The Retail Doctor's Guide to Growing Your Business

A Step-by-Step Approach to Quickly **Diagnose**, **Treat**, and **Cure**

Bob Phibbs

Praise for *The Retail Doctor's*® *Guide to Growing Your Business*

"DON'T BUY THIS BOOK IF YOU ARE A COMPETITOR OF MINE!—but otherwise Bob Phibbs has great advice that that will enable you to make more money and have a successful business."

—Tom Sullivan, Chairman/Founder, Lumber Liquidators

"There's no denying that retailers have taken a beating lately. But the smart ones find a way to stop the bleeding and start looking ahead for new opportunities. With his plainspoken style and real-world anecdotes, Bob Phibbs gets back to basics and provides a helpful guide for entrepreneurs determined to survive the current downturn—and position themselves for the next big upswing."

—Rod Kurtz, Senior Editor, *Inc.* magazine

"Everyone knows that it is important to gain sales, but most do not know what that really takes or how to do it. This book will lead you on a journey that describes, analyzes, and provides real world examples how to really affect change with your business. If you will follow the treatment given, you'll be rewarded with the most important measures of a business's success—profits, not just sales."

—Georgette Mosbacher, President and CEO, Borghese Cosmetics

"Bob Phibbs presents more useful information in his typically direct and thought-provoking style that challenges you to really assess the performance of your business, your employees, and most importantly yourself. We often talk about personality types in leadership training and development, but it is not typically thought about in relation to the customer. Bob shows how these personality types play a role for you, your employees, and your customer, and how it can be most useful in looking for new approaches."

—Kurt Rachdorf, Retail Operations Senior Manager, LEGO

"Phibbs' no-nonsense approach to understanding your business and how to improve it is direct and refreshing. The concept of being objective and taking responsibility for your business can quickly make all the difference between success and failure, and Bob brings that to the table right from the start of this book. Great inspiration for any business owner!"

—Jeff Janke, Vice President, Retail Alliance Programs,
Hunter Douglas Window Fashions

"Bob blends his extensive retail experience and his direct style to tell it like it is. As retailers, we may not always like what he says, but it's hard to argue with the basics of running a successful business. In a market influenced by almost endless competition for the consumer's dollar, retailers need to continually ask themselves tough questions about what TRULY differentiates their offering.

Bob effectively reminds us of this hard reality. Bob's analytical approach allows us to better understand the filter through which we see our businesses. Only by adjusting our focus are we able to evaluate the true state of affairs.

—Alistair Linton, Director of Retail Development, Benjamin Moore Paints

"During my 30 years in the small business arena, Bob stands out as a 'pro's pro' in retail marketing. If you're determined to accelerate your growth, his street-smart book is a must. Buy it, read it, do it!"

—Steve Olson, Publisher, Franchise Update Media Group

"Phibbs' new book addresses everything necessary to take the pulse of your retail operation so you can find the cure. Whether it's managing staff, merchandising, or producing real sales, it prescribes a hands-on, real world, step-by-step approach to managing your business. Good news! The Doctor is in the house."

—Joseph Dagley, Yamaha Motor University

"Bob Phibbs has been my go-to retail expert for many years and his book shows why: he draws from a deep well of knowledge, presenting his advice in practical, easy-to-digest fashion. By explaining how entrepreneurs can evaluate themselves and their customers, Phibbs tailors this book to specific individual types that retailers will be quick to recognize. This is not a shallow primer, but a comprehensive prescription from The Retail Doctor®."

—Karen E. Klein, Small Business Columnist,
BusinessWeek.com and the *Los Angeles Times*

"Nothing in business is guaranteed. However, *The Retail Doctor's® Guide to Growing your Business* is guaranteed to help you gain insight into the do's and don'ts of successful retailing. Consider this book your survival manual to compete in the challenging world of retail."

