

The Profitability Pivot

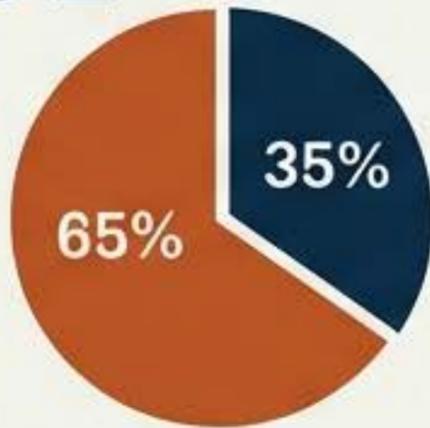
OPERATIONAL STRATEGY & FINANCIAL ROADMAP

Optimizing Margins, Inventory, and Asset Utilization for 2026

Operational Scorecard: The Four Urgent Moves

The business is currently operationally inverted. High acquisition costs and low asset utilization require immediate intervention.

01



Margin Mix

Shift Revenue Focus
Current: Fabric (35% GM).
Target: Notions (60%) & Workshops (\$6.5k Fee).

02



Cost Basis

Slash Wholesale Costs
Current: 120% of Retail Value.
Target: 100% of Retail Value.

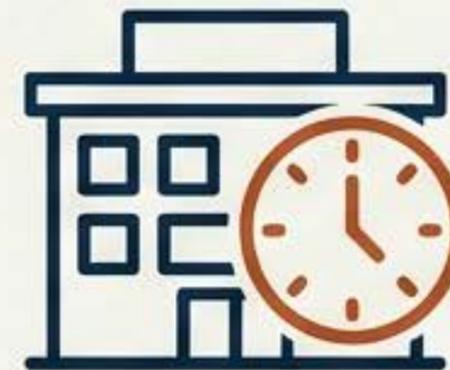
03



Volume Velocity

Lift Units Per Order (UPO)
Baseline: 15 Units.
Target: 20+ Units.

04



Overhead Efficiency

Optimize Fixed Spend
Rent: Offset \$3,500 via sublease.
Labor: Realign \$56k spend to peak hours.

The Core Problem: Capital Lockup & The '120% Trap'

Procurement inefficiencies and holding costs are eroding gross margin before sales occur.

Gross Margin Erosion Per Unit (\$1.00 Retail Value)



Key Diagnostics:

1. **The 120% Trap:** We pay \$1.20 for every \$1.00 of retail value. Target is 100%.
2. **Inventory Drag:** 80% of SKUs are slow movers.
3. **The Double Loss:** 18 months of holding costs = 25% value erosion.

Action: Immediate liquidation of bottom 80% revenue contributors.

Strategy I: The Workshop Revolution

Flipping the sales mix from low-margin goods to high-margin instruction.

