

The Right Business Advice

Around this time of the year most businesses will have received their annual financial statements from their accountant. Ideally the store owner will receive some objective advice from their accountant that is based on analysis of benchmark results from similar businesses. Unfortunately many accountants' reports are of little or no use for strategic planning, and seem to be focused only on meeting the requirements of the IRD.

Strategic planning

When store owners are questioned about their business KPI's (Key Performance Indicators), they are often unable to answer. More than half do not know what Gross Margin % the various parts of their business generate. This lack of understanding is unacceptable. Every business needs to know their essential KPIs and use these regularly to prepare a strategic plan and make tactical decisions.

If the accountant's report does little more than show that total annual sales have increased and net profit has decreased, how can this help anyone to decide what opportunities for growth exist, and what changes in business emphasis should be pursued?

Multi-faceted

Many businesses have products and services which exhibit distinct retail characteristics. In a pharmacy the dispensary is a high-turnover / low-profit business that relies on critical mass (script volume) done as efficiently as possible. NZ Post services and Lotto are two other examples of 'businesses within businesses' which should be isolated and understood.

Targeted advice

Unless the contribution of these different parts of the business is measured within the overall financial accounts, the results could be totally misleading. A business could be advised to cut the cost of staff wages, or reduce inventory levels – but unless this advice is targeted to the correct part of the store, then it could make the overall result worse, not better.

The most useful advice a business can receive focuses on areas for growth, expansion or increased investment. While every business needs to pay attention to expenses, only a positive focus on growth can ensure that the store continues to thrive.

Cost-cutting or growth?

There is a finite amount of cost cutting that can be done without adversely affecting quality and service levels. Businesses fixated on cutting costs risk getting into a downward spiral of poor customer service, more out-of-stocks, less attractive premises and fewer promotions. This is a one-way street from which some will not return.

Every business should invest in getting advice based on quality analysis and benchmarking in order to come up with a growth plan that can be shared with all staff. Then progress towards this plan should be monitored monthly throughout the year.

Online tools

Modern web-based technology is a critical enabler of more efficient , customer-centric retailing. Retailers can respond to customer demand better by harnessing powerful analytics tools like RPM which provide advice on how to optimise inventory management, pricing, merchandising and sales promotions. Don't settle for a vague "Sales are up - but you need to cut costs" report from your business advisors. Important business profit opportunities are available right now, and you need to plan to get your share.