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## **THE RETAILER'S ROADBLOCKS TO SUCCESS**

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There are many, many good and even great retailers out there. There are also many, many who could be great if they overcome some of their roadblocks. Below are listed some common roadblocks we have noticed:

### OWNER'S QUALIFICATIONS & PREPAREDNESS

Successful retail business owners have balance. They need not be an expert at every 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. The list could be practically endless. The successful retailer must be able to wear many hats.

### CAPITAL

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

Owner's equity must be about 20-25% of sales. In other words, for every \$1 million in sales there should be \$200,000-\$250,000 in owner's equity.

Owner's equity should be at least 1 1/2 times the amount of total liabilities. This means the owner cannot rely too heavily on borrowed funds. Problems occur if owners have provided only a small proportion of the operation's total financing, as when the owner's equity is equal to or less than total liabilities. When this happens too much of the risk of the business is borne by the creditors and it will be difficult to obtain supplier credit and necessary operating funds.

### PLANNING

The typical retailer 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. This, in turn, diverts their attention away from other areas of the business in need of their 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, 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 so the retailer can 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 this is the single most important ongoing 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 on the most qualified. Many times, retailers are 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 their loyalty belongs to the store, not to any particular employee.

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 both your hiring guide and guide 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 requirements, personal qualities desired, and the specific responsibilities. Retailers should also take advantage of pre-employment testing to screen out less-than-the-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.

### 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 real estate that probably is true; in retail it is not true. While a visible and easily accessed location is very desirable for any consumer business, 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 even lower position. They have developed a personal trade through their superior sales training, customer service and merchandise selection.

### UNWILLINGNESS TO SEEK GUIDANCE

Many entrepreneur's are unwilling to admit there is a problem or seek outside guidance until, many times, the company is in such a serious condition that it can not be saved. Also, the entrepreneur 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 professional advisors.

It always amazes us 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 instance a retailer purchased one of these \$70,000 systems it was still not operational after nine months of effort.

Another area where outside assistance is advisable is when it is time to negotiate a lease. Retail space leases are prepared by the lessor and their attorney and, therefore, are slanted in their favor. It is important to remember that almost everything contained in a retail space lease is negotiable, but you

must have someone on your side who is very knowledgeable about retailing and leases. A lease is normally a long- term proposition so if you make a mistake here you will pay for it year after year.

#### LACK OF ACCOUNTABILITY

Since the independent retail owner has no one to answer to (unless to its creditors, and then usually it is too late) they feel they can do whatever they want, whenever they want. This is further complicated when there is more than one owner and these owners are not acting in concert. Sometimes this calls for an outside expert to come in to help straighten things out. Other times it would help if the retailer would join a retailer peer group to discuss issues with other similar retailers.

Of course, it goes without saying that the retailer must be a good merchant and know his customers. That is the beginning. The items listed above are the things that will help to keep the store open year after year after year.

#### **USING AN OPEN-TO-BUY FOR HIGHER PROFITS**

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The Open-To-Buy is a buyer's "tool" to help him or her do a better job of managing inventory. Many retailers look at it negatively as something that prevents them from buying what they want. In reality it is a tool that helps them make better buying decisions so they can be more profitable. The key is in actually using the Open-To-Buy. Don't go to market and buy what you want then go back and make the sales plan fit what you purchased. Make your plans before market, looking at past history and the current situation both locally and nationally. Of course, when you get to market you may find that some of your plans need to be changed due to fashion change or lack of goods in a particular classification. For example, you planned a nice increase in Leather Jackets but now find out that the selection is not very good. So, you buy more Cloth Jackets instead. That is fine. Except many retailers leave out the next step which is to revise the Open- To-Buy sales plans accordingly. If this is not done, it means that as we go through the season it appears that Leather Jackets is not meeting it's plan because it does not have enough inventory while Cloth Jackets has more inventory than the plan and is exceeding its sales plan. Making the changes to the sales plan and having the Open-To- Buy re-calculated ensures that you will be able to meet your goals instead of just 'guessing' that you are doing OK.

Sales Planning: There are some Open-To-Buy services that tell you they will plan your sales for you, and adjust them as needed during the year. I will never plan a retailer's sales. I will recommend that sales plans be reviewed and revised if needed but I will not do it for the retailer. I feel that no one knows a retailer's business as well as the retailer. There may be a very valid reason why sales have been below plan for the past several months. The city may have decided to tear up the street outside the store. But now the construction work is done. It would be incorrect to reduce plans for the balance of the year due to just looking at the sales performance for the past several months. I know that some retailers would rather have someone else perform this task, but it is my opinion that it is the owner's or buyer's responsibility to plan sales. Since sales are such a critical aspect of a retail store's profitability and success it should never be left to an outsider.

Markdown Planning: Just as some services tell you how much you should sell, some also tell you how much, and when, you should markdown your merchandise. It is as if they think you do not know what is on your sales floor, what is moving and what is not. Do you really want someone who is not in your store every day to tell you it is time to take markdowns, and how much markdowns to take? I believe you should have a markdown goal that you are working towards; however, if you have merchandise that you need to move, you must take the markdown even if it means exceeding your markdown budget.

