The Numbers Game – Playing to Win

By Fred Jaeckle

In today's competitive and unforgiving environment, running your business by guess and by gosh is no longer enough. You need to rely less on your gut instincts, and more on the numbers. Too often gut instincts can turn into indigestion.

Over the past 30 years, although the flooring business has shown signifigant growth, the total number of floor covering stores has declined. Stores that have not adapted to the changing business environment have either closed, gone out of business, or been consolidated into larger stores.

Changes in our industry used to occur over a longer period of time, perhaps a decade, but now changes and new trends often occur annually, and sometimes in a matter of months.

The level and sophistication of the competition has grown while the traditional barriers to starting a new flooring store have fallen. Flooring stores are now competing against many newer types of retailers, such as Home Depot (the big boxes), concept stores such as Home Expo, Flooring Superstores, cooperatives, and internet sites.

Buying groups and manufacturer alliances have upped the professionalism of product presentation and the quality and design of showrooms. Consumers are more conscious of color and design, and look at a purchase of flooring as part of a larger decorating project as opposed to just getting new flooring.

The time has come for flooring stores to look deeper into the "science"of being successful and profitable. That means looking at the numbers. Every industry has "key indicator numbers" which are used to help managers make informed business decisions, measure the results of their decisions, and compare themselves to others in the industry.

For hotel owners their key indicator number is the occupancy rate. For airlines it's the load factor. For investors it might be the Dow Jones Industrial Average or the Portfolio gain. Other retail stores often look at sales per sq.ft. For floor covering stores it generally is store traffic (the number of consumers that come into the store per week or per month).

Looking deeper, every area of your business has its own performance indicator number (PIN). The secret is to know what you can accurately measure, benchmark what is considered average for that area, and compare results with the benchmark as well as prior results to see if you are improving, getting worse, or staying the same.

Some key performance areas you might consider measuring are:

- Customer Cost (Cost of each customer that comes into the store)
- Closing ratio average or sales per customer contact
- Average sale size
- Average Gross Margin
- Inventory Turns

- Sales by Display
- Number of open claims/service issues

You might want to have the key performance indicators be the same as those published by the WFCA in their store profitability report. This report gives averages for all stores by type and size as well as averages for the most profitable stores. Seeing where there are differences between the average store and the most profitable store can be very revealing and show the areas you may need to concentrate on to become more profitable.

The key is to **measure**, as comparing your own measurements over time will tell you if you are getting better, remaining the same, or moving backwards.

The difference seen in stores with steady long term profit growth is that they rely on the owner or manager's ability to identify trends and act in the appropriate manner before they adversely affect the bottom line. If the economy were to worsen or dip, there are many places where an owner might turn to begin to make adjustments. However, these decisions must be made on facts, and with some idea how they will help improve the bottom line given the declining economy, and not on just a knee jerk reaction to bad news. Poor decision-making based on questionable or non-existent information can be avoided by looking at the numbers.

By looking at and studying your numbers over time an owner can make incremental improvements to all of the various business processes. If you are able to improve several of your processes (and numbers) at one time, the result will be geometric increases in profitability. It may be a good idea to chart your measurements from month to month or at least quarterly as it is easier to look at a graph and see progress (or the lack of progress) than pouring over the numbers.

In another article I discuss some of the individual PIN's that you might consider using and what they mean as well as how to calculate them.

Questions, comments, and feedback are always welcome.

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