crisis guide

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"Is My Store Failing…Or, Am I Failing My Store?!?"

Retailing is a high-stakes balancing act between merchandise and cash.

It's a delicate balance to achieve: commit money early to large quantities of merchandise, and possibly end up with too much. Or, commit less up front, saving cash for later, and run the risk of not being able to get the goods when you need them.

More than 35% of the retail businesses that file for bankruptcy protection each year are profitable! Their problem? They ran out of cash!

Especially in periods of economic slowdowns or downturns, when you must choose between cash and profit, ALWAYS choose cash!

"No retailer ever filed bankruptcy because their turns were too high!"

–Michael Gould, CEO, Bloomingdales

What's inside

The Three Stages of "Retailers in Decline"

Retailers: For each of these eight "vital signs" in your business, which stage are you in today?	Stage One	Stage Two	Stage Three
Employees	Questioning management	Even the best people are not getting bonuses	Brain drain (Those who are still here cannot get jobs elsewhere)
Advertising	Cut back to save expenses	Totally vendor-driven	Highly promotional to raise cash
Appearance of Stores	Unkempt. Maintenance cut back to save expenses	Outdated. Public areas shopworn and neglected	Years behind. Chronic neglect; lack of concern
Merchandising	High proportion of out-of-season merchandise	Merchandising to raise cash. No customer focus	Purely "scramble mode"
Inventory	Out of balance. Overbought	Missing basic stock: styles, sizes. "Death Spiral" begins	In the grip of the "Death Spiral". Limited to whichever vendors will still ship
Vendor Relationships	Losing cash discounts	Losing "most desirable" vendors, keeping "second tier". Factors/flooring increase influence	Totally dependent on marginal vendors. Factors/ flooring in control
Financial	Operating losses	Operating losses. High debt-to-worth ratio	Operating losses. High debt-to-worth ratio. Cash crisis
Cash	Going	Going	Gone!

What did you find?

How many Stage Ones did you circle? Stage Twos? Any Stage Threes?

Remember, most retail businesses are in some aspect of Stage One at any given time. What they do about it; that's the issue!

Savvy retailers are constantly checking which stage they are in - and adjusting!

The sooner they recognize the condition they are in, the more effective - and less drastic - their adjustments will need to be.

Here are 5 places to focus, starting now.

1. Pick up the pace!

2. Brighten and invigorate your store

3. Manage inventory

4. Challenge expenses

5. Accelerate cash flow

Retail is all about adjustments. Use these five starting points to turnaround any of your store's early stages of decline.

#1. Pick up the pace!

- This is no time for the "hunker down" mentality. Let your competitors be sluggish and dismal. Make yours the fun place to shop!
- Change displays more often. Move the merchandise around.
- Compare sales per square foot, not by store but by different departments within the store.
- Have enthusiasm. Energy. (Walk faster!)
- Greet customers sooner. Check back with them more frequently.
- Spend more time on the floor...selling (!!), not strolling.

#2. Brighten and invigorate your store

- Increase lighting! Have more light overall. Use spots to showcase the merchandise you most need (or want) to sell through.
- Spiff up. Spruce up. Clean up. No fingerprints on windows, doors, cash wrap counters, etc. Refresh the paint. Wax the floors (reflects more light.)
- Update the dress code for employees. Give them a new, fresher look too!
- Use music. (Remember, it's for the customers, not the staff.) Upbeat. Energy.

#3. Manage inventory

- Raise inventory turns at least 10% (i.e., if you operate at 3 turns now, raise them to 3.3)
- Figure inventory turnover in weeks, not months - and manage to that
- Streamline assortments. As the average consumer's buying power declines, tastes turn to value, quality, and mainstream styling.
- Tighten delivery schedules closer to the selling season.
- Be nimble, quick, first in line to take advantage of deals. Have ample open-to-buy funds, and seize opportunities to buy merchandise at reduced prices. (Vendors are trying to turn their inventories into cash, too!)
- Take quicker markdowns. Make sure that all orders have a cancellation date, and that vendors comply with them.
- Eradicate stockroom delays. Ask the folks who work there what should change. They'll know!

