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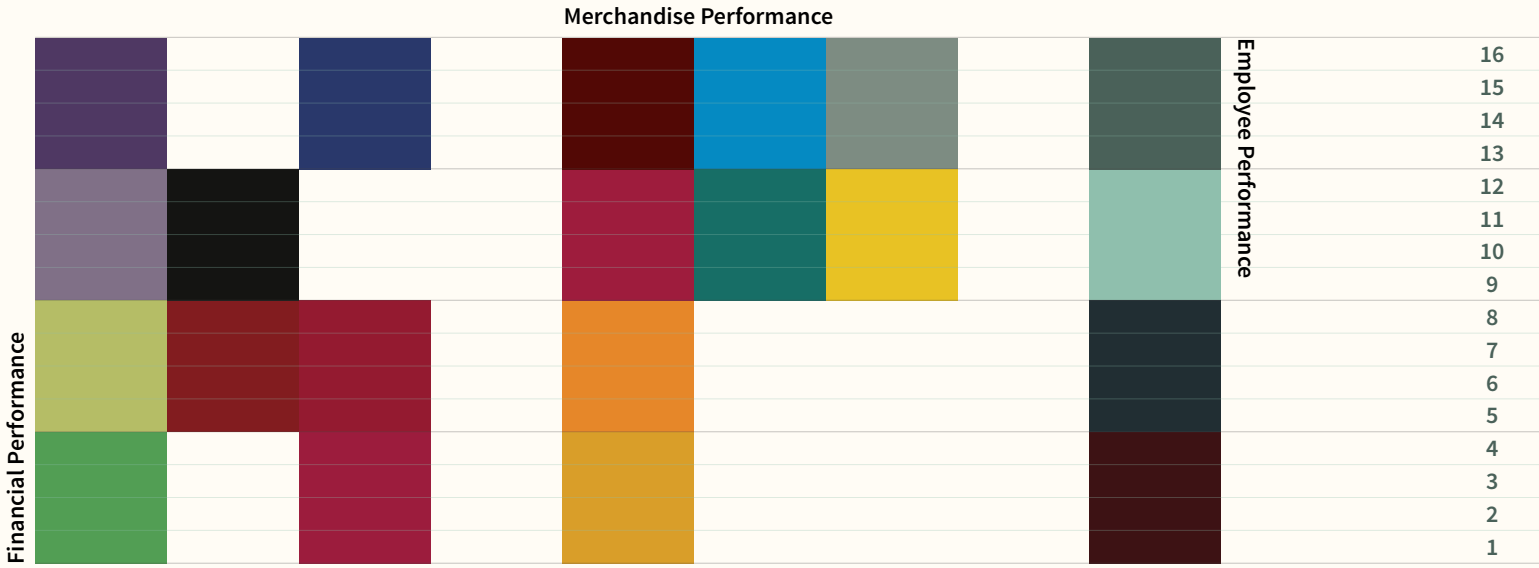

Managing Your Pro Shop: The 12 Key Performance Indicators You Need to Know.

lightspeed

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Introduction

Managing a pro shop is a blend of art and science. Sometimes you need to go on instinct, sometimes you need to look at the numbers.

Metrics matter for a number of reasons: they help you become more profitable, bring in more sales, and control costs. Likewise, when you approach banks, upper management, and suppliers, you need to have these numbers in hand, to demonstrate how well you're managing your business.

Metrics — often called Key Performance Indicators (or **KPIs**) — can act like levers in your business. You pull one, and several parts of your business react. If you want metrics that will make a real difference, you need to think of them as inter-related, a complete whole that shows how well your business functions.

But just which metrics should you look at? In retail, there are hundreds to choose from. Get too myopic, and they'll eat up your time and point you in the wrong direction. Go too broad, and you'll miss some glaring issues.

In this white paper, we've distilled it down to the 12 metrics that should matter most to pro shop owners — and explain why.

These 12 metrics focus on three areas in particular: how well you're performing financially, how well your merchandise is performing, and how well your employees are performing. Working with the levers in these three areas, you'll be able to increase sales, improve cash flow and grow your business profitably over the years.

Managing Financial Performance

1 Total Sales

Answers the question: How well are my products selling?

