WHITE PAPER

10 Ways

To Instantly Improve Profitability

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Improving the bottom line profitability of a retail operation can often seem truly daunting. Whether it stems from not knowing where to start or thinking that it will become a project of epic proportion, many companies make minor adjustments hoping for the desired outcome without ever really getting into the origin of their problems in the first place. Change for the sake of change rarely produces the right results. It is important to realize that there is a huge difference between activity and accomplishment. If you don't put your resources toward the things that will make the biggest difference to your profitability you may be stuck in the "activity" without seeing real accomplishment.

Since major resources, including time, money, and people, are often limited, it is important to look at the opportunities that will have the greatest impact on your profitability. By the end of this paper you will have ten different ideas that have directly contributed to the success of many of our most profitable clients. You might already have a handle on a few of them, but if there are even one or two ideas that can add 2% of profit, that can be huge. For a 15 Million dollar operation that is an extra $300,000 directly to the bottom line. So, dig in and see which areas you can work on to improve your business.

STEPS TO IMPROVING YOUR PROFITABILITY

1. Create An All-Inclusive Selling System
2. Bring Your Below Average Sales Performers to Average
3. Know Your Money Making Inventory Items
4. Keep Your "Best Sellers" In Stock
5. Get Rid of Slow Moving Merchandise
6. Motivate Your Sales People Based on the Gross Margins They Achieve Rather Than Just Sales Volume
7. Target Market Your Clients Through Specific Campaigns
8. Keep Appropriate Staffing Levels
9. Monitor Advertising to Know What Works and What Doesn't
10. Manage Your Online Presence

1 | CREATE AN ALL–INCLUSIVE SELLING SYSTEM

Don't worry, I am not advocating for a scripted sales process where there are pat answers and formulas for every conversation. That is a turn off for both the salesperson and your customers. However, your customer's buying experience shouldn't be determined by whoever waits on them. They should get the same level of excellence regardless of who is helping them. You should define what actions are required for every customer. A couple of examples are the greeting and how it is delivered. Something more than "may I help you" or "what are you looking for today" should be taught for the best results. Also, do you sketch the room where the furniture will go? Doing so greatly improves the salesperson's chance close the sale and increase the size of the sale. Once you know what you want your signature sales system to be - monitor it. You have probably heard that you can't improve what you don't track. Great selling systems track door counts, opportunities, average gross margins, average ticket amounts, close rates, missed opportunities, gross margin by sales person, percent of opportunities where sketching was done, and lots of other data. The important piece is that this is actionable data, not just something you should know. This brings us to point number two.

2 | BRING YOUR BELOW AVERAGE SALES PERFORMERS TO AVERAGE

While we would all like nothing but superstars on our selling teams, the law of averages says that you will have some that are so great that you want to clone them, some that average, and some that fall below that. Now, the real key is to monitor performance not just on sales volume, but the metrics that go into creating it. The magic sales equation is:

Number of Opportunities x Close Ratio x Average Ticket = Sales

It is vital that you not only have this formula to show the store average, you should also have it for each individual salesperson. You might have two salespeople that each sell $100k a month. All things being equal, you might think they are performing the same. One might have a close ratio at 35% while the other only 23%, but the one with a lower close rate might have an average ticket hundreds if not thousands of dollars higher making up the difference. In this example you have one person that does a great job connecting with people and can close nearly everyone, and another salesperson that doesn't get many people to buy, but when they do, he or she does a great job of finding out everything that the customer needs and gets a much larger sale because of it. Which is the better person to have? They are both superstars in their own way. This is where individual coaching comes in to play. When each of these salespeople are taught how to improve the one area where they are below the company average, it will make a significant impact in their sales volume, their pay, and your profitability. Your salespeople will sell more without needing any additional customers to come through your door.

3 | KNOW YOUR MONEY MAKING INVENTORY ITEMS

Let's face it, with thousands of SKUs (Stock Keeping Units – a.k.a. Items in Inventory) it is impossible to track all the items by hand or from memory. I frequently hear someone say "oh, I know which items sell best." Statistically, regardless of what type of product you sell, 80% of your gross margin dollars are generated by just 20% of the items you display. If you have 4000 SKUs on your showroom floor, including accessories, you have 800 money makers. No one could be expected to list the ones that generate your gross margin dollars, which is what pays the bills. You need a clear method to compare all items in a particular category to each other to determine which ones are really the best at producing both sales volume and gross margin. This will help you truly know what is hot and what is not, including which items, categories, and manufacturers are the best of the best. This should be 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 profitable.