#4. Challenge Expenses

- Find "the creepers"! It's not one big cost increase that's the problem, but the sum of all the little ones. Examine phones, supplies, advertising, etc.
- Examine freight costs. Are you paying for unnecessary premium deliveries? Can "rush" shipments be reduced by better planning? Don't ever go for sales volume for volume's sake. Sales gains may be rare, and they also create bills.
- Go for gross margin **dollars,** not percentage.

#5. Accelerate Cash Flow

- In crunch time, if you must choose a goal of profit or cash, always forego profits, not cash. (Remember, you eat on cash flow, and pay taxes on profits!)
- Manage your inventory with an eye to cash flow. When placing large orders, request small shipments, and ask for dating.
- Accelerate debt repayments. Resist the low interest rate temptation.
- Sell every unnecessary piece of equipment or fixture. (Use eBay!)

FYI...

Sadly, in the U.S., a retailer fails about every 5 minutes...24/7. About 100,000 fail per year.

Meanwhile, retailers start up at about the same rate.

Owner's Decline Prevention Checklist

Raise turns
Streamline inventories. It's better to miss sales than have excess inventory.

Eliminate debt
Ignore the tempting low interest rates. Having no debt is the best recession-proofing preparation.

Buy low; negotiate lower!
World glut is a reality. Deflation may offer opportunities to those with cash.

Have fewer, but better people in management
As unemployment rises, raise the capabilities of managers, or replace them.

Bonus buyers on GMROI; bonus salespeople on GM $$
In a downturn, productivity has added urgency. Compensation always must be in line with your goals.

Ask every quarter: Is this as good a place to shop as it is to work?
The focus on "best places to work" may need to be subordinated to refocus on the customer.

Never have a spot out (on your displays) nor a spot in (your bathrooms)
Amateurs cut costs by less advertising and maintenance. Pro's focus on their most profitable customers.

Avoid The Law of Too's:
Too little, too late, too bad!
The good news: Retailers are optimists. The bad news: Retailers are optimists!

Obey The "First Law of Holes"
When you're in one, quit digging!

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What's the best way to increase gross margin dollars?

Reduce COGS (cost of goods sold) to raise margins? Or, increase turns?

	Inventory cost	Retail price	Gross Profit %	Gross Profit $$	Annual Turnover	Total Gross Profit $$
Now...	$5.30	$10.00	47%	$4.70	2.0	$9.40
Raise Margin	$5.10	$10.00	49%	$4.90	2.0	$9.80 *(4% higher)*
Raise Turns	$5.30	$10.00	47%	$4.70	**2.4**	$11.28 *(15% higher!)*

Were this retailer to operate at 2.4 turns – with $160,000 in average inventory - there would be 15.8% less money tied up in inventory than when operating at 2 turns, with $190,000 in inventory.

What is inventory turnover?

Inventory turnover is a measure of how often inventory would theoretically be completely sold (or turned over) in a given period of time.

An inventory turnover ratio of 2 means that the entire inventory, at current value, is being turned over twice per year. In other words, the merchandise averages six months on hand!

Turnover affects your profits. When turnover is carefully planned, it produces more sales by keeping a fresh flow of new merchandise coming into your store.

Correct turnover reduces markdowns. When turnover is too slow, the results are excessive markdowns, higher operating expenses, and even lost sales.

Improvements in payroll, rent, markups, and freight are controlled by competitive or fixed expenses, but turnover is directly under your control.

The formulas for computing turnover are:
Inventory Turnover = Cost of Goods Sold / Average Inventory @ Cost, or
Inventory Turnover = Sales / Average Inventory @ Retail

To find benchmarks for typical inventory turns in your retail vertical, go to your retail segment at The ROI. RetailOwner.com

Increase Sales and Profits by Knowing Your *Most Profitable* Customer

What's the best way to increase sales and profits? Sell more to your "best" types of customers!

The eighty/twenty rule of thumb is no doubt at work in your store: eighty percent of the volume is generated by twenty percent of the customers. (Of course, these percentages are not exact, but you see the point.) The more you know about that "twenty percent," the better you will become at focusing your entire operation—buying, displays, advertising, special events, etc.—on your "Best Customer" and her preferences.

The goal here is to identify the general, overall characteristics of your Best Customer. Once you know these characteristics, you can seek out more like them. Think of it as cloning your Best Customer!

Step 1: What's Selling Now?

