

## Understanding Compounding ROI and Related Growth

Wholesale provides predictable income – by allowing a creatable calculated percentage of return on your investment. This return should be consistent with replenishable products – as they are easily restocked. Let's go through a quick set of equations to show the effect on predictability and calculated returns.

It is important to note that this is done on a per sku level, but can extrapolated with averages across your entire inventory.

Let's look at the example of it from this perspective (single sku).

Widget Cost: \$10

Monthly Sell Through: 100 units

Total Monthly Stock Cost: \$1000

Monthly Return on Investment (ROI): 30%

Monthly Return \$: \$1300

That means, if you can find a similar investment, for the return amount you can multiply your entire investment again – by the same multiplier

Widget 2 Cost: \$10

Monthly Sell Through : 100 units

\*\*Total Monthly Cost: \$300

\*\*I am simply showing, that from our initial investment – we can now only buy 30% of our monthly necessary inventory. At this point we will not be able to satisfy demand. We can only satisfy demand, as our capitalization situation allows.

Total Monthly Expenditure: \$1300

Total Monthly Return: \$1690

For future examples, assume that we are able to find the same inventory – and simply multiply our money per schedule. As you find diversity in your products (monthly ROI – which will be covered in a later video) will help you determine where to allocate funds for maximized return.

Month 1: \$1000 (Investment) / \$1300 (Return)  
Month 2: \$1300 (Investment) / \$1690 (Return)  
Month 3: \$1690 (Investment) / \$2197 (Return)  
Month 4: \$2197 (Investment) / \$2856.1 (Return)  
Month 5: \$2856.1 (Investment) / \$3712.93 (Return)  
Month 6: \$3712.93 (Investment) / \$4826.81 (Return)  
Month 7: \$4826.81 (Investment) / \$6274.85 (Return)  
Month 8: \$6274.85 (Investment) / \$8157.31 (Return)  
Month 9: \$8157.31 (Investment) / \$10604.50 (Return)  
Month 10: \$10604.5 (Investment) / \$13785.85 (Return)  
Month 11: \$13785.85 (Investment) / \$17921.61 (Return)  
Month 12: \$17921.61 (Investment) / \$23298.09 (Return)

Initial Investment: \$1000

Total Cost of Goods Sold: \$74326.96

Total Profit \$ (though re-invested): \$22298.09

Total Sales \$ (estimated w/ standard fees): \$132822

Monthly ROI: 30%

Product Profit Margin: 16.78%

The extrapolation posed above simply accounts for a predictable inventory growth. It does assume that 100% of the funds will go back into the business. The purpose of showing this extrapolation is that 16% profit margins are generally considered low – but most people don't realize if they are consistent and have an incredible turnover, that the multiplier (Days to Turn) effect simply takes your business and operations to the next level.

With this type of predictability, your goal is simply finding products that allow you to maximize your resources and capital, and while it always doesn't function like a perfect model – your money retains liquidity to the point that you are easily removed from bad situations. For example, at some point – if you lose 5% on a product (simply finding a replacement is key) – your money is returned, and you are just looking for another item to deliver your target returns.