—Dean F. Shulman Sr., Vice President, Brother International

"If you want to grow your business, the book in your hand right now is the place to start. Bob Phibbs is one of the top retail experts in the country; he's not called The Retail Doctor® for nothing. This step-by-step guide will show you—using real life examples and savvy strategies—just how to get from here to where you want to be. My prescription for small business success is to read *The Retail Doctor's® Guide to Growing Your Business.*"

—Steven D. Strauss, *USA Today* Small Business Columnist
and author of *The Small Business Bible.*

"Bob's approach is no-nonsense, and his back-to-basics philosophy is something a lot of retailers need to hear right now. I would advise keeping a highlighter handy."

—James Bickers, Senior Editor, RetailCustomerExperience.com

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The thousands of employees, managers, and owners I have had the privilege to work with and learn from on the way to higher sales.

Introduction

What's Ailing You?

It was famed football coach Vince Lombardi who said, "Adversity doesn't build character. It reveals character." We have just come through one of the most wrenching periods for business in 50 years. Assumptions about consumer spending, good locations, and products that sell have been upended. Marketing tools you've used for years have suddenly stopped working. Things to which you may have not paid attention are now demanding that you do. And so you've purchased this book to help you learn how to make your business more profitable. Congratulations.

How do you know when you're sick and need a doctor's help? If you're like most of us, when you start having headaches, running a fever, get nauseous, or just feeling lousy, you probably think about calling the doctor. When it's a business struggling with symptoms like cash flow, employee turnover, and low sales, thousands have looked to me as the Retail Doctor® to help them.

You've come here looking for answers or a silver bullet that will make all your dreams come true. It's human nature to want the easy way out: the *one thing* that will alter your world and point to happiness. But it's a series of small actions that makes the difference.

In that respect, nothing has changed since retailers first began. What drove me to write this book now is that I haven't seen a straightforward approach to building a business in a concise easy-to-use style.

So much of the recent news is filled with tales of cutting costs and discounting—a fast track to the going-out-of-business sale. You can't use external circumstances like the economy as an excuse to not change.

You have to take responsibility for the things you can control: that which takes place inside your four walls. The recession that started in 2006 affected all businesses: No one was granted an advantage, a hindrance, or a get-out-of-jail-free card. Even in a recession, companies rose and fell based on their attitude toward the challenge of gaining new customers, holding onto existing ones, and giving both a compelling reason to return.

But how do you do it? The path to your success is to find the leverage to change the way you do business and resist any fear of change. *The Retail Doctor's® Guide to Growing Your Business* will help you accomplish this. It will jolt you out of your complacency, give you new tools to look at your challenges, and send you on your way with renewed confidence that you are able to change your situation.

No, the silver bullet is not a person, a product, a display, or new vendor—it's you. *You* are the one thing that can have maximum effectiveness. Disappointed with your store's performance? Sorry, it's up to you to improve it. Distressed about the fact that fewer customers are coming in? Sorry, it's up to you to find some new ones. Unhappy that you've got stockpiles of unsold merchandise? Sorry, it's up to you to figure out a way to get rid of it.

Store Performance Down? Well, What Are You Doing about It?

Have you fired Bitter Betty? We'll talk more about her later, and you'll learn about a sewing retailer in Virginia who I advised get rid of one particularly troublesome employee. Although she resisted for almost three years, when she finally did take my advice, she was astounded to find how many customers had avoided her store due to one bad employee.

Not making enough profits? Many owners price merchandise too low because they "know how much it really cost," but I'll show you why that "welfare pricing" structure could be killing you. Once you get your pricing right and your sales increasing, your percentages of labor and rent are reduced. In short, the rising tide of sales lifts all boats.

Unhappy with too much merchandise? Unsold merch is equivalent to your money sitting there. I'll show you new ways to analyze it, to take the money off the floor and put it into your bank account.

Distressed about a lack of customers? Well, what have you done lately to actively bring them back in? Do you have a mailing list, a web site, a blog, or a Facebook fan page? I'll cover all of that and why there has never been a better time to market your business. One Arizona toy store owner used e-mail blasts before and after every event to boost her sales by 20 percent. She embraced new marketing techniques that were financially effective and made it fun to connect with her customers—and you can, too.

