Keys to Building Strong Retailers

MAIN STREET DISTRICTS TRACK

Presented
by
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Keys to Building Strong Independent Retailers

Key #1. Advertising and promotion

Key #2. Attract the right customer

Key #3. Educate the staff

Key #4. It's a business, not a hobby

Key #5. Utilize technology

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Key #6. Control inventory through planning

Key #7. Sell to ‘who’ not the ‘what’

Key #8. Control theft and shoplifting

Key #9. Strengthen the cash position

Key #10. Create/review and update the business plan

The allure of an independent and Clarence

BONUS ARTICLE

Small businesses don't die; they just commit suicide!

By Tom Shay

SOUND ADVICE FOR BUSINESS

Many retailers would think the event that would most affect their businesses would be the opening of a competitor within their trade area. It could be a Target, K-Mart, Wal-Mart, Home Depot, or even a specialty retailer. When this does occur, most retailers go into a defensive mode, planning how they can protect their market. And in those situations where the retailer fights the competition for a period of years, only to eventually close, it is said, "the big stores put him out of business."

This scenario has occurred thousands of times, and not just in this industry. It is, however, the last statement that is not true. What caused the business to close occurred within the four walls of the business, for retailers don't die; they just commit suicide!

Statistics do not lie. If there were 100 businesses opening on January 1, there would be only five left to celebrate their fifth anniversaries. Of the five remaining, two or three would continue to the 10-year mark. What happens, and why? What happened within the four walls of the business was a series of events: inactions and incorrect actions, all a part of the list of fatal mistakes. For most businesses, it takes a combination to become fatal. In some cases, it takes only one. What are the 10 fatal mistakes? More important, what can you do about them so you will have a need to be attending this event in 10 years?

Mistake #1 – Cashflow management. If you are just starting your business, determine how much money it will take to purchase your initial inventory, equipment, fixtures, and leasehold improvements. Then assume you will not sell any inventory for 12 to 18 months; how much will it cost to operate the business for that time period? Will you have enough money to pay your insurance, utilities, payroll and other expenses for that time period?

Too often business owners plan to have enough money to get started; but when sales do not meet their objectives, they begin to experience cashflow shortages. The business is in trouble within the first year, and all of the plans become useless. If you have the necessary money set aside, you can continue to adjust your business plans without concern for needing a "quick fix." Cashflow management is also necessary for the retailer who has been in business for many years. Unfortunately, most businesses look at their financial sheets only as historical data. They receive the balance sheet and income statement from an accountant, give them a quick look, and then file them away.

If that same business were going to borrow money from a bank, it would be consulting with an accountant and creating a cashflow chart. This chart, probably the most useful tool a retailer can have, allows him to see the next year's financial sheets today. More important, it allows him to accurately forecast his sales and cash on hand, while helping determine how much inventory to have and the level of accounts receivable. Mistake No. 1 is failing to manage cashflow.

Mistake #2 – An Open to Buy. Think of all the categories of products you can stock; for example, chemicals, pumps, filters, and accessories. You should be tracking the sales and inventory on hand for each of the product categories.

Shay's Way

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As you track this information, you will see what type of margin you are maintaining in each of the categories. You will also see the inventory on hand, inventory turn and sales. By tracking this information, you should be able to calculate an open to buy for each category. When you go to a tradeshow, or when a sales representative calls on you, you will know how much money you can spend for each of the upcoming months.

You should also track information on each of the product lines. Too many retailers have made the mistake of closing down their open to buy, only to find they are completely out of stock on their best-selling line. Mistake No.2 is failing to create an open to buy.

Mistake #3 – A Business Plan. Designing the business plan begins with selecting the location or determining whether your current location is still correct for your type of business. A retailer's location is usually selected to serve the customers in the surrounding area.

For both the new business and the business that has been in the same location for many years, there is a need to continually examine the customer base. When a neighborhood experiences an influx of affluent customers, the progressive retailer seizes the opportunity to add more upscale products and services.

Unfortunately, too often a business is in an area that experiences a declining customer base; the more affluent families move away, property values decrease, and the replacement homeowners are not as committed to maintaining the houses or buying the goods that the more affluent customers did.

When this occurs, the business has three options: move to the more affluent area, reposition its selection of products and services to serve the new homeowners, or modify its advertising and promotion efforts to draw the original customers back into the store.

Another concern with the business plan is the business that still maintains a 50-hour work week—open Monday through Friday, 9:00 a.m. to 6:00 p.m., and Saturdays 9:00 a.m. to 2:00 p.m. This may have worked well 20 years ago, but today some of its competitors are open 24 hours a day, seven days a week. These drastic hours are not necessary, but realize that with the 50-hour work week, you are open on weekdays during the hours many of your customers are working. Mistake No. 3 is not having the correct business plan.

Mistake #4 – Technical knowledge without management knowledge. As we walk into many stores, we will often find the most knowledgeable person to be the owner of the store. While there is nothing wrong with this, when any of the staff has a question regarding the products or services sold, he or she will have to go to the owner for an answer.

