Secrets for Success in 2011

Slight improvements in one or two areas of your operation can translate into greatly increased profits — here are 10 tips to help make that happen, and maybe more.

By Paul Erickson

The main reason why most retail businesses encounter difficulties is that they lack appropriate management techniques. More often than not, money and cash flow issues are the result of a problem and not the cause of it. Industry analysts have found that there are 10 particular management techniques vital to success in retailing.

It may be that not all of these areas apply to your operation. Slight improvements in one or two areas alone can sometimes translate into greatly increased profits. With gratitude to RMSA (www.RMSA.com) for content and acknowledgment to a certain late-night television host for format, allow me to present the Top 10 Secrets for Success in 2011:

10 Expense Management. An annual review of operating expenses once the profit and loss statement is generated at year end is not sufficient in today's demanding and ever-changing retail climate. Operating expenses need to be planned and budgeted, not left to chance. If we consider that every two percentage points trimmed from current operating expenses could add as much as 60 percent to net profit, it stands to reason that actual expenses should be compared to planned expenses at least on a quarterly basis.

9 Markdown Management. It isn't just what sold that counts, but also what hasn't sold. Every slow seller is a drain on earning potential. Excessive markdowns are a result of little or no planning, overbuying or just poor inventory management. Timing of markdowns is key. The longer you wait once you know of a problem, the costlier it will be to remedy.

8 Visual Merchandise Management. The saying that you seldom get a second chance to make a first impression rings true for this management technique. Visual merchandising is the silent salesperson in any retail operation. Goods well displayed are half sold. We are in a very visual business. It is the presentation of properly displayed merchandise, well-planned advertising and good housekeeping that portrays a store's image. First impressions are very important. They influence the customer's decision-making process — conscious and sub-conscious. The effective use of color, design and quality projects the store's attitude and image. I refer to this as a store having "pop" or "wow factor." If accomplished properly, visual merchandising can create customer need and want of an item. If your store lacks the talent to create pop, hire a visual merchandiser on a contract basis. With the downsizing and reorganizing of retailers due to the economy, a plethora of talent in this area abounds in nearly every region of the country.

7 Customer Service Management. Customers are the most important people to any retail establishment. They are not dependent on us; we are dependent on them. It is critical for management to develop training programs for employees. Training should be an ongoing program encompassing specific objectives that reinforce employee development and company policy.

6 Customer Analysis Management. Retailers often refer to their "regular" customers without realizing that up to 18 percent of these customers are probably lost on an annual basis. Customers move, shop other stores, and eventually die. These attrition factors are referred to as the three Ds — death, desertion and dissatisfaction. It is important to review your customer base periodically to see how it has changed. Perhaps you need to change some things to attract new customers. Be open to this. People shop differently today than they did in the past and probably will do so in the future.

5 Debt Management. The objective here is to keep debt at a minimum and cash flow at a maximum, especially in 2011. Outstanding debt obligations that impede credit may starve an operation of fresh salable inventory, which could ultimately affect sales and cash flow.

4 Sound Profit Management. "What gets measured, gets managed," according to management guru Peter Drucker. With all of the management tools available today thanks to technology, there is absolutely no excuse not to have current data relative to your business immediately accessible. This list of information needed for sound profit management includes, but is not limited to, a

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cash flow statement, balance sheet, income statement, vendor profitability report, fast and slow seller report, and sales and inventory forecast (open-to-buy plan).

3 **Self-Control Management.** This technique may be the most significant of all and too often the least applied. Goal setting is the starting point. Reasonable and attainable goals must be set for all areas of the operation. Successful implementation of all of the techniques discussed here are essential if one's goals are to be achieved. Prioritize your time. All too often store owners micro-manage the most insignificant portions of their businesses. Tackle the most important tasks first, those being the ones that could have the greatest financial impact on the business.

2 **Inventory Management.** This topic is best described in three terms — turnover, cash flow and gross margin return on investment (GMROI). Of these, turnover is by far the most essential. Seldom have I encountered a retailer experiencing cash flow issues that had a good turnover rate. It should be remembered that for every week of improvement in annual sell through, cash flow increases by approximately one percent of sales. Nobody comes in your store looking for merchandise that was received last year. Increases in profitable business come from a constant flow of properly timed new merchandise. Focus more on what is selling rather than what isn't for maximum sales.

1 **Dollar Planning Management.** Retailers do not fail from overbuying. They fail when they can't pay for their overbuying. The development of a sound merchandise planning and open-to-buy program is crucial to the survival of any retail operation. Forecasting and planning must be based on the sound evaluation of current and projected sales and inventory figures. Classification merchandising or the development of trends by type and end-use of merchandise is essential. Buying merchandise in the right amounts, timing deliveries properly, the proper selection of styles and adequate assortment planning is the key to increased profits.

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