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Garden Centre Benchmarking (Phase One)

We all use anecdotal evidence to see how our business is performing compared to other retail sectors and other garden centres but often this information is exaggerated and getting factual information can sometimes be a challenge. Factual benchmarking of key business indicators allows you to judge your business performance and make decisions to improve your business based on business facts, rather than assumptions. In this Nursery Paper, international retail consultancy John Stanley Associates provides you with benchmarking advice and tools to help monitor your business.

Garden Centre Benchmarking (Phase One)

Garden centre performance indicator – how are you doing?

During 2009, on behalf of NGIA, John Stanley worked with 16 garden centres across the country to measure their business and to provide Australian benchmark figures.

The garden centres involved will remain anonymous. They are located in Western Australia, South Australia, New South Wales, Victoria and Queensland. They are all association members and were selected as a true cross-section of the industry. They are all well established, proactive businesses.

After completing his first tour of all the stores, John has measured their existing performance and those results are published in this paper. He has also offered them advice on how to improve their image, merchandising and display and the same garden centres will be visited again in six months time and their results monitored and produced in a Second Nursery Paper on garden centre benchmarking.

The objective of this piece of work is to provide the industry with a tool to manage their businesses. It is planned that as this benchmarking develops we are able to provide more in-depth benchmarking as figures get analysed more.

In analysing the figures, John has studied like-by-like scenarios. He has looked at the garden elements of the business. For example, if a garden centre has a restaurant, those figures have been removed from the exercise so that we can compare activities that are as similar as possible.

Why have benchmark figures?

Benchmark figures are a guide to help you monitor your business against an average for the industry. The figures provided are benchmark figures used by most industries. As more businesses get involved the more detailed the figures will become.

The benchmark figures are intended as a guide to help you develop your business.

A sincere thank you to the 16 businesses that worked with John Stanley Associates to develop these benchmarks. Their enthusiasm and support for the industry is appreciated.

John will be working with them on business development and later in the year will identify how low cost improvements can make an impact.

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Understanding and using benchmarking

Benchmark figures

	GC	Stock Turn	Gifts	GC	Coffee Shop	GC	Coffee	Gifts	GC%	Gifts%	Coffee%
A1	$533	N/A		58.76	$16.53	$263,820	115,251		N/A		
A2	$1,934	N/A		51.50		$171,428	$83.68		14.25		
A3	$800	N/A		51.50		$200,000	$75,000		N/A		
A4	$487	8.3	$801	49.05	$16.28	$128,004	$85,482		13.7		34.3
A5	$848	N/A		60.00		$222,500			28.9		
A6	$1,222	8.8	$332/ St 2	42.23		$233,000			18.9		
A7	$2,148			55.23		$360,000			15.8		
A8	$653	6.2		66.00		$185,102			22.7		
A9	$1,072	5.1		37.29		$145,085			12.0		
A10	$705	15.3		35.00		$174,501			18.6		
A11	$645	6.1		50.00		$154,990			14.6		
A12	$1,914	9.2		38.00		$250,000			14.9		
A13	$1,375	6.4		34.00		$366,666			19.9		
A14	$550	3.7		42.00		$211,538			29.1		
A15	$360	N/A		55.00		$233,333			17.4		
A16	$928	15.1		53.00		$180,000			17.6		
AVERAGE	$1,010	7.0		$48.66		$201,025			16.1%		

Income per full time equivalent team member

The key to success is ensuring that you have the correct team ratio and they are being used effectively.

Average Income Per Full Time Equivalent $201,025

If your figures are below average

Questions to ask yourself:

- Are all the team building relationships with the customer? (or just serving them)
- Are they using open questions? (or closed questions)
- Are your team members doing the right jobs at the right time?
- Do all team members have the correct product knowledge to sell?
- Are all team members trained in customer service?
- Are you overstaffed for the size of your business?

Labour as a percentage of sales

The key to success is ensuring that you have the correct team ratio and they are being used effectively.

Average Labour as a percentage of Sales 16.1%

If your labour bill is lower:

- Are you providing the level of service you should? You may be more self service than full service.

If your labour bill is higher:

- Are you over-servicing the customer?
- Are your team trained in customer service?
- Are you managing the team effectively?
- Are you overstaffed?
- Are you recruiting the right type of people?
- Are you managing the team effectively?

Average sale per customer

Improving the average sale is mainly about getting a team with the right personality who are empowered to make decisions with the customer.

