

CASH FLOW PROBLEMS?

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If you are having problems with cash flow it is usually due to one, or a combination of several, of the following factors: buying is not controlled, sales are too low, or expenses are too high.

Buying

If there is no buying budget in place it is very easy to buy too much merchandise or to schedule merchandise receipts inappropriately. If the bulk of the season's merchandise is received within a very short window at the beginning of the season instead of being spread throughout the season, the invoices arrive and must be paid before the store has an opportunity to sell the merchandise. Unless the store has cash reserves to handle these beginning-of-season merchandise invoices there will be cash flow problems.

Another problem that can easily happen when there is no buying plan is that an inappropriately large amount of merchandise is purchased for a particular class / category. If we buy more than the store is able to sell during the season the store's funds are tied up in merchandise sitting on the sales floor.

The formal name for a buying plan is an Open-To-Buy. The Open-To-Buy should be completed for a full 12-month period as that facilitates both buying and the store's budget process. Also, in apparel, buying begins up to 6 months ahead of the season. Menswear retailers were placing orders for fall in February. Womens retailers are beginning to place their fall orders now.

Sales

If sales are too low, or are steadily declining there can be several problems. It could be that the store needs to update its merchandising strategy so it is more in tune with its customers.

There could be excessive amounts of old, stale merchandise in inventory due to past over-buying and the customers are tired of looking at the same merchandise. If you are not regularly bringing in new, fresh merchandise, what reason do your customers have to keep coming into the store throughout the season?

If you have several sales employees they may need some type of incentive or bonus plan developed for them so they will try harder to sell more merchandise. Your sales staff may also need some sales training. If you are a good or excellent salesperson, have you passed that knowledge to your sales staff so they can become great salespeople too? Doing this will help the company. Instead of wanting to be the 'STAR' salesperson, the owner should want all the sales staff to be selling 'Stars'.

Expenses Too High

Expenses must be controlled if the company is to be profitable. The simplest answer to the question of what expenses should be as a percent of sales is "Lower than Gross Profit %". If the expense percent is higher than the Gross Profit % there will be a loss; however, if the expense percent is lower, there will be a profit.

There are expenses over which the retailer has little control.

Rent expense is determined when the lease is signed. Once the lease is signed you are locked into that expense for the life of the lease. This is why it is so important to get some outside counsel before you take that important step.

Postage rates keep going up so that expense usually goes up every year. Just be sure to spend your postage dollars wisely by not putting too much postage on an envelope or package and by targeting you direct mail mailings to just those customers most likely to respond.

The Property tax rate is set by your local taxing authority and there is little you can do about that. Other expenses you have little control over on a daily basis are: business insurance, employee health insurance, and computer system costs.

The best way to control expenses is to prepare an annual budget, divided into 12 months. Budgeting gives you a roadmap to use when making decisions during the year. If you update it every month and compare the budget amounts to actual results, the budget lets you know if you are on track or if something different needs to be done to correct a situation.

Those retailers that operate with a budget have a distinct advantage over those that do not. If they notice that sales are below plan for 2 or 3 months in a row, they can stop and look at the business to see what changes they can make to improve sales. If they determine that due to a poor economy in general or in their particular area that sales will probably not improve, they can take steps to reduce buying and reduce expenses now instead of trying to figure “What Happened?” out at the end of the year.

Budgeting is project where many times it is beneficial to have someone outside the company handle. The owner is too many times too close to the situation to see where specific problems lie or to be willing to take the necessary steps to correct a situation that is draining profits. An objective outsider, who has considerable retail experience can point out areas where improvements can and should be made without considering personalities or worrying about what the employees may think of him / her.

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