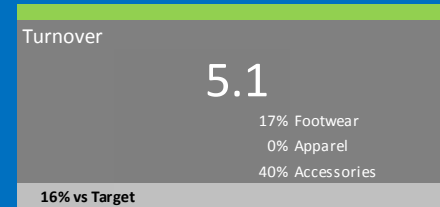
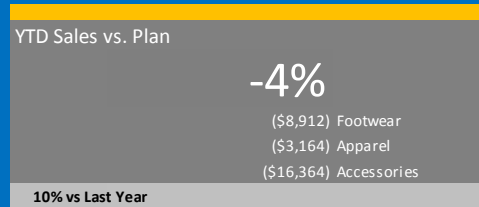
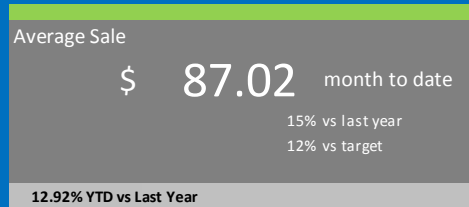
Step 3--EXECUTION



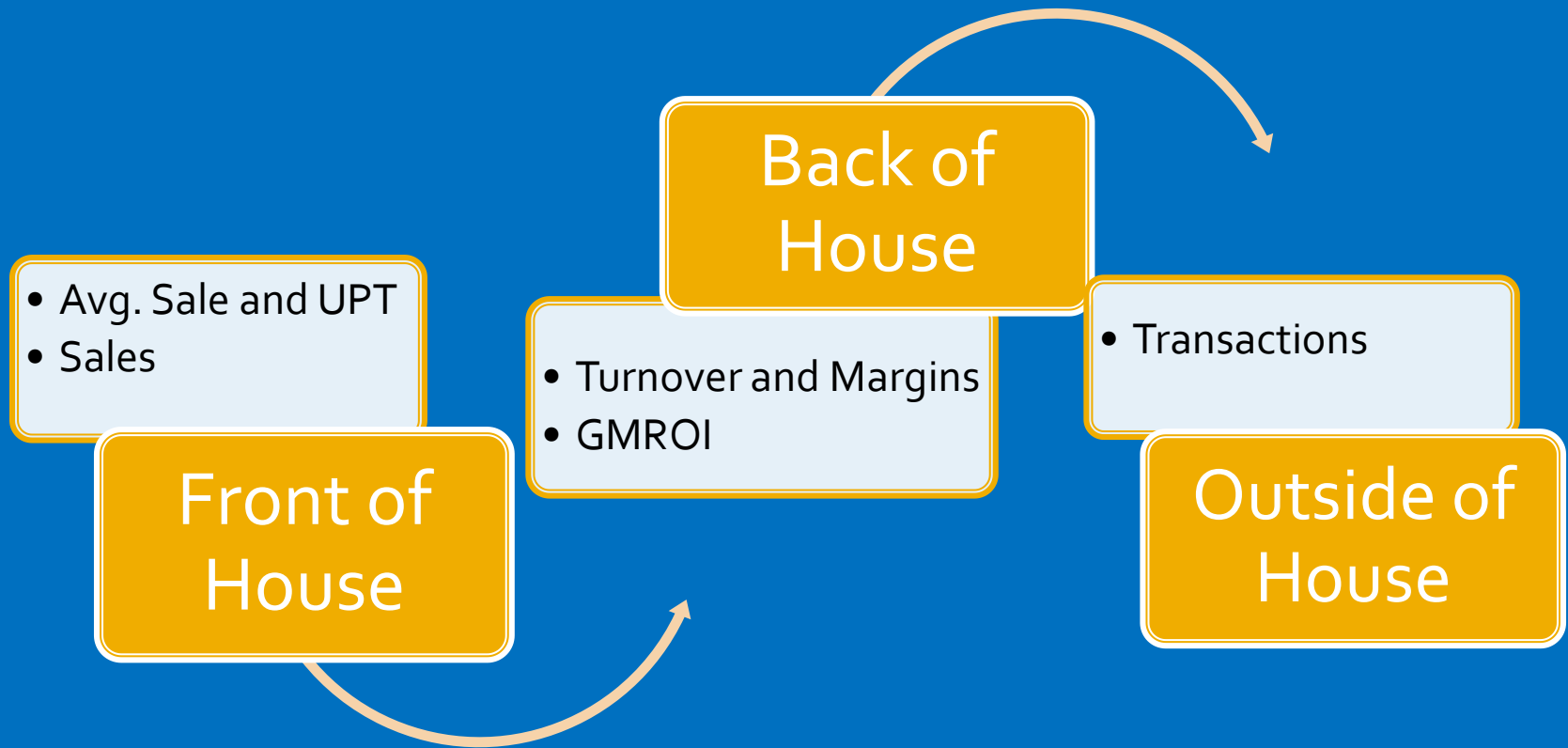
Retail Dashboard



April 11

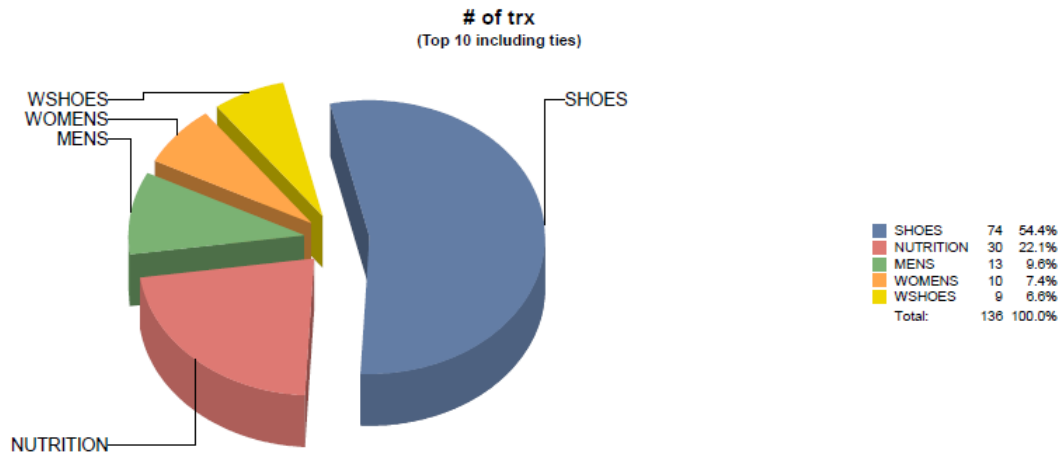


Step 3--EXECUTION
THE TOOLS



Step 3--EXECUTION
THE TOOLS

Merchandise Analysis by Category



Analyze by: Group
 Group by: Category
 Print: All
 Ranked by: Qty sold (shaded)
 Order by: Rank
 Report period: 4/28/2010 to 4/28/2011 (366 days)
 Locations: All

"*" by Category indicates the group includes miscellaneous items; values may not 'add across' the report
 Item: Item category is (exactly) MENS or
 Item category is (exactly) MISC or
 Item category is (exactly) NUTRITION or
 Item category is (exactly) SHOES or
 Item category is (exactly) WOMENS or
 Item category is (exactly) WSHOES

Rank	Category	Description	# of trx	Qty sld	Sales	Cost of sales	Profit	Profit%
1	SHOES	Men's Shoes	74	60	5,573	2,120	3,453	62.0
2	NUTRITION	Nutrition	30	26	487	233	254	52.2
