

## **How to stay “Fit For business in today’s market”**

Have you ever heard those sayings that 'tougher times call for tougher measures' or 'when the times get tougher '? There are plenty of commentators in today's market who talk through the “what to do” in times of a weakening consumer confidence sector, however at the Retail Doctor® we are equally focused on the “how to do it”.

We know that the interrelationships of a “fit” retail business are tightly interconnected, and the effect of change in one component such as the supply chain efficiency can have dramatic effects on areas such as merchandise assortment and stock turn. This varies with the depth of the range and market positioning.

Allow me to elaborate on this point. We know that being fit for Business™ is even more crucial in today's marketplace than in an environment in where there is plenty of confidence and cash. As case in point, I recently visited the business of a well known retailer. This was a well established business with a strong brand name, good growth over the last few years and a pretty sound balance sheet.

Upon visiting the stores I observed the following, amongst many other elements:

- Very high stock levels
- Mixed ranges of product
- High staffing ratios
- Staff not interested in engaging their customers
- Low level of merchandise category management
- Lack of a compelling windows and “call to action” merchandise assortment
- Customers walking in and walking out just as quickly

This business is currently experiencing a drop in sales and transactions, increased inventory levels as well as tightening cash flow. This is an unfit business and needs help.



Here are some “how to be resilient in today’s market” and maintain your business fitness tips:

- Understand your Point of difference and then keep a laser like focus on your specific point of difference within the marketplace. (Not spreading too thin and being all things to all people.) Starting with the simple question of “what makes my business different to the competitors” and how do I make my business more compelling to a customer than the other competitors.
- A sense of purpose that is, driven by the business owners and leaders understood by the team and implemented by everyone coupled with measurements and progress. This is the underpinning of a motivated team.
- Powerful, compelling, energetic and contemporary store design, format, merchandise assortment, well categorised and complemented with lighting and in store customer navigation.
- Get passionate and hungry for success. Your people need to know that they are on a crusade every day and evening that they work for you. Their alignment to your strategy is fundamental.
- Growing profitable sales - engaging customers through a great in store experience tied together with relevant and a compelling loyalty program and on line offer.
- Ensuring that retailers buying, inventory forecasts, open to buys and ratios all reflect increased inventory productivity.
- Cash rather than credit are king in these tough times and managing cash flow is even more important than ever.
- Motivated sales people who are passionate about their customer rather than internal process focused, skilful in their selling techniques and all understanding the common goals of the business.
- Equip your people with product and selling skills knowledge. Nothing sells like the right bundle of products delivered with personality, knowledge and enthusiasm



During the year we asked other retailers to nominate their top six reasons that they believed led to a retail business becoming unfit. While it's hardly a cheery topic, it prompted some interesting responses.

Of our respondents, 80% said that a decline in sales was the main reason that retailers didn't succeed. In fact, decreased comparative store sales rated number one, two, or three of the top five reasons. Now we know that a decline in comparable store sales over a period is certainly not a sign of being fit. However it might surprise you to know that, whilst a significant contributor, it actually doesn't make The Retail Doctor®'s top 5 list for the symptoms of an unfit business.

"From Boom to Bust" is actually not often as much about sales as we might think; rather it typically is about the following 5 key business fit symptoms.

### **5: Not understanding their business productivity**

We don't advocate cost cutting, or slashing expenses in downward cycles because often this response can lead to a damaged brand, lost sales and poorer margins with a lower level of staff capability, and motivation.

Understanding the 5 drivers of retail productivity will help to increase short and longer term profitability in a retail business. Importantly Fit retailers understand their return on place, people, product, process and profit at any given time, whilst others either under invest or over invest without fully understanding their return ratios.

These return ratios include:

- GMROI (gross margin return on inventory)
- Stock turn (the number of times your stock turns over)
- Sales PSM (sales per square metre - How well does your space work?)
- Sales per employee (sales per employee - How well do your employees sell?)
- Margin contribution ratios (what is your gross and net profit return above benchmark?)
- Weeks cover (the level of inventory coverage in weeks to cover sales and reorder times)

Unfit retailers slash costs, stop investing in their business understanding and improvement, and as a result suffer the consequences to their core business.



