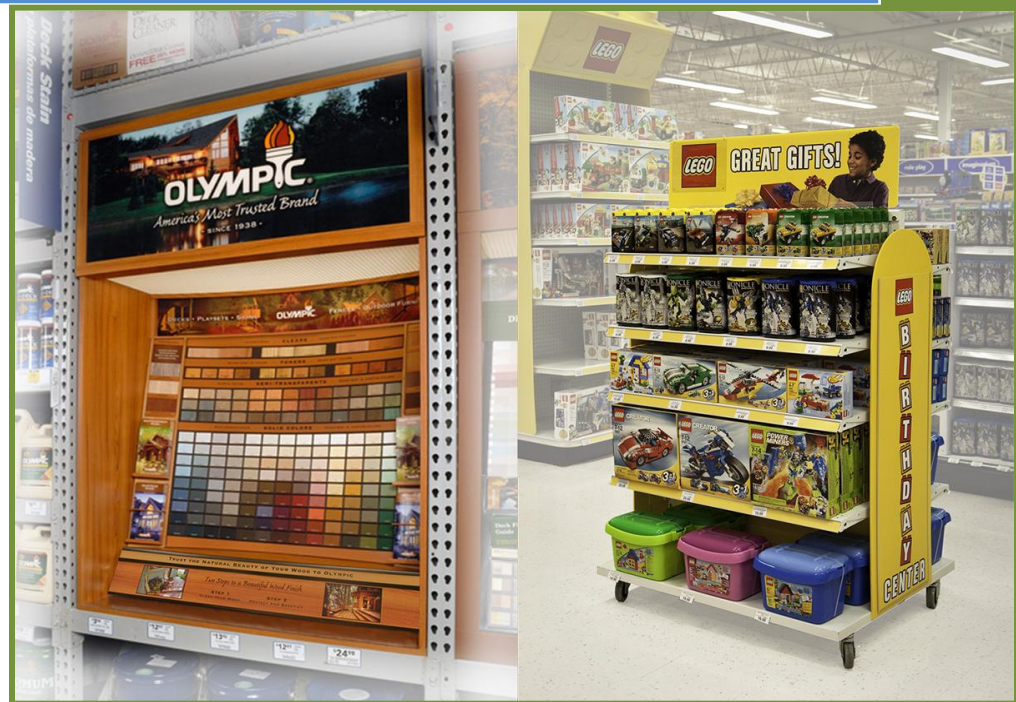


2011

*Many Happy Returns ... A Return  
On Merchandising Investment Model*



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*“We really don’t have a budget, but I am looking for some new and exciting ideas to merchandise my product. We can worry about costs later.”*

How many marketing, merchandising, and product managers are faced with these kinds of marching orders on almost a daily basis? With more than 35 years in the business, I can tell you this happens more often than not.

Costs **do** count... and the sooner in the process they are addressed, the straighter the path to a successful solution. It takes on even more importance with kiosks, social media, and interactive marketing becoming a larger part of the traditional in-store marketing mix.

While there are many articles and general return on investment strategies and calculators out there, *(one good general source reference is John Davis’ book, MEASURING MARKETING...103 METRICS EVERY MARKETER NEEDS, John Wiley and Sons Press)*, most return on investment models do not adequately focus on the variables involved in determining “Return On Merchandising Investment” (ROMI).

*This article will:*

- Identify those specific variables that make up a predictable Return-On-Merchandising-Investment model.
- Create an easy-to-use working Return-On-Merchandising-Investment calculator where users can enter variables to see their impact on other variables in the equation.

### *Identifying the ROMI Variables*

Some of the variables listed below are common to both traditional display and fixture strategies as well as interactive applications.

1. *DISPLAY COST (DC)*

*Calculating ROMI for In-Store Merchandising* – All the costs associated with designing, producing, testing, and deploying the in-store merchandising materials. This includes many variables and choices starting with quantity required, size, preferred materials, messaging, etc. Too many times, companies and retailers, especially when introducing new products, ask their merchandising partners to “bring them new ideas, out-of-the-box solutions, etc.”, with little specific direction and no budget target. This slows down the development process at best, while often losing important focus at a key point in the merchandising development.

