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HOW TO BE PROFITABLE DURING BOTH GOOD AND BAD TIMES - PART 6
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In last month's newsletter I described the preparation of an annual cash flow projection, the fourth step in planning to be profitable. As a re-cap, the five steps to being profitable are:

1. Prepare an annual Gross Margin Plan
2. Use an Open-To-Buy
3. Prepare an annual pro-forma Income Statement (budget, done by month)
4. Prepare an annual Cash Flow Projection (done by month)
- 5. Track the productivity of their selling staff**

In this, the last installment of this 6 part series, we will discuss the information you need to track about your salespeople and why it is important.

### Sales Staff Productivity

No matter how well you buy and merchandise your store, you must depend on your sales staff to actually make all the sales. This means they must be knowledgeable and motivated. As the store owner, you can not just assume they are doing the 'right' things. Just as you manage your inventory by looking at productivity measurements such as Initial Markup, Markdowns, Stock Turn Rate and Gross Margin you must also look at the productivity measurements for your selling staff. These are: total sales, number of items sold per sales transaction, number of sales transactions per hour worked and dollar amount of average sale.

Most of you have a mix of full-time and part-time sales staff, therefore just looking at the total sales does not give you a good picture of how all your staff are performing. It is obvious that the full-time staff will have higher sales than part-time staff (at least they better!). However, if you look at averages, instead of just the totals, you will get a better picture of how your staff members are actually doing.

If you have a decent retail software package it will give you, at minimum, the total net sales, total number of transactions, and total units sold. A good system will give you that plus all the other information I will be discussing below in a good report format so all you have to do is review it. These figures for our store's 3 salespeople are below:

| <u>Name</u> | <u>Total Net Sales</u> | <u>Total Transactions</u> | <u>Total Net Units</u> |           |
|-------------|------------------------|---------------------------|------------------------|-----------|
| Tom         | \$18,500               | 140                       | 102                    | Full-time |
| Dick        | \$22,000               | 135                       | 270                    | Full-time |
| Harriet     | \$11,000               | 55                        | 110                    | Part-time |

From the total net sales and total number of transactions you can calculate the average sale by dividing total net sales by the total number of transactions. Last month Tom sold \$18,500, Dick sold \$22,000 and Harriet sold \$11,000. Tom processed 140 transactions, Dick had 135 and Harriet had 55 transactions. If we just looked at the surface we would say that Dick did better. However, we need to calculate the average sale, by dividing the total sales by the number of transactions. From this, we see that while Tom sold an average of \$132 per transaction, Dick sold \$163, but Harriet sold \$200 per transaction. Therefore, Harriet obviously did better.

Next is the number of Items Per Transaction. This is calculated by dividing total units sold by the total number of transactions. When we did this we found that Tom sold an average of .73 items per transaction, Dick sold 2.00 and Harriet sold 2.00 items per transaction. Dick and Harriet did the same on this, even though Harriet is part-time. This also tells us that if Tom would do more suggestive selling he might be able to increase his sales. For example, selling a new belt with a new pair of pants. Even just adding a pair of socks to each sale will help!

Now, we need to add some more information from Payroll. By knowing the total wages of each salesperson and the number of hours they worked we can add a couple more pieces of important information to our productivity report.

| <u>Name</u> | <u>Total Wages</u> | <u>Total Hours Worked</u> |
|-------------|--------------------|---------------------------|
| Tom         | \$2,368            | 148                       |
| Dick        | \$2,072            | 148                       |
| Harriet     | \$660              | 60                        |

From the information above we can now calculate Sales Per Hour, Transactions Per Hour and the Selling Cost % for each salesperson and rank them on these performance measurements. Sales per hour is calculated by dividing total net sales by the number of hours worked. When I did this I found that Tom sold \$125 per hour, Dick sold \$149 per hour and Harriet sold \$183 per hour. Obviously, Harriet is better in this regard. However, we need to look at extenuating circumstances. Since Harriet is part-time we can assume that she works only when the store is busiest, therefore her sales per hour should be higher.

Next, let us look at the Number of Transactions Per Hour. This is calculated by dividing the total number of transactions by the number of hours worked. When doing this I found all the selling staff fairly close. Tom had .95 transaction per hour, Dick had .91 and Harriet had .92.

By looking at both Transactions Per Hour and Sales Per Hour we can surmise that Harriet sold to fewer people but sold MORE items and higher priced items to each she worked with.

The last piece of information to look at is the Selling Cost %. This is similar to looking at the percentages on your Income Statement. The calculation is Wages divided by Total Net Sales. When doing this I found out that Tom's Selling Cost % was 12.80%, Dick's was 9.42% and Harriet had a low 6.00%. This tells me that we are overpaying Tom and underpaying Harriet since our company goal is a 10% selling cost.

Once you have this information about your sales staff, don't just let it sit in a drawer. Use it to point out to your staff where they need to make improvements, then follow up to make sure they do improve.

