

**HOW PROFITABLE DO YOU PLAN TO BE THIS YEAR?**

by Linda Carter

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If your operating year ends December, January or February you should be working on, or have finished, your plans for the new year. Numerous studies have shown that you will be more likely to succeed if you make realistic, achievable and concrete goals. It is not enough to say that you want to increase sales this year. You must plan to increase sales by 10%. Instead of saying that you want to be more profitable this year, plan to increase Net Profit by 2 percentage points. Then, once you have defined what you want to accomplish you can determine how to accomplish your goal. Only then will you be ready to take the needed steps to achieve that goal.

For example, if we want to increase Net Profit by 2 percentage points there are a number of ways we can do this. We can reduce expenses, leaving everything else the same as it is this year. We can increase sales, leaving everything else the same. We can increase Gross Profit by increasing Initial Markup and reducing markdowns. We can reduce Operating Expenses. Or we can do a combination of these. (See the box below for an example.)

	<u>Last Year</u>		<u>This Year Plan #1</u>		<u>This Year Plan #2</u>		<u>This Year Plan #3</u>	
	<u>Actual</u>							
	Dollar	%	Dollar	%	Dollar	%	Dollar	%
Sales	\$800,000	100	\$800,000	100	\$840,000	100	\$800,000	100
Gross Profit	336,000	42	336,000	42	352,800	42	352,000	44
Operating Expense	328,000	41	312,000	39	328,000	39	328,000	41
Net Profit	8,000	1	24,000	3	24,000	3	24,000	3
			Reduce Expenses by 2%		Increase Sales by 5%		Increase GP% by 2%	

The way we approach increasing Net Profit will depend on your current situation. If Operating Expenses are out of line and Gross Profit is OK we would want to start with analyzing all the company's expenses to determine where reductions should be made. If Gross Profit is too low then that is where to start. Each store is unique and the methods to be used to achieve their goals are also unique.

When working with our clients we require that the first step in the planning process be the development of a Gross Margin Plan. This is where you plan annual sales, Initial Markup %, Markdowns, and Gross Profit by classification. Once this is complete you will have your annual sales plan and Gross Profit goal for preparing the Proforma Income Statement. This is also the first step in preparing the Open-To-Buy by classification since it has your annual sales plan and markdown plan for each classification. A brief sample of a Gross Margin Plan is shown below. The advantage of doing a Gross Margin Plan is that it gives you an overview of the planned merchandising results so you can review it and make adjustments as needed before proceeding with the rest of the budgeting process.

	SALES	IMU %	MD %	GM %	GM \$
Suits	175,000	53.00	15.00	45.95	80413
Slacks	215,000	52.00	17.00	43.84	94255
Shirts	75,000	50.00	12.00	44.00	33000
Dresses	138,000	53.00	20.00	43.60	60167
Blouses	110,000	51.85	20.00	42.22	46442
Slacks	87,000	52.00	18.00	43.36	37723
Store Total	800,000	52.18	17.13	44.00	352,000

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Many retailers get into the trap of thinking they do not have time to spend developing a plan. We say that the survival of your store may depend on it.

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