4 | KEEP YOUR "BEST SELLERS" IN STOCK

In the last segment I mentioned buying right. Once you have a clear handle on which items are your clear winners, you need to be able to purchase enough to satisfy demand without carrying excess inventory, which ideally is below 15% of your sales volume. Many less powerful purchasing systems rely on a minimum / maximum level set for an item. In other words, no less than, say 5, no more than 15 of a particular item. The major flaw with this system is that it is static. Someone needs to go through and make a gut instinct decision as to what those levels should be for each item. This does not allow for rapid increases or reductions in sales for an item. During the recent down turn in the economy many stores who had been doing $30 Million in sales volume found themselves at just $20 Million almost overnight. The dilemma with this is that they were still buying and stocking inventory at the $30 Million level. They were grossly over stocked and ran short on cash flow. Many didn't survive because their tools weren't set up to help them adjust to accommodate new sales patterns.

Your purchasing decisions should be made on much more fluid information like recent sales trends, in-stock vs. out-of-stock days, lead time, and so on. Let's look at an example of two items over the past six months.

ITEM	MONTH ONE		MONTH TWO		MONTH THREE		MONTH FOUR		MONTH FIVE		MONTH SIX		TOTAL
A	6	+	5	+	4	+	3	+	2	+	1	=	21
B	1	+	2	+	3	+	4	+	5	+	6	=	21

DO THESE 2 STYLES LOOK LIKE THEY HAVE THE SAME POTENTIAL FOR SALES?

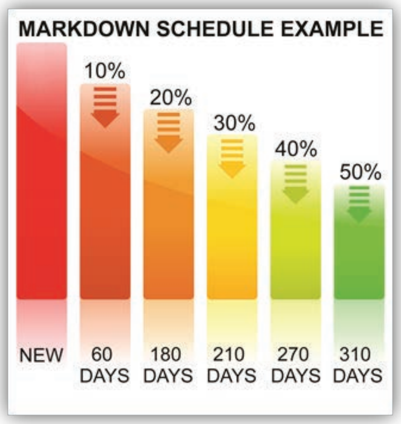
In the example, each of these sold 21 units over a 6 month period of time. However, there is no way you would want to order these two items at the same level. While one is increasing in popularity, the other is in decline. You need to make sure your buying system follows sales trends and recommends reorder levels based on these statistics, not just a static number so you always have the same amount in stock regardless of actual selling trends.

5 | GET RID OF SLOW MOVING MERCHANDISE

One of the quickest ways a retail operation can become over stocked is by keeping merchandise around trying to get the projected gross margin out of the item. If something has proven to be an under achiever and doesn't qualify as one of your money makers, don't be emotionally tied to the item. Too often we hear that a business paid "good money for that item" and they feel the need to get their business' average gross margin out of it. Real estate is expensive. Letting an item that is known to be non-productive tie up valuable floor space means that not only are zero gross margin dollars being generated by this merchandise, but the possible GM that could be earned on a better item is being lost as well.

So, what is the answer? Rather than having someone occasionally wander through the showroom with a red marker reducing prices based on nothing but personal impressions of an object, create markdown schedules based on the particular category. Accessories will probably not turn over as quickly as a sofa so the accessories markdown may be less aggressive than that of the upholstered category. These schedules will help ensure that you get a bad seller off your showroom floor as quickly as possible, and still help you achieve the highest gross margin possible for the item. This is a year round, never ending process. To make the markdown process manageable, it really needs to be automated. If an item hasn't sold within X number of days of hitting the show room floor, mark it down 10%, and maybe the schedule for this particular category is 10% off every 60 days when there are no sales on that item.

The good news is, when the process is automated, you can have dozens of schedules based on specific sales trends of the categories you sell. Each schedule can have longer or shorter time frames, and larger or smaller discount amounts. When you regularly use an automated markdown, you will find that most items sell with the first couple of reductions so very few items get closed out at the higher discounts. It is easily maintained and your showroom stays fresh and free of old non-selling product.



6 | MOTIVATE YOUR SALESPEOPLE BASED ON THE GROSS MARGINS THEY ACHIEVE RATHER THAN JUST SALES VOLUME

Often you will find flat-rate commissioned salespeople are afraid to put emphasis on any merchandise that they know carries a high gross margin. They are afraid that they will lose a sale due to price. To overcome the objection, often before it is ever raised by the customer, they will reduce the price or come to you to do so. Your margins suffer and so does your profitability. The best way to overcome the automatic negotiation is to make sure that the salesperson's interest is aligned with yours. The best way to do that is to tie gross margin earned on each item to a variable commission rate rather than a flat commission rate. The higher the gross margin earned, the higher the commission amount will be. They suddenly learn that they can sell high-margin merchandise after all! Salespeople are less apt to negotiate or request that you do so when their pay takes part of the hit as well. They work harder, earn more, and add to your profitability by just selling things at the prices marked rather than dropping the prices for an easy sale.

How does it work? Let's say your showroom floor has gross margins of 48%, and the commission rate at that margin is 7%. If they reduce the sale price, it may also drop them to a commission rate of 6%. That doesn't sound like much but take an item that sells for $999 at 7%, they earn roughly $70. Once they reduce the price even just $50 to $949 at a 6% commission rate, they drop to around $57. That is a 20% reduction in their pay. Once they understand that they get the opportunity to earn more money, your salespeople will help add to your bottom line profitability by simply selling items at the prices you set when you created your lineup.