Legacy Model: Fabric Sales



Price: **Variable**

COGS: **High**

Gross Margin: **35%**

Current Rev Share: **80%**

Growth Model: Workshops



Fee: **\$6,500**

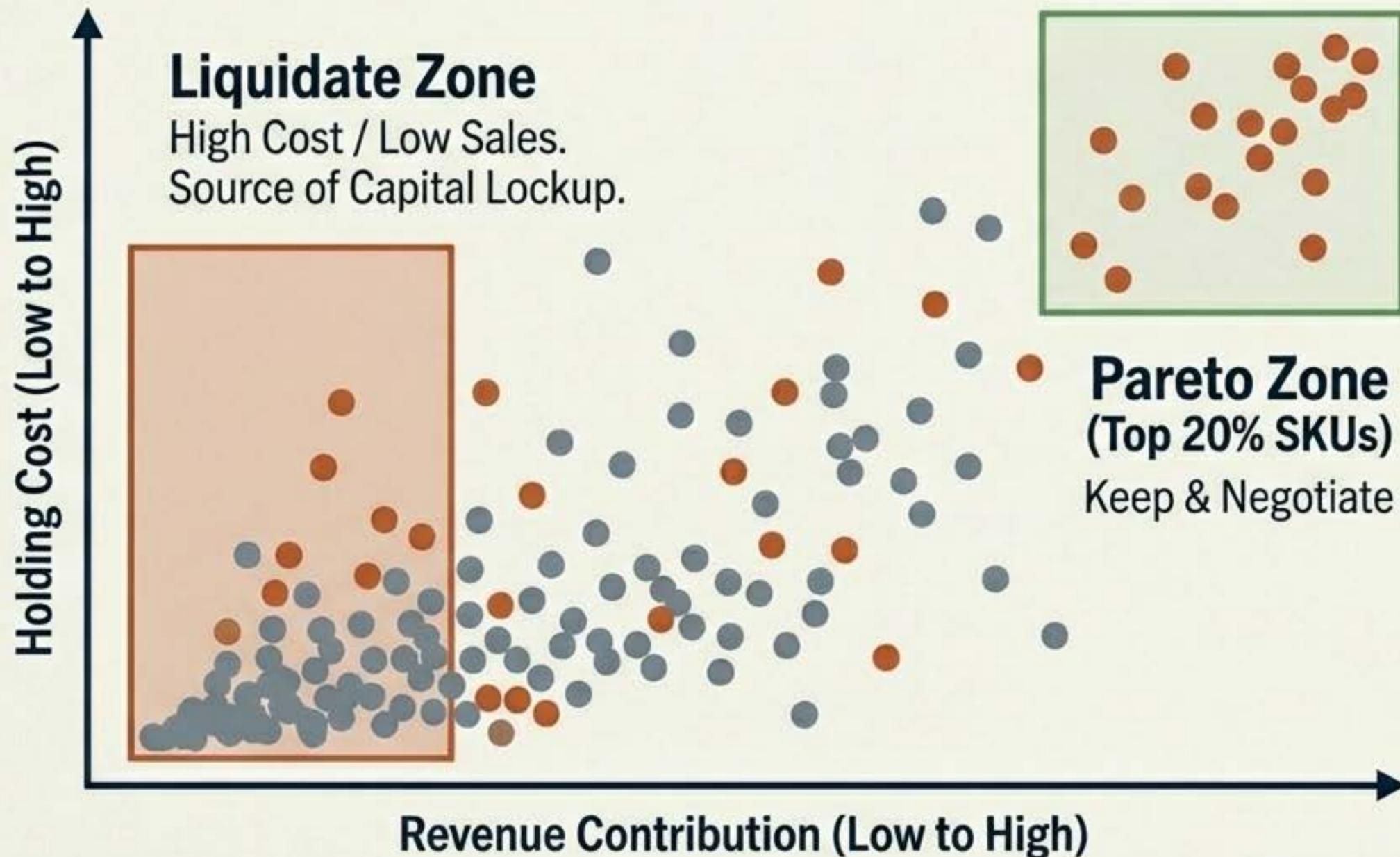
Direct Material Cost: **20%**

Contribution Margin: **80%** Target Rev Share: **40%**

Tactical Note: Reduce the 20% material cost further by bulk-buying thread and standardized patterns.

Strategy II: Procurement & Inventory Hygiene

Consolidating vendors to force wholesale costs down to 100% of retail.



Key Data



Target: 16.7% COGS Reduction (120% -> 100%)



Action: Reduce suppliers from 5 to 2 for volume leverage.



Risk: Must maintain the '340 weekly visitors' driven by visual diversity.

Strategy III: The 'Notions' Multiplier

Unlocking operating leverage through high-value attachments.



$$\text{Fixed Labor Cost} + \text{Increased Basket Size} = \text{Pure Profit Flow}$$

