

by Linda Carter
© The Retail Management Advisors, Inc.
email: LC@the-retail-advisor.com

~~~~~  
**July 15, 2009**  
~~~~~

in this issue . . .

THE RETAIL STORE OWNER'S ROADBLOCKS TO SUCCESS

OUR NEXT SURVEY!

THANK YOU NOTES

QUOTE OF THE MONTH

OPEN-TO-BUY SERVICE

TELE-SWAP GROUPS

RETAIL JOB DESCRIPTIONS

WHAT WE DO . . .

BECOME OUR FAN ON FACEBOOK!

~~~~~  
Please visit our new page on facebook. We want to know what you're thinking about . . . . So let us know!

The web address is: <http://www.facebook.com/pages/The-Retail-Management-Advisors-Inc/97516302502?ref=s>.

**THE RETAIL STORE OWNER'S ROADBLOCKS TO SUCCESS**

~~~~~  
After working with retail entrepreneur's as a Retail Management Consultant for the past 26 years I have seen many, many diverse problems. Some of these problems are common to many retail store owners.

OWNER'S QUALIFICATIONS AND PREPAREDNESS

My experience indicates the 3 most common reasons small retail businesses fail are:

- 1) the owner's lack of understanding of all the requirements to run a successful business,
- 2) the owner's lack of understanding of the depth of sacrifices that must be made to operate a small business,
- 3) the owner's unwillingness to be held accountable.

I like to describe successful retail business owners as having balance. They need not be an expert at any aspect of the business but neither can they ignore any part of it. They must like to buy and sell merchandise; they must have a full appreciation for controls and systems; they must like to manage people; they must like their customers; they must be good at promoting their business. They must be able to see the fine details yet not lose sight of the big picture. They must get today's work done today yet always be mindful of the future and what it holds. They must have a flair for fashion and merchandise presentation yet must be disciplined in their work ethic and observe buying controls. The list could be practically endless.

CAPITAL

Almost without exception retail entrepreneurs underestimate the amount of capital required to grow a business. There are some simple guidelines we have developed for the retail apparel business.

The owner's equity must be about 20-25% of annual sales. In other words, for every \$100,000 in sales there should be \$20,000 - \$25,000 in unencumbered owner's investment. By unencumbered, I mean it can't be borrowed nor ever withdrawn from the business. Rather, as the business grows, the owner's investment must increase. Ideally, the increase comes from profits left in the business.

Another key ratio is that the owner's equity should be at least 1 ½ times the amount of total liabilities. This means the owner cannot rely too heavily on borrowed funds. Because of the nature of what retail stores invest their funds in (primarily inventory and accounts receivable as opposed to land, buildings and machinery), retail stores are not good candidates for a high amount of debt or long term debt. The fact is that banks do not consider privately held retail businesses as good business-loan candidates. Problems occur if owners have provided only a small proportion of the operation's total financing, as is the case when the owner's equity is equal to or less than total liabilities. When this happens, creditors will bear too much of the risk of the business and it may be difficult to obtain supplier credit and bank loans for seasonal peaks.

PLANNING

Categorically, without someone providing the guidance and impetus, the typical retail store owner has not and will not adequately prepare a yearly business plan. It is almost as if they prefer to shoot from the hip and are stimulated by surprises. They refuse to set up the systems and disciplines necessary to effectively manage merchandise inventory and expenses and are, therefore, having problems paying their bills on time and relying too much on debt to fund their growth or even worse, sinking into an abyss of debt. This, in turn, diverts their attention and their staff's time away from other areas of the business in need of attention.

We advocate the preparation of an annual budget and cash flow. This forces the retailer to take a good hard look at the business-where it is and where they want it to be a year from now. Profits do not just 'happen'. A realistic profit goal must be set and then the retailer must work towards achieving it.

We recommend that the annual budget and cash flow be prepared by month. The owner can then see in advance those months where cash will be tight so adjustments can be made to the plan or a short-term loan arranged with the bank before there is a crisis situation.

PERSONNEL

Beyond any shadow of a doubt the personnel issue is the single most important ingredient in the success or failure of a retail venture. It is also one of the most ignored ingredients. Small retailers don't want to bother with job descriptions or training. The owners do not want to be held accountable and therefore are unable or unwilling to hold their employees accountable for their personal productivity. Incentive compensation programs for buyers, store managers and salespeople are not common. Pre-employment screening and testing is rarely used. Usually the retailer makes the hiring decision based on the least expensive alternative rather than the most qualified candidate. I have also found retailers to be excessive in their tolerance of poor performance, keeping unproductive employees due to some misguided sense of 'loyalty'. Our response to this type of situation is that the owner's loyalty belongs to the store, it's customers and employees and the community, not to any particular employee. The longer a personnel problem is put off the more difficult it will become to correct.

How can the retailer ensure they have the best and most effective employees? First, a job description needs to be developed for every position. This job description is the hiring guide and yard stick for following up to make sure employees are adequately performing their duties. The job description should include a general description of duties, education and experience requirement, personal qualities desired, and the specific job responsibilities. Retailers should also take advantage of pre-employment testing to screen out less-than-best applicants.

The next step is to provide on-going programs of education, mostly in the area of sales: sales training, sales staff meetings, one-on one training.

