R.J. Calio Consulting, LLC

Helping retailers choose the right system for their store and giving them strategies to use it

WINTER 2006 NEWSLETTER

The purpose of this newsletter is to identify trends and information that will be useful in helping retailers run their businesses more efficiently.

You should think of technology as an information partner in your store. If you can't articulate how a technology investment will make you more efficient, don't buy it! Innovation is not necessarily doing something new, but doing something in a new way.

THINGS TO CONSIDER BEFORE YOU INVEST IN NEW TECHNOLOGY

1. **Adaptability: Will your employees be able to adapt to the new technology?**
2. **Can the software be modified to meet your unique business requirements?**
3. **Has the vendor taken the time to really understand your business?**
4. **Does the technology give you the capability to build a stronger customer relationship?**
5. **Does the solution deliver a definable operational benefit and return on investment?**

Gift Cards:

The buzz of this past holiday season is the growth in gift card purchases. The early report is that gift card sales were 18.48 billion dollars this season, up 7.53% from last year. 52.3% of consumers purchased gift cards this season. The NRF is reporting that holiday sales increased between 3% and 3.5% for same store sales this year. Post Christmas sales are expected to increase 10%-15% due to gift card redemption.

As a result of this growth and acceptance of gift cards, many retailers are changing their post Christmas sales strategies. Retailers are carefully gauging when to begin their post season sales. They don't want to offer markdowns to shoppers with all this "new money" available. The early read is that consumers are buying new merchandise rather than clearance items. They are also upgrading by buying more expensive items. Last year 40%, of all gift cards were redeemed in January.

One of my clients sold in excess of 1000 gift cards this holiday season with the average value of $115. The sale of gift cards has allowed him to draw down less of his credit line, in essence free money. If you have not implemented a gift card program in your store, you are missing a substantial opportunity.

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The real growth this holiday season was in online sales. Online holiday sales rose to $19.6 billion up 25% from a year ago. An online presence can augment your brick and mortar store if designed and marketed properly. A prudent retailer can no longer ignore the growth and consumer acceptance of online sales.

NUMBERS YOU SHOULD KNOW:

In every newsletter I try to point out key numbers that can help you quickly spot problems in you business. Looking at the right numbers and reacting is essential to survive and grow in today's competitive retail environment.

Expense per-cent ranges:

- **Rent 7%-10%**
- **Payroll 15%-17%**
- **Markdowns/discounts 15%-20%**

Determining what markup you need to meet your net profit goal:

Net profit goal:	**5%**
Operating expenses as % of sales	**39%**
Markdowns/discounts	**15%**
Total:	**59%**

Markup required to meet your 5% net profit goal is 51.3%

Effect of markdowns and discounts:

A $20 retail item markdown 20% to $16 yields zero profit based on 40% operating expenses and a 52% markup.

Turns and Sell-Thru:

Annual Inventory Turn:	Monthly Sell-Thru
3	25%
4	33%
6	50%

Inventory turns is a critical factor that directly affects your maintained margin. The more efficient you keep your inventory and your inventory turns the more profitable your store will be. You goal is to achieve an "efficient inventory". An efficient is an inventory level that allows you to effectively meet customer demand, reduce your markdowns and keep fresh stock on your shelves.

CREDIT CARD RATE CREEP:

More consumers are using credit cards that offer cash back or rebate rewards. The trend toward the use of these cards is becoming so popular that many consumers are putting as much as 75% of their credit card purchases on a single reward card.

The result of this popularity in the use of reward cards is an increase in transaction fees that merchants are bearing. In fact, merchants are contributing to the support of these reward programs. I have recently analyzed credit card statements for a few of my clients. One client specifically has a negotiated rate of 1.33% for MC and Visa. The store is a large health food store and qualifies under the classification of grocery. On the statement I analyzed, over 50% of Visa and Master card transactions were processed as rewards cards at a rate of between 1.65% and 1.90% depending on the card. The net result to the store for that month was an increase of over $400 in fees.

There is no easy solution to this problem other than to be vigilant and look at your fee breakdown every month. I am advising my clients, when possible, to sign only one year agreements with their credit card processor. The best solution is to preserve your ability to negotiate your rate annually.

Markdowns - some thoughts:

- Try a price point table. For example mark all the items at $10. Some items might have a markdown of 22% and some others 33%. It makes the buying decision easy for the customer, and moves merchandise.
- Put your markdowns and sale items in the back of the store. Make your customers walk by regular priced merchandise to get to the bargains.
- Use psychology pricing to minimize your markdown per-cent.
  Original price $38.00
  25% off = $28.50
  Psychology pricing - $21.99 = 21% off

If you have any questions or comments please feel free to call or email me.

Bad service is usually a misunderstood expectation!

Dick Calio