



Staying on Top of Metrics

2008 User Conference

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Introduction

GJM Associates, Inc. is a consulting firm that focuses on all aspects of merchandising operations for direct marketing companies.

Our primary focus is supply-side processes, that start with merchandise analysis and planning, includes inventory management strategies and the critical coordination of merchandising, marketing, finance, creative and operations through all elements of the business to the ultimate and profitable fulfillment to a customer.

Introduction

- 12 years in Retail
- 3 in Wholesale
- 15 years in Catalog
- 2002-2007 Served as Chair of the DMA's Catalog & Multichannel Marketing Council
- Speak at conferences (User Groups, NCOF, ACCM, ECMOD)**
- Contributes articles for trade publications**

(**available on www.gjmassociates.com)

Agenda

Define & Identify Key Performance Index (KPI)

How Many? How Often?

Using High Level – MAPS Indices to Provide Direction

Agenda

Other Item Profit Factors

Detailed Item P&L

Taking Away the “Fear”

Defining KPI

Performance Indicators (KPI):

Separate the “winners” from the “try agains;” and knowing not only what to measure, but also how to measure it and what it all means, is what separates and defines levels of success.

You can't fix what you don't measure!!!

Defining KPI

- a quantifiable measurement that can be tracked and evaluated, and that is harmonious with what you want to achieve
- a metric that an organization measures to help determine its progress towards a goal
- a reflection of the tactical performance of an organization; and, is used to substantiate an organization's objectives.
- can be quantitative or qualitative, objective or subjective, although preferably quantitative, unambiguous, and reliable.
- a critical measurement of the performance of essential tasks, operations, or processes. A KPI will usually unambiguously reveal conditions or performance that is outside the norm and that signals a need for managerial intervention

How Many?

How Often?

When?

Identify KPIs

Corporate

- Revenue
- Response Rate
- Average Order
- Expenses
- Profit

Operations

- Cost per Order
- Cost per Call
- Abandon Rate
- Carryover (DC)

Merchandising

- Fill Rates
- Cancel rates
- Backorders
- Margins
- Inv. Turns

Clarifications

Fill Rates

- Initial / Final Fill
- Order vs. Item Fill

Overstock

- At Cost
- Cost of

Returns

- Total Returns
- Return to Good Stock

Setting Goals

Corporate

- Industry Standards
- Internal History
- Achievable/Realistic

Department

- Historical
- Cooperative/Joint
- Achievable/Realistic

Merchandising MAPS Metrics

Alternative
Measurements

High Level Metrics

Creating New
Metrics:
Provides “Direction”

Creating Indices

Offer a Simplified Approach

Create a Reference Base of **1.0**

Provide Management a Top Level Review

Establishes “Relationship” Analysis

Additional Metrics

Strategic Planning (Category) Level

Performance Index (rAii)

- (% of demand / % of items)

Space Index

- (% of demand / % of space)

Sell Ratio

- (Item percent of page * cost per page) / Projected item \$\$ demand in Offer

Average Item Index (rAii)

- Item Demand / (Projected Item \$\$ Demand in Campaign/ Number of items)

Net (Ad) Margin

- Initial Margin % - Sell Ratio

Category (MAPS) View

Description	<u>Items</u>	<u>%</u>	<u>Dmd</u>	<u>%</u>	<u>rAii</u>		<u>Mrgn</u>	<u>Space</u>	<u>%</u>	<u>S I</u>	<u>SR</u>	<u>Net Mgn</u>
					<u>Avg Itm</u>	<u>P I</u>						
TOTAL DROP:	314	100.0%	5985.0	100.0%	19,061	1.00	57.9%	64.00	100.0%	1.00	43.1%	14.8%
GIFTS	87	27.7%	1310.7	21.9%	15,066	0.79	61.0%	15.00	23.4%	0.93	46.1%	14.9%
HOME	72	22.9%	1472.3	24.6%	20,449	1.07	54.6%	17.00	26.6%	0.93	46.5%	8.1%
APPAREL	53	16.9%	1897.2	31.7%	35,797	1.88	59.8%	15.00	23.4%	1.35	31.8%	28.0%
ACCESSORIES	102	32.5%	1304.7	21.8%	12,791	0.67	55.4%	17.00	26.6%	0.82	52.5%	2.9%

