



# PALADIN

## DATA CORPORATION

We Make Stores Run Better.

**Fall 2011**

### Paladin Think *POSitive* Newsletter

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#### **PRESIDENT'S CORNER - ALWAYS BE PREPARED**

Fall has become my favorite time of the year. The trees are changing, the night is cooling, and the smells of pumpkin spice and mulled cider fills the air. At the same time this has been an epic year for disasters. We started out with blizzards and moved right into flooding, tornados, heat waves, earthquakes, tsunami, hurricanes and fires. Often times these forces of nature catch us off guard, and we don't have time to ensure all our safety procedures are in place. Miguel de Cervantes expressed it best when he said, "To be prepared is half the victory."

Just as it is important that we all should be prepared for the natural disasters that frequent our area, we should be prepared for disasters prone to the business world as well.

First, just as our bodies are prone to viruses so are our computers. Here are a few tricks to keeping your computer healthy. Always keep your virus protection on and your computer updated with the latest updates. Try to limit non-business internet surfing and installation of programs that are non-essential to business functionality. These few tips will help your computer system to run as efficiently as possible.



Second, since disaster can strike at any moment always copy nightly backups onto removable devices such as a DVD or portable flash drive, and keep it at a location other than your store. Why remove it from your store? Having the backup on another device in your store is great if the disaster is limited to your computer, but it will do you no good if the disaster occurs to your store and everything is destroyed.

Now that fall has arrived and the leaves have begun to change let's be ready for what the season has to offer. If we strive to take a proactive approach to things before disaster strikes we will be prepared for what may come. Problems are common and even expected in the business world but somehow we are still surprised when we run into them. Let's take the time to fall back and regroup – after all, preparation is half the victory.

#### **UPCOMING EVENTS**

**Orgill Spring Show**  
February 02 - 04, 2012 Orlando, Florida



## THE INVESTOR

As an owner of a brick-and-mortar business, staffed with employees and a significant investment made in inventory; all in anticipation of having the right combination of market interest, timing, sales support AND the right quantity of the right inventory at the right time. I'm constantly amazed by the late night ads presented to interrupt my favorite show. "Call now before midnight, offer limited to one per person, remember to include the handling fee, and expect shipment in 6 to 8 weeks". Wow. What a business model. No office building, no warehouse, no sales, no support personnel, no inventory AND they are paid in advance. Once enough prepaid orders are received the advertiser then orders the product from an overseas manufacturer to be drop shipped to the eager buyers. I wish our businesses were this simple.

Obviously our businesses are not that simple. We are truly investors even more than we are shop keepers. Everything in our business world requires advance funding before we have anything to offer to our public. While many elements of our investment model (facilities, insurance, personnel, and technology) have no direct return on investment, one area does, and it is everyone's largest expense; Cost-of-Goods-Sold or simply referred to as Inventory.

Through my 31 years in this business I've heard numerous ideas regarding the "one key value" that makes a store profitable. I've been told to focus on high velocity code items, while another

opinion knows that margin is the key, while yet another calculates the overall number of turns on their inventory, and the list could go on and on. While I respect these opinions, I find the answer (as with most things in life) is a little more complicated than a single factor.

Inventory can't be managed as a single asset. Every single item for sale in my store must be managed individually to guarantee an adequate financial return on my investment. That is

what we are here for isn't it? To earn an acceptable rate of return from the capital we have invested so we can provide for our families and eventually our retirement? It is my experience that

profitable inventory investments in our stores require a 300% per year Gross Margin Return on Investment (GMROI).

A small percentage of my inventory investment will be above this threshold. Good.

They need to subsidize the investment items that are less than our 300% per year.

I have found that evaluating inventory investments by GMROI considers all the factors present in every inventory investment. One item could have a decent "velocity code" and still be a poor investment while another item could have a poor margin or anemic sales and be a great investment. This is what is wonderful, and so insightful, about the GMROI management





### ...THE INVESTOR (CONTINUED)...

method. Here are several factors that I put into play to literally “dial in” the GMROI needed on an individual item.

