

Martec's ROI Estimator

Martec has designed a customizable ROI Estimator for retailers or vendors who sell to retailers. These models are ideal for aiding retailers in understanding the potential ROI from a technology investment, or for helping account executives show the potential benefits of their offer on the retailer's bottom line.

Design

Our ROI Estimators are designed to highlight the impact of a new solution on the retailer's Profit & Loss Account (P&L) and Balance Sheet. Models have been developed for:

- Retailers investing in new solutions
- IT hardware suppliers for use in retail store, supply chain and HQ operations
- IT software providers for use in retail supply chain, store and back office operations
- Merchandise 'ingredient' manufacturers who wish to have retailers specify their goods in finished products

ROI SUMMARY MODEL			
Profit and Loss Statement			
	Before	After	Difference
	\$	\$	\$
Sales	11,305,000,000	13,502,273,179	2,197,273,179
Cost of Goods Sold	7,799,000,000	8,762,210,670	963,210,670
Gross Profit	3,506,000,000	4,740,062,510	1,234,062,510
Expenses	2,718,000,000	2,614,935,113	-103,064,887
Operating Profit	788,000,000	2,125,127,397	1,337,127,397
Interest & Other	-427,000,000	-377,863,440	49,136,560
Pre-Tax Profit	361,000,000	1,747,463,957	1,386,463,957
Balance Sheet			
Current Assets:			
Cash	1,023,000,000	1,023,000,000	0
Receivables	202,000,000	202,000,000	0
Stock	2,190,000,000	1,366,200,000	-833,800,000
Other	1,219,000,000	1,219,000,000	0
Total current assets	4,634,000,000	4,634,000,000	0
Total fixed assets	4,763,000,000	4,763,000,000	0
Total Assets	9,397,000,000	9,397,000,000	0
KPIs			
Gross Margin %	31.01%	35.11%	4.09%
Expenses % to Sales	24.04%	19.37%	-4.68%
Pre-Tax Profit % to Sales	3.19%	12.94%	9.75%
Inventory Turn	2.97	5.38	2.42
GMROI	1.33	2.91	1.58

1) Select the Retail Segment:

2) Select those solutions that apply:

- Allocation & Replenishment
- Collaborative Product Development
- Collaborative Promotions
- CRM Data Warehouse
- Customer Centric Store
- Distance Learning
- Employee Self Service (ESS)
- Financials
- Import Management
- Merchandise/Assortment
- Merchandise Data Warehouse
- Merchandise Management
- Pharmacy
- Price Optimization
- RFID
- Supply Chain
- Vendor Portal
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3) Enter the Implementation Sequence
you must enter a number 1-9

#	Solution
1	Merchandise Management
2	Merchandise & Assortment Planning
3	Merchandise Data Warehouse
4	Supply Chain Management
6	Allocation and Replenishment
5	Vendor Portal / Vendor Mgmt

From a design standpoint, the application starts and ends by reviewing the current Profit and Loss Account (P&L) and showing what the new P&L looks like after the solution is fully implemented. If the solution is seen to reduce the retailer's inventory levels, we will also include a balance sheet impact and a measurement of cash flow improvements. Samples of some of our existing ROI summaries are shown above and below.

Approach

Martec's approach is to design a Microsoft Excel based reusable tool that is easy to understand and use. The logic and flow of the modeling application and how to present the findings to the user is at the core of our ROI Estimators.

In building the model, great care is taken to show how the benefits are actually achieved, as this is fundamental to its credibility. For example, an application such as EDI that reduces the lead-time can be modeled to show the corresponding reduction in cycle time inventory quite easily. This reduces inventory carrying costs in the P&L and the value of the inventory in the balance sheet. It also releases cash for other purposes, such as store renovations.

