



The Retail Furniture Store's 5 Most Common (and Costly) Mistakes

1. The Failure to Implement Sound Business Systems & Procedures

- a. Most furniture retailers have come into the industry from one of two primary backgrounds. Many of you are second, third or fourth generation furniture people, who have grown up in the business, learning a wealth of furniture knowledge, from parents and grandparents. Other furniture people have often entered furniture retailing, as a young person, just out of school. You may have developed your expertise, by devoting many years to your career advancement, often as a salesperson, learning the products and respective selling techniques. Without question, all of this experience and background has been invaluable in allowing your business to prosper and grow successfully over many years.
- b. The business principles and methods typically learned from the preceding generation of owners and managers, developed from trial and error or from observations of the practices of fellow retailers. The systems and procedures probably worked very well in the early phase of the business, when sales volumes were relatively small, inventories could be controlled by the art of "walking around" and employees were few in number. Many of your stores have grown substantially in terms of store size, number of stores, sales volume, number of employees, and the depth and breadth of inventory. Frequently, systems and procedures have worked successfully in the under one million dollar store. These methods have been carried forward and remain in place in the multi-million dollar operation, which you are now operating.
- c. The evolution and growth of a business enterprise demands a corresponding progression in the operating, selling and financial systems. Those methods and procedures, which appeared to work so well in the million-dollar store, start to come apart in the two to three million-dollar operation. Similarly, the systems, as practiced in the five million-dollar store, are often inadequate in the ten million-dollar store, just as the systems of a twenty million-dollar business will not allow the one hundred million-dollar organization to function effectively.
- d. It is not uncommon for a successful small business to expand into a much larger operation that still operates, with the identical systems and procedures, implemented in the old days. The typical result of the failure to put into effect improved routines and controls will most often result in daily chaos, as much time is devoted to "putting out the fires".
- e. The inevitable outcome is a decline in efficiency and profits, often resulting in a going out of business experience, which could have been avoided by learning, developing and implementing sound business system improvements.

2. A Lack of Planning

- a. Most furniture retailers got into the business, or expanded their existing operation, with a great deal of ambition and optimism. They might have inherited the business or perhaps a building, which appeared to be suitable for some sort of retail operation. Perhaps a family member had a passion or a talent for interior design and seemed to be a natural to start a retail furniture store. There was an appealing idea or a life event, which seemed to provide a great opportunity. So a decision was made to enter the retail furniture business. The business itself seemed to be simple – buy and display some nice furniture, run a newspaper ad, sell the furniture for twice the cost and bank the money. With such a lack of complexity, who would ever need a plan?
- b. There are many keys, which are common to a successful retail furniture operation – location, correct store size, strong product assortment, great people, an effective marketing strategy, successful selling techniques and financial strength. If all of the key business elements are sound, your retail store will most likely be successful.
- c. Many retailers get into business without all of these primary factors and with no plan for their development. The typical result is confusion, at best, due to a lack of direction and foresight. Instead of working towards the achievement of those targets, so essential to success, they are simply dealing with day-to-day issues and problems. The lack of a sound and realistic initial business and financial plan often dooms a business to failure, right from the “get-go”.
- d. Planning does not begin and end with an initial plan, but is a continuing and evolutionary process. The failure to plan all aspects of the business and integrate these fundamentals into a realistic roadmap for the future means that pitfalls will be encountered, which can ultimately endanger the life of the business.

3. Inadequate Training

- a. Many retail furniture stores have provided their employees with great educations and training programs, which have yielded outstanding returns in employee morale, enhance productivity and outstanding bottom lines. These business people have learned that the investment in the development of their people truly provides rich rewards, on which the payback is never ending.
- b. Sadly, there are some business people, who do not recognize the inherent value of good training programs and the benefits of initial employee training, followed up by an ongoing educational or professional development program. Sometimes, the investment costs of the training program might appear to be initially high and, for that reason, the educational development program might not proceed. The decision is made to self-learn

the particular system or procedure. This attempt to re-develop the wheel most often leads to failure.

