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In this issue . . .

**\*HOW TO BE PROFITABLE DURING BOTH GOOD AND BAD TIMES - part 2**

**\*HOLIDAY GIFTS TO EMPLOYEES**

**\*QUOTE OF THE MONTH**

**\*NOVEMBER SALES SURVEY RESULTS**

**\*OPEN TO BUY SERVICE**

**\*TELE-SWAP GROUPS**

**\*EMPLOYEE THEFT DIRECTLY CAUSES 1 OUT OF 3 BUSINESS FAILURES**

**\*RETAIL JOB DESCRIPTIONS**

**\*WHAT WE DO . . .**

**HOW TO BE PROFITABLE DURING BOTH GOOD AND BAD TIMES - PART 2**  
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Previously, I described the 5 steps you, the retailer, must do every year to ensure your store's profitability. The five steps 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 your selling staff

This month, I will discuss in more detail the annual Gross Margin Plan. The Gross Margin Plan is an annual plan that gives you the ability to "look into the future" to see if any changes need to be made to your classifications now, before the year begins. For example, once you have your plans on paper and have reviewed them, you may find that you have planned sales too low in a particular area. Or, you may see that a specific class is a good candidate for elimination due to its low Initial Markup and high markdowns. You may also see the need for an additional classification or classifications.

The Gross Margin Plan contains a lot of information. An abbreviated sample of a Gross Margin Plan is shown below:

<b>GROSS MARGIN PLAN</b>									
Class	Annual Sales	Sales Contr. %	IMU%	MD%	Shrk %	GM%	GM\$	STR	CGP
Class 100	95,000	10.0	54.0	12.0	0.5	48.3	45,838	1.8	87
Class 110	40,000	4.2	48.8	12.0	0.5	42.4	16,960	2.6	110
Class 120	35,000	3.7	56.0	18.0	0.5	47.9	16,751	2.5	120
Class 130	15,000	1.6	54.0	8.0	0.5	50.1	7,514	2.2	110
Total Dept	185,000	19.5	53.3	12.8	0.5	47.0	87,009	2.1	98
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TOTAL STORE	950,000	100	54.5	14	0.5	47.9	455,050	2.5	

The Gross Margin Plan contains a lot of information. Included, by classification, are annual sales, sales contribution % when compared to the total company sales, Initial Markup % that you believe you can achieve, Markdown % plan, Stock Turn Rate goal, average inventory, Gross Margin %, Gross Margin dollars and something you may not have heard of before, the Cumulative Gross Margin. This is all very useful information to the store owner and buyer to use to review the performance of each classification - - before the Open-To-Buy is set up and before the pro-forma Income Statement is developed.

## SALES

This column contains the annual sales plans for each classification.

## SALES CONTRIBUTION PERCENTAGE

This column shows the Sales Contribution Percentage for each classification. This shows you what percentage of the total store's volume you have planned for each class to do during the next 12 months. If you have a single classification that accounts for more than 10% of the store's sales you may want to consider splitting it out into 2 or even more classifications to give yourself more information and control. It is important, for a profitable store, that your top classifications with respect to Sales Contribution % are also your top classifications with respect to Cumulative Gross Margin.

## INITIAL MARKUP %

The next column lists the Initial Markup Percent you anticipate achieving for each classification. The Initial Markup must be high enough to allow you to take needed markdowns and still have an adequate level of Gross Margin. As retailer's expenses have continued to go up year after year, keystone (50%) is no longer acceptable for men's, women's and children's apparel stores. Western stores have traditionally had a lower Initial Markup % due to the boots and jeans they carry. No matter what type of merchandise you carry in your store, you must make sure your Initial Markup is sufficient.

## MARKDOWN % AND \$

The planned markdown percentages and dollars are listed in the next two columns. Since markdowns adversely affect gross Margin, it is important that they be monitored and controlled. However, always keep in mind that if you have merchandise that must be cleared out, you must take the markdowns even if you exceed your plan.

**SHRINK %**

This is the level of shrinkage expected to be achieved by the store. It is included in the Gross Margin Plan since it adversely affects Gross Margin for each classification just like markdowns do. For most specialty apparel stores the shrinkage should never be more than 1% of sales. If yours is higher, it means you need to do a thorough look at your procedures to see where your leaks are. And, remember that typically, employees account for 48% of your shrinkage.

**STOCK TURN RATE**

This is the planned stock turn rate for each classification. The stock turn rate controls how much inventory you should have. Stock turn rate and the level of inventory have an inverse relationship. As stock turn rate goes up, inventory levels go down. The majority of retailers I have worked with have too much inventory and need to seriously work at reducing their inventory levels. The best way I know to do that is to use an Open-To-Buy as your buying guide - - and then follow it!

**AVERAGE INVENTORY**

This is the average amount of inventory at retail for each classification. This figure is based upon the total annual sales plan and the planned stock turn rate. Obviously, this will fluctuate from month to month throughout the year.

**GROSS MARGIN %**

The next column on the report lists the planned Gross Margin Percent. This column should be reviewed, looking for any classifications having a Gross Margin Percent that is too low. Gross Margin must be high enough to cover the company's expenses plus allow for a reasonable amount of profit. If the Gross Margin Percent for any classification is below the company's operating expense percent, consideration should be given to finding ways to increase it or possibly to eliminating it.

**GROSS MARGIN \$**

These are the Gross Margin dollars to be generated by each classification, if the plan is met. These are the dollars out of which you must pay all the company's expenses and have some left for profit.