3	MENS	Men's Clothing	13	9	376	50	326	86.7
4	WOMENS	Womens Clothing	10	6	700	228	472	67.4
5	WSHOES	Women's Shoes	9	3	316	160	156	49.4
Report totals			136	104	7,451	2,791	4,660	62.5

Step 3—EXECUTION

Sales & Margin Plan

Rank	Category	Description	-----Inventory-----					
			Quantity	%-Tot	Cost	%-Tot	Retail value	%-Tot
1	SHOES	Men's Shoes	2,301	47	99,615	55	214,201	52
2	WOMENS	Womens Clothing	1,325	27	34,106	19	96,931	23
3	MENS	Men's Clothing	567	12	15,958	9	41,681	10
4	WSHOES	Women's Shoes	351	7	15,770	9	30,041	7
5	ACCESS	Accessories	351	7	14,161	8	28,921	7
6	NUTRITION	Nutrition	8	0	421	0	830	0
Report totals			4,902	100	180,031	100	412,606	100

Step 3--EXECUTION ENDING INVENTORY

Print: Top 20
 Ranked by: Qty sold (shaded)
 Group by: Category
 Print: All in each group
 Order by: Rank
 Report period: 1/1/2011 to 5/5/2011 (125 days)
 Locations: All
 "" by item number indicates the group includes miscellaneous items; values may not 'add across' the report
 Item: Item category is in (WSHOES, SHOES) and
 Status is (exactly) Active

