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Retail Systems Consultant

Put your POS system on a diet to get better results

Too much information in many instances can present a problem that is just as bad too little information. Today's POS systems are on steroids. The new database programs offer the capability to get almost any conceivable information on a report. The independent retailer is wearing many hats and is simply too busy to have the time to data mine for information. In order to survive in today's competitive environment retailers need to get key information, and they need that information presented in a quick concise format.

So let's look at some real problems retailers are facing and examine how your POS system can help you recognize and solve these problems.

- How to survive surrounded by retail giants
- An out of tune inventory
- Financial data that doesn't makes sense
- Not exploiting you greatest asset, " Your Customers"

How to survive surrounded by retail giants:
The demise of the independent retailer has been predicated for years. In a survey published in "When Customers Talk" by T. Scott Gross & BIGresearch 25% of consumers surveyed said they prefer shopping at an independent retailer as their first choice. The survey also revealed that they feel that independent retailers generally offer better customer service, pay better attention to detail, and offer tailored product selection.

The survey also asked what customers want from their shopping experience. The things that were tops on the list are, fast checkout, easy return policies, the ability to place special orders, and clerks who recognize them as good customers. Without technology it is virtually impossible to meet and exceed these customer expectations. Using technology as a tool to understand what your customers want, and to offer them an easier and more efficient shopping experience is the key to your survival. The independent retailer has one distinct competitive advantage. That advantage is the ability to have a more intimate relationship with their customer. The smart retailer has to leverage this relationship to capitalize on this advantage.

An Inventory that is out of tune:
Shrinking gross margins are the silent killer of profits. They are silent because most retailers don't evaluate margins until the end of month. In order to monitor gross margin and react immediately it takes are vigilant approach. You should run a report daily that shows all the items that were sold the prior day where the gross margin was less than the target gross margin for the department. The ideal scenario is to sort the report by department. This report will target items that are either incorrectly priced or that were received at the wrong cost. This process will ensure

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that you catch gross margin erosion immediately and fix it. If you can capture 1%-2% of lost margin you might pay for your system over 2 to 3 years. Do the math!

The second analysis you can look at is your inventory turn. Most retail verticals have association that can provide average inventory turn rate for your vertical, use that as your base line. Excess inventory results in profit erosion in many ways. Primary among these are higher carry costs, lower gross margin since older inventory has to be marked down or put on sale and cash flow problems. At the end of year on your balance sheet the dollar value of inventory is listed under assets, as is cash. Obviously a retailer would prefer that value in cash rather than excess inventory.

Let's examine this a little deeper. If a store has annual sales of $2,000,000 and turns their inventory six times at a 40% gross margin they have an inventory value at cost of $200,000. If they can increase their turn rate to eight turns a year they reduce their year end inventory value to $150,000. That's tuned –up efficient inventory.

Looking at financial data that can help you spot trouble:

At the end of each the month there are a few financial indicators that can give a retailer a quick way to spot trouble in their financials.

- Current asset ratio: Current assets (cash, AR, inventory) divided by
  Current liabilities (AP, accrued expenses payable)
  Your goal is maintain at least a 2.1 ratio
- Daily average ending inventory (Inventory value a retail -divided by 365)
- Total number of transactions for the month
- Average ticket for the month

At the end of month take these numbers and post them to a spreadsheet. You will have a monthly tracking of your gross margin %, your inventory turn, current asset ratio, inventory value a retail, total number of transaction and average ticket. You now have a good snapshot of your store's performance. Monitoring this information on a monthly basis and comparing it to same month last year will help you spot trends and react to problems quickly.

Not exploiting your greatest asset, "Your Customers".
Most retailers act very quickly when an expensive item is missing from their inventory. They don't however react with the same sense of urgency when they lose a valuable and profitable customer. In many instances it may months before they even realize that the customer is "MIA"(missing in action). When you consider the annuity value of a loyal customer far exceeds the value of a lost inventory item it's critical to know who these customers are. Suffice it to say

that the subject of customer loyalty is a comprehensive issue that warrants its own article. At the bear minimum you need to know who your best and most profitable customers are. The average retail business loses 30% of their customers every year. If you reduce that loss by 3%-4% it will have a dramatic positive affect on your growth. Two things you can do to start this process is to collect customer purchase history at the point of sale and the second is to survey your customers. Find out what they like and dislike about your store. Ask them what per-cent of their business you are getting and who do they consider your best competitor and why. You can visit my web-site and download a customer survey document you can use and modify.

There is certainly other data that is important for retailers to analyze. The concept I am advocating is that once you have determined what is key that you design a “suite of key indicator reports” that will give you a snap view and point you problems very quickly.

The process that I follow with my clients is to first determine with them the system that best meets their needs. The second step is to develop a comprehensive implementation plan that details tasks and deadlines. The third and most important step in the process is to layout utilization strategies to ensure a return on their investment. In my view the “Key Indicator” report concept is the foundation of a successful system. The right information, at the right time, presented in concise format ties it all together.

My final thought is that is you should only invest in technology when you can determine how to make the technology relevant to your business.

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