ABOUT THIS SERIES

Green Profit Senior Editor Bill Calkins and RetailKPI Consulting Owner Steve Bailey are collaborating on this series as a result of valuable information provided at The Garden Center Group 2019 Fall Event in Nashville about the Group's annual P&L Study. You can find out more about The Group and Steve's business here:

The Garden Center Group:
www.thegardencentergroup.com

RetailKPI Consulting:
www.thegardencentergroup.com/steve-bailey-intro

STRATEGIES FOR ACHIEVING CATEGORY GROWTH

By BILL CALKINS & STEVE BAILEY

Set your business up for success and profitability by following a time-tested plan. Part one in a four-part series begins with analysis.

Many garden centers struggle with accurately benchmarking sales and performance in specific key categories. Owners, buyers and category managers know that some turn quickly, such as live goods and other perishables, while others don't turn as quickly. Steve Bailey with RetailKPI Consulting and The Garden Center Group has been tracking sales and turnover metrics by category for many years and he's uncovered some interesting data and indicators. As Steve says, "What you know and what you think you know might be two very different things."

With Steve's help, we'll shed some light on this conundrum via a four-part series covering analysis, benchmarking, category performance and ways to improve. The series kicks off this month with analysis.

Anything that's measured accurately can be managed and most likely improved or discontinued. What's not measured will continue to be a challenge and could drag down profits as your business continues to operate in the dark. We'll discuss what works and what doesn't when it comes to collecting and analyzing numbers required to adequately develop processes to measure and improve turns and profitability with just about any category.

Our goal this month is to cover the reasons behind collecting data, effective ways to capture the right numbers using point-of-sales and accounting, and how to implement a system or process moving forward. Lessons learned from garden centers who've tackled this challenge will help illustrate the methods.

ACCOUNTABILITY

A good first step is to set up accurate accountability to effectively measure the margin dollar contribution. Steve has found that few garden centers are accountable in all categories. For example, you might use general price points for annuals (4.5-in. pots are $4.99) while hardgoods or nursery shrubs are set up by individual SKUs. Trendy items, such as pottery or garden gifts, could be tracked by price points because they change every year and a long history is not necessary for that individual item, except at a price point.

Steve suggests conducting an annual analysis of margin dollars for every category, at each price level. If items priced between $1 and $10 result in low margin dollars, but items in the $10 to $20 range contribute high margin dollars, then you know with much more confidence what to buy.

"You won't ever get rid of all bad inventory. That doesn't mean that every item in a price point range is 'bad', but rather that price range is not contributing many margin dollars to the total effort. There's always some hit and miss in business," Steve says. "But getting from 60% to 20% of low contributors within a category can mean less inventory, which if managed correctly means fewer Operating Expenses and Wages."

This will leave you with more money with which to experiment stocking new inventory to offer customers. Buying is a combination of art (buyer intuition) and science (numbers) and you must put both together for a good mix, he explains. And it could very well take two, even three or four, years to reduce a category to top performers. Steve warns retailers that while reducing products that are a drain on a certain category, your store should never look like it's having a fire sale or going out of business. "You need to mix in a bit of new, even when reducing," he adds.

CATEGORY EXPLORATION

As mentioned already, you might think you know how and what to measure but the question remains, how accurate is the information and how old is the data. "It's time to dig deep into the numbers," Steve says. "But once you've analyzed a category or department, don't throw the baby out with the bath water." If you determine a category is performing below par, try to improve profitability over a two- to three-year period and then decide to stay in or get out, he recommends. Accurately studying the numbers will help you identify items within a category or price levels that might bring the whole category down.

Start by ranking items by margin dollar contribution. "You might find that 60% of the items in a particular category only contribute 10% of the margin dollars," he says. "When you fine tune that 60% down to 40% or 20%, what's left will contribute a higher percentage of margin dollars." The goal is to eliminate bad or slow-turning inventory.

STEPS TO TAKE

Let's go from ideas to action. Start by eliminating sacred cows. You all have them. Perhaps you are into model trains and have dozens of engines, cabooses and tracks gathering dust in prime retail space. Move them to another location and start reducing inventory. Steve tells stories from when he owned a retail garden center and turned his Bonsai hobby into a key category at the store. It didn't sell so he made the hard decision to eliminate the category to boost profits. It wasn't an easy pivot, but it was necessary.