## LESS IS MORE

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Here is a small item I found on the web. This goes along with what I have been telling retailers, that they should not fill their stores to bursting with merchandise. As specialty retailers, your job is to buy the right merchandise for your customers, not to try to be everything to everybody. Despite what some may think, specialty stores are not department stores and their function is not to have everything for everybody!

Life Is a Small Box of Chocolates

Americans may love their Big Box stores and buying in bulk, but Lindstrom says a sea change is coming where the marketing trick will be to offer fewer choices instead of more. People's brains respond better to fewer choices. He did a test where he was giving women a box of chocolate with 20 options. They would pick one. When the box offered just six items, they picked three. "We buy more the fewer options we have," he says. "Somebody has to choose. We look and aspire, and so you will see stores offering fewer products and changing them out more often."

MARTIN LINDSTROM, is the New York Times and Wall Street Journal Best-selling author of Buyology - Truth and Lies About Why We Buy (Doubleday New York). Lindstrom is the CEO and Chairman of the LINDSTROM company and the Chairman of BUYOLOGY INC New York and BRAND sense Agency London. You can check him out on his web site: www.martinlinstrom.com

QUOTE OF THE MONTH

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"A goal without a plan is just a wish."

Antoine de Saint Exupery, a French writer, most famous for his story "The Little Prince".

## OPEN-TO-BUY SERVICE

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Control your inventory and increase profit with TRMA's Open-To-Buy Service starting at just \$300 a month.

It is critical for the retail store that inventory be controlled so there is not too much or too little. We have been providing this service to retailers for many years, and at a price even the smallest retailers can afford.

For more information, call us toll free at 1-877-206-1299, visit us on the web at <http://www.the-retail-advisor.com/open-to-buy.html>, or send an email to LC@the-retail-advisor.com.

TELE-SWAP GROUPS

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Join a Tele-SWAP Group to talk to other retailers like yourself!

There are so many retailers around the country who are isolated because they are a small independent retailer. This service gives you an opportunity to talk with others in a similar situation without having to worry about giving away any information to your competition. Get the help and advice you need to be more successful without having to leave your store.

If you would like to discuss issues with retailers who are similar to you, but far enough away they are not competitors, visit us on the web at [http://www.the-retail-advisor.com/peer\\_groups\\_tele-swap.html](http://www.the-retail-advisor.com/peer_groups_tele-swap.html). Send an email requesting an application. Once I get your application I will contact you about joining a group to take part in a monthly one-hour teleconference call. The biggest commitment will be the one-hour a month for the call. The cost is minor at just \$180 for a 6 month commitment (just \$30 a month).

## RETAIL JOB DESCRIPTIONS

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Well thought out and developed job descriptions should be the documents you use as a basis for interviewing and hiring new employees and also for making sure your employees are doing their job as it should be done. To help you with this time-consuming project, TRMA has developed very detailed job descriptions for almost all positions in a retail store in WORD so you can easily copy them to your computer and personalize them to your unique situation. The job descriptions are available on CD for only \$25, including shipping. For a detailed list of jobs, visit us on the web at <http://www.the-retail-advisor.com/job.html>.

EMPLOYEE THEFT DIRECTLY CAUSES 1 OUT OF 3 BUSINESS FAILURES

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**Studies have shown that almost half of all your store's shrinkage is due to employee dishonesty!**

If you can reduce shrinkage by 1% that is an additional 1% of profit for you. As the owner it is your job to provide the procedures, checks and balances to keep your employees honest. Also, consider that as our country plunges into this recession, normally honest people may become desperate. Financial need is one of the main reasons given for attempting theft from an employer. Make sure you are doing all you can to help avoid temptation before it strikes.

As a former controller for a 5-store chain of family apparel stores and with my experience working with retailers around the country as a retail management consultant I have developed a manual to help you with this. It is our "Internal Control Manual" that covers all aspects of a retail store's operations. It is set up in an easy question and answer format where a Yes answer means things are OK and a NO answer means you may have a problem that needs further checking.

To get a copy for your store, for just \$95 shipped Priority Mail, visit our website at [http://www.the-retail-advisor.com/internal\\_controls.html](http://www.the-retail-advisor.com/internal_controls.html).

Do not wait until you discover that a trusted employee has stolen \$70,000 from you (like a retailer I know had happen to him last year). Take steps now to make sure your merchandise and cash are as safe as you can make them. Do not delay.

## WHAT WE DO . . .

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- o [Monthly Open-To-Buy Service](#)
- o Open-To-Buy Implementation on Your System (if available)
- o Merchandise Performance Evaluation
- o [Shrinkage Control](#)
- o Development of Incentive Plans
- o [Development of Job Descriptions](#)
- o Seminars On Retail Subjects
- o Financial Analysis
- o Financial Budgeting and Cash Flow Projections
- o Computer/POS System Evaluation, Selection, Usage
- o Policy and Procedure Development
- o [Lead Tele-SWAP Groups](#) (Share With A Peer)