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PROFIT*systems* E-COMMUNICATOR

Calendar

June 5th – 9th
Class Week

June 13th - 16th
PROFIT*university* in Las Vegas

July 4th
Closed for Independence Day

July 10th-14th
Class Week

July 24th-28th
Las Vegas Market

August 7th - 11th
Class Week

Classroom Training

For more information about our classroom training and to make your reservation, please call 800.888.5564 or email karim@profitsystems.net.

PROFIT*groups*

We are looking forward to seeing our PROFIT*groups* members at the next meeting. If you are considering becoming a PROFIT*groups* member and would like more information or references, please call 800.325.2018 or email phyllisz@profitsystems.net.

PROFIT*university* 2006

Renee Thornton, Communications Manager

Don't miss the opportunity to attend PROFIT*university* 2006. This year you will experience many stories of success and motivation, new additions to our PROFIT*professional* software, and how you can implement all of this into your company with ease.

PROFIT*systems* 20th client conference will be held June 13-16, 2006 at the Rio All-Suite Casino Resort in Las Vegas, Nevada.

Call 800.888.5565 or email conference@profitsystems.net for information.

The 21st Century Method to Maximizing Your Profit

David McMahon, Senior Consultant

Directed training is the 21st century method to maximizing your profit. Compared to traditional methods of running advertising campaigns to maximize traffic, training is of greater value and much more effective in producing long lasting results. Average stores spend 5 - 10% of sales on advertising while spending under 1% on training and consulting. These average stores don't educate properly; they have a laissez faire way of running their business. In contrast, two of our "best practice" clients, American Factory Direct and Thomasville of AZ, commit to self improvement and have engaged in at least semiannual consulting over the last six years. Their sales have grown by over 700% and their profit has grown by over 1,100%!

On the expense side, low profit operations are pretty good at expense control. They differ from their "best practice" peers in how they allocate their money. There is usually no budget for training at an "old school" store, whereas an innovative business always provides ongoing training.

As for inventory management, done right, it typically only exists in "best practice" stores where there is a culture of continual self improvement.

By examining where profit comes from, you can see how small changes brought about by directed training have massive impacts. The benefits of doing it right are huge!

The Three Profit Sources

There are three sources that when improved, produce much greater profits: sales, gross margin, and operating expenses. Simple, right? Not so fast…in order to improve these areas, you must understand what contributes to the source (the equation).

1. **Sales = Number of Ups (Traffic) x Average Sale x Close Ratio**
2. **GMROI = $ Gross Margin / Inventory; $ GM = GMROI x Inventory**
3. **Operating Expense = Fixed Expenses + Variable Expenses + ROI Expenses**

To illustrate the huge benefits of self improvement, let's look at a $5,000,000 average profit operation. This is what a 5% improvement in the equation does to their annual sales:

Sales = Number of Ups (Traffic) x Average Sale x Close Ratio

- Before: $5,000,000 = 30,014 ups x $980 average sale x 17% close ratio
- After: $5,788,565 = 31,515 ups x $1,029 average sale x 17.85% close ratio

Why do most average stores only invest in improving through advertising?

"Best practice" stores invest in training that produces results in all parts of the equation at a fraction of the cost. That is almost an $800,000 difference in sales per year!

Do you think that with directed training you could improve by 5%?

Gross Margin Return on Inventory = $ Gross Margin / Inventory; Gross Margin Dollars = GMROI x Inventory

Gross Margin dollars are increased through concentrating on GMROI and implementing dynamic inventory management practices. Holding inventory constant at $1,000,000, an average-profit inventory for a $5,000,000 operation, the difference in gross margin dollars between an average and high profit GMROI is massive:

- Average: $2,360,000 = $2.36 GMROI x $1,000,000 inventory
- High profit: $2,670,000 = $2.67 GMROI x $1,000,000 inventory

Once again the average store doesn't completely understand the intricacies of inventory management and seldom invests to improve. Our "best practice" clients work hard and make the time and investment to be efficient with their biggest asset and expense – inventory. Doing it right is a $310,000 difference in gross margin dollars per year! All profit!

Do you think that you can improve your inventory management practices with directed training?

Operating Expense = Fixed Expenses + Variable Expenses + ROI Expenses

“Best practice” stores consider their operating expenses in three categories: fixed expenses, variable expenses, and ROI expenses. Fixed expenses do not change that much from month to month. They are general costs such as non-incentive payroll, administration, warehouse, occupancy, and inventory carrying costs. Fixed expenses are the costliest.

Variable expenses are costs that are incurred only when a sale is made, such as sales commissions, incentive plans, credit card fees, finance company costs, and some delivery expenses. They are good expenses because there is no negative impact on your bottom-line if implemented properly.

The other type of expense is ROI expense. These are self investment expenses that produce a return on investment and increase your sales, GMROI, and profitability. Typically they are only incurred by companies that are high profit or are seeking to become high profit. Properly done, they are long term productive partnerships with consulting and training firms.

When budgeting expenses, making projections, and designing compensation plans (one of the services provided by PROFIT*consulting*), keep in mind that the higher the proportion of variable and ROI expenses to fixed expenses, the lower your break even sales point will be.

Here is the difference between an average and a high profit store at $5,000,000 sales:

- Average: operating costs = 42.4% = $2,120,000
- High profit: operating costs = 39.7% = $1,985,000

The difference from operating is $135,000 per year! They have a lesser operating expense ratio overall because they invest more dollars in efficiency.

Opportunity of Doing it Right

Let’s recap the value. An average profit company doing $5,000,000 with $1,000,000 of inventory, with help, can produce:

- A 5% improvement in Ups x Average Sale x Close Ratio = **$788,565 per year increase in sales**
- A GMROI increase from average $2.36 to high profit $2.67 = **$310,000 per year increase in gross margin dollars**
- Lower operating costs and better expense allocation: 42.4% average to 39.7% high profit = **$135,000 per year increase in profit**

Small improvements have massive impacts! Employ and enjoy the 21st century method of maximizing profit, directed training, for results. Your employees and your bank account will thank you.

To inquire about joining our growing list of companies who are committed to self improvement and success, utilizing both PROFIT*consulting* and PROFIT*groups*, please contact info@profitconsulting.net.

Tech Tip

Carrie Anderson, Systems Support

A slow system can be due to a variety of reasons. To assist you with ruling out a cause please do the following:

√ Exclude your PROFIT*professional* software from your anti-virus on the server and workstations. Please contact your local system administrator for assistance or give us a call and we will do our best to assist.

√ If you recently updated your PROFIT*professional* software or updated a component of the operating system i.e. Microsoft update, we strongly recommend you run your PSI NGEN Tool to optimize PROFIT*professional*. Please contact us for assistance.

To launch the PSI NGEN Tool:

- Go to **Start**
- **Programs**
- **PROFIT*systems***
- **PSI NGEN Tool 11.x** (select the version of software you are running)
- Click **Launch PSI NGENs**

√ Remove any spyware and mal-ware. This is the most common cause of systems running slow. There are a variety of products you can use that are free, such as Lavasoft’s Ad-aware. One other cause may be due to a virus. If detected or suspected, please contact your local system administrator.

√ Other reasons for a computer running slow are due to insufficient resources, like memory, processor clock speed, or network issues. Please contact your local systems administrator for assistance.

Michelle Michaels, Editor

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