Next, look at duplicate products. Do you carry multiple chemicals with the same active ingredient? Read the fine print and scale back. How about your shrub yard? Do you stock 1-, 2-, 3-, 5-gallon and a larger size of the same variety? You probably don't need to do this if 2- and 5-gallons and one large size will cover the needs of your shoppers. Pottery is another frequently mis-inventoried category. Use your data to determine the sizes that sell best for you. Lastly, look at your range of furniture and gift items. Ask yourself if they are garden related. If not, they could be a significant drag on your numbers.

Finally, increase categories that tend to turn quickly—perishables. Steve believes a 75%-25% ratio of perishable to non-perishable makes sense in most cases. "This isn't because non-perishables are bad," Steve explains. "They are just lower margin and lower turn." He sees most lower-performing stores he visits and those that participate in The Garden Center Group's P&L study including 15% or less of their mix in the annuals category (not counting vegetables and herbs). Less than 15% might mean your store is losing an opportunity to bring in more margin dollars and profit.

KNOWLEDGE PAYS OFF

Steve believes garden center owners and managers need to increase their knowledge of three key retail numbers. First, know your margin dollars and margin percent. Margin dollars are revenues (sales) minus cost of goods sold (COGS). Margin percent determines the percentage of sales you get to "keep" and is calculated by dividing margin dollars (gross profit) by revenue.

Next, pay close attention to inventory turns. Calculate this by dividing COGS by average inventory over a 12-month period. "For this, you need 13 values—beginning inventory value plus 12 months of ending inventory values on hand at cost," Steve reminds.

Third, calculate your GMROII. This is gross margin return on inventory investment and is a 12-month measurement, an inventory profitability evaluation ratio that analyzes your store's ability to turn inventory into cash. It is calculated by dividing the gross margin dollars by the average cost value you used for inventory turns. Steve says this can be the most confusing number to determine. "GMROII means that for every dollar in average inventory value on hand (at cost), how many margin dollars are accumulated over a 12-month period," Steve says. "It's not traditional ROI, because you keep 'using' the same dollar over and over for 12 months."

Another important factor to remember is that your POS and accounting systems

MUST match in the Revenues and Cost of Goods section. Steve suggests going line by line for every category. "Retailers often find they don't match," he says. Develop a clear chart of accounts and plan on spending three years building the most accurate data. Twelve months to begin this type of accounting. Twelve months to make sure all the wrinkles and mismatches are worked out. Twelve months to implement changes. And it's best to start from scratch, Steve says. But don't worry, a lot can be done while you improve your numbers.

PEOPLE AND PROCESSES

Once you've decided to start taking steps to improve your category profitability, it's time to determine who will be involved. Steve recommends breaking up the P&L and accounting duties to create some checks and balances. "The owner should know all parts of the process," Steve suggests. "And keep a documented record of each step in the process that each person does in case someone leaves the organization or responsibilities change."

But the responsibility for improving profitability with every category requires your entire team, especially when it comes to buy-in. "Everyone in an organization holds responsibility for improving profits," Steve insists. "If not, the entire process will stagnate." This is a team effort and one way to drive this message home is to base annual bonuses on total store performance, rather than department specific.

WRAPPING UP

In conclusion, at least for part one in this four-part series, now is the time to begin improving category profitability. You need to start now because it takes at least 12 months of accurate data to determine performance. Now you know the best numbers to consider when moving forward and how to divide responsibility, it's in your hands.

The great thing is you don't have to do this alone. Throughout this article, there has been information presented that's been partially gleaned from data collected from members of The Garden Center Group, a peer group of garden centers across North America. Group members are encouraged to participate in a P&L study that begins with internal benchmarking but evolves to group studies as accountability improves. This type of shared reporting can be very beneficial to your business, not to mention opportunities for networking and peer to peer learning.

WHAT'S NEXT?

The next part in this series tackles benchmarks. We'll discuss with Steve how exactly to calculate key ratios and what The Garden Center Group has learned from researching data collected from hundreds of members over many years. Steve will share category-specific metrics and how to determine how your specific business stacks up compared with the norms. ■