# CASH FLOW

## HOW TO MAKE ***MORE*** NOW!

RICS software

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As a business owner, you're constantly checking your bottom line. One of the biggest problems small businesses face today is the lack of increasing cash flow. But are you keeping track of the factors that are affecting that number? If you're like most retailers, your cash flow is incredibly dependent on your inventory levels. But how do you free up inventory to have more cash on hand?

Read on to learn more about how you can quickly put your business back in the green when it comes to cash flow!

# KNOW THE IMPORTANT METRICS

First things first, in order to effectively track where your business is lacking in expanding cash flow, you need to be able to understand your Gross Margin ROI (GMROI) and turn rate. You know both of those things are important, but do you really understand how to view it and make smart business decisions?

## GROSS MARGIN ROI

### WHAT IS GMROI?

Gross margin return on investment (ROI) measures how many dollars of gross profit you are getting back for each dollar you invested in your inventory.

### HOW DO YOU CALCULATE GMROI?

$$\text{GMROI} = \frac{\text{Gross Margin}}{\text{Average Inventory Cost}}$$

## TURN RATE

### WHAT IS TURN RATE?

Turn rate is a ratio that shows how many times a company's inventory is sold and replaced during a given period.

### HOW DO YOU CALCULATE TURN RATE?

$$\text{TURN RATE} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory for a Given Period}}$$

## WHY?

If you can't track your GMROI, you'll never have a full understanding of what products are costing you more money than they are worth. GMROI is an important metric to understand if the amount of cash you're putting into your inventory is giving you increasing or diminishing returns.

Turn rate also affects cash flow. If your turn rate is too low, you're ordering more inventory than is in demand. If it's too high, you are selling inventory too quickly and may be setting your prices too low and missing out on more cash!

## HOW DO THEY HELP YOU MAKE MORE MONEY?

Understanding these two data points can help you interpret your sales data and forecast for the coming months. If you want a turn rate of 4 for the year, you need to be mindful of only investing in inventory you can realistically sell every 13 weeks.

Many retailers rely on a method called open-to-buy. This method can be best described as a sales plan where you only buy as much inventory as you know you can sell. Using your past year's sales data will help you effectively forecast sales and help you plan for having the right amount of inventory.

# USING THE BEST SELLING STRATEGIES

Knowing that inventory is a huge factor in seeing positive (or negative) cash flow, it's important to evaluate your selling strategies. Because let's face it, if you're not constantly focused on selling your products how do you expect to increase your cash flow?

## PRACTICE HEAT-MAPPING.

Heat-mapping is the practice of identifying your hot selling spots in your store. It's not just a great way to know what spots in your store are drawing your customer's attention, but it's also great for moving low-performing inventory quickly.

**HOW DO YOU DO IT?**

1. Start by mapping out where you've historically kept certain products and brands.
2. After you have a good understanding of what walls and racks house certain inventory, identify your best and worst selling items.
3. Identify 2-3 'hot spots' that sell inventory best.
4. Try switching out inventory every two weeks to see if you can move older inventory out before marking it down.

## PLAN A MARKDOWN STRATEGY

No one likes marking down inventory and cutting their profit margin. But the truth is, cash flow is dependent on an effective markdown strategy and all good retailers are in the business of marking down old, low-selling inventory to make room for new inventory that will sell.

**HOW DO YOU DO IT?**

1. Identify the shelf life of your products. Is it 60 days? Is it 90? You have to understand the realistic life of your product in order to identify how long you should keep a product before moving it to clearance.
2. Set up a markdown schedule for your store. Once you understand the shelf life of your products, you can set up an automatic schedule for when the price should be marked down. Once you set up that schedule, stick to it!
3. Identify a pricing markdown strategy. After you know when you're going to markdown products, you need to decide by how much. Marking down to 40% immediately will increase the likelihood of quick purchase, while still helping you make some money on it.

As a retailer, you know your products and customers best. In order to implement an effective markdown strategy, you have to keep both of those things in mind. Identify the process that works best for you! Moving out items that aren't selling can help you make room for the new inventory that will make you money.

# PAY ATTENTION TO YOUR EMPLOYEES

Outside of buying inventory, salaries are probably your biggest annual expense. But are the salaries you're paying worth it?

## EMPLOYEE REVIEWS

This might seem like an odd practice if you're not a large store, but every business needs to take a long hard look at their employees every quarter! If an employee isn't performing up to par, should you continue employing them or look for another associate with more drive?

### HOW DO YOU DO IT?

We're not saying fire all of your employees whose numbers are on the low side. We're saying take notice where their numbers are. Run monthly sales person reports to see who is (and isn't) selling. You can set baseline goals for your employees monthly and have quarterly reviews over how they are performing and what they need to do to help the business improve.

You may realize your employees are killing it. But you may also realize you have one employee who isn't pulling their weight and you could stand to lose.

## STRATEGIC STAFFING

Maybe you already implement employee reviews and have awesome salespeople. Time to consider the timing of your employee hours.

### HOW DO YOU DO IT?

Once you have an understanding of who is selling what and when, you can take it a step further and look at your store's peak sales times. Pulling weekly reports of your sales can help you identify which days and hours are your busiest.

Knowing your peak sales times will allow you to staff your employees accordingly. Maybe you notice that you have two employees scheduled during your slowest hours, when in reality the store could function perfectly with one. Cutting back on hours throughout slow periods and staffing more during busy hours is a great way to ensure you aren't paying out too much. Added bonus: if you start staffing strategically you'll increase your cash flow by paying out less staff hours and selling more during peak times!

Understanding how to put more cash back in your pocket not only gives you peace of mind, but also gives you the power to confidently stock the right inventory at the right time for your customers. Taking the time to plan out best practices for selling strategies and employee procedures is imperative in running a successful business. When your inventory is in peak performance shape, you sell more and in turn, make more money!

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