



Buying WITH The Long Odds Instead of AGAINST Them

When you buy new merchandise not based on its track record at retail, the odds are 4 to 1 your new buy will be a “dog”. It doesn’t have to be that way.

By Larry Stark

When you go to market, it’s very easy to get carried away by the excitement of seeing new things. The new merchandise is fresh; it’s beautifully displayed; it’s different from the same old stuff you’ve gotten tired of looking at on your floor. And therein lies the danger. Although you may be tired of looking at things you’ve had for some time, if those things that you’ve grown tired of are still selling well, it’s obvious your customers are not tired of them. That merchandise is still new to your customers, because they haven’t been looking it every day, day in and day out, as you have.

Judge Merchandise on Results, Not Looks

As business people, we must form the habit of judging merchandise by its sales and gross margin results, not by how well we personally may like it. It really is a fact that only 20% or so of your inventory items are generating 80% of your volume and gross margin. Our Sales Analysis by Category and Gross Margin report has proven this to be a fact in hundreds of stores all over North America. That means that the *other* 80% of your items are only generating about 20% of your gross margin, in other words, not even coming close to paying the rent on the floor space they’re occupying. When you reorder one of the top 20% items, you’re betting *with* the long odds, because you are rebuying a proven winner. When you buy a brand-new introduction, however, you are doing just the opposite. You’re betting *against* the long odds. No matter how well you may like that new introduction, the odds *against* it being successful... selling well enough to climb up into that top 20% of items generating 80% of your gross margin, are 4 to 1.

In working with our clients to help them improve the profitability of their businesses, the most important thing we’ve learned is the importance of judging merchandise by its results rather than its looks... judging merchandise unemotionally by how much money it makes rather than by how well we may like it. For many people that’s a very hard habit to form, because style *is* an emotional thing. When we’re *selling*, we need to make great use of the emotional appeal of our merchandise in order to sell it most effectively, but when we’re buying, if we want to maximize our profits, we need to analyze it unemotionally, based on its financial performance.

Improving the Odds on New Selections With Help From Others

That’s easy, of course, when we’re reordering proven winners. Even merchandise that you once didn’t care for can certainly grow on you when you see how much money it’s making you! But what about when you’ve gotten rid of some dogs and have some holes to fill on your floor? How can you possibly know in advance how well new selections will produce on your floor? Obviously, you can’t have perfect knowledge (no one has a crystal ball) but you *can* greatly



improve the odds. How? By exchanging sales reports with other non-competing dealers with operations similar to yours. Just think... if you exchanged best-seller information monthly on the top ten or fifteen best sellers in each merchandise category with a group of six to twelve other dealers, you'd never again have to bet against those long odds buying new stuff with no track record! You'd have a wealth of information to aid you in your buying. The guesswork would be taken out of selecting new merchandise for your floor. You'd never buy another dog as long as you live! You'd be amazed at the difference this program can make in the productivity of your inventory investment and the profitability of your business. You don't want the retailer group to be *too* large, but a group of six to twelve is *many* times more valuable than one with just two or three members.

Of course, the first problem with a group this size is *finding* such a group of dealers with operations that are similar to yours, that are far enough away so they're non-competing, that you know well enough to feel comfortable suggesting an exchange of sales and other confidential data and that you respect enough to know that their information and ideas will have value to you. Even assuming that you've identified such a group and done the hard work of getting them recruited (unlikely, but possible), planning and organizing periodic meetings, supervising the exchange of data between meetings and all of the hundreds of other details that must be attended to keep a group of this kind running become an impossibly time-consuming job... a job that no busy furniture retailer has time for.

Though you know the value of the concept, it's easy to see why it's impractical to even consider doing independently, without help. Of course the group could hire a facilitator to handle all this work, but that would probably be so costly as to negate a good bit of the benefit. Also, finding the right person, deciding where they should be based, providing workspace, office equipment, etc. all combine to make this solution look less and less feasible. An idea-generating, information-sharing, problem-solving, decision-support group is a *great* idea, but how can you implement it?

Organized Networking Groups... The Solution to These Problems

That's where PROFIT*groups* (or the organized groups offered by one or another of our competitors) comes in. PROFIT*groups*, a division of PROFIT*systems*, Inc., grew out of a large volume of requests from PROFIT*windows* users for help in various areas of their businesses... merchandising, advertising, sales, operations, you name it, we had requests for help. While the Stark family has been involved in the retail furniture business in various ways for over a hundred years, we knew we couldn't begin to satisfy all the requests on a one-on-one basis. Not only that, but while we have a lot of experience in the furniture business, we certainly don't think of ourselves as *the* experts in every area. We know, however, that whenever we get a group of six to twelve furniture retailers together who have similar operations and who are committed to improving their businesses, they always come up with great ideas to solve any problem we or members of the group throw at them.



The idea isn't new or original with us. "Twenty Groups" have been a tremendously successful force for automobile dealers since the 1920s. Over 90% of all automobile dealers in the United States now belong to a Twenty Group. They have been so successful in improving the profitability of automobile dealers that today, membership in a Twenty Group is a mandatory requirement for a new dealer to obtain a General Motors franchise, and is highly recommended by other manufacturers.

How Are They Organized?

Typically, groups are formed with six to eight members with similar operations from different parts of the country. The members of the group then decide on the ground rules by which their group will be governed. Usually, if the group wants to expand, one or more prospective members can be invited to observe and/or take part in a meeting. If the prospect decides that he/she would like to join the group, the group takes a vote on accepting the new member. Most groups require unanimous acceptance. If a member feels incompatible with the group, every effort is made to find a group for them that would be a better "fit"

How Do They Work?

Most groups meet twice a year, usually for 2 days, with each group's agenda decided on by the group. A typical agenda schedule for the 2 days would be half-day sessions on each of 4 subjects: 1. Best Practices, 2. Goals and Action Items, 3. Discussion Topics, and 4. Financial Comparisons. There is usually a social event/networking dinner in the evenings of both days. Between meetings, most groups exchange best-seller information, as well as touching base by phone about any problems that arise. In short, the groups become very close-knit, providing a sounding board for each other and acting as a surrogate board of directors for each member.

No matter what your goals are... whether you need to improve your buying, make your advertising more productive, bring your expenses into line with the industry profitability leaders, or solve any of the thorny problems that you could use some really expert help with... an organized networking group can be the answer to your prayers!

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