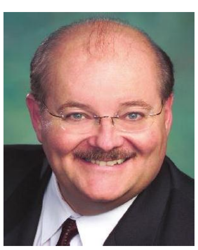
Strategic planning for business sanity

by Douglas Knorr



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Do you plan to continue doing the same thing in your business next year while expecting a different, better result?

Have you heard Albert Einstein's definition of insanity?

Einstein's definition of insanity is "Doing the same thing over and over again and expecting different results."

It's insanity because it just doesn't work!

As you approach the end of 2010, are you still doing the same thing in your business that you did in 2009 and expecting a different result? And do you plan to continue doing the same thing in 2011 while expecting a different, better result?

Put more positively, what are you planning to do in 2011 to ensure that your business enjoys greater sales and profitability than it did in 2010?

There's no way around it: Unless you are willing to make strategic changes in your business, then the results your business is getting now will not change in 2011.

However, the opposite is also absolutely true. if you are courageous enough to do the actively sane thing and take a critical look at every part of your business — and then are willing to make the needed changes you discern, your 2011 will be better than 2010.

It's not easy, but it has never been so crucial to take a totally realistic, sane view of every aspect of your business. That's because today, the margin between success and failure is unforgivingly narrow. You must hold every part of your business accountable. That requires developing strategic processes that are not just cheaper, more convenient or more comfortable, but that are strategic; designed to ensure that you are maximizing your return on investment and are running a fundamentally healthy company.

So what does it take to do the "sane" thing? Consider these questions.

1. Does your store have a strategic point of differentiation from the competition, and are you exploiting that difference to its fullest value?

The first sane thing any business owner must do is clearly define what makes your operation distinctly different from your competitors. Some people care about furniture more than others do, but everyone eventually needs furniture. When they do, why should they buy it from you? This point of differentiation — what ad agencies call the Unique Selling Proposition (USP) or the unique promise you offer but competitors do not — is what gives you an advantage.

This is not just some airy theory: Your unique promise is the foundation for all of your marketing, customer service, buying plans, credit policies, display concepts, and more. When we develop a marketing communications plan for a new client, the main thing we do is identify a unique position around which we can build our client's business.

One of the tactics we use is defining the client store's greatest strength. Does it offer the biggest selection? The most affordable selection? The quickest delivery so customers can buy today and enjoy tonight? The most appealing customizing options and interior design help?

Once you identify your greatest strength — and make sure through consumer research that this key strength is meaningful to the target customer — you can craft a powerful, relevant message that distinguishes the store from its competition. Focusing on a strength that matches the main interest or value of your target market is what makes it strategic. When your message is relevant, your advertising dollars will not only support each promotional event but continue to build awareness of what you do better than any of your competitors.

2. Have you set a minimum number of turns each item must achieve to earn a place on your floor, and do you move quickly and systematically to free up floor space for the most profitable items your customers will buy?

We have all heard the old rule that 20 percent of the floor yields 80 percent of the sales. Today that rule will put you out of business!

The largest investment in your business is your inventory, on your selling floor and in your warehouse. You need to manage inventory just right: Too little inventory and you lose sales (and customers) by being out of stock; too much inventory and

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you tie up scarce cash in unprofitable stock. The balancing act doesn't have to be such a guessing game. If you know the turn rate of each item on your floor, you can make an informed, confident decision about what to put on clearance and replace with something that will give you a better return on investment.

It's natural for retailers to feel positively about their buys; those who don't may have a hard time getting customers excited. But customers don't always love the item as much as you or your buyer did. The healthy, sane thing to do is give each item a set period to reach a minimum turn rate. If it does not meet the minimum standards, say goodbye, fast. These days, you just can't afford to keep it hanging on!

3. Do you track the Retail Triangle (Ups/Closes/ Average Ticket)?

Do you know how many people are coming into your store weekly, monthly and annually? Do you know how many of your shoppers make a purchase? Do you know the average ticket by department?

I am amazed at how many stores are content closing just two or three sales out of 10 ups/opportunities. This is a ratio no store can afford, because it just costs too much to get those 10 shoppers into the store in the first place. To find out just how much it's costing you to let an "ups" walk away, divide your monthly advertising costs by the number of ups in a month. Then, divide your advertising costs by the number of "ups" that resulted in a sale. I think you will be surprised at the advertising-cost-per-sale.

Let's say your advertising cost-per-up is $25. If you sell only one-fourth of those "ups," your advertising cost-per-sale is $100 — and that only covers your actual advertising cost. Once you consider your operational expenses, you begin to see how critical it is to hold your closing ratio accountable!

Here's another view.
Advertising budget: $15,000/month
Number of ups/month: 600
$15,000 ÷ 600 = $25/up.
If 25 percent of those ups are sold: (600 X .25 = 150 sold ups), the advertising cost-per-sale each month is $100/up ($15,000 ad budget ÷ 150 sold ups = $100/up).

With our example, if you can increase your close ratio from 25 percent to 40 percent (4 out of 10), your advertising cost per sale will drop from $100/up to $62.50. (600 ups X .40 = 240; $15,000 ad budget ÷ 240 sold ups = $62.50/up).

Remember, your sales associate makes the same commission whether you get a 25 percent or a 40 percent close ratio. But in our example, you lose $37.50 per sale with the lower closing ratio!

The sane, strategic thing to do is track the sales ratios and continue to expect and demand a better return on your opportunity investment.

4. Do you have a robust, inviting, interactive website?

Today, the web has taken a starring role in every successful marketing program. There's no way around it: If you do not have a robust website that lets the consumer visit your store and get answers to her questions, all in the comfort of her home and on her own schedule, you will are walking away from a tremendous opportunity to reach new customers in 2011.

Consumers are exceedingly time-pressured today, and are as likely to be shopping at 11 p.m. as at 11 a.m. A wonderful website keeps your store visible to the consumer 24/7.

What are the most important qualities of a strategically savvy website? Not fancy, slow-loading graphics, hard-to-read reversed-out type, or a musical sound-track. What consumers really need, online (and in real life), is for you to be transparent and relevant.

Being transparent means making it fast and easy for consumers to find information they need from you. Make sure your site quickly and clearly reflects your image and what it feels like to shop with you. Use colors, words and images to make a wonderful and accurate impression for your store, not just for the graphic designer.

Just as important, make sure your site's navigation quickly and clearly lets your customer find what she's looking for, from workhorse categories to hot new finds, and from store hours to credit applications. Remember, if the online consumer does not find what she wants quickly, she will go elsewhere just as fast.

Being relevant means you show the styles and selection that appeals to your target market, offer decorating advice and tips on how to shop for specific items, and make it easy for them to get questions answered and even read customer reviews of your merchandise and service.

If they find this content on your website they will believe you are relevant to their needs and they will plan to visit your store.

Strategically, everything on your site should encourage an in-store visit, directly or indirectly.

When your website is both transparent and relevant, you can confidently promote your website address on every ad, circular, mailer and press release — and know that your site will forge a connection to the consumer and entice her to visit your store.

Of all the decisions you'll make between now and the end of next year, enacting these four major strategies will help your business the most.

Determine why you're special and promote it without stopping; keep rigorous track of turns and unload losers fast; keep track of your ups/closes/average ticket ratios and do what's needed to improve them, and market 24/7 with a transparent, relevant website.

If you'd like different results than you're getting, you must do things differently. Start here, and despite the economy, you'll keep your business — and your sanity — in a more prosperous new year! NHFA