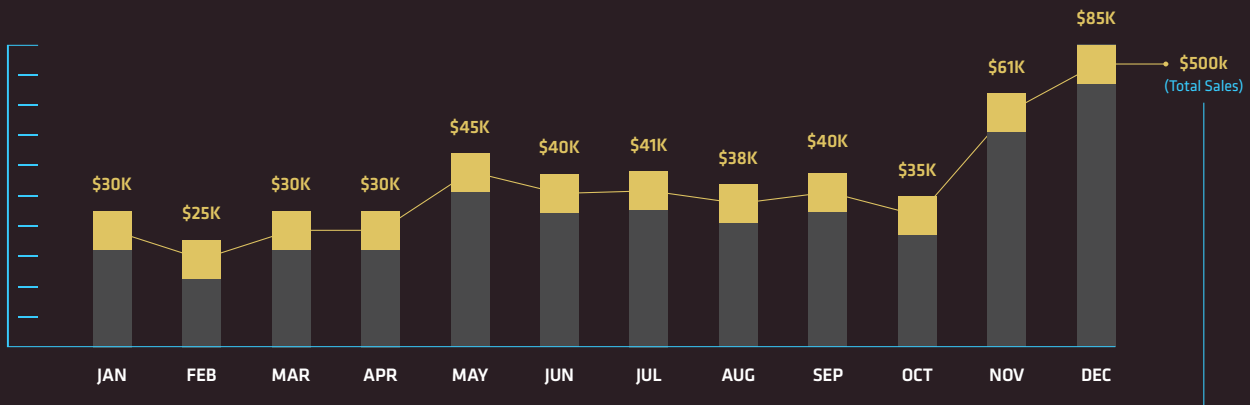
Total Sales, or Net Sales, is a good starting point for your analysis, and provides a broad overview.

When looking at Total Sales:

- Don’t include sales tax (or VAT).
- Be sure to review for the entire year, not just day and month, to spot patterns and trends.

While Total Sales is an important figure to know, you shouldn't get too caught up in it; it only explains part of the picture. Let's look at some numbers for a fictional store, Kitt's Pro Shop, a pro shop at a semi private golf course.

Case Study:



These numbers are about the same as last year’s.
This is fine, but Kitt wants to grow sales, not just maintain them.

2 Gross Margin

Answers the question: How much profit am I making on inventory?

While sales are obviously great to have, the real reason people open up a store is to earn profits. Gross Margin lets you know how much profit you're making when buying and selling inventory without including operating costs such as wages, rent, or marketing.

To calculate **Gross Margin**:

$$\text{Gross Margin} = (\text{Total Sales} - \text{Costs of Goods Sold}) \div \text{Total Sales}$$

Kitt's Pro Shop

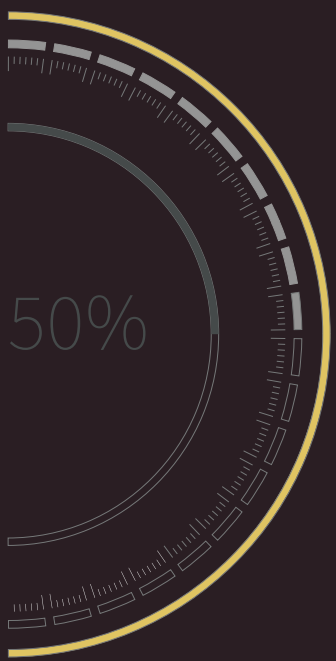
Case Study:

$500K = TOTAL SALES FOR THE YEAR

$250K = COST OF GOODS SOLD OVER THE YEAR

0.5 OR 50% = ($500K - $250K)/$500K

$$0.5 = (\$500K - \$250K) \div \$500K$$



Kitt sees that her margins are on target: 50% (**0.5**) of retail price. This is inline with her efforts as Kitt has been diligent about keeping her markups at this level.

3 Net Margin

Answers the question: How profitable am I overall?

Net Margin, or Profit Margin, indicates how profitable you are overall. It includes costs such as wages and other operating costs, in addition to inventory costs.

Keep in mind:

- You can usually find your total sales and expenses in a Profit and Loss Statement from your accountant.
- You should calculate profit margins after sales tax or VAT.

