

Key metrics are a crucial element in the management of any Brick and Mortar, Catalog, E-commerce or Wholesale organization. The metrics and their values or goals must be developed during the business planning process and then utilized in individual performance plans in order to achieve the plan. In my practice, I often see a lack of connection and understanding between the business plan, the metrics, and individual performance plans. This creates an opportunity to increase success stories for organizations and individuals.

Key metrics fall into the following categories and should be shared across functional teams with different weighting depending on the impact on the metric by function. The list below includes looks long but really encompasses most metrics utilized to plan and manage a business. Generally, I suggest no more than four key metrics for performance reviews:

[Sales and Demand](#)

[Productivity](#)

[Margin and Profit](#)

[Inventory](#)

Let's begin the discussion with Brick and Mortar Retail since it's the most traditional:

Sales

1. **Gross sales at retail**—Generally means total sales dollars prior to returns and markdowns.
2. **Returns**—Dollar amount of goods returned—often stated as a percentage of Gross Sales. A benchmark might be a 10 percent rate.
3. **Markdowns**—Dollar amount of the discount a customer receives at retail—often stated as a percentage of Gross Sales. A benchmark might be 20 percent markdowns (which is different than 20 percent off depending whether it's stated as a percentage of gross or net sales). Sometimes markdowns are taken at the register (POS) and sometimes inventory is de valued with a markdown prior to being sold.
4. **Net sales at retail**—Gross Sales after of returns and markdowns are subtracted

Productivity

1. **Sales per square foot**—Gross Sales divided by the selling space (dressing rooms and shoe stockrooms count but other non-selling space does not). This of course varies widely by type of merchandise and store but a rough benchmark like \$500–\$800 per square feet gives you an idea. This simply measures the sales productivity of your space and it's a good way to compare departments within a store or compares stores to each other. You can also figure out what you need the Sales per Square Foot to be based on the amount you pay for rent to insure a good profit.
2. **Sales per style**—Gross sales divided by the number of styles. This gives a benchmark of what the average style produces and is a good metric to review in comparing departments and or when growing or shrinking a category.
3. **Traffic and conversion**—The only way for brick and mortar organizations to get a true traffic measure that I know of is to use a traffic counter and to record these numbers by day and sometimes by hour over time. This mechanism literally counts the people as they come in the door (hopefully not the employees etc.). If this data is accumulated then one can really compare sales being down 10 percent to traffic being down 20 percent as an example. Conversion is the number of transactions divided by the number of customers coming in the door. In the example above it means that conversion is actually up which is a good thing and may be attributable to better product or better service! These numbers are much easier get in the direct to consumer world.
4. **Customer productivity**—Understanding one's customer is warrants its own discussion. In the brick and mortar world I generally see an opportunity to better capture, understand, and maximize sales through understanding the customer.
5. **Average order size and average units per order**—This is net sales (after markdowns) divided by the number of orders. The larger the order size usually the more profitable the order is since logistics costs become a smaller

percentage of the total order. Average Units per order tells you that the average order size of \$150 is made up of 2.5 items per order.

- 6. Average Unit Retail**—Net Sales (after markdowns) divided by number of units sold. It's a good metric to compare categories (i.e. average sale of a top versus an outerwear piece or a fishing rod with a piece of tackle). This really tells you what your customer is willing to pay for an item. They might be willing to pay \$100 for a jacket and \$50 for a top. Note: Sometimes organizations calculate the Average Unit Retail of on hand inventory which is not apples to apples with this figure because of markdowns. In the above example a jacket might be \$120 and the top inventory may be \$60.