The owner of the business does not need to have the most knowledge about the products and services. What the owner needs to have is the most knowledge about how to run the business. Too often, we find the business owner having a level of business knowledge equal to the product knowledge of his or her staff.

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When it comes to knowing how to read financial sheets, chart cashflow, create job descriptions, and implement them, the owner needs to be a master. Mistake number four is failing to have a high level of business knowledge.

Mistake #5 – Reorder when you are out. Reordering merchandise when you completely sell out of a product is the traditional example of crisis management. Try this exercise to determine if you manage by crisis. At the end of a day, list all the tasks you want to accomplish the next day and the amount of time it will take to complete them. As you work on the following day, keep track of what you are doing and how long it takes. If, at the end of the day, you have spent more than 15 percent of your day completing tasks that were not originally on your schedule, you are performing crisis management.

This is where a business gets into trouble and too often finds itself without the necessary products and supplies to operate. Mistake No. 5 is managing by crisis.

Mistake #6 – A Marketing Plan. The business plan we have already discussed requires we go a step further. What products do you want to sell? What brands do you want to sell? What types of customers do you want to shop in your business? As you select the products you sell, you will begin to mold the type of customers you attract. Should you offer services to your customers? As you are shaping what type of store you will be, your efforts need to be consistent. If your business decides to aim for the higher income customer, you are not being consistent if you provide no customer service, carry the same brands as the big box stores, and name your business "Bill's Discount Supply & Service." Mistake No. 6 is failing to have a marketing plan.

Mistake #7 – An Advertising Plan. Do you have an annual advertising budget? Sharper retailers are establishing a 12-month budget. They set aside part of the monthly budget for last-minute opportunities and those donations they are always asked to make to community organizations.

From there, they experiment with the available media: radio, television, newspaper, magazine, and direct mail. These retailers will document their results and continually fine-tune the advertising to get the maximum results for their dollars spent.

These same retailers will be masters at promoting their businesses. They keep track of the names, addresses and telephone numbers of all of their customers. Every month they communicate with their customers either by telephone or newsletter letting them know about their business. These businesses are adhering to the Jack Rice adage, "Never forget a customer, and never let a customer forget you." Mistake No. 7 is failing to effectively advertise and promote.

Mistake #8 - Internal and External Theft. When a business takes a physical inventory each year, the owner and manager should examine the discrepancies between what the financial sheets report and what the physical inventory shows. After confirming both of the reports, discrepancies should be researched; the errors could be in counting, office paperwork, or—unfortunately—shoplifting.

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While you have probably read many articles about shoplifting, both internal and external, it is enough to point out the two primary locations where shoplifting occurs. The first is at the checkout, whether a cashier is giving an extra discount, failing to ring an item, ringing a less-expensive item for a more-expensive purchase, or a customer swapping price tags or bar-code scan labels. Hopefully, your business also has in place rigid register-checking procedures to verify the amount of cash, checks, and bankcard transactions. Failure to do so is simply an invitation for someone to steal.

The second location is at the back door. While this location also hints at employee theft, it can just as easily be from failing to check a delivery manifest of incoming merchandise. Speaking of the back door, a retailer offering delivery should also have a system involving at least two people in loading merchandise into delivery vehicles.

Retailers who provide service also need to have a procedure for verifying the amount of tools and products in the service vehicle. This inventory should be checked against the service tickets. Mistake No. 8 is failure to have shoplifting precautions in place.

Mistake #9 – Job descriptions, policies and procedures. Ask a business owner and each of the employees to make a list of the top 10 priorities for the job. Comparing the list of any employee to the list of the owner, you will easily find the employee who is the best, as his or her list will most closely match the owner's. Creating job descriptions is that simple. As the lists are compared, the owner can work with the employees to better explain what is expected of each of them.
As for procedures, your business sells many products that can be dangerous to handle. Having procedures allows you to reduce the risks to a minimum to avoid repeated visits from OSHA and your insurance company claims department.

Policies can be an important part of the success of your business as you use them to explain to employees how they are to dress, how to open and close the store, and how to handle problem situations with customers. Look upon these three items as being valuable tools for you. Mistake No. 9 is failing to have these three tools in place.

Mistake #10 – Technology. Business has been good, and there is additional cash in the checking account. Too many businesses will take many of the items they have been purchasing on an "onesie" basis and decide to buy in case lots. In most situations, this will simply slow the turn in inventory. Is the business utilizing technology? Having computer-generated reports of sales, average ticket size, margins, and other information allows the business owner to scientifically determine how to improve business. Mistake No. 10 is the failure to properly invest money.

Mistake #11 – Customer service. Wait a minute! This article stated there were 10 fatal mistakes. The 11th is to prove a point—always give your customer more than they expect. If you are giving an estimate, bring in the final invoice a dollar or more below the estimate. When you are waiting on customers, exceed their wants and desires.

Many retailers will gladly state, "My customer service is as good as my competitors." That philosophy does not work. Everything about your business must excel—your products, your services, and your entire staff.

Mistake No. 11 is having average customer service. Finding ways to stay in business is as difficult as finding customers. It is not the competition that put the retailer out of business; he just committed suicide.