*Calculating ROMI for In-Store Merchandising* – In the case of an interactive display, the cost of the display component is made up of at least three sub-components; one time software development, hardware, and the enclosure and the component integration process.

2. *DISPLAY QUANTITY (DQ)* – This is a key metric, as depending on the display’s specifications, there are economies of scale producing these items, and these vary based on quantities, in addition to materials and complexity, etc.
3. *DISPLAY LOCATIONS (DL)* – Quantities and locations are not necessarily always the same. For example, some companies may weigh the option of ordering more display units than they currently need to take advantage of a lower price point, knowing they will use them in the near future.
4. *PRODUCT COST (PC)* – What is the cost of the product to the manufacturer or retailer?
5. *PRODUCT QUANTITY (PQ)* – What is capacity and/or inventory the merchandising display supports? The merchandising strategies and retail objectives will obviously be different for a high cost, small inventory product (fine jewelry) than a high inventory, low cost product (small electric batteries).
6. *PROFIT MARGIN (PM)* - The actual or anticipated margin between the cost and gross revenue generated. The cost of a retail merchandising program, whether funded by the manufacturer, retailer, or in a co-op effort, needs to be funded by the gross margin, and is a key indicator in the program’s success.
7. *INVENTORY TURN (IT)* – How often does (or should) the inventory turn? More turns is just another way of describing more sales, and is often a function of product cost and product capacity.

The actual formula we have developed for Return on Merchandising Investment using these variables is:

**RETURN ON MERCHANDISING INVESTMENT CALCULATOR**  
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ROMI = % of Gross Profit Margin

<p><b>Merchandising</b></p> $\text{ROMI} = \left( \frac{\text{PC} \times \text{PQ} \times \text{PT} \times \text{PM}}{\text{DC} \times \text{DQ}} \right) \times \text{DL}$ <p><b>Interactive/Kiosk</b></p> $\text{ROMI} = \left( \frac{\text{PC} \times \text{PQ} \times \text{PT} \times \text{PM}}{\text{SC} + (\text{EC} + \text{HC}) \times \text{DQ}} \right) \times \text{DL}$	<p><b>KEY:</b></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;">PC = Product Cost</td> <td style="width: 50%;">DC = Display Cost</td> </tr> <tr> <td>PQ = Product Quantity</td> <td>DQ = Display Quantity</td> </tr> <tr> <td>PT = Product Turns</td> <td>SC = Software Cost</td> </tr> <tr> <td>PM = Profit Margin</td> <td>EC = Enclosure Cost</td> </tr> <tr> <td>DL = Display Locations</td> <td>HC = Hardware Cost</td> </tr> </table>	PC = Product Cost	DC = Display Cost	PQ = Product Quantity	DQ = Display Quantity	PT = Product Turns	SC = Software Cost	PM = Profit Margin	EC = Enclosure Cost	DL = Display Locations	HC = Hardware Cost
PC = Product Cost	DC = Display Cost										
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**Merchandising Display**

	Product Cost	Product Quantity	Product Turns	Profit Margin	Display Locations		
ROMI =	\$25	x 25	x 5	x 20%	) x 250	=	\$156,250.00
		\$44	x 250			=	\$11,000.00
		Display Cost	Display Quantity				

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**Interactive or Kiosk Display**

	Product Cost	Product Quantity	Product Turns	Profit Margin	Display Locations		
ROMI =	\$100	x 360	x 1	x 25%	) x 100	=	\$900,000.00
	\$50,000	+ [	\$2,000	+ \$1,000	) x 125	=	\$425,000.00
	Software Cost		Enclosure Cost	Hardware Cost	Display Quantity		

To try the ROMI Calculator yourself, [click here](#). (In order for the calculator's functions to work, you will need Microsoft Excel 2007 loaded on your computer.)