My message to you is just like a doctor's would be if you were facing dire health consequences from inaction: "Change or die." There is no choice, no denial, and no silver bullet. The only thing standing in the way of you succeeding is you.

But who are you, anyway—a business owner, wife, son, teacher, employee? Those are roles. What I mean by this question is this: What traits, behaviors, and natural inclination do you use to look at the world? As I have helped thousands of businesses improve and grow, I've noticed that once I could get a thumbnail sketch of how the owner, manager, and employees were hard-wired, I could meet with greater success than if I expected everyone to be just like me.

That's why—before we get going on the financials—it is important to know a bit about your personality type, so I can help you understand some of the innate characteristics of your own and the other three main personalities. You can slice and dice personalities using a variety of personality profile methods—including the Meyers-Briggs, McQuaig Word Survey, and the DISC method. But for our purposes, there are basically four. Throughout the book, you'll discover how these four types play out when interacting with customers as well as training and rewarding employees.

Meet the Ruler of Your Business: The Brain or the Heart

Authors David Merrill and Roger Reid noted in their almost 30-year-old book, *Personal Styles and Effective Performance* (1981), that there

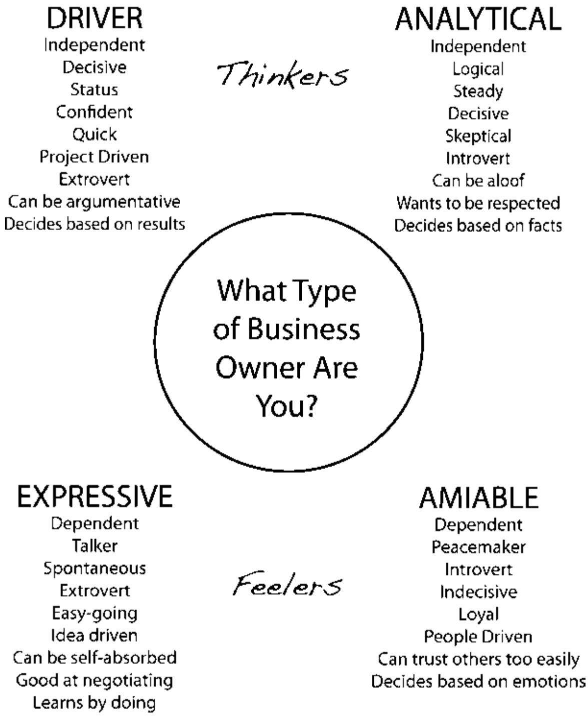

FIGURE I.1 Personalities

are two main types of personality: those that are controlled by the brain (Thinkers) and those that are controlled by the heart (Feelers). Peter Urs Bender, author of *Leadership from Within* (1997), went on to say that each of those categories contains two subgroups of personalities for a total of four.

One of the Thinkers' distinct personality types is called Drivers. They represent about 6 percent of the population and are focused on results, and being the best, unique, and driven; think Donald Trump and his signature "You're fired" line. A Driver tends to be a showoff, brand conscious, and a bit of a braggart. Drivers need to be engaged and are frequently asking questions or jumping into discussions. Some people might describe Drivers as blunt or arrogant because they form opinions very easily and are quite sure of themselves. Drivers aren't afraid to take risks to get what they want. Think ***ego*** when you're talking about the Driver personality.

The second personality within the Thinkers is the Analytical. These people tend to ask a lot of "how" questions, and require things to make sense, be logical, or provide a good value. These types of personalities drive safe cars that come with a great guarantee, they may clip coupons, and they are no-frills. While the Driver could be the fighter pilot, the Analytical is the bomber pilot with the motto "steady as she goes." Picture the character Spock from *Star Trek* when thinking about the Analyticals, which represent about 32 percent of the population. Think ***facts*** when you're talking about the Analytical personality.

