The Numbers Game Part II

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In a prior article (*The Numbers Game - Playing To Win)* I wrote about the importance of calculating certain performance indicators, and tracking them. The advantage and purpose of measuring is to see if you are improving, staying the same, or doing worse. Measuring also can also point out areas in your operation that may need more attention. It is all about keeping score, and improving that score.

I promised to give you some important measurements which I call PINs (Performance Indicator Numbers). The first, and ultimately one of the most important, is the bottom line or profit before taxes. I prefer to use profit before tax rather than after tax because tax rates change and vary and also depend on your income level, and a pre-tax measurement gives a baseline that you can use to compare year to year regardless of tax rates.

Net profit before tax is easily obtained from you financial statement or tax return which is most likely prepared by your accountant. Net profit before taxes is stated in both a dollar amount, but also should be stated as a percentage of your net sales. You might be asking, what is an adequate profit before tax? The easiest but least exact answer to that is it should be as high as possible! A more exact answer is “it depends”. Read on for an explanation.

Based on the 2005 WFCA financial management report the “typical” retail oriented firm (in 2004) had a pre-tax profit of 2.8% of sales. (That compares to 1.9% the prior year) The “high profit” retail oriented firms had a pre-tax profit of 6.0% of sales. For retail firms that also did main street commercial, the numbers for the typical store were lower at 2.7% but the “high profit” stores doing main street commercial were a little higher at 6.2%. These numbers are for all stores in each category. There were differences when looking at the numbers for stores bases on size (sales volume). For that detail I suggest you get a copy of the study which is very detailed and gives a lot of different breakdowns.

Here are some other performance and productivity measurements that may be revealing and worthwhile tracking.

Sales per Employee measures the productivity of your employees. This number is obtained by dividing your total sales by your total full-time equivalent employees. Employees are your greatest resource, and also your greatest cost. The higher your sales per employee, the more productive and efficient they are. In the 2005 WFCA study, the average of all retail oriented stores was $235,519 per employee. For retail stores doing some main street commercial the average was $273,000.

Sales per square foot is a measure of your space productivity. This can be done by either using your sales per square foot of your showroom, or sales per square foot of your total store (warehouse & storage included). Your can use either one, but I suggest you use both as the number is easy to obtain. This is an important number to track, especially if you are in a location where the rent is quite high. This number is especially valuable if you are planning to increase the size of your store or showroom. For example if you were to increase your showroom by 30% it would be reasonable to expect your sales to be up at a minimum of 30% after a reasonable length of time, like one year later. In the WFCA study the average for the typical retail oriented firm was $424 per sq.ft. of showroom. For the high profit stores that average was $489.

Sales per display is a measure of your display productivity. Each display that you have in your store should have to justify its existence. If a display generates very little in sales or no sales at all perhaps that space could be better used to show a different product. But before you eliminate that display, you may want to make sure that your salespeople are not the problem. Salespeople will shy away from showing and selling a product they are not comfortable with. If that is the case it is important to get them the training and product knowledge as you don't want to eliminate a display that has potential to provide a good return on your investment. You don't want to miss an important product category due to lack of training.

Another way to look at sales per display is to break it down by the amount of square feet that the display occupies. For example, a display may be generating a fair amount of sales, but if that display occupies a disproportionate amount of space, you need to consider that a smaller display might do just as well for you, and would open up valuable showroom space to show another product.

There are many more measurements that you can track, but the most important thing is that you pick the most critical measurements and calculate and compare them regularly. A monthly report card on how you are doing in the critical areas will help you to avoid any unpleasant year end surprises. It also will guide you in areas where you need to make adjustments during the course of the year.

If you need to know how to obtain a copy of the WFCA study, please send me an email (fred.jaeckle@jaeckledistributors.com). Or if you are a member of WiFCA and WFCA contact the WFCA directly. The cost is $75 for WFCA members and $150 for non-members.

Questions, comments, and feedback are always welcome.
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