 **15**
Baseline:
15 Units Per
Order (UPO)

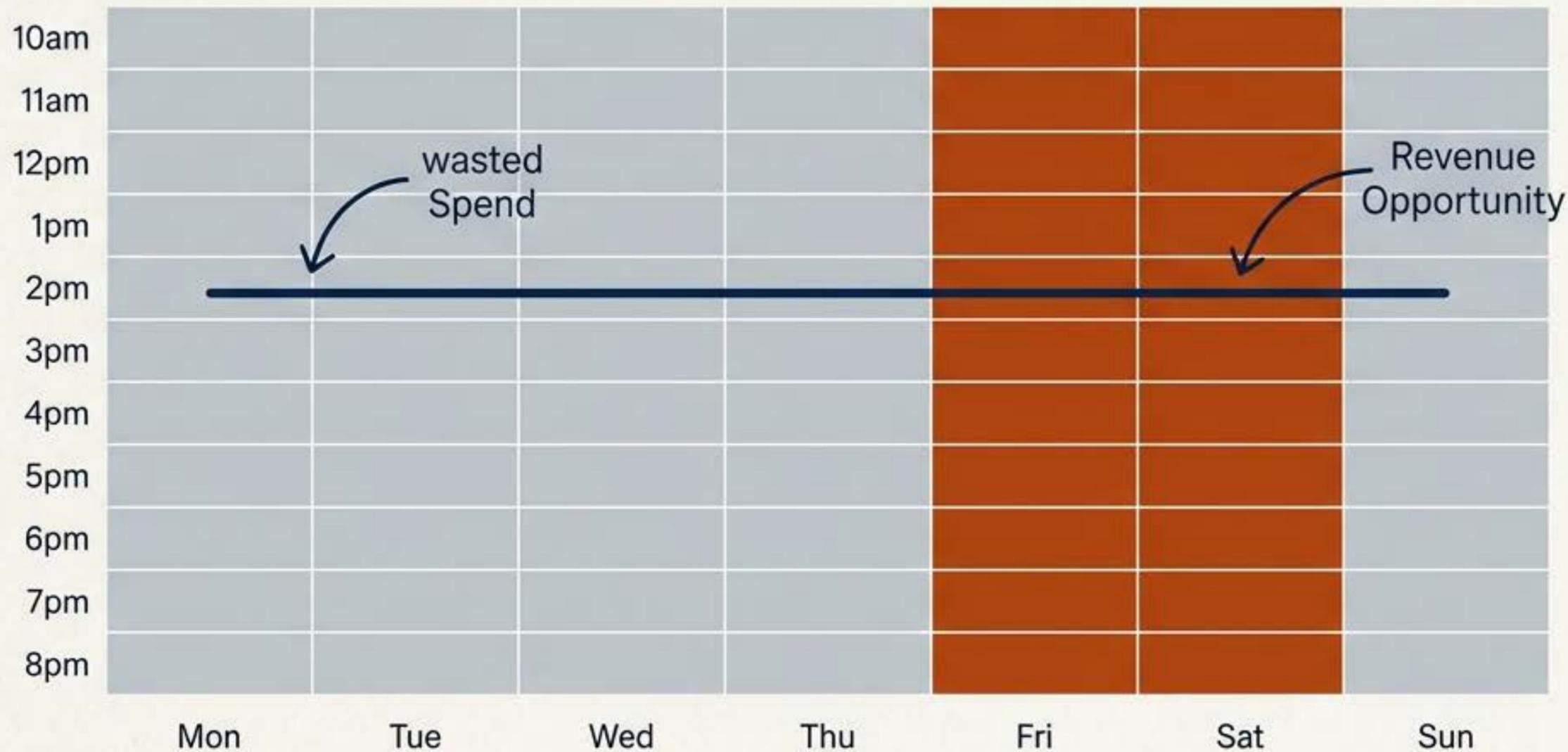
 **20+**
Target:
20+ Units
Per Order


Driver:
Staff incentives
tied to attachment
rate, not volume.

Strategy IV: Right-Sizing the \$56k Labor Spend

Aligning 15 FTEs to peak traffic windows rather than calendar hours.

