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RETAILING TONY GATTARI

Remember your first dollar

REMEMBER WHEN you were in primary school? Your mother would sometimes give you a dollar to buy extra goodies from the canteen. At recess you'd buy a bag of mixed lollies, a paddle pop and a drink and still have fifteen cents left in your pocket. (Hey, it was cheap back in those days!)

At lunch time, after eating your lunch and running around with your friends, you'd be hungry again and start thinking that a chocolate doughnut would fill the void nicely. Then you'd realise that you didn't have enough money left. So you asked a friend if you could borrow twenty five cents, and your friend handed it over, expecting that you'd pay him back the next day. Wow! That chocolate doughnut tasted so good and it filled the void in your stomach too. After lunch your good feeling wore off, especially when you thought about the twenty five cents you had to pay back. You didn't know it back then, but you were in a profit crisis.

The next day your mum gave you fifty cents, you paid back your friend, but this time you saved the rest, avoiding the bad feeling of being in debt. You learned that it's better to have the money to pay for something before you buy it, than have to pay it back later.

Even children, as young and naive as they are, can have great financial management skills. When it comes to business, we're often not as stringent with our profits as we need to be. In business, the kind of profitability stewardship we must exercise includes asking ourselves (and answering honestly) questions like:

- Can we afford that thing we want to buy?
- Do we really need to make that purchase?
- Should we save that money for a better investment?

Stemming the bleeding

What are some areas in which you've let spending get out of control over the past year? When a friend started work at a retailer, his first assignment was to fix the Hornsby store, which was bleeding \$600,000 a year in operating profit, on sales of \$3.8 million. He delved through mountains of sales reports and financial statements, trying to identify where the losses were coming from so he could start finding ways to turn things around.

There was one big additional problem. The store's forty or so employees had never been exposed to the truth about how the store was performing. (Of course many of them didn't even know how to read profit and loss statements.) So staff had assumed – in the absence of management information – that the company was making lots of money. Wisely, he was reluctant to start ripping and tearing things apart before staff knew what was going on. To have started making massive changes without explanation would have caused serious apprehension among the staff.

He discussed his predicament with a consultant he was working with. The consultant scribbled down a way he'd shown supermarket managers to improve their margins. The process was a simplified profit and loss statement in which each cost is a percentage of sales expressed as cents in the dollar, for example:

\$1.00 Sold	
<hr/>	
\$0.50 Cost of Goods Sold	
\$0.20 Rent	
\$0.15 Wages	
\$0.08 Other Expenses	
\$0.03 Marketing Expenses	
<hr/>	
\$0.96 Total Expenses	
<hr/>	
\$0.04 Profit	

In the previous example, for every dollar in sales, only four cents is profit. The consultant explained to him that the managers had only two options to improve their business by increasing the number of dollars sold (revenue growth) and/or by increasing the number of cents left over in the dollar (profit growth). A one cent saving across each of the major expense variables would move the profit from four to nine cents. While revenue growth is important for any business, the real gold is often in improving profit.

Armed with this new technique, he went to work on breaking down retailer's three page profit and loss statement into percentages of sales and cents in the dollar. He then called a team meeting to talk about how the store was performing. On a whiteboard he wrote down the cents in a dollar equation. There was absolute silence as the team digested what they were reading.

"For every dollar we sell, we have 113 cents in expenses," He explained. "For our store to survive, we need to work out how to get our expenses under 100 cents."

The team understood and spent the rest of the evening throwing around ideas about how to improve the store's performance. Within eighteen months the store started breaking even. ●

■ The author, Tony Gattari was the General Manager of the computers and communications division of Harvey Norman and oversaw the growth of this business from \$12 million to \$565 million in nine years. He is the founder of Achievers group and a professional speaker, business educator, author and corporate, business advisor.

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