The other main group—the Feelers, who are ruled by their hearts—also has two personality subtypes. Representing only 9 percent of the population, the first group is called the Expressives. Think Jimmy Buffett of Margaritaville fame, Sam Malone from the TV show *Cheers*, or comedienne Kathy Griffin. These people want to know who is going to be at the party. They live life to the fullest, are not detail-oriented or likely to over think a response but like to show off. They are essentially the opposite of the Analytical personality. If they were dogs at the dog park, they'd be the Black Labradors running around with a bone for someone to throw for them. These are the people who are the spark plugs to life; think ***fun*** experiences.

The fourth of the personality types—the Amiables—is the heart and soul of our communities. Think Charlotte York from *Sex and the City* or Dorothy from *The Wizard of Oz*. The Amiable is the most likely personality type you will encounter. These are the peacemakers: teachers, nurses, caregivers, and volunteers. They want to serve the greater good and know about what others prefer. These people are all over social media sites like Facebook and Flickr. They do not make waves and are more comfortable making others happy and being liked than taking a stand. They are the opposite of the Driver and represent 53 percent of the population. Think ***caring*** when you picture the Amiable.

Take Your Exam

Before you go further, please take this quick online personality test at www.retaildoc.com/personality-quiz/.

When you identify your personality's strengths and weaknesses, you're able to listen and respond in the appropriate manner, to the other three personalities, not simply in the way that comes naturally to your personality.

Now that you have a sense of how you look at the world, consider the personalities of your employees and colleagues. In order to get the most from them, you'll want to speak in language they all understand. For example: I have learned that my weakness as a Driver is a get-to-the-point attitude that can distance me from others. Being aware of this allows me to find ways to make fun of that tendency and, at times, bite my tongue to make sure I don't shut down or scare off an Expressive or Amiable personality. It doesn't always work, but I know that is my Achilles heel.

How Your Personality Type Affects Your Business

Where you and your employees fall in the Thinkers and Feelers personality spectrum directly affects your company's profitability. For example: It's rare to find an Amiable as a manager, but not unusual to find one as a business owner. Because they approach the world with their hearts, they tend to hire other Amiables to make friends with them. That may stunt their business' results, however, because they give second, third, and fourth chances to erring employees whom Drivers or Analyticals would have fired. By their very nature, Amiables want to concentrate on what they are doing right rather than look for areas that need improvement and feel bad about themselves.

Drivers can be ineffective bosses in that they tend to focus solely on results, which can create a pressure cooker atmosphere if they aren't careful. "They stay until they cost me money" is a common Driver attitude toward new employees. While Expressives can be fun managers, you often end up with several half-finished projects while you learn all about their personal lives and what they did last night. They're great at coming up with ideas but not the best at following through. And Analyticals can be ineffective leaders because they don't offer much praise. Because their logical skills mask their humanity, it's expected by them that you showed up and made a great sale.

All four groups have their own challenges and insights, all of which are equally important. Throughout the book, you'll encounter each type of personality manifested by customers, colleagues, and salespeople. You'll see what each might bring to your store, how they tend to behave as managers, and what skills you need to develop to communicate effectively with the various types.

In addition, I find that when a particular business is not making as much money as the owner would like, it often stems from the owner's or manager's viewing the business through the eyes of the customer rather than the merchant. Analyticals and Drivers come naturally to calculating results like a merchant; Amiables and Expressives naturally empathize with others and view results like a customer. Do you make personal statements like the following?

- "I don't like it when a store like Macy's uses asterisks to note all those exclusions on a discount. I think it's a rip-off." That's thinking like a customer Feelers. Putting the whole store on sale often means that you sell out of your best items quickly and have less money to restock. Limiting discounts is thinking like a merchant.
- "I don't like it when employees glom all over you. I just want to help myself. If I need help, I'll ask. Until then, just leave me alone." That's thinking like every customer is like you Analyticals. Piles of merchandise can't do the heavy lifting of driving sales like a well-trained salesperson.
- "I don't like it when someone tries to sell me something. They only want to push what they have on me." Identifying yourself as an untrusting customer makes you feel like a fraud—and makes selling your merch that much harder for you.
- "I don't like seeing holiday merchandise until after Thanksgiving." A smart merchant realizes there are only so many days until a holiday, and if the big boys are doing it, there must be a reason.
- "I wouldn't pay that much for this item." Knowing how much something costs at wholesale somehow devalues its worth in your eyes and causes you to think like a customer. Therefore, you don't usually set the price high enough to make a profit.

