



Forget Average Profitability... 10% Isn't Hard – Part 1

Double-digit (10% or more) net profits are not only possible; they aren't even that difficult to achieve, but you've got to know how, and you've got to follow the rules.

By Larry Stark

According to the annual NHFA Retail Performance Report for 2003, the average furniture retailer netted 4.4% (pre-tax) to sales in 2002, with the middle range being 1.5% to 6.6%. On the face of it, that appears to be a pretty good showing, inasmuch as it was a significant improvement from the previous year, and the economy still wasn't booming. At the same time, however, it's really very low, compared to other industries; other types of retail and the high profit half of furniture retailers reporting. The high profit half of the firms' surveyed averaged 9.2% pre-tax net profit to sales, with the middle range being 7.8% to 10.2%. Even those results aren't that good, compared to clients of ours, many of whom netted in the 12% to 15% range, with one even topping out at 18%.

How Did They Do It?

First of all, high-profit retailers all seem to have the same mind-set, which includes a deep-seated belief in the following:

- “Average” is another word for mediocre.
- “Average” isn't good enough.
- If others can achieve double-digit profitability, so can we, because we're just as smart as anyone else.

Absolute non-acceptance of average results is the critical first step toward top-tier profitability. Absolute acceptance of the belief that, “If others can do it, so can we,” is the necessary second step.

Beyond adopting the right mind-set, however, there are two additional things necessary to achieve top-rung profitability: 1.) *Knowing how* to achieve top results, and 2.) *Doing what's necessary* to achieve them. We'll deal with the knowledge required in two articles: This article, Part 1, deals with profit maximization of the front end of your business, or in other words, knowing how to manage the activities on your sales floor to maximize your results there. The next article, Part 2, deals with profit maximization in the back end, or in other words, knowing how to manage the merchandising and operational areas of your business to maximize your results there. Doing what's necessary to achieve the desired maximum results is, of course, up to you.



Managing The Front End For Maximum Profit

Maximizing sales and margins requires management of the equations:

$$\text{Sales} = \text{Traffic} \times \text{Close Rate} \times \text{Average Sale}$$

Traffic, of course, refers to the number of opportunities your sales force has to make sales, and is basically a function of your advertising. We're not going to talk about advertising here, but rather about how to maximize the results you realize from your existing traffic and about ways to increase traffic without increasing advertising.

Since "traffic" is a discrete number in the above formula, it's obvious that traffic must be measured so that you know exactly how many opportunities your salespeople had, both in total, and by salesperson, because it really is a fact that you can't improve what you don't measure. There's more than one way to measure traffic, but the cheapest and most accurate is a traffic counter at the door. Unlike a human receptionist, an electronic traffic counter doesn't take breaks or vacations. It can be connected directly to your computer system so the data is continuously and automatically updated and, once installed, its cost is virtually nothing.

Once you know your traffic, and can get counts by time of day and day of the week, you can analyze your staffing to ensure that your store is properly staffed to handle peak and off-peak times and days. Don't be surprised if you find that, contrary to what your sales staff may have been telling you, your store is understaffed on the sales floor. Very few things turn customers off more than not being able to get help when they want it. When that happens to a customer, you may not get a second chance. You may have lost them forever.

Once you're counting traffic and have proper sales force staffing and scheduling covered, your sales manager is now in a position to properly manage your sales force. To maximize sales and gross margins, your sales manager must constantly coach and train your salespeople who are below average to bring their close rates and average sales up to at least the average. This is a constant, never-ending job, because as the low producers are brought up to the average, that raises the overall average. The sales manager must constantly "live" in these numbers. The sales manager should not be burdened with other duties, because maximizing sales is the most important function in the whole organization and really is a full-time job. Goal-setting, monitoring progress, training, coaching, motivating your sales force require specialized knowledge and skills. If you and/or your sales manager aren't completely equipped to get the kind of results you want, you should get some help.

The final ingredient for getting the most out of your traffic is a selling *system*. Because of my company affiliation, you may think I'm talking about computer software here. I'm not. I'm talking about your customized, standardized way of greeting, engaging and dealing with your customers to maximize sales. Most stores' selling "system" is based on the individual abilities of



the salespeople on the floor. In other words they have no system. The salespeople on the floor have differing levels of skill, so they produce differing results. The store isn't *making* things happen, it's trying to manage what happens. It's reactive rather than proactive.

Some Elements of a Real Selling System...

Most all salespeople know that they're not supposed to say, "Can I help you?"... or any other greeting question that can be answered, "No." They've been told that they need to *engage* customers. Consequently, many have adopted a question greeting technique that doesn't lend itself to a Yes/No answer. The problem is that many of these question greetings are product-oriented questions that seem self-serving to the customer or questions that the customer *may not know* the answers to, such as:

- "What can I help you find?" (Product-oriented and she may not *know* what she wants. She came in to get *ideas*.)
- "What style do you like best?" (Again, product-oriented and she may not *know* the names of styles.)

Any time a salesperson asks a customer a question that seems self-serving or that she don't know the answer to, it's off-putting, and she wants to get away from that salesperson as quickly as possible. A far better greeting is a simple, friendly, "Welcome!" or "Welcome to Store Name!"

OK... you've standardized on a nice, friendly greeting. Next, the salesperson really does need to *engage* the customer, but *how*? We've already seen the risk of self-serving, product-oriented questions and questions the customer may not know the answers to, so what's left? That's easy... questions that (1) are related to the *customers* interests (not the salesperson's) and (2) that she *can't help* but know the answers to! Since the furniture business isn't about furniture at all, it's about rooms... the best way to accomplish those two objectives at the same time is to say something like, "Many people come in to Store Name looking for ideas. That's why our displays include furnishings and accessories in room settings so you can better visualize it in your home. I'd like to be your guide in that process of idea-gathering. Tell me about the room you'd like to make over." Then, while sketching a floor plan, ask about the size and shape of the room(s), placement of the doors and windows, pieces, placement and condition of furniture presently in the room, etc. Taking this approach automatically engages the customer in conversation about a subject that she's very interested in and is intimately familiar with, *and* it tells her that at last she's found a salesperson that is interested in her needs, not just in making a sale.

Space limitations don't permit full coverage of this subject of sales management and selling systems in this article. That's the subject of whole books. There are courses available from a number of sales and sales management training organizations. If you need help in maximizing the potential of the front end of your business, I urge you to contact one of these companies, because maximizing the profit of your company starts right there, with *making things happen* on the sales floor.



Watch for Part 2 of this 2 part series in next month's issue, which deals with profit maximization in the back end... the merchandising and operational areas of your business.

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