Heatmap

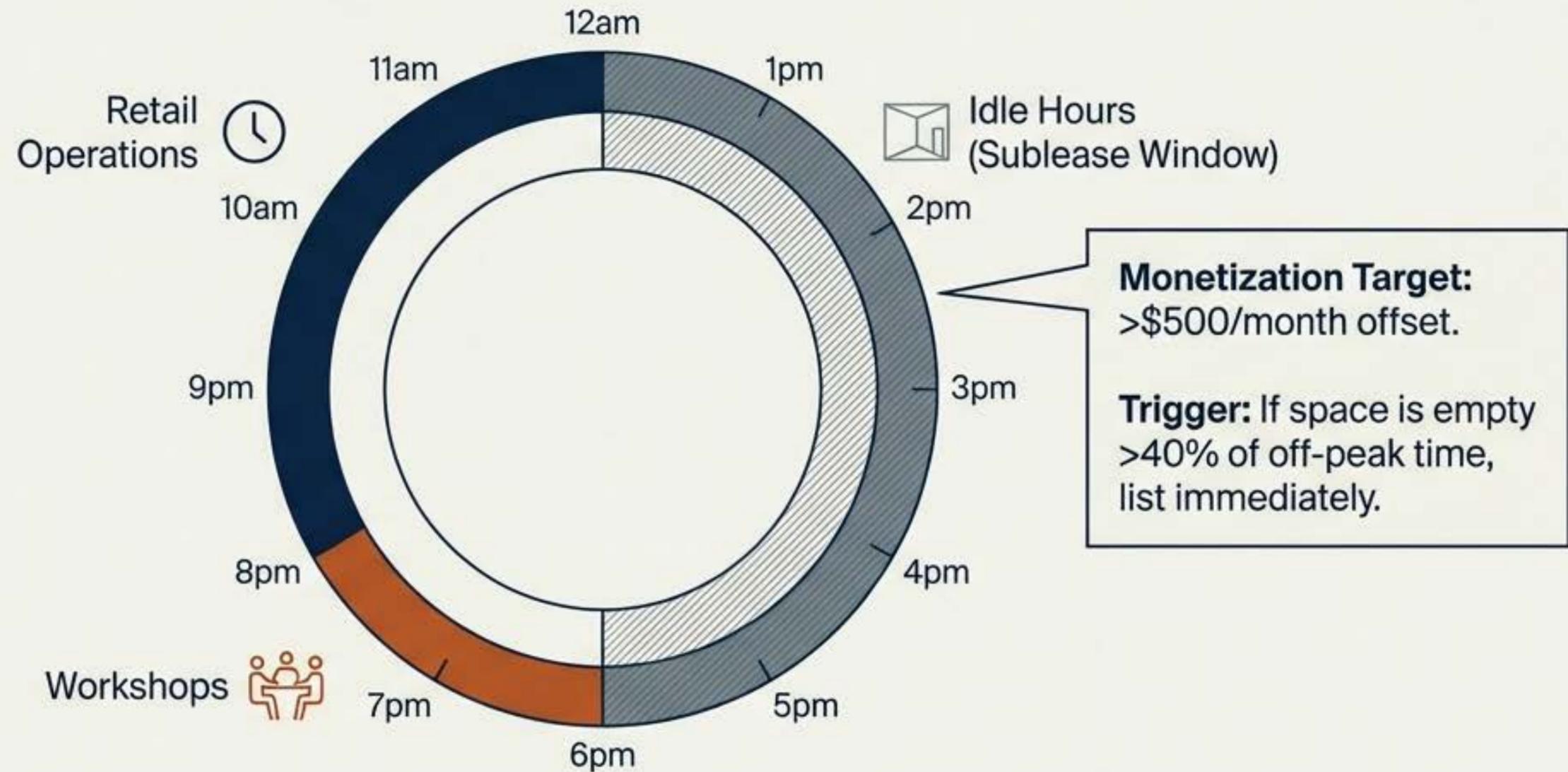


Key Metrics

-  **Monthly Cost:**
\$56,250
(15 FTEs @ \$3,750)
-  **Optimization:**
Automate inventory counting to reclaim 75% of admin time.
-  **Goal:** Load 80% of labor hours into Fri/Sat windows.