To calculate **Net Margin**:

$$\text{Net Margin} = (\text{Total Sales} - \text{Total Costs}) \div \text{Total Sales}$$

Kitt's Pro Shop

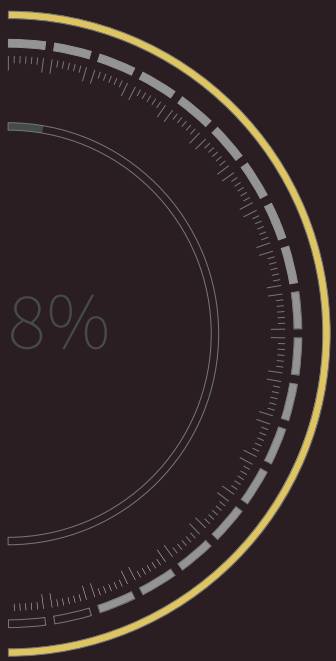
Case Study:

$500K =TOTAL SALES FOR THE YEAR

$460K =TOTAL COSTS FOR THE YEAR

0.08 OR 8% = NET MARGIN

$$0.08 = (\$500K - \$460K) \div \$500K$$



Eight percent (**0.08**) is a pretty good profit for Kitt, but there is still room for improvement.

Managing Merchandise Performance

4 Sales by Category

Answers the question: What categories are customers responding to the most or the least?

Breaking down sales by category provides more detail on total sales. Are some categories performing better than others? Did certain brands fail to live up to expectation?

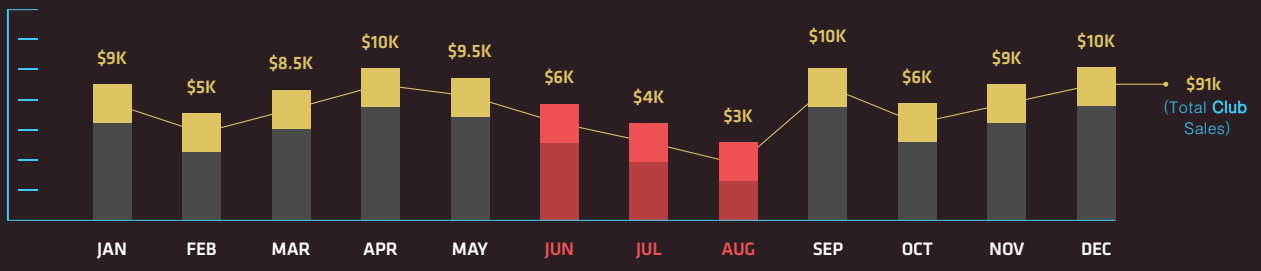
Keep in mind:

- According to retail expert Paul Erickson, Senior Vice-president of Client Services at RMSA Retail Solutions, you want to use the rule of ten when creating a hierarchy for your merchandise: no more than ten departments, ten classes or ten sub-classes.
- Take the time to properly set up your merchandise hierarchy. Without the right merchandise categories in place, it will be difficult to identify actionable information.
- As with Total Sales, look at the entire year of sales to gain real insight.

Case Study:

Kitt looks at sales for the year for the following categories:

She decides to focus on Clubs.



Club sales were unusually low in the summer months. Kitt decides to dig deeper to find out why.

5 Stock Turn

Answers the question: Is my inventory selling fast enough over the year?

While margins are important to your business, there is another metric that is equally as important: Stock Turn.

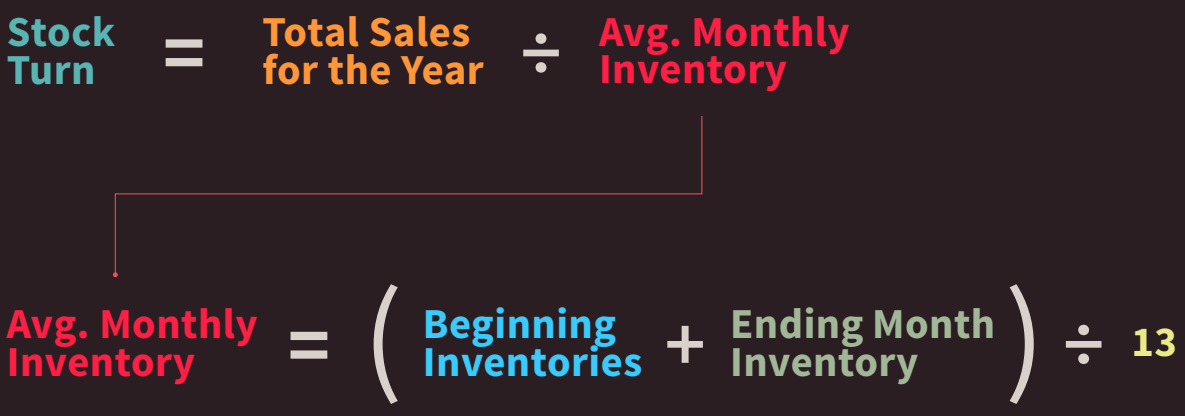
Why? Because as long as stock is turning, you have cash flow. Stock that sits on your shelf for too long ties up your cash. It also increases cost and bores your customers. Stock that moves quickly off your shelf lets you bring in more, freeing up cash and enticing customers to keep coming back.