Sympathizing with customers shows up in marketing and promotions with endless freebies, 2-for-1s, or discounts. I know of one local gift store that offered free gift-wrapping on Valentine's Day. It was the store's busiest day of the year—a day when people would have paid anything to have someone wrap their gifts—and the store gave it away. How on earth did the owner make that decision? He must have envisioned how great the customers would feel. Imagine a florist giving free same-day delivery on Mother's Day or a liquor store offering 25 percent off champagne on December 31? Wouldn't that be great, too? But the intent to "get" like a customer instead of "lose" like a merchant damages earnings; if you want to be profitable, you must focus on the bottom-line results.

The difference between Thinker and Feeler personalities manifests itself in the way you interact with employees. Instead of establishing a firm schedule he could complete in a half hour or so, a Feeler manager lets employees provide their availability week by week—and then tries to create a schedule around them. The result is hours and hours of wasted time and compromised store coverage. The problem is exacerbated when the Feeler doesn't penalize staff members for lateness, rudeness, or an inability to perform the job. Thinker personalities, however, tend to come up with a strict schedule based on demand, and then fill it based on their ability to sell the merch. That allows the managers much more time to train, monitor, and sell on the floor.

Much as thinking like a customer hinders the ability to make a profit, thinking like an employee cripples a manager's ability to perform his job as a merchant. They want to be "nice," "liked," "popular." I had a boss one time say, "You're only as good as your last sale." Brutal—and true. He was a Thinker, a Driver, a merchant.

By understanding the different mind-set of a merchant (typically a Thinker personality) versus a customer (usually a Feeler), anyone can adapt these traits to help make tough decisions. Simply ask yourself: "Am I thinking like a merchant looking to profitability or like a customer or employee looking for perks?" As my buddy—and well-known author—Randy Gage says, "Never let who you have been interfere with who you can become." Exactly.

You're going on a journey to explore your business, just like the process I use for business makeovers throughout the world. We'll examine your financials, then whip your four walls into shape by learning some secrets to merchandising, see how you select your employees, create a training program, and finally examine your marketing. It's going to be a profitable journey for you—so let's get going!

Chapter 1

Financials Are the Vital Signs to Measuring Your Success

In medicine, vital signs are basic measures of life and good health. Likewise, a business's financials are the vital signs that immediately determine whether it needs triage, treatment, or just TLC. Just as your temperature, blood pressure, and pulse are clear gauges of your *body's* health, your financials are the black-and-white indicators of your *company's* health. We begin with your company's numbers because they are the tools against which you measure your progress. If you can monitor something, you can affect it, because numbers don't lie.

Do you look at your financials every year? Every month? How about every week? If you are a Driver or Analytical—the Thinkers—the answer is probably yes. If you are an Expressive or Amiable you may already have thought of skipping ahead. *Please don't do that*. I had an owner tell me bluntly, "Bob, high volume covers a bunch of sins"—kind of like "the end justifies the means." The problem with that kind of thinking is that you can get high sales but with great damage to your profitability. You don't have to go any further than the big retailers like Saks, who heavily discount their premium goods to try to bring in customers, to see evidence of what I'm talking about.

We'll dig into the following key financial metrics for a business in this chapter:

- Profit and loss statement
- Pricing

- Sales by category
- Average sale
- Average number of items per transaction
- Number of transactions per customers
- Year-over-year to date

While this book is written from a retailer's point of view, most of these tools can be applied to any service, manufacturer, or other industry.