Average Sale per Customer = Total $ Sales / Number of Customer Transactions

Average Sale per Customer $48.66

Below Average Sale - Questions to ask:

Merchandising:
- Do you have the correct ranging of products?
- Are displays in place and topical?
- Is the store clean?
- Are the team "facing" products on the shelf every day?
- Is your merchandise layout confusing the customer?

Management:
- Are stock control measures in place?
- Is the manager walking the store every day with a checklist?

Customer Service:
- Are staff ignoring customers?
- Are they using closed questions?
- Are they cross selling?
- Are they selling up?
- Do the team know the features and benefits of the products?
- Do team also know stories relevant to the products that they can relate to customers?

Hire for Personality
↓
Train for Confidence
↓
Empower the Team Member
↓
Grow the Average Sale Per Customer

Stockturn

The quicker the stock turns in a garden centre at the correct profit margin, the more money the business makes.

Average stock turn is 7.0 times a year

Questions to ask if your stock turn is lower:

- Are your plants too expensive for your marketplace?
- Is the quality standard of products acceptable
- Are the team monitoring stock turns?
- Are you displaying product correctly?
- Is the product being merchandised effectively?

Questions to ask if your stock turn is lower:

- Can you put the price of your products up?

Advertising

Average for Industry
2% Established Business
4% New Business

If Higher:

Customer Service:

- Are consumers not being converted into customers by the sales team?
- Is there a lack of product knowledge in the team?

Marketing:

- Is the emphasis purely on Interruption Marketing rather than a balance between interruption marketing (eg flyers) and permission marketing (eg loyalty schemes)
- Are you advertising at the right time of year?
- Are you product led in your marketing rather than selling the benefits to the consumer?
- Are you targeting the right customers?
- Is the marketing linked in with the merchandising strategy?

In an ideal world in 2009

60 - 70%
of your marketing should be interruption marketing

30 – 40%
should be permission marketing

Note: This was not benchmarked during the first study.

Training

The general rule is that a company should invest 2% of its labour bill in training the team.

That training should be divided up into:

- Induction Training
- Technical Training
- Product Knowledge Training
- Retail Training

All team members as a matter of course should attend a customer service one-day workshop at least once a year. You may wish to do this through your local Chamber of Commerce. Alternatively a group of local retailers could get together for a day to do a group training session.

The training should cover aspects of image, host roles, how to be an effective sales consultant and how to develop add-on sales.

Shrinkage

Shrinkage 3%

Shrinkage is made up of shoplifting, staff accidents, staff theft, supplier theft, markdowns, cashier dishonesty, throw-aways, customer accidents, product used in demonstrations, products used in displays that cannot be sold and incorrect wrapping.

Shrink Prevention

Shrink Prevention is about having a control system in your business to ensure you minimise the opportunities for shrink to occur.

You will not eliminate it completely, but even a 1% reduction in shrinkage can make a big impact on your business.

The most common areas of shrinkage are:

1) Goods inwards procedures
2) Breakages
3) Plants not selling fast enough
4) Staff taking product and not recording it
5) Not costing out products carefully when combining them into new added value products in the garden centre.

Note: Shrinkage that is staff related is a lot higher than shrinkage that is customer related.

Note: This was not benchmarked during the first study.

Sales per square metre

$$\text{Sales per Selling Square Metre} = \frac{\text{Total \$ Sales a Year}}{\text{Number of square metre of selling space}}$$

Average Sale per Square metre $1,010

Low sales per square metre

Questions to ask:

- Re-look at your signage. Is it providing three benefits or just the price?
- Are team members using "open" selling skills?
- Are they providing solutions or just selling commodities?
- Is the floor space of 60% for the consumer and 40% for the product in the correct ratio?
- Is there a clear customer flow that takes the consumer around the whole garden centre?
- Are the pathways kept open and unblocked?
- Is the product mix right?
- Are displays changed regularly and on time?
- Are displays related to the seasons?
- Are endcaps and displays always looking good?