- c. The employees are often left to learn the procedures on their own, in a “sink or swim” environment. Systems are developed which are inefficient, at best, and counter productive, in many circumstances. The employees become disenchanted and unhappy with themselves, their jobs and the company.
- d. All levels of employees of retail furniture stores including management, administration, sales, purchasing, customer service, warehousing and delivery personnel, absolutely must be provided with proven, mandatory training and educational programs.
- e. The costly mistake of the failure to provide essential training must be avoided!

4. The Failure to use the Financial Side of PROFIT*windows*

- a. A common trait of successful furniture retailers is the intimate awareness of the key financial aspects of their business. They have a detailed and timely knowledge of both the current profitability of the business and the status of the cash flow. They understand the important financial metrics of the retail furniture store and know how their business compares to the industry standards.
- b. This financial awareness allows the retail storeowner or manager to make those informed decisions, which are critical to the well being of the business. The only way to obtain this timely, accurate data is the internal preparation of precise financial statements and reports. After-the-fact preparation of financial statements, by an outsider, who does not possess a substantial knowledge of the retail furniture industry, does not come close to providing the management information, so critical to successfully operating your business.
- c. All of the source data to produce this invaluable financial reporting information is available directly from PROFIT*windows*, when all aspects the system are correctly utilized. The information is available not just on an annual, quarterly, monthly or weekly basis, but on an “on-demand” basis.
- d. The transfer of the source information to another system, whether it is an externally operated system or another internal program, simply causes delays, inaccuracies and results in a poor basis for effective management decisions.
- e. The decision to use only the sales and inventory aspects of your total business management system may appear to provide an easier implementation and a reduced learning curve. In fact, such a decision creates complexities above and beyond the conversion of the financial data and the adoption of new procedures. The normal results are a loss of timely, accurate financial information, coupled with the inability to easily compare your operating results to those of your industry peers.

- f. A business cannot effectively survive without the diligent analysis and strong decision-making tools, which are provided by your internally prepared financial reports.

5. The Failure to Implement effective Inventory Management systems

- a. The most usual reason for the acquisition of a computer system, for a retail furniture store, is the expressed desire for the better management of its major business asset – inventory. The inventory of a typical retail furniture store often is in the range of 20% to 30% of the store’s annual sales volume. The significance of an investment of this magnitude is obvious. There is no other business investment, which approaches the total cost of a retail furniture store’s inventory.
- b. Without question, the recognition of the need to provide enhance inventory controls is a key factor in acquiring the computer system. After all, the true cost, of carrying inventory, runs about 30% per year of the total value of the inventory. The investment in the computer system can often seem to be miniscule, when compared to the costs of carrying excess inventory.
- c. Strangely enough, there are some retail furniture operations that do not take the effort to learn and implement the key inventory management tools. They probably use the system for sales entry, purchase order creation and the processing of accounts payable. However, they fail to change their buying methods and philosophies and do not exercise control over their inventory. They do not take advantage of the system’s reports and information, which can be so crucial to the effective management of inventory and the achievement of the greater profits.
- d. It is a proven fact that the retail furniture manager, who knows the store’s top sellers, maintains them in stock and takes aggressive but managed steps to eliminate the “dogs” – the non sellers – will have not only a smaller inventory investment, but a much more productive inventory. There will be increases in sales from keeping the top sellers in stock. Gross margin dollars will increase from the higher sales and from the focus on the best selling, higher margin items. The auto-movement of the poor sellers, in a managed fashion, will increase margin dollars and provide cash for re-investment in potential top sellers, repayment of debt and the expansion of the business.
- e. The failure to take advantage of the key inventory management tools simply should not be tolerated. The paybacks from their diligent use are just too large to be ignored.

5 Most Important Things to Learn

1. Financial Statements & Metrics
2. Develop a Financial and Business Plan
3. Systems Define Outcomes
4. Inventory Metrics
5. Management Reporting Concepts