

## INDUSTRY UPDATE – AT A GLANCE

Retail! It's all about the numbers!

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by Dick Calio

Make no mistake, the basics are still essential for a retail business to be successful. Location, product selection, pricing, creative displays and effectively dealing with customers all remain critical aspects of a successful retail operation. Once you figure out those pieces of the retail puzzle, then the numbers rule the game.

Think of your store as a compilation of numbers. Since there are so many numbers, the trick is to determine which ones are really critical. Some numbers are absolutely needed to run you business, while other numbers are useful.

Many retail associations can provide a whole range of numbers to their members on store performance for that particular retail segment. Those numbers can be useful in helping you gauge your store's performance, but they are not your numbers. The analogy that I will use is the health and fitness numbers for a particular age group. I like to see how my numbers compare to my age group, but the only numbers that really count when determining my health are my own. Let's examine some of these retail numbers and see how they can help.

### Critical numbers

**Sales:** Comparing sales for this week or month vs. sales last year for the same week or month provides a good snapshot of how your sales are tending.

**Inventory Turn:** Inventory turn is the engine that drives retail. There is a direct relationship between inventory turn, profit margin and cash flow. A well tuned inventory with optimum turnover, reduces the need for sales, helps maintain your margin and most importantly increases cash flow. Inventory turn should be calculated monthly, by department, if possible. The calculation is simple:

Cost Method: Divide your month end value of inventory at cost by the cost of goods sold.

Retail Method: Divide your sales by the retail value of your inventory.

Again, your goal is to establish the baseline for your store.

**Gross Margin:** Gross margin should be examined at least on a weekly basis, by department. Look at department GM weekly to determine whether the maintained margin for sales that week is on target. If the GM for a department is below the target margin, then run a report listing the items in that department to find the specific items below the target gross margin. This exercise will allow you spot and fix items that are priced incorrectly. By doing this weekly, rather than waiting for the end of month, you will greatly reduce the erosion of margin which is the silent killer of profit.

**Average Ticket:** Keep track of your average ticket on a monthly basis to determine trends. I have seen instances where sales in a store are growing due to increased transactions (more customers) and the average ticket is down. You need to recognize this problem and find the cause. This is just another way to evaluate sales and spot a problem.

**Number of transactions:** This is another good number to be looked at on a monthly basis. It can provide valuable information about your customer base. If your number of transactions per month is trending downward, then your rate of customer defection is greater than your new customer acquisition rate. Customer retention is an overlooked number, but it has become a highly analyzed number by the big box stores.

### Numbers You Should Know

**Sales per Square Foot:** This is a very traditional number used as a barometer for comparing store to store performance. This can be very useful when calculated by department to determine efficiency of space allocated

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to each department. It can point to departments that should be contracted and those that should be expanded bases upon sales per square foot.

**Customer Conversion Rate:** I have some clients who have installed traffic counters on their doors to determine the percent of the total customer count that actually buy. Customer conversion is another emerging matrix that the big box stores are looking at as a critical number. If you see wide variances by week or even by day, this could point to a personnel or staffing problem.

**Expenses as a Percent of Sales:** As a retailer, the net profit of your business is the number determining the final result of all your efforts. You can either increase your sales or control your expenses to influence your net profit. Booking your expenses as a percent of sales will force you to evaluate these numbers on a monthly basis.

Across all retail segment operational expenses as a % of sales should not exceed 39%, rent should fall between 7-10%, payroll between 15-17%.

There is a discipline in this process of looking at the right numbers and then using them as a management tool. First, determine which numbers are critical to you and then how frequently you will monitor those numbers. Some numbers should be monitored daily, some weekly and others monthly. Secondly, take action when a number indicates a problem. Resolve problems quickly to preserve profit. The third step is to enter these key numbers into a spreadsheet by month. As you move forward, you will have at your disposal a very powerful analytical tool that will give you a list of all your key numbers for a given month. Every month, this tool becomes more intelligent. Once you have a year's worth of data, you have the ability to do month by month, yearly comparatives. The true gold of this tool is two or three years' worth of data.

Think of your business as a franchise, and to attract new franchisees you have to be able show the numbers that make your business work and how those numbers separate you from your competition. As you adapt to the discipline of booking critical numbers on a monthly basis, you will quickly realize the power of this exercise. You will now have access to information that will allow you to analyze your business from many perspectives.

So what's the payback on this analytical process? I would estimate once you figure out the reports you need to run and add the time it takes to enter the number you are tracking into a spreadsheet, it will take between 5-10 hours per month. I believe by using these numbers as a tool to spot and correct problems you can have a 1%-3% positive effect on your gross margin. Every 1% equals \$10,000 to the bottom line in a store doing a million dollars in annual sales. Do the math for your store.

I would be very interested in the numbers you consider critical to your business. Please send me an e-mail at [rcalio@snet.net](mailto:rcalio@snet.net) with your comments.

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