Category								
Rank	Item number	Description	# of trx	Qty sold	Sales	Cost of sales	Profit	Profit%
SHOES								
1	1000007	Men's ASICS GEL-Speedstar 5	20	17	1,511	765	746	49.4
2	1000010	The Instinct	19	17	1,605	45	1,560	97.2
3	1000023	Men's ASICS GEL-Cumulus 13	4	12	1,259	660	599	47.6
4	1000003	New Balance 890	13	10	972	500	472	48.5
5	1000004	Men's Saucony ProGrid Kinvara	12	9	785	405	380	48.4
6	1000002	Men's Brooks Adrenaline GTS 11	11	8	800	400	400	50.0
7	1000022	Men's Nike Zoom Structure +14	4	8	800	384	416	52.0
8	SHO-2834	Nike Celso Summer Flip Flop	3	8	200	0	200	100.0
9	1000020	Mens Asics 2160	7	6	570	270	300	52.6
12	1000006	Men's Nike Free	4	4	360	180	180	50.0
13	SHO-2830	Nike Atee Flip-Flops	2	4	100	6	94	94.0
19	1000025	Men's Saucony PG Stabil CS 2	2	1	120	60	60	50.0
SHOES totals			101	104	9,082	3,675	5,407	59.5
WSHOES								
10	1000021	Women's ASICS GEL-Speedstar	6	4	321	0	321	100.0
11	1000005	Women's Saucony Kinvara	2	4	360	180	180	50.0
14	1000031	Women's New Balance 993	3	4	560	280	280	50.0
15	1000032	Women's Zoot Ultra TT 4.0	3	3	420	210	210	50.0
16	1000029	Women's ASICS GEL-Nimbus	3	2	260	110	150	57.7
17	1000030	Women's Brooks Adrenaline GTS	3	2	200	90	110	55.0
18	1000024	Women's ASICS GEL-Cumulus 13	2	2	210	110	100	47.6
20	1000026	Women's Saucony PG Stabil CS 2	1	1	120	60	60	50.0
WSHOES totals			23	22	2,451	1,040	1,411	57.6

