

THE DEATH CYCLE IN RETAILING

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The death cycle in retailing is a series of events which if not caught and corrected in time will cause the financial demise of the company as surely as the sun rises in the East. The death cycle usually starts as a result of buying more merchandise than the company can sell profitably.

As a result of this overbuying there are invoices remaining unpaid at the end of the season that must be paid before the vendor will ship for the next season.

The fact that so many vendors use factors to finance their invoices, thereby concentrating the retailer's credit history makes it difficult on the retailer to manage their cash flow. It is difficult to pick and chose which vendors will be paid without the unpaid vendors being aware they are being treated unequally. Letting an invoice, from a vendor from whom the retailer does not plan to buy again, get delinquent can keep merchandise from being shipped from the retailer's most valued resources.

This then causes the retailer to borrow money from a bank (if they can) to get current with their resources. At some level of borrowing, the bank will want a personal guarantee from the owner. At this point the business is no longer standing on its own two feet.

If this cycle continues, the bank will eventually raise the interest rate since their risk has increased and if there is no improvement, they will discontinue loaning additional funds and at some point call the loan for payment. If the owner is unable to raise cash from personal sources to pay the called loan, the business fails. Usually, at that point, the best that can be done is to call a liquidator, if time permits.

This does not all happen in a vacuum. While all of this is going on several other things are going on:

- ▶ The owner becomes increasingly frantic and starts making short term decisions to try to correct long term problems.
- ▶ Key employees get very insecure and may leave.
- ▶ A whole host of record keeping inefficiencies set in. Among them are tracking the bank balance on a daily basis and keeping up with both checks written and checks mailed and possibly (heaven forbid) post dated checks mailed.
- ▶ Precious time is wasted by the most valuable personnel, including the owner, talking to factors and credit managers.
- ▶ The bank will require a higher level of year-end examination by the company's accountants; maybe even an audit (very expensive, especially the first time).
- ▶ Merchandise shipments slow down while vendors and factors wait for their accounts to get current.
- ▶ Another key employee just left, lured away by a competitor and increased job security.

- ▶ Important work falls behind, records can't be found because no one is available to do the filing.
- ▶ Chaos has set in.
- ▶ Advertising, one of the few remaining variable expenses, is reduced; special events are eliminated because no one has the time to plan and execute them.
- ▶ Sales continue to fall.
- ▶ Management loses confidence and becomes catatonic; important matters go undecided.

I think you get the picture.

One of the features of the death cycle is failure to use an effective retail reporting system. All too often we see an excessive amount of records being kept that cannot be pulled together into an information system. Many times manual records are being kept to generate lists that could be available automatically from the store's computer system. Many times retailers have computer systems that are not integrated, with invoices being entered twice because someone did not take the time to investigate, plan and execute.

Another feature of the death cycle is the deplorable waste of management time and talent. As a result of a lack of training (who has time?) and personnel turnover (often the most productive employees leave first) and the inefficiencies mentioned above the store staff becomes embroiled in unproductive activities that waste their time. To keep necessary activities current (such as record keeping, order entry, receiving and marking goods), management starts to work longer hours and perform these tasks before and after the store closes. Does this lead to management burnout? You bet.

One of the common ingredients to this cycle is a lack of planning and control over buying and expenses due to the lack of a management information system which focuses management's attention on the big picture. Important decisions are made without investigation and thought. There isn't time; shoot from the hip. Store owners like to lament their plight about the advantages the big chains have and how unlevel the playing field is, yet too often they are not willing to perform the management tasks the big chains consider vital.

This state of affairs reminds me of someone walking while leaning forward forty-five degrees. They are running so fast, their line of vision so short, their mind so preoccupied with insurmountable problems it takes only a small pebble in their path to cause them to fall.

All of this can be corrected, if outside help is called in and time permits. It amounts to pulling the body up to a ninety-degree stance so the line of vision is further out. That's what we do for our clients: help them grasp the big picture, plan ahead, make the right decisions, eliminate stress, enjoy retailing for the rewarding career it can be.

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