Margin and Profit

- 1. Initial Markup Percentage (IMU%)**—(Retail of an item—cost of an item divided by the retail of an item—($\$10 - \$4 / \$10 = 60\%$)). This is the mark up that buyers are most focused on when buying product and building an assortment. 60 percent might be a rough benchmark.
- 2. Gross Margin Percentage (GM%)**—This is the margin after discounts (merchandise markdowns + marketing discounts) i.e. the margin when something is sold. Sometimes referenced as maintain margin or final margin.
- 3. Cost of Goods Sold (COGS)**—This is exactly what it sounds like. It is the inverse of Gross Margin. So in the example above \$6 is the Gross Margin or Gross Profit then \$4 is the inverse or cost of the goods.
- 4. Operating Margin \$/%**—This generally refers to margin after all direct expenses of buying and selling the product have been taken into account. This would be GM% less any direct expenses such as advertising expenses.
- 5. Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA %)**—This is the “bottom line” profitability of a business that many managers are rated on. A Profit and Loss statement begins with Sales, subtracts cost of goods sold to get to Gross Margin and then

subtracts S,G & A expenses such as staffing, warehouse etc. to get to EBITDA. I think many businesses would be happy with a 10 percent EBITDA as a very rough benchmark.

Inventory

- 1. BOM and EOM**—Beginning of month inventory usually stated in units if you are working with styles and stated in dollars if working at the product category level. End of month inventory is the same.
- 2. Average inventory**—This is usually stated in dollars for a product category or a total company and is an annual metric. Add together the first month's BOM plus 12 months of EOM's and divide by 13.
- 3. Turn**—This is the rate you “turn” the inventory (like tables in a restaurant). Sales divided by average inventory. This should be apples to apples whether you are on a cost basis or retail basis. Ideally gross sales (net sales + markdowns) would be used but if you don't have gross you can use net. This is also an annual metric and often compared across companies as a key metric. A benchmark for an apparel company might be a 4 turn.
- 4. WOS and DOS**—Weeks of Supply and Days of Supply measures how much inventory is on hand at a given time, usually month end. Inventory divided average sales by day (usually the forecast going forward for internal management purposes).
- 5. Sales/Stock ratio or Stock/Sales ratio**—This is simply as stated. I tend to utilize turn annually and then WOS and/or DOS by month at the category level because I think it means more.
- 6. Sell through percentage**—This metric is often used more at the item level than at total category level and is key metric for in season management. It is the sales divided by the original on hand. As an example we initially had 100 rice cookers and at the end of the first week we sold 15 which is a 15 percent sell through—not too bad. The second week we started with 85 and sold 10 which is a 12 percent sell through. At the end of the first month we

sold 40 which is a 40 percent sell through and now we have 60 left. If something isn't selling at 10 percent per week perhaps a markdown is needed or conversely if it's selling 25 percent per week then maybe we should get a re-order assuming it's not seasonal or no longer the fashion.

- 7. Gross Margin Return on Investment (GMROI)**—This is gross margin dollars (often for a year) divided by average inventory. This measures the marginal profit as a return of the inventory \$ invested. A number like 350 percent or 3.5 is GMROI.

Now let's talk about the nuances of the Direct to Consumer Catalog Business:

Sales

- 1. Demand**—Catalog begins with Demand vs. Sales. Demand measures the demand for an item even if it's out of stock and the customer did not get it. This is easy to do in the Catalog world, not really done in the Brick and Mortar world. E-commerce and Wholesale often try to capture missed demand. Missed demand can be an excellent metric in planning for the future and also for understanding out of stocks and customer satisfaction.
- 2. Forecast accuracy**—First of all we all know that it's always wrong to a certain degree! This is often a key metric for those who forecast but also for those who manage the inaccuracy. Hopefully, the "overs" and "unders" are added together instead of being netted against each other.
- 3. Percentage complete**—In the Catalog world everyone needs to know if a book is 90 percent complete in demand or only 20 percent or 50 percent because the final number can change.
- 4. Fulfillment**—This measures how much of the demand the organization is able to fulfill for the customer and is a key metric of customer satisfaction as well as converts demand to sales. Fill rate is another term for the same thing. Often two metrics are measured. Initial fulfillment and final fulfillment which measures the fulfillment after a customer waits for a period of time to get their mer-

chandise. Anything that can't be fulfilled is a sold out. As always, benchmarks depend on the business but 90–95 percent often seems to be the target for fulfillment.