Restaurant benchmarking

Restaurants Vs Garden Centre Cafes

Many retailers in the type of set up you have with the Garden Centre and restaurant are working on 25% of sales from the restaurant and 75% from the retailing of food and gifts.

$$\frac{\text{Food Costings}}{\text{Opening Stock \& purchases}} - \text{closing stock} = \text{usage}$$

$$\frac{\text{Food Usage (July)}}{\text{Food Revenue (July)}} \times 100 = \text{Food Cost \%}$$

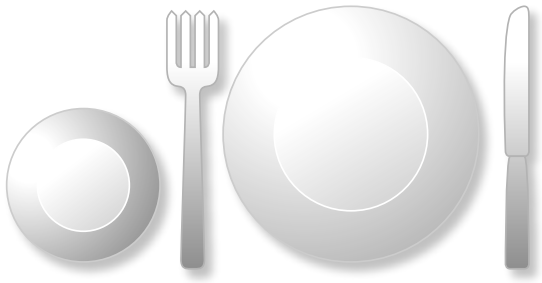
Food cost as a percentage of sales = 30%

Note: In fine dining it is 45%

If higher:

- Are customers leaving too much food on the plate?
- Does the menu need refining or redesigning?
- Is the pricing strategy correct?
- Is food being proportioned properly by the chef?

Restaurant layout



Place Setting 50 x 30 cm per person

Round Table for six = 1m in diameter

Chairs = 1m

2m for table and chairs

Coffee Shop	Gross Profit	61%
	Wages	18%
	Rent	10%
	Stockturn	37%
	Net Profit	17%
Restaurant	Gross Profit	59%
	Wages	20%
	Rent	7%
	Dining area per seat	6ft
	Seat Utilisation per session	50%
	Net Profit	12%

Interpreting the figures

The value of doing this exercise comes when you interpret the figures. The following table provides you with a guide on benchmarking.

Benchmark	Above Top Third In Industry	Below Top Third In Industry
Sales per selling square metre	Well done.	You have opportunities. Review your product mix, merchandise, display, and signage strategies
Average sale per customer	Well done.	Review your sales training. Your team is not add-on selling, up selling, or communicating with the customers as well as could be done.
Sales per full-time equivalent	You may need more team members. They may eventually burnout.	You could be overstaffed, have the wrong people selling, or your training program needs to be reviewed.
Sales return as a percentage of total sales	Customers are dissatisfied. Finding out why is urgent.	Well done.
Markdowns as a percentage of sales	Analyse your shrinkage policy as a matter or urgency.	Well done.
Labour cost as a percentage of sales	Is your training effective?	Do you have enough team members to service customers properly?
Stock turn during the year	Well done.	You are overstocked or have the wrong merchandise mix.

Consistency in formulae

Accountants and business owners use different formulae and calculations around the world. When benchmarking, this can cause problems and distort the end result. You may then judge your business performance against the wrong benchmark figures.

Step 1 is to provide formulae which can be consistent around the world, enabling you to compare like with like.

The following formulae are common to international retailers when comparing benchmark figures.

Knowing how to measure

To obtain a benchmark figure in the key retailing areas, apply the following equations:

Sales per Selling Square Metre = $\frac{\text{Total dollar sales}}{\text{Number of square metres of selling space}}$

Do not include parking lot, office space, or other non-retail areas in this equation. Include aisleways. It's exceptionally valuable if you can do this in each product category, as it allows you to identify your profit and loss merchandise areas.

Average Sale per Customer = $\frac{\text{Total dollar sales}}{\text{Number of customer transactions}}$

This tells you how good your merchandising and selling strategy is. The information should be available to your whole team.

Sales per Full-Time Team Member = $\frac{\text{Total dollar sales}}{\text{Number of full-time members equivalents}}$

The key is to look at full-time equivalence, so group part-timers' hours into full-time employee equivalence. If you do not, it is very difficult to compare one store's figures against another's.

Sales Returns as a Percentage of Net Sales = $\frac{\text{Total number of Returns}}{\text{Total number of transactions}} \times 100$

This will provide you with a customer satisfaction report based on return of goods, not on human relationships with your team. For example, a high goods return may reflect on your quality control.

Markdowns as a Percentage of Sales = $\frac{\text{Total number of Markdowns}}{\text{Total number of sales}} \times 100$

This lets you know how much you're selling at discount.

Shrinkage as a Percentage of Sales = $\frac{\text{Total dollar Inventory shrinkage}}{\text{Total dollar sales}} \times 100$

This will provide a shrinkage figure that then needs to be marked against customer theft, team member theft, or administration errors.

Labour Cost as a Percentage of Sales = $\frac{\text{All payroll expenses related to selling}}{\text{Total dollar sales}} \times 100$

This tells you the cost of doing business with your present team.