Additional Measures

Average Price Offered vs. Sold

Density

Detailed Space (Sqinch) Analysis

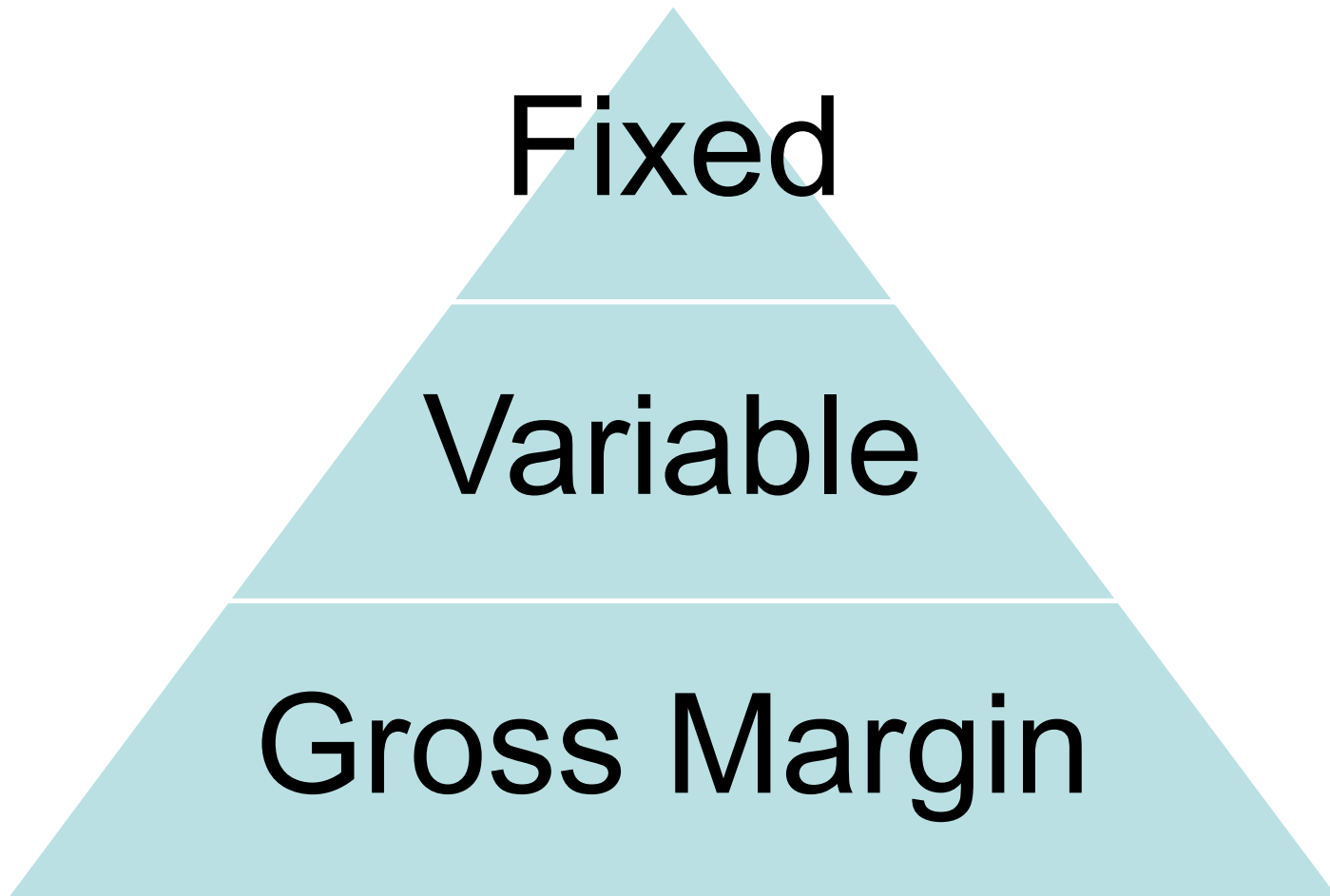
Returns

Overstock

Item Profitability

REVIEWING ITEM P&L

Contribution Levels



Item Profitability Model

Item Summary

Item #		ABC123
Description		Sample Item
Cost		11.63
Inbound freight	3.0%	11.98
Retail		30.00
Unit Estimate		15000
Extended Cost		179.7(k)
Extended Retail		450.0(k)
Cost %		39.9%
Mark-Up %		60.1%
% of tot dmd \$ -you might expect to cxl	9.0%	40.5
Total Returns as % of ships/ \$(k)	11.8%	48.3
<u>Net Sales (\$k)</u>		361.2

Item Profitability Model

COGS

Cost of Goods Sold

standard cost			144.2
overstock (inv not sold)	10.0%	36.1	-
Cost of overstock	3.0%		1.1
returns	3.0%		1.4
other	0%		0.0

Gross Margin (\$k) **214.4**

Item Profitability Model

Variable Expenses

<u>Variable Cost</u>		
Promotion		0.00
OR promotion (% of demand)	27.0%	121.5
Cost of pick-pack-ship	10.0%	36.1
Miscellaneous Costs		
Cost of Money/Borrowing	0.0%	0.0
Addn'l Overhead, warehouse space, etc.	0.0%	0.0
<u>Contribution after Variable</u>		
	(\$k)	56.8
	% net	15.7%

Item Profitability Model

Fixed Expenses

<u>Variable Cost</u>		
Promotion		0.00
OR promotion (% of demand)	27.0%	121.5
Cost of pick-pack-ship	10.0%	36.1
Miscellaneous Costs		
Cost of Money/Borrowing	0.0%	0.0
Addn'l Overhead, warehouse space, etc.	0.0%	0.0
<u>Contribution after Variable</u>		
		56.8
(\$k)		
		15.7%
% net		
<u>Contribution after Fixed</u>		
Fixed Exp	10.0%	36.1
<u>Profit</u>		20.7
% net		5.7%

Conclusions

Keep it Simple

- “Almost Right now..is better than Exactly right later...”

Select a few KPIs to start

- Continue to “raise the bar” for profitability

Set realistic goals

Educate and gain consensus

Make these metrics “second nature”

Roundtable Discussion

**Group
Discussion**

**Metrics you
are using**

**Gaining
consensus**

Questions ?

THANK YOU !!



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