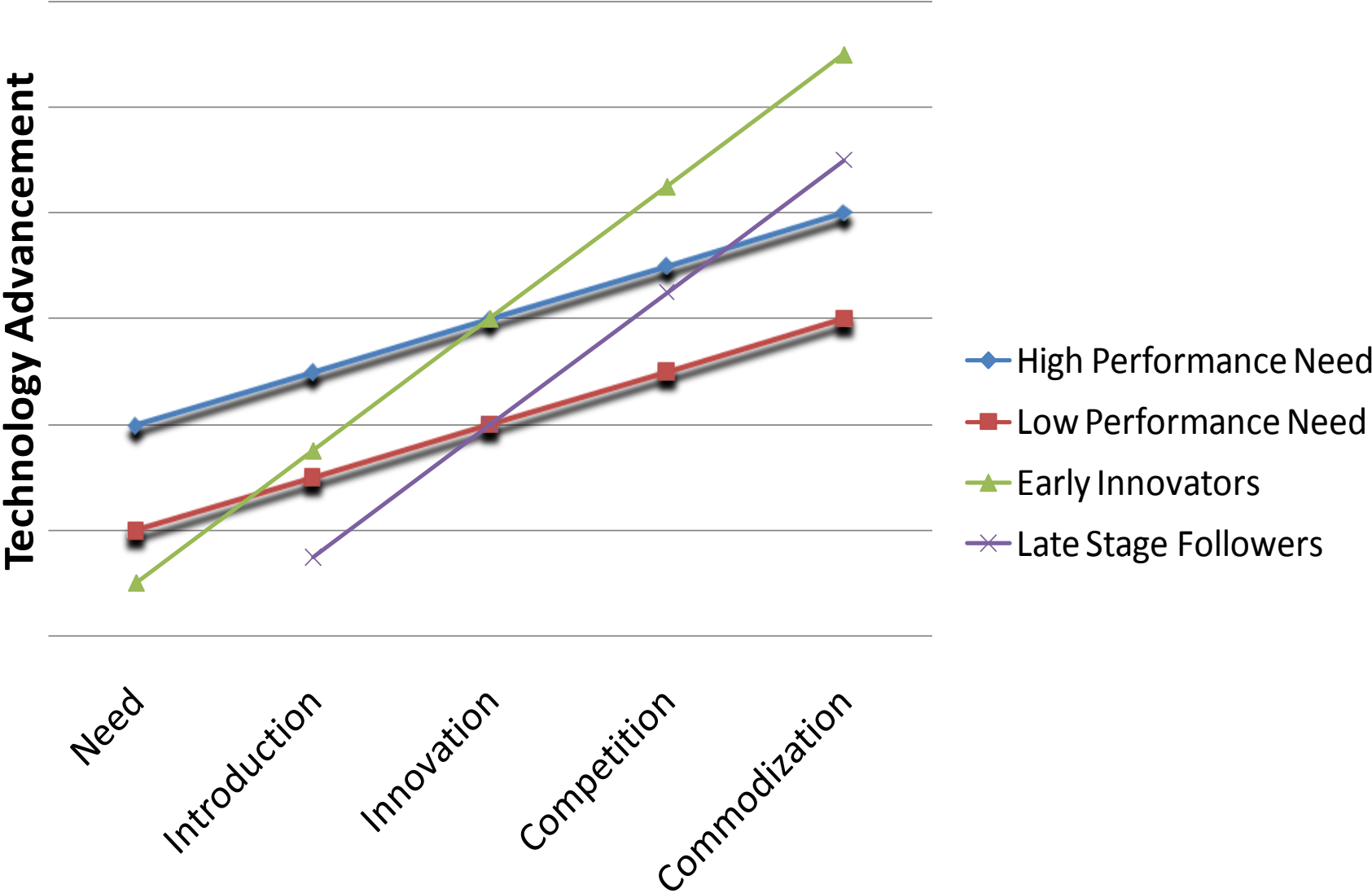
Step 3--EXECUTION TOP 40 FOOTWEAR



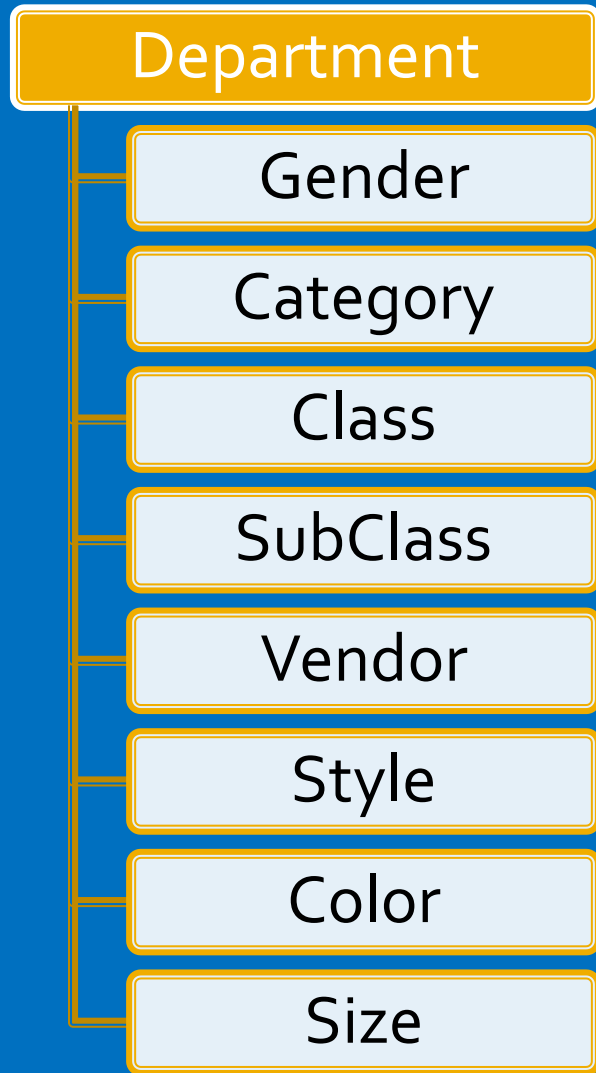
WHAT TO HOLD / WHAT TO FOLD

- ✓ WHAT'S THE MINIMUM YOU CAN CARRY
- ✓ IS IT OPERATING OR STRATEGIC
- ✓ AVOID GIN RUMMY STRATEGY

Performance Apparel Timeline



NEW



OLD



Step 3--EXECUTION
THE TOOLS

BUILDING PRODUCT MIX

Core

Seasonal

Heat

Step 3--EXECUTION
STYLE CATEGORIES



WHAT'S MOST IMPORTANT?

- ✓ GET CONNECTED
- ✓ PRIORITIZE
- ✓ DO SOMETHING NEW

PROPER APPLICATION

BUYING FOR SUCCESS

PARKER KARNAN, *KARNAN ASSOCIATES*