Stock Turn during the Year = $\frac{\text{Total dollar sales per year}}{\text{Retail value on inventory held at any one time}}$

This tells you how often you turn your products during a twelve-month period.

Don't Confuse Gross Profit and Mark Ups

Remember: Gross profit is the dollars in profit from buying and selling a product (before expenses)

Gross Profit % = $\frac{\text{Sell Price} - \text{Cost Price}}{\text{Sell Price}} \times 100$

Mark up is the profit obtained from the sale of a product when expressed as a percentage of the cost price.

Mark up % = $\frac{\text{Sell Price} - \text{Cost Price}}{\text{Cost Price}} \times 100$

Note:

Labour: This should include a realistic wage or salary for directors and owners. If you don't pay yourself, add a figure it would take to provide someone with a realistic salary to do the job. If you're overpaid for the job, reduce it down to again how much you'd pay someone to do the job.

Net Profit: This does not include:

- Your excess in salary, if this is the case;
- Capital Payments;
- Tax to be paid by the business.

It is the true profit of doing business.

Gross profit conversion table

Mark-up	5.0	5.3	6.4	7.5	8.7	10.0	11.1	12.0	12.4
Gross Profit	4.8	5.0	6.0	7.0	8.0	9.0	10.0	10.7	11.0
Mark-up	12.5	13.6	15.0	16.3	17.7	19.1	20.5	22.0	22.7
Gross Profit	11.1	12.0	13.0	14.0	15.0	16.0	17.0	18.0	18.5
Mark-up	23.5	25.0	26.6	28.2	29.0	29.9	30.0	31.6	33.3
Gross Profit	26.0	27.0	27.3	28.0	28.5	29.0	30.0	31.0	33.3
Mark-up	35.0	37.0	37.5	39.0	40.0	40.9	42.9	45.0	50.0
Gross Profit	26.0	27.0	27.3	28.0	28.5	29.0	30.0	31.0	33.3
Mark-up	53.9	55.0	56.3	58.8	60.0	61.3	64.0	66.7	70.0
Gross Profit	35.0	35.5	36.0	37.0	37.5	38.0	39.0	40.0	41.0
Mark-up	72.4	75.0	80.0	85.0	90.0	95.0	100.0	150.0	300.0
Gross Profit	42.0	42.8	44.4	46.1	47.5	48.7	50.0	60.0	75.0

Department gross product contribution

Departmental Performance

Generally, retailers look at the performance of the whole business, then departments, then individual products. As profit is made from the sale of a complete range of products within a department, all achieving different levels of profit, you need to analyse the performance of departments to get a true picture of how your business is performing.

This type of report, in our industry, is probably best done seasonally. There are three steps that need to be completed before the report can be finalised.

First, you should keep a record of all purchases made by the department for the season. Detail the supplier's name, date of delivery, invoice number, and the amount of the invoice. You should also record any returns to suppliers.

Next, at the end of the season, do a physical count of all stock. This should include all stock on the shop floor and any relevant stock that is being stored in reserve. Ideally, do this when the garden centre is closed. The first time you do this, you will also have to count the stock at the beginning of the season.

Lastly, record all sales from the department for the season. Once you have all these figures available, it is a simple matter of completing a performance report for the department. This report will allow you to identify any problems in the department and compare one department with another. When you complete it on a seasonal basis, you will be able to control stock and space allocation more accurately and put remedies into place to minimise losses. Used correctly, this is an essential tool to analyse the health of a department.

Each department contributes profit to your garden centre; however, it's not always the department with the highest sales that makes the highest contribution to gross profit.

In the next phase of analysis for the industry the plan is to look at categories in more depth.

To calculate a Department Gross Profit Contribution, you first need to calculate what percentage of store sales comes from that department. This figure is known as the Department Sales Contribution.

$$\text{Dept. Sales Cont. \%} = \frac{\text{Dept. Sales Cont. in dollar terms}}{\text{Total dollar sales}} \times 100$$

Once you have calculated the department sales contribution figures, you can use the following formula to calculate the department's contribution to the total store:

$$\text{Dept. Gross Profit Cont.} = \frac{\text{Dept. Sales Cont. \%} \times \text{Dept. Gross Profit \%}}{100}$$

To assist you in benchmarking your business, supporting worksheets to this Nursery Paper are available at www.ngia.com.au under Publications and Resources.

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