Strategy V: Monetizing Static Assets

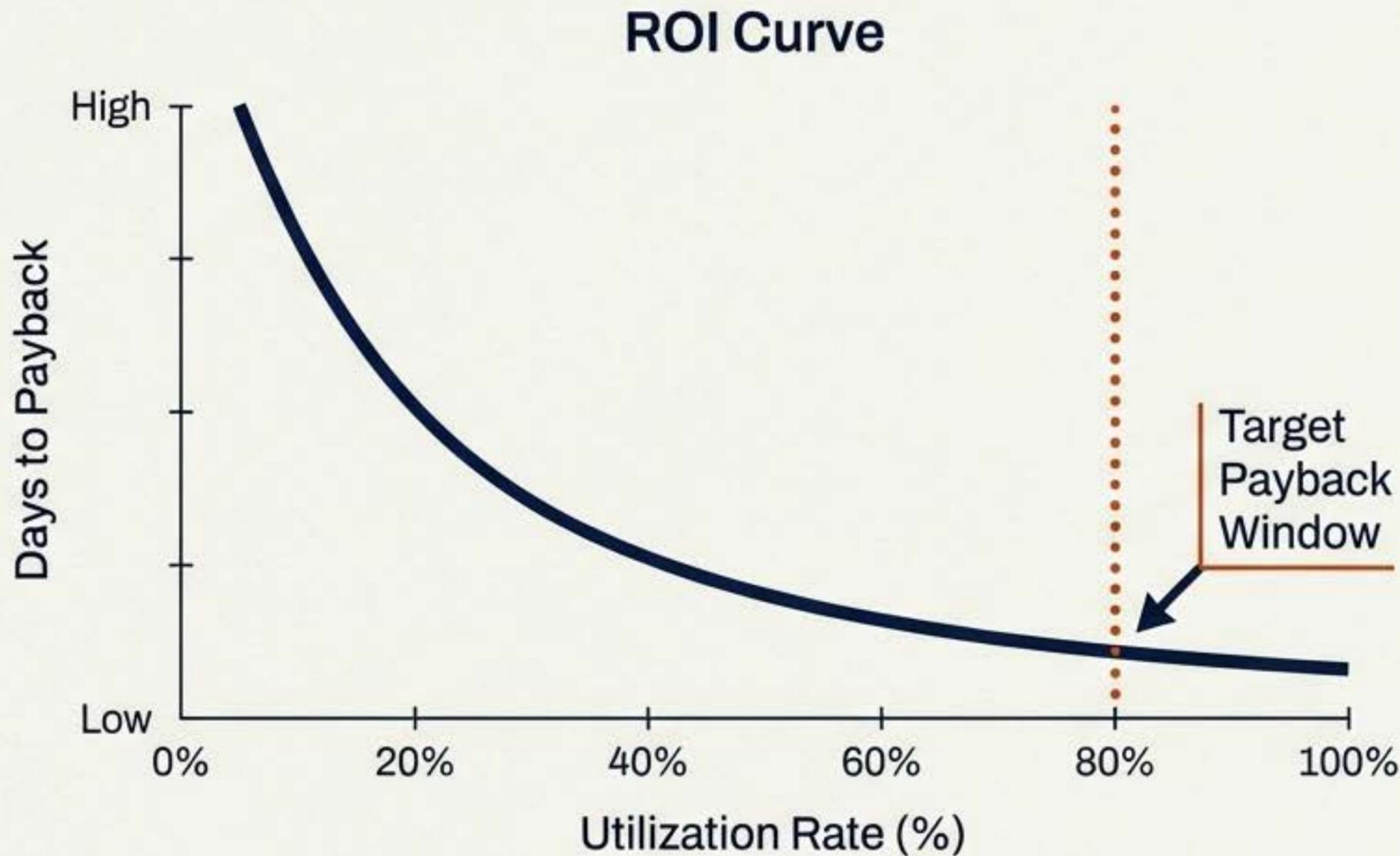
Offsetting the \$3,500 fixed lease burden through off-hours utilization.



Benchmark: Occupancy cost must be <10% of Gross Revenue.

Strategy VI: Maximizing CAPEX Return

The \$8,000 machinery investment demands >80% utilization.



- 📁 **Investment:** \$8,000 (Sewing Machines).
- 🕒 **Concept:** Machine time is perishable inventory. Unused slots = lost capital.
- 📦 **Tactic:** Bundle machine time with premium fabric kits to force utilization.

Strategy VII: The Retention Loop

Moving from Acquisition to Lifetime Value (LTV).

