

THE COMICS SPECTATOR

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It's Time for Your Annual Checkup!

So you've just finished getting your quarterlies finished and into the mail and are gearing up for your Year-End inventory. But before you get sucked into the daily routine of Subscriber Pick Lists, ordering, re-ordering and stroking customers; take a day to give your business an Annual Checkup. It will be one of the most useful and profitable things that you do all year long!

1. Your Store's Financial Performance

Since you should have all your financials for the year at hand, start by considering whether your store's financial position changed for the better or worse. Consider how the following nine financial ratios changed between 2008 and 2009:

Gross store sales
Average customer transaction
Sales per-square-foot of retail area
Sales by merchandise line
New Comics sell-through percentages
Back Issue sales by floor long box
Cost-of-Goods Sold
Merchandise Turnover Rate
Sales per staff-hour-worked
Cost Percentages:
Labor, Rent, Merchandise, Advertising, GNA

These indicators can tell you whether your store is doing well or poorly. If there are any significant changes (good or bad) among these indicators, try to figure out what might have caused them.

2. Financial Ratio Definitions

Here are the definitions of these items and how you can calculate them:

Gross store sales provide you with the most basic measure of your business's success. Mature stores should show growth equal to the inflation rate, unless you've added a new department. If you did, subtract the sales from the new department when you are making comparisons with previous years.

Average customer transactions are calculated by taking the total retail sales and dividing by the number of customer transactions. The higher the number the more efficient your store and sales staff are. If your average customer transaction is dropping you need to focus on why this is happening.

Sales per-square-foot ratios are calculated by taking the total sales for each department and dividing by the amount of floor space (including a portion of the aisles) allocated to each

department. Again, higher numbers are good, lower numbers are less good.

Sales by merchandise line indicates where your customers are spending their money in your store.

New Comics sell-through percentages tell you whether you are making money on this critical product category or not. As a rule of thumb, sell-through percentages should be in excess of 80% and preferably 85% for this category to be profitable. Relying on back issue sales of pulled titles to pick up the slack doesn't work very well and ties up a lot of capital.

Back Issue sales by floor long box are calculated by dividing your total back issue sales by the number of long boxes of back issues on display. If you have a major wall display of higher-value back issues try to separate out those sales so as not to bias this ratio. "Wall sales" retail efficiency is best calculated by the sales-per-square-foot approach.

Cost-of-Goods Sold is calculated by dividing your total wholesale purchases for the year by total retail sales before sales tax. The resulting percent is your true Cost of Goods Sold. At the bare minimum calculate this for the entire store, but it's more effective to also calculate it by major department group as well.

Merchandise Turnover Rate is calculated by dividing your annual retail sales by your cost of goods. Divide this number by the increase in inventory in 2008. Subtract your starting inventory from your ending inventory to get this value.

The result will normally be a number somewhere between 1 and 8. The higher the ratio the faster your inventory is moving through the store, which means you should be more profitable.

Sales per staff-hour-worked is calculated by dividing your total retail sales before sales tax by the total number of staff hours worked (not paid!) for the same time period. (Salaried staff such as yourself customarily work a lot more than 40 hours, so don't cheat - put in all your hours). Typical ranges are \$20-\$80 of sales per hour.

Cost ratios: Labor, Rent, Merchandise, Advertising, GNA are all easily calculated for any time period. If you can't calculate them because you don't have the data, you need to start tracking expenses more carefully right away!

There are more performance and financial ratios available to retailers than these. But calculating these numbers and considering their implications will take you a long way to understanding and managing your business better.

3. Significant Changes in the Past Year

You should also make a list of all the significant changes which took place in 2008 in your business. Did you:

- Open or close a store?
- Gain or lose a competitor?
- Add or drop merchandise lines?
- Hire or fire any key employees?
- Have a significant security problem?
- Increase or decrease marketing?
- Increase or decrease advertising?
- Make other key changes in the year?

If you answered "yes" to any of these questions, consider whether the results were helpful and what you'd try to do in the next 12 months concerning these areas.

If you've never done this before, it's worthwhile to write down in your Store Management Workbook the answers to these questions for the previous five years, or for however long you've been in business if it's less than five years.

4. Financial Planning

No matter what size your comics shop is, you should try to work with your bank. If they flat refuse to spend time with you, find a new bank to deal with. Moving \$200,000+ annually through your business checkbook is generally worth a local bank's attention.

Develop a relationship with a banker at your local branch. Give them copies of your quarterlies and send them a short note every 3-6 months telling them what your experience of the past period has been and what you look to see in the future, including plans for your own store.

See if you can qualify for a small line of credit at your bank. If you are turned down, ask what changes they'd like to see happen which would make them more willing to give you credit. Once you have the line of credit, look for an opportunity to use it judiciously and then pay it off in a timely manner.

Otherwise get a credit card for the business, use it when you can, and pay it off promptly. (Getting one connected with a frequent-flyer program is a way to help finance trips to product shows and industry gatherings).

Talk to your accountant to see if there are any ways you can plan to minimize your taxes for the new year. See if using Quicken™ or QuickBooks™ to pre-process your financial data can speed up your accountant's work and help you afford to have them actually analyze your numbers. Ask your accountant to tell you what the biggest problem is that they see with your business, and what they suggest you do to correct it.

Be sure to talk to your insurance agent to make sure that your insurance is current and sufficient. Consider buying a personal disability policy for yourself. If you have business vehicles, make sure that they are covered adequately. Don't forget business interruption insurance!

Another end-of-year task that is often overlooked is reviewing the costs associated with your service providers. Get quotes from another insurance broker on your insurance coverages. Check that you aren't paying too much for garbage pickup. Check whether you can lower the charges on your credit/debit card processing. See whether dropping your credit card machine and dedicated phone line in favor of Internet based authorization makes financial sense.

5. Talk to Your Employees

Be sure to talk to your employees, whether they are full-time or not. Start by asking them what could be done to make their jobs easier. Sometimes their suggestions will involve something as simple as rescheduling their work time. The problems which employees bring up are often problems which you may not be fully aware of if you don't spend a lot of time at the register. See if any employees have plans such as returning to school full-time which might mean having to find a replacement for them. Consider whether there are any people problems which need to be fixed right away!

6. Putting it All Together

Once you've gotten all your basic material together, take some time off and go somewhere away from your store or regular office. Sit down with a few trusted people and go through all this material. Ask yourself these questions:

- What things are going well?
- How do we keep them working right?
- What things are problems?
- Are they long-term or short-term problems?
- How can we best solve them?

Short-term problems can be very simple, such as cleaning up and re-painting the store bathroom; or getting new dividers for your Back Issue boxes. Long-term problems might be adding a new merchandise line or substantially expanding an existing minor sideline, opening a new store, or implementing a computerized ordering and inventory control program.

It's important to choose several problems that you can solve right now. Getting some momentum going is important, and we all know that the road to hell is paved with good intentions. Solve several problems now and get your momentum going for the next twelve months!

Don't try to come up with "perfect" solutions for your problems. There's really no such thing as a perfect solution to a problem. Try to develop a solution that's satisfactory now, and let it be until some later time when you can fix it better.

You may think that you're too small to go through this exercise, or that you don't have enough time. Every business needs to stop and evaluate their situation once a year!

If you want help with this, we can assist you in developing your data and in reviewing the results for \$150.00. E-mail Mel at mel@comtrac.net.