The Retail Management Advisors offers an Open-To- Buy service to retailers but it is just that -- a service. We do not tell the retailer how much they can sell or how much or when to take markdowns. We know that they are the expert as far as their store is concerned and are able to make those decisions very well. We are here to support them by providing the Open-To- Buy and reviewing the Open-To-Buy for them every month to bring concerns to their attention and follow up to make sure necessary tasks get done in a timely manner.

The benefits of using an Open-To-Buy are: increased Sales, increased Gross Profit, increased Profit, decreased investment in inventory, decreased markdowns. Following are the results of a retailer we worked with to show the difference the use of an Open- To-Buy can make.

### Example Comparison

Present (2004) to Past

Big & Tall store - sales \$570,000 in 2004 - STORE IS IN THE SOUTHEAST USA

|             | I M U % |       | M D % |       | G P % |       | S T R for last 12 months |       |
|-------------|---------|-------|-------|-------|-------|-------|--------------------------|-------|
|             | Now     | Prior | Now   | Prior | Now   | Prior | Now                      | Prior |
| CLOTHING    | 62.04   | 56.75 | 11.33 | 22.15 | 57.97 | 46.40 | 2.72                     | 1.23  |
| SPORTSWEAR  | 59.08   | 58.19 | 8.21  | 22.54 | 55.81 | 48.90 | 4.10                     | 2.46  |
| FURNISHINGS | 60.20   | 57.54 | 7.02  | 8.13  | 57.75 | 54.60 | 3.88                     | 1.59  |
| TOTAL STORE | 61.12   | 57.02 | 9.42  | 19.12 | 56.43 | 48.70 | 3.28                     | 1.45  |

If you are not now using an Open-To-Buy for your store and would like to begin, give us a call.

If your computer system has an Open-To-Buy but you would like someone to review it for you on a monthly basis we also do that. I have several clients for which I perform that service.

If your computer system has an Open-To-Buy available but you do not know how to get started using it, I can also help there. I have worked on a number of different systems so can figure out an Open-To-Buy system and help you get it up and running quickly.

**You NEED to be using an Open-To-Buy. Do not let anything stop you.**

### QUOTE OF THE MONTH

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 "I have been impressed with the urgency of doing. Knowing is not enough; we must apply. Being willing is not enough; we must do."

Leonardo da Vinci

### INTERNAL CONTROL MANUAL

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*Don't let dishonest employees shrink your bottom line!*

Unfortunately, I have seen it happen again and again. A longtime, trusted employee decides to give themselves a "raise" at the expense of the company and management is shocked and hurt. This is the last person they would have thought would do something like this!

According to surveys and studies, 48% of all shrinkage is due to internal theft. Can you afford to turn a blind eye to this? Take proactive steps now to do an internal control audit of your store to see where trouble spots may lie so they can be corrected if needed, before you suffer a loss.

It is up to you, as the retail store owner, to remove all risk free opportunities and provide the controls to eliminate as much of the theft opportunities and paperwork errors as possible

Good controls help minimize shrinkage and increase profit. At 5% Net Profit, it takes \$2,000 in sales to make up for \$100 lost to shrinkage (amount of loss divided by Net Profit %).

Our Internal Control Manual helps you find the weak spots in your procedures so you can correct them. It is set up in an easy question / answer format with any NO answer indicating a possible weakness in your controls. For more information, and to order your copy at just \$95, including shipping by Priority Mail just log into our web site at [http://www.the-retail-advisor.com/internal\\_controls.html](http://www.the-retail-advisor.com/internal_controls.html).

## TELE-SWAP GROUPS

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Did you ever wish you had someone to talk to about your business? Now you can. Join one of our new retailer teleconference groups.

Starting this year, I have initiated a new teleconference service for independent retailers who would like to meet with their peers but can not afford the travel costs or to be out of the store 2-3 days every 6 months which is a requirement of a regular SWAP (Share With A Peer) Group.

**DON'T STRUGGLE ON YOUR OWN WHEN YOU CAN GET HELP FROM OTHERS WHO HAVE DONE IT BEFORE!**

You do not have to struggle alone to solve all your store's problems. All retail stores have similar problems and many have had, and solved, problems you are facing right now. By being part of this discussion group you can save time and money, and increase your bottom line.

What issue or problem do you have RIGHT NOW that you would like some input about? Sales? Employees? Expenses? Buying? NOW is the time to do something about it!

### YOUR OWN ADVISORY PANEL

The new service will be a monthly teleconference call that will be a combination of discussion group and coaching. Each month there will be a one hour conference call for the group. The group will have 4-6 members with all members operating similar businesses in non-competing areas. This makes the information more relevant for those in the group since you will be meeting with others with the same or similar merchandise and type of store operation. For example, although menswear retailers and dance retailers both own retail stores, their needs and challenges are very different. Also, a single store operation has different issues than a 5-store chain.

The stores in the group will also be in non-competing areas. That way you do not need to be concerned with being on a call with your competitor and you can be more open with your ideas and opinions. This is critical to the success of the group.

Below is a quote from an article in the Pittsburg Business Times:

*Ann Dugan, Executive Director of the Institute for Entrepreneurial Excellence said "It's like having a virtual advisory board or board of directors who are there for you and can help you avoid making some costly mistakes."*

**I am excited about this unique opportunity for independent retailers and hope you are too!**

To sign up for a group, just log into my web site at [http://www.the-retail-advisor.com/peer\\_groups\\_tele-swap.html](http://www.the-retail-advisor.com/peer_groups_tele-swap.html).

## 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)