7 | TARGET MARKET YOUR CLIENTS THROUGH SPECIFIC CAMPAIGNS

Attracting new customers is extremely expensive. The cost to bring previous customers back for more is just a fraction of what it takes to convince someone new to shop with you. One proven winner is working on a next purchase follow up with each customer. If you have a great customer relationship package that lets you track what project people are tackling next, you can easily pull reports and target just those interested in that specific item. This allows you to email, snail mail, or even pick up the phone and let your customer know that you have something that just might fit the bill. If you know that a new bedroom set is the next thing someone is interested in, proactively calling or emailing to say that new styles have just hit your showroom and you thought they might want to be the first to see them, the customer knows you have great customer service. After all, you "remembered" that was what they were interested in. They are more apt to do business with you, even if they don't buy the bedroom suite right now. There are dozens of ideas from new products being displayed to new discounts on products they liked previously that you can use to help drive traffic to your store. Mining the gold in your customer list to maximize sales is an extremely low cost marketing tool.

8 | KEEP APPROPRIATE 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. Whether you run a $3 Million dollar store on staffing levels that are appropriate for a $3.5 Million dollar store, or a $40 Million dollar store that staffs at a $48 million dollar store, you are over staffed by 17%. That is a LOT of money! Wasted money! Just as bad is when you are understaffed in an area of your operation; you are missing sales and other margin opportunities. The worst case scenario is having the right overall number of employees but being over staffed in one area and understaffed in another. By having proper procedures spelled out and making sure tasks aren't being ignored or duplicated, you can get a fine working team and do it without additional labor costs. This requires monitoring, and you, or someone on your team, should be putting in the time and effort to know just how each task should be accomplished. Your efficiencies will go up and your payroll will go down.

9 | MONITOR ADVERTISING TO KNOW WHAT WORKS AND DOESN'T

You need traffic to come through your doors, and advertising is a great way to help entice people to shop with you. But putting out ineffective campaigns can be expensive. Know what works and what doesn't work for you by monitoring every campaign sent out. If you did a private mailer or eCampaign on bedroom furniture, did your traffic go up? What were people looking for when they came in? What sales volume did your company write during the campaign? Put a good system in place so you can monitor all of these metrics. Your business may do well with a discount coupon while another store that is more design oriented might do well with private invitations to preview the new fall styles. The only way to know what does work, so you can continue to fine tune it, and what doesn't work, so it can be avoided, is to track results, watch for trends, and take steps to make each campaign be more effective.

10 | MANAGE YOUR ONLINE PRESENCE

A website is no longer enough for your online presence. Social media, eCampaigns, websites, ecommerce, blogs, videos… and I am sure that this list is nowhere near complete, but these things are what many highly successful retailers are using to draw attention to their business, products, and services. If you have a website that is basically an online yellow pages ad, you are missing the biggest opportunity right there. Show your product, even if you don't sell online. Most people shop using the internet before they ever hit a store. If you don't display your product, they may bypass you entirely when they actually get out and about to try products. You don't have to sell online if you aren't comfortable with that aspect, but at least display your merchandise with an online catalog. It is a great way to get someone who has never stepped foot in your store to take a look, even if it is virtually. Showing that you have great styles and prices might just be what it takes to get them to stop in and make a purchase.

The internet is an incredible tool that is limited only by your imagination, time, and resources to act on your ideas. Maybe you could include videos on how to clean or take care of the products you sell. Create a newsletter or a blog about the latest thing in the industry. After all, furniture and home goods are a fashion industry. Colors change, styles evolve. There is an entire television network geared around the home. People want information. Provide it for them. Maybe you have an article in your newsletter about how to decorate a mantle for the holidays, or perk up a room for $500 or less. There are thousands of ideas that you can do to put yourself ahead of your competition.

Social media is a great tool for business-to-consumer contact. Use Facebook to have a beautiful room contest. Invite people to share before and after pictures of their newly decorated rooms as a contest. They can ask their friends to “like” their entry and the most “likes” wins. This will get others looking at your merchandise and how your store has helped make beautiful rooms for someone. You can make posts about upcoming sales, new product releases, adding a new brand to your floor, design tips, and anything else customers might find interesting. Once you prove yourself as an expert in your area, people will trust your store to help the next time they make a purchase.

CONCLUSION:

We know that there is a lot of stuff to worry about when running a business, and sometimes taking on one more project, even if it is extremely important, seems daunting. Here we have provided 10 ideas that many of our highly profitable clients have put into practice. It has helped them achieve higher bottom line profit, often without taking on added expense to achieve the results. I would encourage you to do an assessment of your business to decide which of these can have the greatest impact on your profitability. Make a note of these big picture issues and build a long-term plan to address your weaknesses and celebrate your strengths, and most of all, have some fun.