Keep in mind:

- Stock Turn rates vary depending on the type of store you are operating. Large discount retailers turnover inventory at a rate of **7** to **8.75** times a year whereas luxury retailers might turn inventory only **1.5** times a year.
- Seasonal retailers, such as apparel and shoes, should aim for a turn rate of once per season (i.e. four times a year).

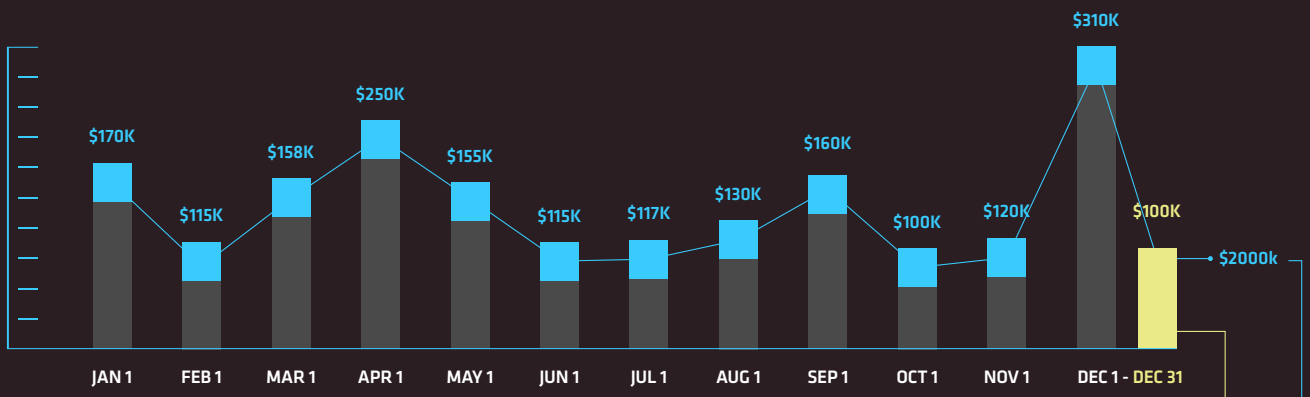
To calculate **Stock Turn**:

First, determine Average Monthly Inventory, by adding up all the beginning inventories for the year (at retail price), plus your ending inventory (at retail price), and divide it by 13. Use an average inventory so that you don't make calculations based on a month when inventories are particularly high or low.



Kitt's Pro Shop

Case study:



Ending inventory

Total of all the beginning inventories **+** ending inventory

$2000k ÷ 13 = $153.8k

Average Monthly Inventory

Total Sales for the year

$500k ÷ 153.8k = 3.25

Stock Turn

Kitt's inventory turned 3.25 times this past year.

Kitt may have good margins, but her stock turnover rate is low. Because her inventory is moving slowly, she's not as profitable as she could be. She decides to look at some other metrics that measure inventory performance.

"Margin is a meaningless concept unless you are growing your sales and keeping your inventory fresh. Get these two things right first, then you can look closer at margins." – Paul Erickson, Sr. Vice-president, **RMSA Solutions**

6 Gross Margin Return on Investment (GMROI)

Answers the question: How effective is my inventory at generating cash flow and profits?

GMROI is a bit intimidating. But it is one of the most important metrics you can use in your store. It tells you how hard your inventory is working for you, to help earn you profits.

GMROI is a key metric for protecting your cash flow. Many retailers protect their margins, which is important. But remember that you can live for a while without profits. You cannot live without cash flow.

Some of your inventory will turn slowly, but produce high margins. And some will produce low margins but turn quickly. Both of these situations will produce a good to high GMROI, says Erickson[1]. A low GMROI tells you product is either moving too slowly, has insufficient margin, or both.

Keep in mind:

- GMROI is best used for assessing performance on products or product categories.
- GMROI is typically measured on an annual basis, and you should aim to increase it every year.
- A good GMROI is over **2** or **200%**. [2]

To calculate **GMROI**:

$$\text{GMROI} = (\text{Total Sales} - \text{Cost of Goods}) \div \text{Avg. Cost of Goods}$$

To determine Average Cost of Goods, add up the beginning monthly inventories for the year at cost, and divide by 12.