Profit and Loss Statement				Before	After	Impact
				\$	\$	\$
Sales	2,000,000	2,100,800	100,800			
Cost of Goods Sold	1,300,000	1,354,235	54,235			
Gross Profit	700,000	746,565	46,565			
Expenses	400,000	400,000	0			
Operating Profit	300,000	346,565	46,565			
Interest & Other	0	0	0			
Pre-Tax Profit	300,000	346,565	46,565			

Balance Sheet

Current Assets:			
	Before	After	INVISTA Impact
	\$	\$	\$
Inventory @ cost	280,069	281,509	1,440
Inventory @ retail	400,099	419,612	19,514
Other	0	0	0
Total Assets at Cost	280,069	280,069	0

KPIs

	Before	After	INVISTA Impact	Segment Avg
Gross Margin %	35.00%	35.54%	0.54%	27.50%
Expenses % to Sales	20.00%	19.04%	-0.96%	21.00%
Pre-Tax Profit % to Sales	15.00%	16.50%	1.50%	4.75%
Inventory Turn	2.95	2.93	-0.02	4.50
GMROI	1.59	1.62	0.03	0.00

Summary

An investment of:	\$55,675
Creates additional:	
Sales	\$100,800
Net Profit	46,565
Net Profit %	1.50%

In another example, a forecasting application that reduces forecast error would reduce the safety stock with similar impacts. In both cases, the benefits can be directly traced back to procedural changes associated with the solution. The skill is in building a credible, logical model and then calibrating it.

Operations

To operate, the user simply inputs the retailer's Profit and Loss Account numbers from the most recent fiscal year. We then provide a set of applicable retail segment baseline numbers, such as return rates, margins, conversion rate, etc. Next, we define any measurable processes and populate the model. The baseline data is then refined with information provided by the retailer or possibly through other means including store surveys.

Specific data relating to the solution is input on a separate page to help show the details of the ROI providing specific discussion points and as a means to refine the ROI model estimate.

Features

Martec can build ROI Estimators to highlight a single solution, modularized solutions, or even for integrated product offerings. Each ROI Estimator is customized from thoroughly designed and tested templates to ensure accuracy and decrease build time. These templates allow us to tailor an optimal design to illustrate the realistic potential ROI for a retailer.

Base Parameters	Toys Segment*	
	Toy Store, Inc	Norms
Number stores	1,592	
Average inventory as multiple to end of year inventory in balance sheet	1.2	1.2
Current inventory service level %	93%	93.0%
Comp store gain factor	10%	10%
Cost of money (weighted average cost of capital) %	6.00%	6.00%
Carrying cost of inventory excluding cost of money	5.00%	5.00%
Depreciation period (years)	5	5
Average annual maintenance costs (hardware and software) %	17%	17%
Number of employees	202,000	
Annual employee churn %	90%	90.0%
Average sales transaction	\$18.00	
Labor % to sales	11.0%	11.0%

Features Offered include:

- Retail sector averages for pertinent KPIs
- Implementation sequence factoring of specific KPIs to accurately reflect the impact of one solution on another - *ideal for modular IT solution providers.*
- ROI summary page for single page results
- Solution summary pages to illustrate costs and benefits of each solution
- "Sensibility" reviews to highlight how the ROI impacts being claimed are realistic
- Ability to test the sensibility of key solutions

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CRM Data Warehouse	
Benefits	
1. Increased retention - through customer reactivation	
2. Increased sales - through increased retention (more visits), higher conversion rates, higher transaction sizes	
3. Increase customer profitability	
4. Reduced media costs	
Base Data	
Customer churn	30.00%
Reduction in churn	5.00%
Sales	\$ 11,305,000,000
Increase in transaction size	2.00%
Media reduction (as a % to sales)	0.05%
Gross margin	31.01%
Depreciation (years)	5
System Maintenance	17%
Benefits	
Increased sales (retention)	\$ 565,250,000
Increased sales (transaction size)	\$ 226,100,000
Increased gross profit	\$ 245,420,000
Media reduction	\$ 5,652,500
Profit Improvement	\$ 251,072,500
One Time Cost Calculation	
Server and any other hardware	\$ 20,000,000
Application software	\$ 2,000,000
Network hardware	\$ 500,000
Systems integration/professional services	\$ 2,000,000
Other costs	\$ -
Total one time costs	\$ 24,500,000
Annual Costs	
Annual Depreciation Charge \$	\$ 4,900,000
Annual Maintenance \$	\$ 3,825,000
Total Annual Costs \$	\$ 8,725,000
Net Benefit \$	\$ 242,347,500