Dear CEO,

I hope you had a nice weekend. I had the chance to review the annual financial data for each of your 333 locations and noticed a couple of interesting trends regarding annual profit margin. However, before I divulge those, here is a quick recap of your overall rent-adjusted profit margin in aggregate. Please note, since there are leased and owned locations, in order to calculate on a consistent basis, I added in an implied rental cost to the owned locations based on the average percentage of rental cost to fixed cost for the leased locations. When doing so, the mean rent-adjusted profit margin was 24.80% (vs. 24.86% unadjusted) and the median was 26.06% (vs. 26.18% unadjusted). Additionally, the unadjusted distribution of the profit margin across locations appears to be slightly left skewed.

As far as trying to maximize profit margin, I noticed 2 prevalent trends in the data. The first is on the revenue side in terms of the number of products offered. The data suggests that as the number of products offered in a location increases, profit margin tends to increase. I believe the reasoning behind this is that the buyer, with the additional selection, may be purchasing additional items to what he/she originally came into the store to buy. Additional revenue covering the same fixed costs drives margin expansion.

This leads to the second trend, which appears to be that lowered fixed costs as a percentage of revenue leads to higher profit margins. The 2 largest states in terms of locations are Texas and California. Texas, with 101 locations, has the lowest fixed cost / revenue percentage at 19.7% and the highest rent-adjusted annual profit margin of 27.9%. California, with 63 locations, comes in second in both of these metrics at 20.4% and 25.9%, respectively. However, one can't necessarily argue that it is increased store penetration in the state driving this because both Colorado (15 stores) and Washington (14 stores) have similar profit margins to California, but with significantly less stores. What Colorado and Washington do have in their favor are lower fixed costs as a percentage of revenues. Additionally, both Georgia and Illinois have 54 stores each, but very different profit margins. Georgia's rent-adjusted profit margin is 20.6%, while Illinois' rent-adjusted profit margin is 25.0%. A significant driver of the difference is that Georgia has a higher fixed costs to revenue percentage of 22.6%, compared to Illinois 20.7%.

So, my recommendation if looking to maximize your profit margin would be to increase the number of products you sell at each store and to try to reduce as much as possible the fixed costs. Please let me know if you should need any additional information and I look forward to speaking with you soon.

Regards,

Emily