Kitt's Pro Shop

Case study:

Kitt checks the GMROI on her Club category for the past year.

$$\text{GMROI} = (\$91\text{k} - \$45.5\text{k}) \div \$26.8\text{k}$$

1.7

This is a little low and might explain why she has been experiencing some cash flow issues. Kitt checks some other metrics to learn more.

7 Sell-through

Answers the question: How much stock has sold?

Sell-through tells you how fast your inventory is moving. 100% Sell-through means that you have completely sold out, while 0% means that you have not sold any. Similar to Stock Turn, Sell-through can be useful throughout the year. Use Stock Turn when planning for the year and season, and Sell-through to keep core products stocked up throughout the year.

Keep in mind:

- Seasonal retailers like apparel and shoes, should look at Sell-through at least every four weeks. Faster turning retailers, like dollar stores, look at Sell-through daily.
- According to retail expert Karim Kanji, most retailers are looking at an 80 percent sell-through rate by the time their markdown period begins. [3]

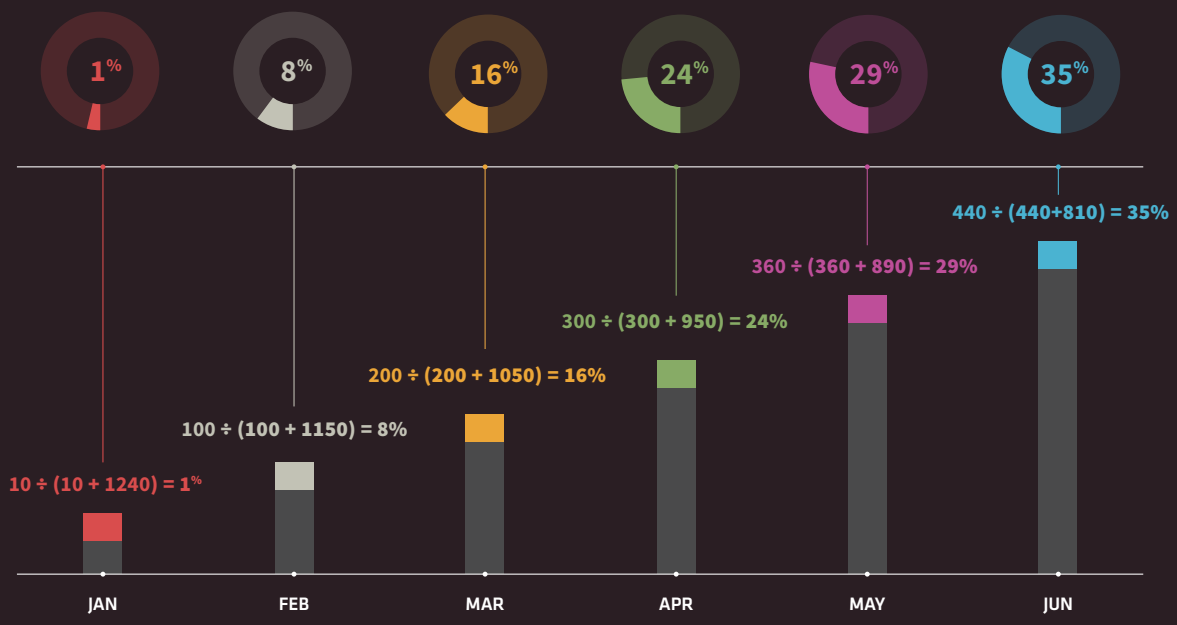
To calculate **Sell-through**:

Sell-through percentage = **Units Sold** ÷ (**Units Sold** + **Units On-hand**)

Kitt's Pro Shop

Case study:

Kitt checks Sell-through on Clubs.



For Spring/Summer inventory, Kitt should be at least 80% sold through by June 1st. Unfortunately, she discovers that she has sold less than half of what she expected.
Kitt now needs to consider deep markdowns on any clubs that she is not carrying over to the next season to get her sell-through percentage as high as possible, in the shortest amount of time. She can also expect to a decrease in her GMROI as a result.

Had Kitt been checking these numbers on a more regular basis she might have had more options to deal with the low Sell-through.

In addition, she needs to look at any sales staff training issues and she needs to consider adjusting her buy for the next season.

8 Weeks of Supply

Answers the question: How much do I need to buy or markdown?