Conducting an effective sales analysis can be very revealing. Looking at sales from a variety of productivity measures can provide new insights. Consider these:

- Total sales volume
- Total number of transactions (This is very important!)
- Volume and transactions by category
- Units per transaction

By displaying this information on a spreadsheet month by month, you will quickly see your store's seasonality, and how those seasons might not all be the same for all product categories.

The sales analysis helps you to pinpoint weaknesses—and opportunities. For example, if your sales trend is up, is it because you are having more transactions? Or higher average sales? If the average sale is higher, is that because customers are buying more expensive items? Or a greater number of items at each transaction?

We think you will find this sales analysis step very fascinating. And, we are confident you will find some surprises!

Step 2: And, Who's Buying What's Selling?

The importance of this step cannot be emphasized enough: It's not enough to know what's selling; you must know *who's* buying *what you are selling*! The easiest way to do this is to capture customer information *at the point of sale*, so you can link customer data with transaction data (item purchased, price, SKU, date, time, etc.).

For example, by programming a seven-digit field into your register, you can collect three key pieces of non-invasive information about each customer: ZIP code (five digits), sex (one digit) and age category (one digit). (Instruct salespeople to "guesstimate" customer's age as they ring up sales.) This method of gathering information is low-cost and unobtrusive, and while designating age categories won't be 100 percent accurate, they will usually balance out. . .and always be revealing!

Here are two examples of the types of findings you can develop through this point-of-sale data capture. Notice how readily this information can be put to effective, practical use. Very quickly, the "Best Customers" (that is, those customers you want more of) stand out from the rest of the pack. This enables you to focus scarce time and resources where they can serve you the most: on your Best Customers.

Example A: Age Groupings

In this example, the retailer wanted to know which of three age groups was buying full price goods, and which group was "cherry picking" the clearance tables.

Table A	18–24 yrs.	25–34 yrs.	35+
Full-Price Goods			x
First Mark Downs		x	x
Clearance Items	x	x	

Table A shows generally what they found. The 35+ age group was predominately buying full-price and/or first mark down goods; the 18–24 year olds, however, were <u>very</u> price driven.

Knowing this (verifying your hunches, perhaps) leads to a whole series of management decisions and opportunities. For instance. . .

• Targeting your advertising at age 35+ households (reached via direct mail, zoned newspaper inserts, selected radio formats, selected TV shows, etc.)

• <u>Not</u> spending ad money on the younger "price hounds"

• Focusing your advertising <u>message</u> on benefits important to your Best Customers

• Influencing what music you play, what hours you are open, how you staff, etc.

• Choosing where and how to do "outreach" advertising —to appeal to/bring in more of your Best Customers.

Example B: ZIP Codes

This next example illustrates differences in shopping behaviors that can be linked to the customer's ZIP code. That in turn allows you to learn even more about your customers through additional research (using free information at your public library).

Table B	Overall Average	ZIP Code XX106	ZIP Code XX118	ZIP Code XX212
Average Sale	$19.20	$20.72	$13.53	$21.80
Items Per Transaction	3.3	2.9	2.2	4.2
Number of Full-Price Items per Transaction	1.4	2.4	0.9	0.9

Table B shows some major differences among shoppers when we analyze their transactions by ZIP codes. The folks who live in ZIP code XX212 produce the highest average sale, <u>and</u> the highest units per transaction, <u>but</u>. . . buy the fewest items at full price.

A visit to the library to check out the census data on this XX212 ZIP code reveals these kinds of findings: this ZIP has fewer home owners and more <u>renters</u> than other ZIPs around here; more single people; and many elderly women (widows, perhaps, on fixed incomes?)

But—look what we found about XX106. The average sale is close to the store overall, yet—these folks buy very few markdowns. Who are they, anyway? A check of the census data suggests highly-educated, professional/managerial jobs, high incidence of early-30's in age, and small household sizes. These are the SINKs and DINKs, all right (Single-Income, No Kids, Dual-Income, No Kids)—pressed for time, with good incomes, and able to spend on themselves and their families.

Step 3: Tying It All Together

There is enormous value in understanding your Best Customer categories, for it provides a fundamental framework for your management decisions. It helps explain *why*: Why this merchandise? This price? This look to the store? All these questions can be answered more consistently and efficiently using your Best Customer as a foundation.

Pro-actively treat your Best Customer as the valuable asset she is to your store. Today, it is not enough to have profitable products. Instead, we must find —and nurture—our most profitable *customers*.