



communicator
by PROFITsystems, Inc.



Calendar

May

- 25th - PROFITsystems CLOSED for Memorial Day

June

- 3rd - 5th PROFITgroups Thomasville Group, Brookfield, WI
- 15th - 19th Daily Process Training Class
- 27th - CLOSED for Annual Company Picnic

July

- 3rd - 4th - CLOSED in Observance of Independence Day
- 13th - 15th PROFITgroups Visionaries Group, Ft. Wayne, IN



For more information about our classroom training and to make your reservation, please contact Dawn at

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The Definition of GMROI

David McMahon, Business Coach & Director of e-Strategy

GMROI is your **gross margin return on** your **inventory** investment. In other words, it is the amount of dollars you make after you deduct the cost of goods. This is how much money you get per dollar of inventory invested. So, if you have \$1 million in inventory and your gross margin dollars are \$1.9 million for one year, you produced \$1.90 GM per \$1 in inventory.

In my opinion, GMROI is the single most important metric that an inventory carrying business can track. This is because it is tied directly to three major forces determining cash flow.

The first is gross margin. Gross margin determines what you have left to pay for all your business operating costs. After all operating costs are covered, what remains is your net income. That net income is the first line under your starting cash on your cash flow statement. Profit is NOT optional.

The second is inventory. Inventory is the biggest current asset on many companies' balance sheets. When it goes up, GMROI goes down, and so does cash. If inventory is increasing, so must your gross margin dollars.

800.888.5565 or
dawnu@profitsystems.com.



PROFIT *groups* facilitates highly motivated groups of similar retailers who want successfully field-tested and time-proven answers to their biggest challenges. Members meet twice per year in a relaxed, content-rich setting to share Best Practices and help each other achieve double-digit profitability objectives. Owners measure their financial success against industry norms, network to improve GMROI and inventory management, lower both fixed and variable expenses, and improve efficiencies. For many years, this program has helped hundreds of retailers achieve financial success for themselves, their families, and their employees. This program is designed to help you take your business to the next level.

We are looking forward to seeing our PROFIT *groups* members at the next meeting. If you would like more information, please [visit our website](#). If you are considering becoming a PROFIT *groups* member or would like references, contact us at 800.325.2018 or phyllisz@profitsystems.com.

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What's New for Generate Markdown Prices

Lynn Havel, Senior Software Support Specialist

Coming in PROFIT *professional* version 12.0 is an edit list for viewing **potential** markdown prices! This is very exciting news for our next version. For years, when you would generate markdown prices, you have not been able to review the items before the sale price was updated. Another great change in Generate Markdown Prices is that you will be able to change the commission code for the items.

Here are the details:

The first change you will see is the name. It is now called **Generate Markdown Prices** instead of Generate Sale Prices. This is to be consistent with the markdown code and other reports.

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Evaluating Profitability

Phyllis Zaepfel, Director of PROFIT groups

Customer Profitability

Most of you reading this know how to evaluate the profitability of your business as a whole. I want to discuss evaluating the profitability of customers.

Unprofitable Customers

Harvard Business Review estimates that, on average, 15% of all customers are unprofitable. In the book, "Angel Customers & Demon Customers", it estimates the worst 20% of customers typically lose money equal to 75% of profits. Do you know which of your customers fit into this category? Some of the signs suggesting unprofitability are excessive service calls, recurring returns, numerous complaints, and if you carry your own accounts, late payments. You should also look at merchandise being held. Remember there

We would like to congratulate Kent and Beckey Waldrop of Miller Waldrop Furniture. They received the 2009 NHFA Retailer of the Year award!

[Click here to read the NHFA article.](#)



Coaches Corner by PROFIT consulting

Here are some of the products and services that we currently deliver:

- [Product List](#)
- [e-Marketing](#)
- [Performance Groups](#)
- [Business Analysis & Recommendations](#)
- [Financial Forecasting](#)
- [Inventory Management Systems](#)
- [Financial Management](#)
- [Customer Service Systems](#)
- [Operations Consulting and Procedures](#)
- [Delivery Routing Systems](#)
- [Sales Management](#)

is as much as 30% cost to handle and warehouse inventory.

Once you have identified these offenders, you need to ask yourself if they can be turned into profitable customers. You must also understand why they are unprofitable. Is it because of the cost associated with their transactions, or their conduct, or yours? The next step is to give them a chance to become profitable. What follows are a few suggestions that might turn these customers around, keeping in mind you must either increase revenue, lower costs, or fire them.

Raise your prices (or lower discounts): If the customer accepts the price adjustment, you are more likely to have a profitable customer. If the customer rejects the higher price (the price without a discount), then an unprofitable customer is lost and overall profits are improved.

Work inside the scope of your expertise: Profits are diminished when you try to do something you are not equipped to handle. If customers request services outside the norm or the capabilities of your staff, either refuse or outsource to a specialist.

Make all future sales "As-Is" to eliminate exchanges and service calls: The cost of both these actions can typically eat up all profits on the sale.

If these efforts do not work, then unprofitable customers must be "fired". If it is determined that a customer should be fired, it must be done kindly and without malice. No one likes to be let go, so get customers to fire themselves. Keep raising prices, refuse to offer extra services or finally, just don't accept new orders.

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Contact PROFIT *consulting*
at info@profitconsulting.net
or via [our new message
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The PROFIT*systems* E-Communicator is your best source for news and information on PROFIT*systems*, technology, and the retail furniture industry. If you need to know about our conferences, software, or just what is new around the halls of PROFIT*systems*, this is the place to find it. In conjunction with our website www.profitsystems.com, we are working to provide you the most information in the most timely manner possible. If you have not registered for access to our online PROFIT*resource* Center, please sign up at our home page today!

Michelle Michaels, Editor PROFIT*systems*, Inc.
The Leading Provider of Retail Furniture Systems and Solutions
422 E. Vermijo, Suite 100 Colorado Springs, CO 80903
Phone: 800.888.5564 | Fax: 719.578.9506
Email: newsletter@profitsystems.com | Web: www.profitsystems.com

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