

by Rus Kinzinger

It Takes More Than a Prophet To Make a Profit

Really—I'm being serious! Prophets foretell based only on what they have been told. And to be truly a prophet, they have to be 100 percent correct. We all would like to be told with absolute certainty that we're going to make a profit—make mine a big one, please. That isn't going to happen, however. Profitability will be determined by hard work and smart decision-making. Here are some areas to watch closely.

1. **Know your store (or stores') *net* income.** If you're not tracking this number, you might be surprised to learn that you have lots of company. In fact, an unexpected number of retail thrift executives can easily answer questions about their *gross* monthly income, but know very little about how this translates to *net* income. Unfortunately, many thrift stores experience significant increases in gross income, but leave management wondering where profit is going. The measure of a store's health is not in the money it makes, but in the dollars it keeps. (In my work with nonprofit businesses, I find that *gross* numbers are frequently used because they give quick feedback. Too, net is a figure that is usually 2 to 3 weeks delayed by expenses reporting, and it is not nearly so sexy given that it is a smaller number. It's the one that matters, however, and well worth obsessing on.)

2. **Prepare *written* financial goals for your store/s.** Hopefully, you do. Now, answer these questions.

a. Do the people who need to know these goals, know what the goals are? Achievement always presumes an understanding of expectations.

b. If you have these goals (and your staff are aware of them), do you keep them adequately informed of monthly progress?
c. Do you “celebrate” progress?

(Many of the businesses I've worked with do not have financial goals, so if you don't have them for your business, you are not alone. That said, written goals help ensure communication, force active analysis of results, and target expected performance. It is also a foundational tool for building incentive plans.)

3. ***Incentivize achievement.*** Financial incentives are *not* anti-mission; rather, they are important “pull” tools which also play to the fun of retail management. Well-constructed, financial incentive plans appeal to that part of a retailer which thrives in a challenge. By the way, for an incentive to pull, it must meet three important criteria.

a. The goal must be both understandable and perceived as realistic.
b. The reward must be desired.

- c. The participant must believe that by doing the job differently, or more effectively, s/he can get the incentive.

For one of the nonprofits I worked with, I designed an incentive plan for the store manager which helped her achieve an almost unimaginable hike in net profitability—in just *one* year. It started with a challenge that included a

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significant financial reward if she reached her targeted goal. The

incentive challenge cost the organization nothing—so to speak—and the manager got a hefty \$7,000 incentive check. This same company made certain that sales staff shared in the reward. Talk about a win-win!

(For those of you, who get nervous when thinking about diverting a share of company profits to financial incentives, remember to skew benefits *clearly* in favor of the organization. In other words, a financial incentive plan should be clearly linked to a program benefit—that could not otherwise be achieved. Don't self-serve, design goals to *stretch* performance, discretely tie pay to *measured* attainment, make uniform across position classes, then put it in writing. If still unsure, give me a call.)

4. **Measure what you need to measure to get what you want to get.** It's a fact if ever there was one: we get what we measure. It is important, therefore, to measure where we want to see impact. For example, if you are interested in increasing net income, are you measuring net income? If you're trying to increase sales per customer, are you measuring *that*? Can you capture information as finite as being able to discern whether an increase in monthly sales per customer is due to:

- a. An increase in sales with no change in number of customers? (or)
- b. An increase in sales that is proportionately greater than an increase in customer numbers? (or)
- c. A decrease in sales proportionately less than a decrease in number of customers?

Plug sample numbers into the above illustrations and you will readily see that each reflects an increase in sales per customer. The information each yields, however, is vastly different. It matters which is true!

Let's try another example. Assume that your store's gross dollars increased last month. Will you be able to determine why? For example, did gross revenues rise across the board, or did specific products generate the additional sales receipts? Perhaps your gain was reflected in ladies garments—if so was it pants, or blouses? Do your numbers and processes allow you to look beyond *gross yield*, to *dollars generated per square foot* by specific item sold? Here's what I want you to see: it does limited good to know simply that ladies pants generated \$7,500 last month and ladies blouses, \$10,000. After all, the \$10,000 might have been derived from 2,500 square feet of display area (\$4/ft²) while \$7,500 might have come from a comparatively insignificant 1,000 square feet of display space (\$7.50/ft²). Which would *you* choose to expand if given the option? Looking at dollars per square foot by specific product sold provides information that you can use to increase your gross and net yield for the store. (By the way, designing tracking tools for the manager who got the \$7,000 incentive check was but one of the ways we were able to help her lay the groundwork for higher performance. Having this and other information she

could identify what was selling, at what price, and at what net yield per square foot. The data turned out to be golden.)

There are many other retail indicators that should be a part of regular monthly reporting. Each will help your management team make informed decisions. Getting good information means saying goodbye to guesswork in decision-making—which nearly always means better net returns.

5 Train sales staff to sell. Let's back up one step. Are your sales staffs *charged* with selling? If selling is not specifically tasked in a written job description, and if there's no training dedicated specifically to the "how to's" of selling, it's probably not happening. And you are sending valuable revenues to your competitors.

6 Be sure the right people are on board. Start with store management—actively

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learning?

Next meeting, ask this question: "What three new ways of marketing our products

have you learned over the past month, and how are you implementing what you learned?" If you don't get an excited and meaningful response, you probably have the wrong person in charge. What about sales staff? Are they cheerful, prompt to greet customers and meet their needs? The wrong management, sales staff, and/or combination can jeopardize returns on the best of offerings. By the way, it helps to define the job, identify the skills, abilities, and knowledge needed to successfully perform the job, *then*, hire the person who most meets the

skills, knowledge, and abilities identified. Surprisingly, many individuals hired for retail management have neither retail nor management experience. But they *can* do an interview well—and, after all, we need someone *now*!

A New Paradigm

The areas identified in this article are not exhaustive when it comes to evaluating our profit focus. The important point is not to lament if we didn't fare so well, but rather, to make changes. These are difficult times. Our economy is in turmoil. It is not far-reaching to anticipate that emerging models of nonprofit funding may well limit the extent of governmental support, and importantly, the reach of tax exemptions. Streams of dollars that once flowed freely may soon dry up. Paul Valery expressed it this way: "The trouble with our times is that the future is not what it used to be."

Putting It Together

Let's face it, mission requires margin! Fortunately, there are millions of dollars of untapped margin in our businesses. Unfortunately, to get our share of these dollars we must learn to think *business* and *profit*—without soiling the sacred trust of those we serve. The dance can sometimes be quite difficult.

In his classic work, "A Passion for Excellence," Tom Peters said that what we really need is "a blinding flash of obvious." Maybe, that's a good place to start.

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