- Stock no deeper than is absolutely required to meet expected demand for two to four order cycles. Simply stated: “If I can’t sell it within 2 to 4 order cycles, I shouldn’t buy it”.
- Overstock is ANY quantity of product owned (above minimum order quantities) that is in excess of what is needed to sell. GMROI on overstock is ZERO. Overstock is wasted money.
- Margin: Obviously margin is important but a visible increase in sale price can reduce the number of items sold and devastate the GMROI on an item rather than help it.
- Purchase Cost is important because it contributes directly to margin, but too many retailers believe that purchase cost is the most important consideration to building a great GMROI. I’ll demonstrate shortly that I can (and do) pay a higher price for an item and will make more dollars profit and naturally a better GMROI from my investment.
- Order Cycle: The more frequently product can be ordered, the less investment is required to warehouse the product. Why do you think the giant box stores have replenishment product arriving seven days a week?
- Order Quantity: This factor is the biggest killer of adequate return on investment that exists. High order minimums force stores to buy more product than is needed. Higher order

quantities lead to higher investments. Higher investments drive lower GMROI. We have the same sales, the same profit, but it required more investment to achieve these profit dollars. This steals investment dollars from other investments.

Let’s look at Item X that currently has a \$48.00 investment in my store. Here is how I obtain a higher GMROI and make more money by paying a higher purchase cost for the item:

### Item X Example

	<u>Typical Scenario</u>	<u>Higher Cost</u>
Order Cycle	2x per week	2x per week
Order Quantity	24 units	1 unit
Retail Price	\$3.99	\$3.99
Purchase Cost	\$2.00	\$2.35 (17.5% higher)
Typical sales per week	3	3
Two week stocking depth req.	6	6
Investment required	\$48.00	$\$2.35 \times 6 = \$14.10$
52 week Profit realized	\$103.48	\$85.28
GMROI	215.6%	604.8%

What can we do with the \$33.90 that wasn’t invested in the higher cost product? Let’s buy two new products, whose investment



### ...THE INVESTOR (CONTINUED)...

required exactly matched our surplus here, and since we're in tune with our market and their desires, both products performed to our minimum 300% per year threshold. Here are the results:

- Investment required on our new products \$33.90
- GMROI on new products 300%
- 52 week profit realized on new products \$101.70



## So how did this work out?

- Business as usual invested \$48.00, earned \$103.48, and achieved a GMROI of 215.6%.
- Higher Cost invested \$48.00, earned \$186.98, and achieved a GMROI of 389.5%.

I don't know about you, but I'm willing to carefully evaluate purchasing slow moving – high minimum order quantity products from an alternate source and pay a little more per item if I must. I'll make more money; better protect my family, my investment and my future.

Dan Nesmith, President  
Paladin Data Corporation

**Microsoft**  
GOLD CERTIFIED  
Partner

### ALWAYS BE LOOKING FORWARD



Do more with less! Tighter margin and inventory control! Reduce expenses! Find efficiencies! The business mantras of the current economic crisis remind me of the words

written by Friedrich Nietzsche more than 100 years ago: "That which does not kill us makes us stronger." Those of us still alive after what has proven to be the most difficult business climate in recent memory may not be stronger yet, but we're leaner, smarter and better prepared to face future challenges, and to grow our businesses as we enter a recovery period.

If the recession has taught us anything it is this: we must always be looking for ways to be efficient in our business operation while at the same time providing our customers with exceptional value and service.

At Paladin, we have a real sense of pride knowing that our POS solution is not only an exceptional value, but has been a critical component in allowing our customers to find the efficiencies necessary to survive and grow. Simply stated... We Make Stores Run Better.

The economic forecasts are beginning to provide some glimmers of hope, but we're not out of the woods quite yet. Now is the time to prevent "that which has not killed us" to overtake us. Let us show you how Paladin can help you achieve your business goals.



[the intelligent POS system]

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