Weeks of Supply measures inventory levels in terms of time. It tells you how long you'll have inventory on-hand if the item continues to sell at the current rate, and it is important for keeping your shelves stocked. One Harvard study found that retailers lost nearly half of intended purchases because the item the customer wanted wasn't in store. [4]

Keep in mind:

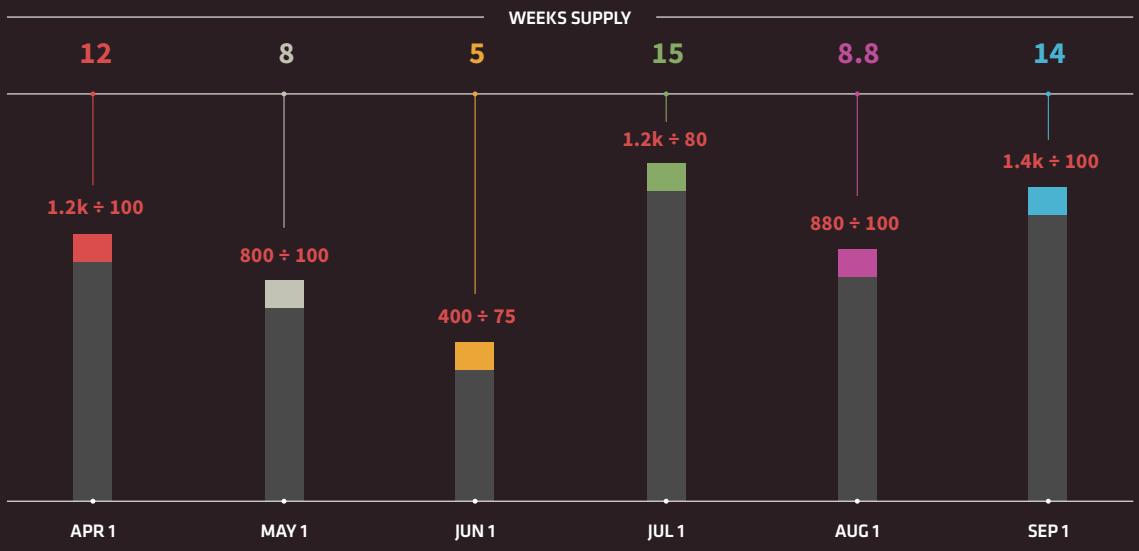
- For most seasonal retailers, the "sweet spot" for Weeks of Supply is 10-12 weeks. [5]
- Automated reminders when weeks of supply fall below a set level are extremely helpful for making sure you don't run out of stock. Set triggers in your POS to remind you when you fall below a certain threshold.

To calculate **Weeks of Supply**:

Weeks of Supply = **Total Inventory on Hand** ÷ **Avg. Weekly Sales in units**

Case study:

Kitt checks Weeks of Supply on all categories. She focuses on footwear, as this is a high margin category for her, and she wants to make sure she has enough in stock.



Kitt realizes that she can't go more than two months without getting new inventory or she'll drop below optimal stock levels. She makes a note to start looking for new sources of golf shoes.

For more detailed instructions on managing inventory, download the white papers Managing Your Inventory: The Pro Shop Guide to Buying Inventory.

Click on the link below to download the white paper.

Managing Employee Performance

9 Sales Per Hour

Answers the question: What are the busiest store hours?

Check this metric to figure out when you should schedule your staff. Be careful with this figure, as low Sales Per Hour could be attributed to low traffic, insufficient staffing, or underperforming staff.

Kitt's Pro Shop

Case Study:

10:00 – 11:00 am

$100

11:00 – 12:00 pm

$100

12:00 – 1:00 pm

$450

1:00 – 2:00 pm

$150

2:00 – 3:00 pm

$0

3:00 – 4:00 pm

$50

4:00 – 5:00 pm

$200

5:00 – 6:00 pm

$250

6:00 – 7:00 pm

$175

7:00 – 8:00 pm

$150

8:00 – 9:00 pm

$200

Kitt was surprised to see that the busy period started as early as 4:00 pm, so she adjusts her staff shifts accordingly.

10 Sales Per Employee

Answers the question: How well are my employees doing on the sales floor?

Employees need to know what's expected of them. Tracking Sales Per Employee lets you establish benchmarks and set expectations for them on the sales floor.

Keep in mind:

- Some shifts are busier than others. Be sure to compare apples to apples.
- Every pro shop is different. When setting benchmarks, use your own store history.
- For new stores, try asking similar retailers that you know or your local bank or credit union for benchmarks. Be sure to compare yourself to stores with similar merchandise, square footage, and foot traffic.
- Part–timers almost always average more than full–time employees as they don't spend as much time on non–sales activities, and are usually scheduled during the busiest periods.

