FEARFUL OR FEARLESS PART 2

Reduce costs to build profits

by Doug Knorr

Turn It Around

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What is your perception of today's economic situation?

All too many times, when I visit a new retail company and ask them how things are going, they reply, "I just want to hold on until things get better."

What about you? What is your attitude? How are you handling these tougher economic times? Are you just "holding on," hoping it will all soon get back to normal?

If you are the leader of your company, then you need to do a lot more than just hold on through these difficult times. You need to develop a plan that adjusts to economic situations so that your company will be profitable — even when everything is going the other way. That's the most basic characteristicof leadership!

My favorite definition of a leader comes from a paraphrased quote of Napolean Bonaparte: "The role of a leader is to define reality and give hope!"

So, let's take a closer look at today's retail reality. Fewer ups are the norm. Eroding profit margins are a tendency. Rising costs in every part of our business are a surety!

The first step to becoming fearless (which we examined in the September issue) is to differentiate your company from the competition. The second stake we need to pound into the ground is to reduce costs. And that requires accountability!

Accountability is all about measurement. Simply put, what gets measured improves. It has been proven, time and time again, that if you do not have a measuring device on a part of your business, you can be sure it is losing money!

As the leader of your company, your first priority is to address every line item and find ways to hold it accountable. And here's the great part of accountability — when you begin to measure, you will always find ways to reduce costs!

To push your thinking about what you can do today to begin holding your company accountable, I have listed a few items that, if measured, may save you tens of thousands of dollars every year.

We call it the retailer's "Profitability Checklist."

1. Insurance is one area where most companies can reduce operating costs.

I am not just talking about healthcare, but also the insurance premiums you pay on your business and buildings.

One of my clients told me he worked with the same insurance man (his friend) for more than 15 years. After he decided to get a competing quote, he found that his "friend" was costing him almost $150,000 more a year on all his insurance policies!

By requesting two or three quotes on your insurance every year, you will keep your "friends" honest.

2. Reducing unproductive floor space is a great way to reduce costs.

Do you have a minimum expectation of dollars you expect to sell per square foot? Only when you have an expectation can you measure results and hold it accountable.

If you cannot reach minimum dollars per square foot expectation, and you cannot increase sales, then you need to consider leasing floor space to another company or diversifying so that you can find products that will help you reach your goals.

3. Measuring delivery costs and finding ways to reduce costs per sale.

For example, have you considered the value of outsourcing delivery versus managing your own team? I have seen successful programs where companies have "team leaders" managing each truck's delivery with bonus options based on more deliveries at a lower cost.

4. Holding your advertising accountable is vital.

Next month, I will speak about advertising at some length. However, today I want you to think about measuring what the advertising does on your floor every day of the week. For example:

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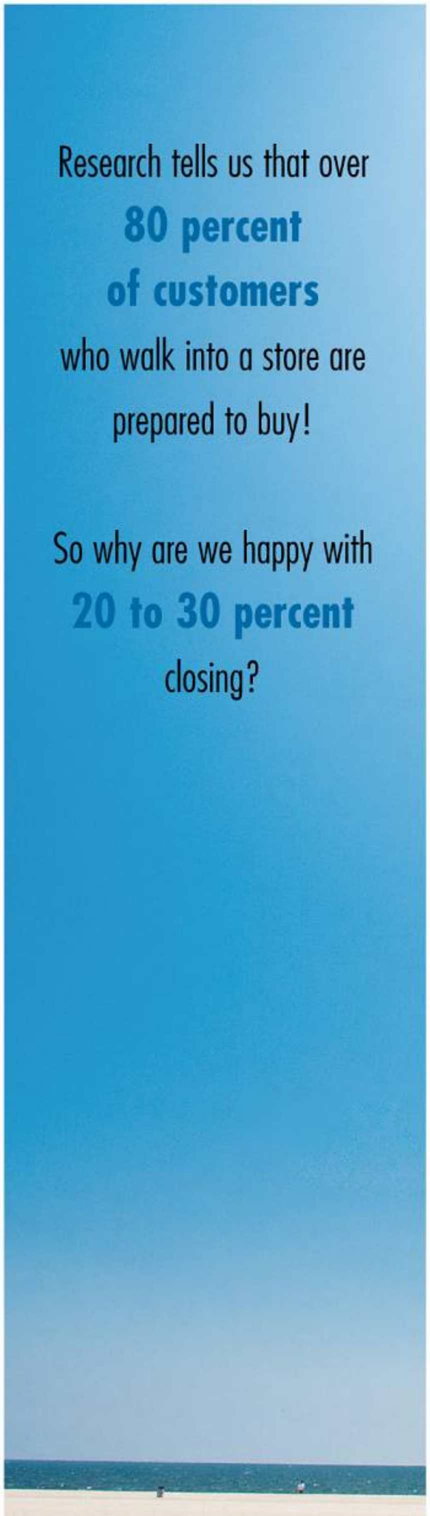

- You need to measure ups, not sales. (Add age category and time of day).
- In addition to measuring ups, you need to implement a way of identifying where your traffic, as well as sales, is originating (think registration). Even though many customers do not want to share personal information, most will be willing to give you their zip code to assist your marketing efforts.

5. Have a minimal expectation of gross margin by department or category.

Are you continually looking for products that will increase gross margin? With rising costs of advertising, employees, consumer demands, etc., you must increase your margin on sales. If you work on this area, you can increase gross margin.

6. Sales performance is vital to your success!

Do you know which salesperson is closing 20, 30, or 40 percent of the "ups," and which ones are not even closing 20 percent?

Bringing in "ups" is very expensive today. Research tells us that over 80 percent of customers that walk into a store are prepared to buy! Why are we happy with 20 to 30 percent closing? Each salesperson must be held accountable.

Consider the cost to bring one "up" into your store today, and then ask yourself the question, "Am I happy to see five or six out of seven walk out the door without making a purchase?"

Do you know what percent of customers are sold add-ons like fabric protection, extended warranties, and so on? You must have minimum expectations, and you must hold them accountable!

7. Increasing merchandising turns must always be the goal!

Would you put money in a bank and be happy to get no return on your investment? You must treat your inventory the same way.

"Every item on your floor is a soldier. If the soldier isn't going to war and winning the battle — shoot it!" That's a fond saying of mine.

8. Practice the concept of $19.23!

We have a game we play at Knorr Marketing. We call it the $19.23 game, and it is a team effort. Simply, we all look for ways to save $19.23 a week. For example, we use the backside of paper for internal printing or for overnight incoming junk faxes.

Now if $19.23 seems like we have gone off the deep end, consider this: every time we define a new way to save $19.23 a week, we add an additional $1,000 of profit to the bottom line. Or, put it this way: if you have a 3 percent net profit against sales, it would require that you sell over $33,000 of home furnishings to end up with that same $1,000 of profit!

If you want to turn it around in 2008, make the decision today to hold your company accountable. Start finding new ways to measure every part of your company so that you can increase efficiencies and reduce cost. NHFA