#### **4: Little or no planning**

This might seem a little contrary in the current cycle of reduced consumer confidence however, cycles change and soon enough organic growth will be on the radar (as it still is for many). Growth always needs to be undertaken when an increase in assets can be supported by an increase in excess profits or an increase in debt. Understanding debt to worth and having a structured strategic and financial plan to underpin this growth in both present and future value is a vital antidote to this symptom.

#### **3: Inventory mismanagement**

High performing retailers focus on managing inventory to ensure that the right quantity, quality and sell through are achieved. Equally, I believe that as much as 25% of every dollar spent in inventory can be wasted working capital thus creating negative cash flow and in many cases potential bottom lines profit that just sits there.

(Working capital management has brought many retailers undone, regardless of the sales climate.)

Forecasting and buying inventory requires a blend of analytics, intuition, strong boundaries and vision. Often the art is over emphasized to the detriment of the science. Our Category Cardio™ program is a complete merchandise management system. We strongly recommend that inventory buying is budgeted with an Open-to-Buy system set up by department or classification or by store. Unfit businesses often buy with their opinion, taste and relationship skills as their only negotiation weapons.



## **2: Diluting the margin**

I also note that many retailers talk about their sales line, which is important, although comparatively fewer talk about their gross margin and the margin contribution to profit by location, category through to SKU.

We are seeing gross margins on average decline as a function of a more competitive environment, and in part we seeing the larger retailers cut into their operating expenses (are staff numbers getting lower in some large retailers or am I imagining it?) rather than reducing their margins and in turn some of their retail prices to compete harder.

And so this spiral continues with the consequence being that average margins are declining and higher value propositions are tending to merge with one another. (I.e. the year round sale syndrome.)

## **1: Cash is King and the Whole 9 Yards**

Have you ever read about profitable businesses that go broke? Well they exist (or existed) and more often than not, they were probably the businesses of people who thought profit and cash flow were the same or that if you had made profit you had good cash flow. Business succeeds on many aspects, with a positive supply of cash coming into the business over the cash outflows being of the highest importance. Highly fit retailers meet regularly to manage their cash flow budgets and plan cash flow accordingly.

When you look through the list of retailers becoming unfit and then failing, it would be no surprise to see that it wasn't sales directly that led to the decline rather that it was one of these top 5 symptoms of an unfit business.

It is really important to understand the productivity and drivers of their business in detail more than ever before, increasing investment in the right areas (building muscle fitness) and reducing in the less productive areas (Fat) are essential to success in any economic cycle and more particularly in the current cycles. Even the most successful business will have stored profits that require unlocking.

For example, an understanding of working capital management including stock hold, turn and profile can transfer as much as 25% of money tied up in inventory working capital straight in to operating profit.



The following examples are among many diagnosed where the unlocking of store profits, and increasing sales, could be achieved with exactly the same number of transactions as in the previous period;

- Up to 55% of available hours in staffing were taken up in non-selling activities. That included staff facing the “back door” i.e. being engrossed with administration duties while there were customers, or moving and touching the product at every opportunity. Little wonder that sales targets were being missed.
- Staff coverage and actual transaction counts/flow only correlated on an average of 70%, resulting in times during the day when customers were under-served or staffs were over invested.
- On average up to 45% of staff surveyed did not have an individual sales target, and up to 65% surveyed had no training measurement.
- An average of 15% of customer sales was not fulfilled due to the items being “out-of-stock”.
- An average of 20% did not have an 'open to buy' buying forecast.
- Merchandise management software was not integrated with a point of sale system in over 25% of cases.
- Aged inventory was on average in store 30-40% longer than the target dates nominated by management.

None of these examples (and there are many more) have anything to do with the external economy. Rather they are examples of fitness factors that are achievable within the benefits of distinguishing between the fat and the muscle within your business.

The Retail Doctor works with retailers to get them Fit for business in today's market – Call us to discuss how you will survive in today's market and grow in tomorrows

Contact Brain Walker on 02 9460 2882 or visit [www.retaildoctor.com.au](http://www.retaildoctor.com.au) for further insight into becoming Fit For Business™



Brian Walker is the Managing Director of the Retail Doctor® Group which is Australasia's leading retail operations specialist consulting company. Brian has operated in line management, across various senior roles, as well as building a successful consulting profile within the retail, franchise and service sector. In addition, Brian has authored a series of significant retail training and operational programs.

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