Metrics Box

Current Frequency: 8 Orders/Month
Target Frequency: 10 Orders/Month

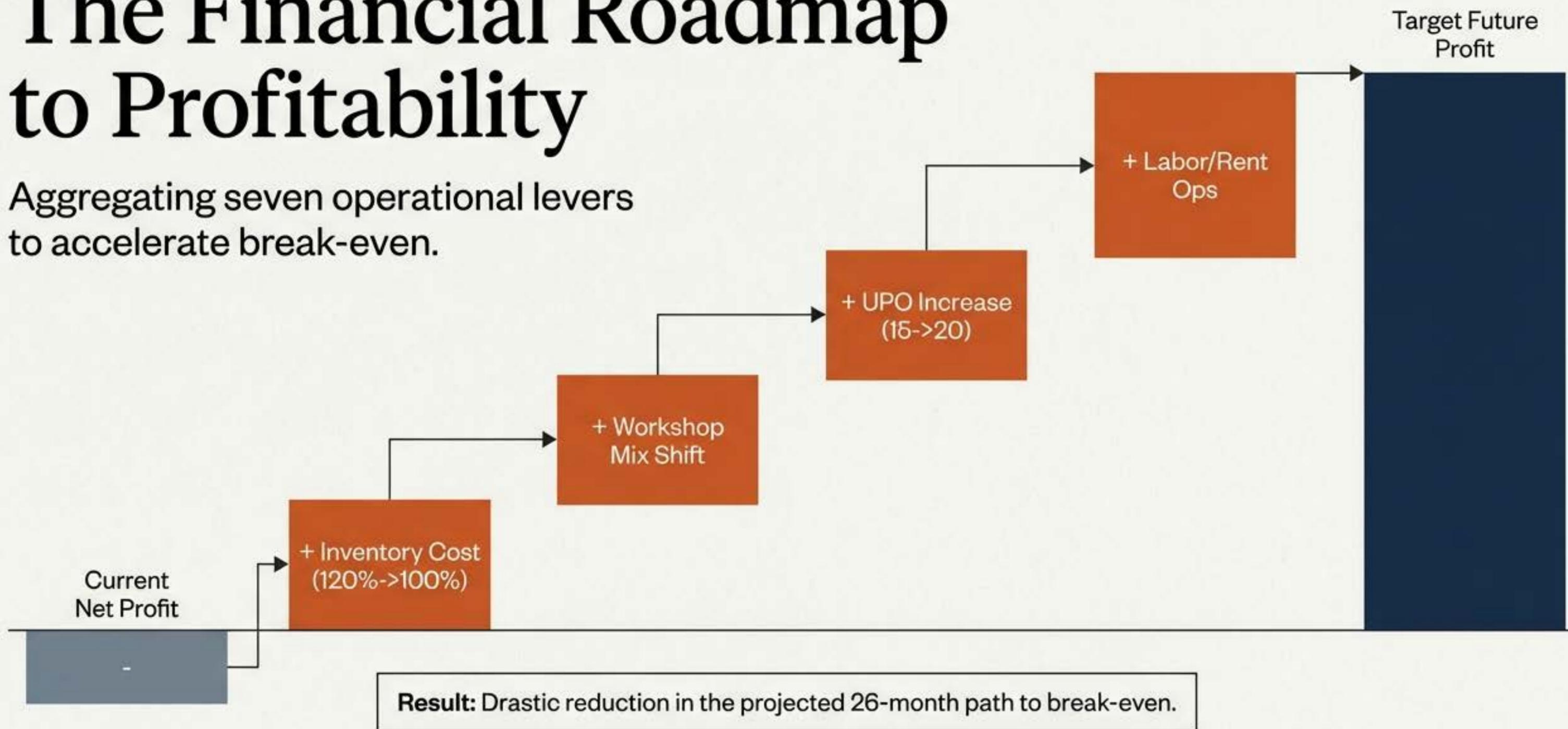
Goal: Capture value in the 3rd quarter of ownership.

Customer Timeline



The Financial Roadmap to Profitability

Aggregating seven operational levers to accelerate break-even.



Immediate Action Plan: The Next 90 Days

Execution timeline to stop the operational inversion.



Efficiency gains must not shrink the curated inventory that attracts customers.