Leverage

Suppose you have a two-year-old daughter who depends on you for her well-being. If a doctor diagnoses you with lung cancer and warns that if you take another puff, you'll be dead, chances are good you would have sufficient leverage to quit smoking. Leverage gives you impetus for change. It's like an internal switch that flips once you've seen that the costs and consequences are greater if you stay the same. Leverage is not "I want to be the next Apple." Leverage is "if we don't increase our electronics business by 15 percent, I won't be able to afford payroll." Leverage is something you have to look for on your own.

Leverage requires that you see the consequences of *not* changing, feel the fear that this incites, and memorize it. Imagine your house foreclosed upon and your store vacant; try using *that* for leverage. Use whatever works to define failure for you. Every time you don't follow through with a change, remember this leverage clearly by seeing the alternative; that will stir you to action. Accessing your inner motivation to change means honestly appraising the results you want and using the proper leverage to follow through.

When I met Mike Sheldrake, the owner of Polly's Gourmet Coffee in Long Beach, California, in 1998, he had more debt than he had in sales. He had hoped something would change, but when it really came down to it, his back was against the wall. He looked at his profit and loss statement and saw the consequences of years of inaction.

Perhaps you're like Mike right now, paralyzed by your bottom line. Or maybe you have remained blissfully in the dark by only looking at gross sales numbers. But there is much more detail that could help you increase profits. The good news is that you can change your profit and loss statement by using the reporting tools you probably already have.

Now, you might say to me, "You don't understand, Bob, we had a great June . . . it was fabulous." But if we looked at the transaction count and found that you lost more than 100 customers, would you still consider it "fabulous"? And if you were to ask your manager why, he would probably answer, "I don't know."

Profit and Loss Statement

A profit and loss statement measures how much out of every dollar of sales a company actually keeps in earnings. (This is different from your product margin, which is the difference between the cost of the merchandise and your retail price.) A profit and loss statement shows your profit margin, which is net profit divided by sales. Here's something you must always keep in mind:

You have to be profitable.

Profits mean that customers are rewarding you for your efforts in excess of what it costs you to run the business. If you are not making a profit, the market is punishing you for poor management, meager product selection, inadequate location, or rotten employees. Losses mean someone is paying for your poor management: your bank, your other job, your savings, or your spouse. Profit margins must support what your business needs to pay the bills, debt load, the owner a salary, and a "draw" for your retirement fund.

Profit margin is displayed as a percentage. A 3 percent profit margin, for example, means the company has a net income of $0.03 for each dollar of sales. That is typically the profit for a successful small business, although each business model is different. The higher your profit margin is, the more control you have over your costs—which is a real competitive advantage.

If you have a competitor who's been around for 50 years and has no rent or financing costs, it may be able to sell cheaper than you. If you purchased your business with an adjustable home equity loan, that debt load may mean you need to charge more than your competitors. You might increase gross sales if you try to match your competitor's low prices, but you won't be earning enough money to garner a positive profit margin. You'll just continue to dig yourself deeper.

What *Exactly* Are You Losing?

I did a business makeover for a couple who owned a restaurant in southern California. After completing the evaluation, I had to give them the difficult news that they would make more money by closing than by trying to fix the myriad challenges. The husband seemed relieved as he'd been writing the checks to bail out the business, which employed their son as manager. The wife claimed to be okay with the fact that she'd been losing up to $11,000 each month for the past year and a half by saying that, "You have to lose money to make money." I was surprised and replied, "Okay, but this isn't a start-up; you've never made a profit or anything close." I continued, "Think of it this way. You are throwing away a brand-new Mercedes Benz—like the one you drive—every four months." *That* got her attention. There's losing money and then there's *losing money.*

How to Increase Your Profit Margins Based on Your Profit and Loss Statement

1. Increase prices. No one knows the price you pay but *you.* You can selectively raise the price of your most popular items to most effectively add to your bottom line; you don't have to increase prices across the board (see "Pricing" on page 8).
2. Narrow your focus. You can't be all things to all people. It's the difference between a restaurant with a menu of 200 mediocre items and one with 12 outstanding dishes. Consider how much profit you are making on your slower-moving items. Could that shelf space be devoted to quicker-moving, more profitable items? Yes!