Case study:

Kitt decides to share these figures with her employees during their one-on-one meetings, with advice on how they can improve. Tracking Sales per Employee will help her measure the effect of any changes she makes.

11 Units Per Transaction (UPT) and Average Transaction Value (ATV)

Answers the question: How effective are my staff at upselling?

UPT, also known as Items Per Customer (**IPC**), and **ATV** tell you if your sales associates
are having the conversations they need to have with your customers. Can they making the right suggestions for customers? Are they upselling them on the right accessories?

ATV shows the average dollar value for every transaction for an employee. It shows how well they're maximizing the dollar value of each customer interaction.

UPT shows the number of units per transaction, and is in many ways a more useful metric. It shows how well sales associates are upselling and adding accessories or other items to the transaction.

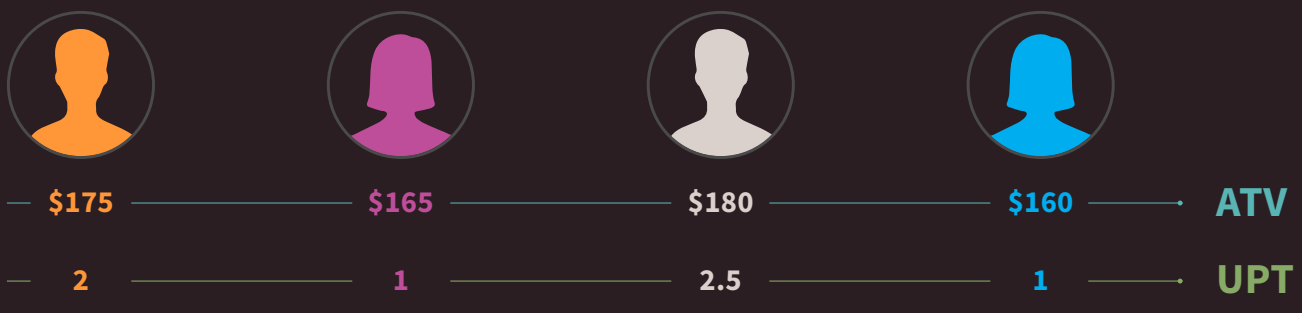
To calculate ATV and UPT:

ATV = **Total Sales** ÷ **Total Number of Transactions per Employee**

UPT = **Total Number of Units Sold** ÷ **Total Number of Transactions per Employee**

Kitt's Pro Shop

Case study:



Both Brook and Dakota have not been upselling accessories to customers. Kitt discusses this with her staff at the next team meeting, and finds out that her accessories didn't match the club selection that well. Alex and Charley, who are more experienced, figured out how to upsell on different types of products.

Kitt relied on eyeballing shelves to manage inventory, so she didn't catch the inventory build-up until late in the season. She'll have to initiate an aggressive markdown strategy to unload both the excess accessories and the club inventory. This will eat into her margins, but it will help free up some much needed cash. If she had caught it earlier, she could have tried other strategies, such as new visuals, before discounting.

Kitt makes a note to watch these metrics earlier in the season next year, and to run more interactive team meetings with her staff. She also trains Brook and Dakota on how to better upsell to customers, reminding them of the value of the test swing conversation as well as the value of wearing and pairing items.

12 Payroll Percentage

Answers the question: How much staffing can I afford to have for my levels of inventory?

Payroll Percentage lets you know if sales are keeping up with staffing costs. Wages are one of the largest expenses you control, so many retailers scrutinize this metric to ensure they stay profitable.

Keep in mind:

- All your labor costs, including vacation pay, benefits, and taxes, should be included.
- Small Business Consultants Second Wind recommend staying within 15 to 30 percent to stay healthy. [6]
- Retail expert Paul Erickson says 17.5 percent is a good target, with 10 percent going toward sales associates and 7.5 percent going to administrative pay. Small stores will likely need to put 17.5 percent towards sales associates' pay.
- If Payroll Percentage is high, the real culprit may be inadequate merchandise management. Assess how inventory is moving in your store before making the leap to cutting staff, since that will just decrease sales further.

