

Profit & Loss Part 5

Realizing Profit

In the fifth and final part of this series, Steve Bailey explores how all the pieces of the puzzle fit together to help you attain the profit you need.

by Steve Bailey

It's all a game. Think back on days past when you played Monopoly, buying property, paying debts, and hopefully accumulating cash in order to win the game. The game is especially fun since we are using play money. If we win, we have a bundle and enjoy the win. If we lose, we fold up the game and vow to play better next time.

Owning or managing a garden center is much the same as playing Monopoly. The big difference is you are playing with real money that is either yours, or at the very least, your responsibility. How much you



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sell, what you sell, the amount you sell it for, the amount you pay for it, the utilities you pay to maintain what you sell, the wages and benefits you pay to maintain and sell your product – it all adds up to the amount of profit you attain. Every piece of this giant puzzle plays a part in performance. The numbers have to line up in a positive way in order for the business to prosper and endure.

And The Profit Is ...

If I were working with a garden center on budgeting, this section of the P&L would be covered first. The revenue goal and expense budget we set for our centers always begins by determining a realistic profit goal we wish to attain. From there it is fairly easy to see how the pieces of the puzzle have to fit together in order to

realize the profit we need to attain.

But this isn't budgeting, so let's move on to the results you've all been waiting for – profit. If you have been reading this entire series, you know The Garden Center Group's P&L Study is measured by region and revenue level. Both show marked differences, many of which can be explained and in most cases controlled for maximum performance. Our first look will be at the sales level groups (see chart on page 37).

For comparative purposes, average revenues are displayed for each revenue group. The number of garden centers in each group was more than adequate to attain good data. As many of you know, I'm not a revenue person, so let's move on to the determining factor in profit – expenses. Lower expenses on stable or rising revenues means more profit.

2007 P&L Study Regional Groups - Simplified Income Statement (SIS)

	Carolinas	Midwest	Northeast	Ohio	MidAtlantic	PA/NY	South	Mtns. West	Northwest
Average Revenues	\$2,224,300	\$2,713,828	\$1,824,440	\$1,958,357	\$2,498,160	\$1,885,311	\$1,786,860	\$1,627,099	\$1,405,609
COGS	51.1%	46.3%	45%	46.8%	49.6%	48.7%	45.8%	50.8%	43.2%
Operating Expenses	18.7%	19%	20.3%	16.8%	16.5%	17.5%	24.8%	16.1%	19.7%
Wage & Wage Benefits	30%	31.6%	28%	28.9%	26.9%	30%	31.1%	27.7%	29.5%
Adj. Profit	1.4%	1.3%	7.4%	6.4%	5.8%	3.6%	-0.5%	5.9%	9.5%

2007 P&L Study Sales Groups (SIS)

	<\$1.5 mil	\$1.5-2.5 mil	>\$2.5 mil
Average Revenues	\$889,813	\$1,992,770	\$3,896,692
Cost Of Goods Sold	48.2%	46.2%	48%
Operating Expenses	21.3%	18.1%	17.8%
Wage & Wage Benefits	31.3%	29.2%	28.8%
Adj. Profit	0.1%	6.7%	4.3%

As you can see, the pieces of the puzzle lined up most favorably for the garden centers at the \$1.5-\$2.5 million level. Their cost of goods sold was the lowest of the three groups, and their operating expenses and wage & wage benefits were in the middle, allowing the highest level of profitability.

Why are mid-level garden centers the most profitable? My own observation is that there are several scale factors involved. Mid-sized garden centers are past the growing pains of smaller centers in the areas of management and facility. They are able to dedicate more staff not only to managing their business but analyzing it, as well. Larger garden centers tend to lose that degree of control as they grow, though the lower percentage of profit can mean more actual profit dollars. The two examples above bear that out, but my feeling is that large garden centers could be missing a huge opportunity to realize more profit by not setting up their organization to manage as the mid-level centers do.

Adjusted Profit

A few words here about the term you see on the bottom line – adjusted profit. If you noticed that the percentages presented in the chart do not add up to 100 percent, congratulations! You are very observant. Since this is not tax accounting, but instead business management, we are allowed to use comparative measurements with the data that an accountant would have a tough time accepting.

When I work with a garden center, two of the most revealing questions I ask of owners are, “How much are you paying yourself?” and “How much are you paying yourself in rent or otherwise to retire debt or fund future improvements and expansion?” Unfortunately, both questions usually result in the response, “Not

enough.” It is very important that the owners are paid an acceptable wage and benefits, and that they realize the need to retire debt through the garden center (not personally without compensation) and in both cases still show a profit. Both of these necessary expenses have to be included into a garden center’s budget for the center to survive. Without either or both, failure could be on the horizon.

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Best Practices

	Total Group	Best Practices
Average Revenues	\$2,004,289	\$2,515,968
Cost Of Goods Sold	48.1%	44%
Operating Expenses	18.5%	16.6%
Wage & Wage Benefits	29.4%	28%
Adj. Profit	3.8%	12%

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To that end, our Group centers realize the necessity of owner's compensation and rent. In the P&L Study, if their percentage of either is below the group average, we adjust their profit to "level the playing field." Pay yourself too little or set aside too little, your profit decreases. Pay yourself more or set aside more than the rest of the participating centers, your profit increases. It was the only way we could attain an apples-to-apples comparison of all centers and also emphasize the importance of good business management. Thus the term "adjusted profit."

OK, onward to the Regional groups (see chart on page 36).

The Northwest regional group was the big winner here. With a low cost of goods sold, and operating expense and wage & wage benefits within a reasonable level, their adjusted profit was very near what we consider best practices at 10 percent.

The big question is – how does your center stack up? Use the SIS P&L format to compare your center to the sales and regional results you see here. Are your expenses lower than our average or higher? Why? Better yet, do the comparison with the total group and best practices (see chart above).

Are you average? Or are you best practices material? If you controlled your expenses as they did, you're there. That very low cost of goods sold was a major piece of the puzzle that led to their success. Being "slightly" better in operating expenses and wage & wage benefits contributed, as well. The key is finding your missing or underperforming piece of the puzzle.

It doesn't take much improvement to move from average to best practices. On

the flip side, a little slide here and there will land a best practice center right back in the average group. Managing the numbers is the key to the game.

And games can be fun, but the garden center business can be especially rewarding, enjoyable and fulfilling – if you're winning. We're talking about the ability to accumulate real rewards here. Rewards that, invested correctly in appreciating assets (yes, that might be inventory, depending

upon your business skills), will yield

wealth. Profit and wealth are not dirty words, especially if they are used for good things. How you choose to use it is your business. The key to it all is to "have it" in the first place. And

the only way to "have it" is to

plan, implement, measure and adjust

...plan, implement, measure and adjust.

Every year. One of my favorite quotes, attributed to several authors, is, "Success is a journey, not a destination." How true. TGC



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For More Information

How did your garden center perform in 2007? Was it up to the Group goal? EMail Steve at steveb@thegardencentergroup.com to receive a "scorecard," as well as The Group Chart of Accounts in Excel format. Include your name and your garden center's name and physical address.

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