- 5. Now apply the same metrics above for sales to Catalog.**

Productivity

- 1. Circulation and conversion**—Circulation usually refers to how many customers are sent a catalog. Perhaps a good example is that 3,000,000 people were sent the fall catalog (the aging or quality of those customers is another discussion). Let's say that 150,000 actually responded or bought something, equaling a conversion rate of 5 percent ($3,000,000/150,000$) which is pretty good in the direct to consumer world.
- 2. Customer productivity**—Customer productivity warrants its own discussion. This data is easily captured in the direct to consumer world. Generally Catalogers segment their customer file into categories by frequency of purchases and net sales. This is used for circulation planning and when it goes down to the category level utilized specifically for merchandising directly to the customer.
- 3. Factor**—Factor measures the productivity of the items on each page in that particular catalog. In the same example above let's say that of the 150,000 people who actually bought something on average they each spent \$100 so the total catalog generated \$15,000,000 in demand. Let's also say that each catalog was 120 pages so on average one page generated \$125,000 in demand. If a popular outfit on a page generated \$250,000 then the factor of that page or outfit equals 2 ($\$250,000/\$125,000$).
- 4. Demand Per Thousand Pages Circulated (DMPC)**—This is my favorite productivity measure. This measures the demand divided by (# of pages in a book (or portion of a page) times the total circulation of the book then divided by 1,000). This is a wonderful productivity measure because it enables you to compare productivity book to book and also item or category to each other in one

book or across books (factor does not). In the example above a jacket is pictured in half of a page. It generated \$75,000 in demand. $\$750,000 / (.50 \times 3,000,000) / 1000$ = \$50 DMPC which compares to the total book at \$41.67. It also compares to a t-shirt that generated \$60,000 in demand on a quarter page at \$80 DMPC.

5. **PMPC**—This metric is exactly the same as above but profit/margin is utilized instead of demand which enables you to directly measure the variable profit of an item, page or book.

Margin

1. **All margin metrics are the same for Catalog as the Brick & Mortar section**

Inventory

1. **All inventory metrics are the same for Catalog as the Bricks and Mortar section but certain metrics such as sell through don't mean as much in this business.**

Part Two will talk about E-commerce and Wholesale.

I hope you will utilize this comprehensive resource on metrics for education, planning, and management purposes within your organization. I'd love to hear about your successes and needs in the area of metric utilization. I can be reached at Janice@JLSearsConsulting.com or at 206.369.3726.

More about us



ABOUT THE AUTHOR | Janice Sears has served as **Principal** of JL Sears Consulting, Inc. based in Seattle, since 2004. She is also a Principal of **Tag Team Business Solutions**.

Janice brings more than 20 years of **broad multichannel retail and wholesale experience** in merchandising, planning, marketing, finance, and operations to her clients. She is a Certified Management Consultant (CMC), and received her **MBA in Finance** from the University of Colorado.

As a former **Vice President at Eddie Bauer**, she was accountable for \$1.6 billion in annual sales, which included 400+ stores in the US and Canada, catalog and internet sales, along with margin and profit. Janice directed strategic business planning, merchandise planning, inventory and margin management, and led the cross-functional business teams by channel to manage the P&L. She also drove system and business process improvement projects and was integral to marketing, assortment planning and organizational development initiatives.

She served on the **Board of Directors for Big Brothers Big Sisters of Puget Sound** for more than 10 years while being a Big Sister herself. Janice continues to serve on a variety of professional and non-profit boards and is currently a University of Washington Business School Mentor.

Janice is an avid skier and cyclist who writes a [travel blog](#) about her quest to visit all 58 National Parks. She enjoys northwest urban living and time with family and friends from her Seattle home.

ABOUT J.L. SEARS | JL Sears Consulting, Inc helps organizations and business teams boost profitability and productivity through strategic business planning, development of merchandise strategy and implementation of key execution tools.

We specialize in working with multi-channel retail and wholesale clients to craft a roadmap to success in an ever-changing business environment.

Clients include: Belkin, Branders, Charlotte Russe, Crosstown Traders, evo, Griot's Garage, Lucy, Nasty Gal, Outdoor Research, and Sur La Table.

JL Sears Consulting, Inc. is a former member of 1% for the Planet and continues to focus its one percent donation on saving Puget Sound and supporting our National Parks.

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