To calculate **Payroll Percentage:**

Payroll Percentage = **Payroll Expense** ÷ **Total Sales**

Kitt's Pro Shop

Case study:

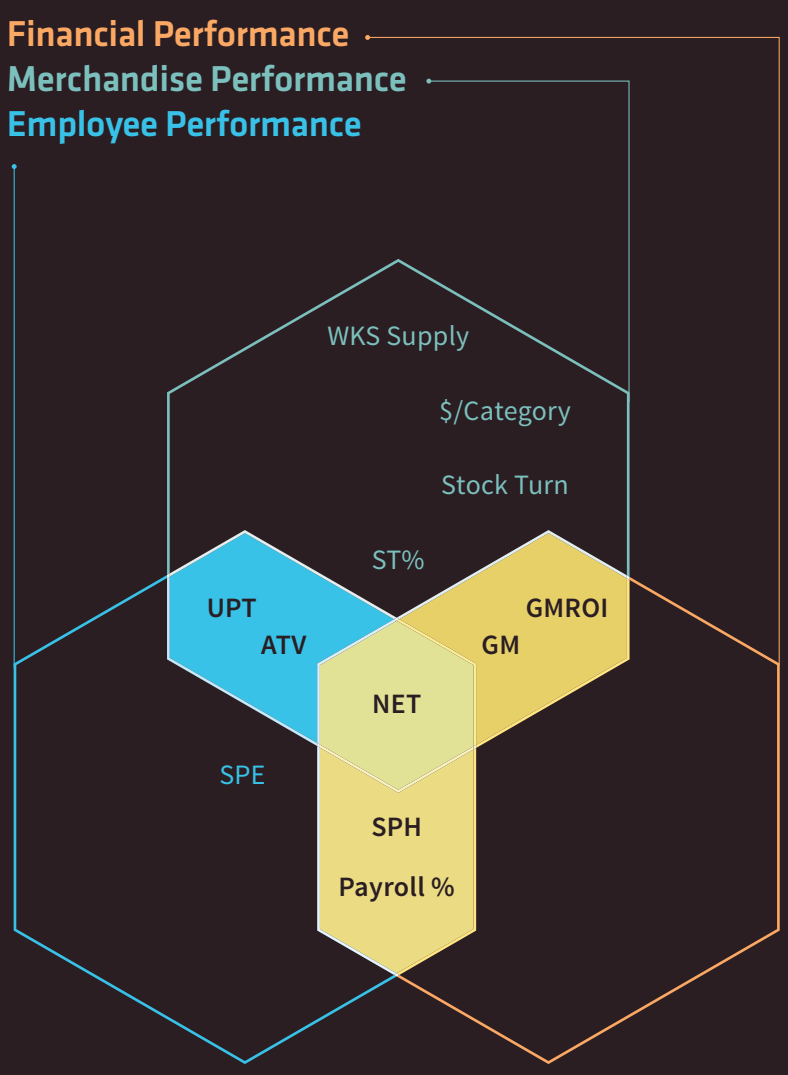
Payroll Percentage = **$95k** ÷ **$500k**

19%

Kitt's Payroll Percentage is a little high. However, she thinks she can increase sales next year by at least **10%** by fixing some of the inventory mistakes made this past year. This would bring her payroll percentage down to **17%** without cutting sales staff. Kitt shares some of this information at a staff meeting, focusing on sales targets and improving customer service.

Conclusion

The proper use of metrics can make the difference between a pro shop owner who just gets by and one who sees real success. Whichever metrics you choose to zero in on, remember that they are all interconnected. To tell a complete story, you need to put all the information together intelligently to reach optimal inventory performance, optimal employee performance, and ultimate financial success.



UPT = Units Per Transaction
ATV = Average Transaction Value
SPE = Sales Per Employee
SPH = Sales Per Hour
Payroll % = Payroll Percentage
WKS Supply = Weeks of Supply
$/Category = Sales Per Category
ST% = Sell-through
GMROI = Gross Margin Return On Investment
GM = Gross Margin
Net = Net Margin

Sources

[1] Museum Store Association. Presentation. “GMROI.” Oct. 25, 2010. https://youtu.be/eP153wCi1W4

[2] Paul Erickson, RMSA, in discussion with the Author, March 2015

[3] Karim Kanji (retail expert) in discussion with the author, April 2015.

[4] Corsten, Daniel and Thomas Gruen. “Stock-Outs Cause Walkouts,” Harvard Business Review. May 2004: 1.

[5] Karim Kanji (retail expert) in discussion with the author, April 2015.

[6] Todrin, Don. “What percent of your revenue should be allocated to payroll?” Retrieved Mar. 30, 2015 from http://secondwindconsultants.com/percent-revenue-allocated-payroll.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