Then the retailer must properly motivate the employees to perform their best. For salespeople we recommend incentive compensation plans, which can be direct commission, modified commission or a store team commission. We have found that it really helps the store and motivates the salespeople if they know that they're going to be compensated according to how they perform, providing the right type of salespeople were hired in the first place. Laggards don't want to work in this kind of an environment and either will not apply or get 'shook out' very fast.

LOCATION

Without exception, retailers overestimate the importance of location and use it as an excuse for not performing better. There is a popular expression that has been around the real estate industry forever: "the three most important things are location, location, location". In valuing real estate that probably is true; in retail is not true. While a visible and easily accessible location is important for any business that is visited by consumers, it certainly ranks no better than a poor third after personnel and product. There are countless instances of consumer businesses in mediocre or even poor locations that have achieved spectacular sales success. Those retailers who can truly call themselves destination stores can relegate the importance of location to an often lower position. They have developed a personal trade through their superior sales training, customer service and merchandise selection.

SACRIFICES

Every successful retailer is familiar with the sacrifices retailing requires. The long hours come to mind immediately. Retailing is not a 5-day, 8-5 kind of job. Saturdays are usually good customer shopping days and that means the store owner can't be with their family. I have never heard of a retail store owner who got 2 weeks of vacation after one year, 3 weeks after ten years, 4 weeks after twenty years . . . get the point?

The financial requirements are just as monumental. If the business fails, usually personal funds are lost. If the business succeeds and sales increase, profits must be left in the business to fund the growth. The store owner must be the last to get paid. Every other employee and all the vendors must be paid first. The store gets what is left.

Retailing is a very demanding mistress. It wants all your time, effort, money, consciousness and attention. There are, of course, compensations. Being your own boss and running your store the way you want is one. Also, there are other careers just as demanding. I only mention it because I have met retailers who do not exhibit an awareness of the depth to which they must sacrifice if they are to be successful retailers.

UNWILLINGNESS TO SEEK GUIDANCE

Many retail store owners are unwilling to admit there is a problem or seek outside guidance until the company is in such a serious condition that radical surgery is required or it can not be saved. Also, the store owner may fail to fully appreciate the significance of some momentous decisions they must make along the way. Examples are pay plans, occupancy costs, information systems and utilizing professional advisors.

It always amazes me when we find retailers who willingly pay \$70,000 and more for a computer system after a short demo but are unwilling to spend any money up front to get expert guidance on buying a system. We regularly get calls from these retailers after their new system is up and running and they find it is not providing them with the information they need to manage their business more profitably. In one recent instance a \$70,000 system was still not operational after 9 months of effort. In another, the figures were so unreliable that a complete store inventory had to be taken every month for a year.

LACK OF ACCOUNTABILITY

Since the independent retail store owner has no one to answer to (unless it's their creditors or bank, and then usually it is too late) they feel they can do whatever they want, whenever they want. This is further complicated when there are multiple owners who are not acting in concert. One solution to this is to assemble an independent Board of Directors made up of several knowledgeable outsiders. Since these outside board members have no family or business ties to the company they can be relied on to deal with problems openly, honestly and objectively. They can also bring to the business specialized know-how not available internally. Most importantly, the accountability of the president/owner to an independent Board of Directors forces the retailer to implement the planning process since new policies etc. must be 'sold' to the Board of Directors. If the owner is unwilling to expose the company's affairs to a Board of Directors, an acceptable alternative is to become part of a peer group or to use a qualified Retail Management Consultant who is capable of fulfilling the accountability role. This Retail Management Consultant can function as a one-person Board of Directors, financial and systems consultant, merchandise controller and mentor to the owner(s).

OUR NEXT SURVEY!

~~~~~  
Our next survey will be asking the question: "What are you doing to gain new customers and to generate more sales?" The only people who will receive a copy of all the results will be those who respond. This will be a good opportunity for you to get some new ideas to try in your store so do not miss it. Be sure to respond!

### THANK YOU NOTES

~~~~~  
When is the last time you told your stores' customers "Thank You"? If you have one or more sales staff in your store, you expect them to send thank you notes to their customers. However, as the store owner, how often have YOU told your customers "Thank You"? Following is the text of a Thank You Card I received recently:

Dear Linda,

I'm writing today to let you know how much I truly appreciate your business, and to thank you for being one of my best customers.

Also, I want to personally ensure that we're making your shopping experience an easy one. So if you're ever not 100% satisfied with a visit to my store, please contact me directly.

I look forward to seeing you soon.

(signature)
General Manager
Store name & address

Included was his business card with name and phone number.

You may be surprised that this came from my local Staples store. I was impressed. If an office supply store can thank their customers, how much more should you be thanking your customers for their past and continued business?

QUOTE OF THE MONTH

~~~~~  
"Failure requires no time or any effort for planning. Success does require that you plan, and then that you work the plan for your success. Failure to plan is a plan to fail, therefore, invest NOW to plan for success."  
author unknown

## OPEN-TO-BUY SERVICE

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](mailto:LC@the-retail-advisor.com).

## TELE-SWAP GROUPS

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

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>.

## WHAT WE DO . . .

- 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)