**Symbol Key\***

DC – Display Cost  
 DQ – Display Quantity  
 PC – Product Cost  
 PQ – Product Quantity  
 PT – Product Turns  
 PM – Profit Margin  
 DL – Display Locations  
 EC – Enclosure  
 SC – One Time Software Cost  
 HC – Hardware Cost

**% of Gross Profit Margin = ROMI** (The lower that percentage, the more successful the particular merchandising promotion.)

$$\text{ROMI}^* = \frac{(\text{PC} \times \text{PQ} \times \text{PT} \times \text{PM}) \times \text{DL}}{(\text{DC} \times \text{DQ})}$$

For example, if client A needs a merchandising display to hold 24 items, with a unit cost of \$15 and turns inventory 4 times a year in 250 locations, and expects a gross profit margin of 20%, and will consider a budget of \$50 per unit for each display, the formula works like this:

$$\text{ROMI}^* = \frac{(\$15 \times 24 \times 4 \times 20\%) \times 250}{\$50 \times 250} = \frac{\$72,000}{\$12,500} = 17.4\% \text{ ROMI}$$

If the cost of the display increased to \$75, the **ROMI = 26%**, by increasing the one variable. The ROMI Calculator included here will allow you to change any or all the variables in the equation to see how it affects the ROMI percentage.

Using the ROMI calculator with a retail interactive or kiosk display, the only change to the formula is that **SC** (one time software cost), **EC** (enclosure cost) and **HC** (hardware cost) [**SC + (EC + HC)**] replace **DC** (display cost). So, if client B wants an interactive kiosk to sell 360 items/location/yr. at a 25% margin at 100 locations, but bought 125 total kiosks (**SC** = \$50,000, **HC** = \$1000/unit, **EC** = \$2000/unit) with 25 for future use, the formula would work like this:

$$\text{ROMI} = \frac{(\$100 \times 360 \times 1 \times 25\%) \times 100}{[\$50,000] + (\$2000 + \$1000) \times 125} = \frac{\$900,000}{\$450,000} = 47.2\% \text{ ROMI}$$

If, for example all the kiosk units would have been deployed for the full year instead of just 100 and the other numbers remained constant, the ROMI would have dropped to 37.8%. Changing other variables in the calculator would generate other changes that would help establish a target price for the display among the other key variables.

Will this calculator remove all risk in the development of in-store merchandising programs?

No, but it can help manage that risk by accomplishing two important things:

1. Using this ROMI calculator, company decision makers will be forced to take a hard look at the variables involved, and use it to generate realistic budgets to develop successful in-store merchandising programs.
2. It provides an easy-to-use tool that not only provides a reasonable scenario for development and deployment of a merchandising program, but it also can be used to evaluate its cost-effectiveness after deployment.

Retail merchandising isn't rocket science, but it's a 365 day, 24/7 continuous stream of activity shaped by the changing key variables discussed here.

If you want to be "happy" with your merchandising returns, remember costs do count, and any tool to help assess the risk, will maximize your return on investment.

**RETURN ON MERCHANDISING INVESTMENT CALCULATOR**  
Sponsored by Frank Mayer & Associates, Inc.

ROMI = % of Gross Profit Margin

**Merchandising**  
ROMI = (  $\frac{\text{PC} \times \text{PQ} \times \text{PT} \times \text{PM}}{\text{DC} \times \text{DQ}}$  ) X DL

**Interactive/Kiosk**  
ROMI = (  $\frac{\text{PC} \times \text{PQ} \times \text{PT} \times \text{PM}}{\text{SC} + (\text{EC} + \text{HC}) \times \text{DQ}}$  ) X DL

**KEY:**  
PC = Product Cost      DC = Display Cost  
PQ = Product Quantity      DQ = Display Quantity  
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**Merchandising Display**

Product Cost	Product Quantity	Product Turns	Profit Margin	Display Locations	Display Cost	ROMI
\$25	25	5	20%	250	\$156,250.00	7.0%
				\$44	\$11,000.00	

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**Interactive or Kiosk Display**

Product Cost	Product Quantity	Product Turns	Profit Margin	Display Locations	Software Cost	Enclosure Cost	Hardware Cost	Display Quantity	ROMI
\$100	360	1	25%	100	\$900,000.00	\$50,000	\$1,000	125	47.2%
						\$2,000	\$1,000		\$425,000.00

[Click here](#) to use all of the features of the ROMI calculator, as shown in the image to the left.

In order for the calculator's functions to work, you will need Microsoft Excel 2007 loaded on your computer.