**CUMULATIVE GROSS MARGIN**

Cumulative Gross Margin is listed in the next column. The Cumulative Gross Margin is an index used to compare the profitability of one class to another. It can be thought of as a retail equivalent of ROI. However, it is easier to calculate than ROI since any good retail software package will give you the Stock Turn Rate. Since it is computed by multiplying the Gross Margin % by the Stock Turn Rate, it allows an analysis of classifications based on the combined strength of two previously separate measures. Because of this, a poor performance of either the Gross Margin % or Stock Turn Rate could be offset by the relative strength of the companion ratio to yield an acceptable result. Minimum acceptable results for a few categories of stores are:

Men	110
Women	150
Shoes	85
Gifts	145
Western	85
Family	120

Once the Gross Margin Plan is set to your satisfaction, the data included is then used in the preparation of the Open-To-Buy and for the company's budget (pro-forma Income Statement). The Open-To-Buy will use sales, Markdown % and Stock Turn Rate. The budget will use the sales and Gross Margin %.

Next, we will talk about the Open-To-Buy.

**HOLIDAY GIFTS TO EMPLOYEES**

At this time of year, most employers give their employees some type of gift in appreciation for their hard work. What the gift is determines if there will be any payroll taxes due, either by the employee or the employer.

The IRS says that small fringe benefits, such as a turkey or ham, soft drinks, coffee, etc. that an employer gives to employees are exempt from payroll taxes.

However, if you give your employees cash or any type of cash equivalent (such as gift cards) payroll taxes must be paid. Either the employee or the employer can pay these taxes. The employer must report these items as supplemental wages and remit the taxes owing on them.

**QUOTE OF THE MONTH**

"Trouble is only opportunity in work clothes."

Henry Kaiser, American industrialist and shipbuilder

**NOVEMBER SALES SURVEY**

First, *THANK YOU* to everyone who participated in our survey. Participation is necessary for accurate, meaningful results. To remind everyone, this survey concerns December, 2008 sales.

**NOVEMBER 2008 SALES COMPARED TO 2007**

	<b>MEN</b>	<b>WMN</b>	<b>SHOE</b>	<b>GIFT</b>
More than 15% below last year	41%	16%	15%	10%
10.1% - 15.0% below last year	11%	11%	8%	
5.1% - 10.0% below last year	8%	20%	23%	10%
0.1% - 5.0%. below last year	11%	11%	8%	20%
<b>EVEN</b>	<b>6%</b>	<b>5%</b>	23%	20%
0.1% - 5.0% above last year	6%	11%	15%	10%
5.1% - 10.0% above last year	14%	16%		
10.1% - 15.0% above last year	3%	5%	8%	
More than 15% above last year		5%		20%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**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

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Join a Tele-SWAP Group to talk to other retailers like yourself! The questions and topics we have discussed in recent sessions are numerous. A few recent examples are:

- ▶ "How are you stimulating business now?"
- ▶ "What benefits do you offer full-time employees?"
- ▶ "Discussed HSA insurance plan one member started a year ago and savings generated."
- ▶ "What do you see as the direction for merchandising your store in the next few years?"
- ▶ "How do you find a good in-house tailor and at what pay scale?"
- ▶ "What has been your most successful line thus far this year? Most disappointing?"

Comments from just a few of retailers taking part in these teleconferences are:

"Retailing is tough for the little guy . . . bouncing ideas off the wall wondering what might work and who . . .or how to adjust a promotion to get it to bring people in. Our SWAP Group allows each of the participants to be open and willing to share ideas with each other. It has energized me." Scott Zahner, Zahner's, Vernon, CT

"I really like the teleconference opportunities to share and ask questions of other retailers. I always come away with at least one idea I want to implement immediately." Nan Napier, Tres Mariposas, El Paso, TX

"I was starting to think I was "alone in the world". I am busy and did not want to participate in something that was not going to help my business. I am thrilled with my participation in the SWAP. I discovered that I am definitely not alone and the other similar businesses have the same challenges and now we are helping find solutions to those challenges together. I strongly recommend trying the SWAP - it is definitely worth my time!" Katie Andrios, GWK Enterprises, Geneseo, IL

If you would like to discuss the types of issues listed above, and others, with retailers who are similar to you, but far enough away they are not competitors, give us a call at 1-877-206-1299 or on our 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). Then you can complete an online 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).

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.

Click on the link above and join a group today!

## **EMPLOYEE THEFT DIRECTLY CAUSES 1 OUT OF 3 BUSINESS FAILURES** (according to a study done by the US Chamber of Commerce)

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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.

## 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. They are also excellent for making sure your employees are doing their job as it should be done. The development of good job descriptions can take a considerable amount of management's time so, to help with this project TRMA has developed very detailed job descriptions for almost all positions in a retail store. These are 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. The set includes the following descriptions:

1. Profile Of The Perfect Retail Employee
2. Basic Position Description For All Employees
3. Accountant
4. Accounts Payable Clerk
5. Advertising And Display Manager
6. Assistant Store Manager
7. Buyer
8. Cashier
9. Controller
10. Credit Sales Manager
11. Credit Controller & Collector
12. Department Manager
13. Display Manager
14. General Manager
15. Merchandise Manager
16. Office Manager - Bookkeeper
17. Store Operations Manager
18. President
19. Shipping & Receiving
20. Sales Manager
21. Sales Associate
22. Store Manager
23. Store Manager (for stores with a General  
Manager
24. Tailor-Head
25. Tailor I
26. Tailor II Or Seamstress

Most job descriptions are 2-4 pages long. Your investment is just \$25 for the complete set, including shipping. To order, mail your check to the address below and we will mail the job descriptions to you:

Job Descriptions  
The Retail Management Advisors  
510 Red Oak Street  
Allen, TX 75002

## 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)