



10 fatal flaws that could annihilate your business

by Rick Stark and Shelley Parlin

I spent 20 years in the retail furniture industry, as did my co-author, Shelley Parlin. We were on two sides of the same coin — I, in the consulting and analyst side, and she on the front lines of the battlefield as a storeowner. But enough about us — let's talk about you.

If you are like many retailers, your days are spent doing lots of things: creating ads, handling service issues, making sure deliveries are made in a timely manner, and pulling your hair out over inventory, prices, and nagging customers. But what you have little time for often are the “big picture” items that separate the super-successful stores (10 percent-plus profit) from average stores (2.5 percent profit).

Let's spend a few minutes together covering the 10 most common mistakes we have seen retailers make over the past two decades:

1. Not having an all-inclusive selling system.

You've heard it many times: "You can't improve what you don't track." Great selling systems track door counts, opportunities, average gross margins, average ticket amount, close rates, missed opportunities, gross margin by salesperson and lots of other actionable data for store managers and owners. If your current system doesn't produce these metrics, you have some work to do. You need the additional profit (50 percent to 125 percent) that these systems deliver. You need a great selling system.

2. Not having a real inventory management system.

Let's face it: with thousands of SKUs (a.k.a., items in inventory), it is impossible to track all the items by hand or from memory. You need to know your best sellers, the 20 percent of items that create 80 percent of your margin, your also-rans, and your dogs. You need a dynamic system to constantly track your items in real time.

Without a great inventory management system, you can't buy right, and it's nearly impossible to be super-profitable. If you don't think so, then why have 30 percent of all retail home furnishings stores (mainly mom-and-pop stores without good inventory management systems) gone out of business in the last seven years?

3. Generating turns is what makes or breaks a business.

Gross Margin Return on Investment is a great indicator of profit. GMROI is little more than a for-

mula that uses gross margin, turns and inventory levels. We all try to get the most margin possible, and we all need to keep our inventory levels as low as possible (preferably below 15 percent of your sales volume).

However, turns are what make or break a business. Think of it this way: stores can make 37 percent gross margin (low) or 47 percent margin (high). That's a 10 point difference. This means the

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best to the worst is 22 percent different (10 percent/47 percent).

Now, weak stores will turn their inventory 2.5 times, and strong stores will turn their inventory 6.0 times — that's 4.5 turns different (which is 180 percent better — 4.5/2.5). When trying to boost that bottom line, stores that are 180 percent better on turns

make a lot more money than stores that are 10 percent or 15 percent better on margin.

4. Not following business cycles.

Ask any business person and they will tell you, "Chicken one day, feathers the next — some years are better than others, it goes in cycles." But how often do you see a business follow the cycles the way they should? Often times, when a \$10 million store has a downturn and becomes an \$8 million business, they don't adjust their expense structure as fast or as much as they should. You need to always be in alignment with what the market is doing. If you are a \$2, \$3, \$5, \$10, \$20 million business, your cost structure needs to mirror that volume level.

If things turn down, your expense structure and staffing models need to follow immediately. Too often stores sit around saying, "It will turn around; it will get better," as they bleed red ink. Don't be the \$10 million store that is actually doing \$8 million in sales — that is a good formula for going out of business.

5. Inappropriate staffing levels.

How many salespeople (or delivery personnel, or warehouse people, or office staff) do you need? This is a very common question, and rarely do retailers know the right answer. When you run a \$3 million dollar store on staffing levels that are appropriate for a \$3.5 million dollar store, you are over-staffed by 17 percent. That's a lot of your money!

Just as bad is when you are understaffed in an area of your operation; you are missing sales and other margin opportunities.

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Worse still is when you have the right overall number of employees, but you are too thick in one area and too thin in another, then you are committing both sins. You have to have the right number of people in every area of the business at all times.

6. Weak systems — systems define outcomes.

Let's say it together (and out loud): systems define outcomes. All great businesses run the way they do because of great systems. Too often you see a business that could be great but they are still using systems from two decades ago. “Well, that is the way we have always done it” is their mantra.

We saw one business that filed their signed delivery receipts by customer. Each receipt went into the customer's file folder. This business had grown and it now had three full-time people filing these delivery receipts every day. I asked the owner, “Why don't you just file them by day, which will take one person five minutes, and then if you ever need the delivery

receipt you can just look up the delivery date on the computer and then go find it in that day's file?” His answer was, “Well, we've always done it this way.”

We changed their filing system (or lack of one) and saved over \$100,000 a year. Smart systems (the very best way of doing everything) are prerequisites for being efficient and super profitable.

If you don't know the very best way of doing everything, just talk to someone who does. Using a super-efficient method is often-times easier than your method (just ask the guy that doesn't have three people filing delivery receipts anymore). Learn great ideas from those that already know.

7. Not competing on the right fronts.

A small store next to Nebraska Furniture Mart may not want to compete on selection. A super-large store next to a row of design houses may not want to compete on service. You need to compete in areas that you can win. Sun Tzu in the book *The Art of War* teaches us to compete in areas that we can

win. Know your strengths and the strengths of your competitors, and don't try to lead in areas that you cannot win.

Don't fight against a great Navy on the water, draw them onto land or fight them from the air — use your strengths against their weaknesses. Price stores need to be price stores, service stores need to lead with that suit — know who you truly are, and fight your competitive battles based on your strengths.

8. Not making the store inviting.

Out of 100 furniture stores, 85 (or 85 percent) will look boring. You'd think they were selling caskets. Talk to customers long enough and you will learn what they want when they enter a retail store: upbeat music, good smells, great lighting that is product-focused, clean bathrooms that show design flair, interesting décor, top-end painting (colorful walls), informative in-store signage, uncluttered clear walkways, coordinated sales staff that appears friendly (not pushy), and more.

When we walk into a smart store, we instantly say “Wow!” You have a few seconds (about three) to make that impression. Stores that are on it make that impression the moment the customer walks in the front of the store. What are some easy-to-fix mistakes? Snow shovels in the entry way, poor lighting, no scent machines, uncoordinated sales staff, bland bathrooms, burned out bulbs, skewed lamp shades, focus on price instead of value, little to no in-store signage, and “How can I help you” coming out of the salesperson’s mouth.

9. Financial boo-boos.

And there are a lot! Not having enough cash reserves, growing yourself out of business, using short-term loans to finance long-term business needs, not being able to withstand a downturn, not understanding or having good budgets and spending too much or too little on the major areas — marketing, sales force compensation, advertising, etc.

Setting good budgets and doing strong financial planning is not hard. There are a lot of good people to help you with this, but many stores avoid this task because the owner doesn’t understand the value or the need. Don’t fall into this trap — get to know and love your financial statements, cash planning and budgets.

10. Not being employee-focused.


Customers are important, but not as important as employees. If you focus on your customers at the expense of your employees, then your employees will focus on themselves at the expense of your customers. If you focus on your employees, then they will learn to focus on the customers.

This is strange, but nonetheless true. There are all kinds of great fuel-the-fire and employee-oriented programs for home fur-

nishings stores. Most importantly, the owner needs to see the value and make this a corporate imperative.

Conclusion: We know that this is a lot of stuff to worry about, especially on top of all your other jobs.

What is the answer? Get some help! Don’t be a Lone Ranger. The best place to start is by hanging out with 20 successful retail home furnishings store owners — join a

“best practices” or focus group. Also, make note of these big picture issues and build a long-term plan to address your weaknesses and celebrate your strengths. And don’t forget to have fun. 

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