

A Randall Data Systems White Paper

Bigger Profits... Better Life!

Find out why retailers across America invest in point of sale hardware & software... and YOU should, too.

(The answer may surprise you)

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Randall Data Systems, Inc. is a Michigan-based company dedicated to providing retailers with the finest in automation solutions. These solutions are designed to help the retailer control their inventory, monitor sales activity, promote gift cards and loyalty programs, manage the operational aspects of their business and provide for the information needs of the progressive retailer.

Established in 1982, Randall Data Systems has been improving the lives and businesses of retailers throughout Michigan, the U.S. and Canada.

The Reason Why

The largest companies in America spend millions and millions of dollars every year on retail automation solutions – point of sale hardware and software. Why, you might ask? The answer is simple...

This stuff makes them money. BIG money.

Understanding Profitability

Ok. Maybe you weren't surprised. As a seasoned entrepreneur you know there are only two components involved in making a profit: sales and expenses. If you want to increase your bottom-line, either increase sales or decrease your cost of doing business. That's all there is to it. Companies like Walmart, Sears, Home Depot and hundreds like them have known for years that automated systems can help them be more profitable. These solutions enable them to increase their sales and/or decrease their expenses. Over the years our clients have looked at point of sale systems to improve the following areas of their business:

INCREASE SALES	DECREASE COSTS
<ul style="list-style-type: none">• They want a customer loyalty program• They want to identify and reward their best customers• They want to quickly locate their “MIA’s” – customers who have strayed to a competitor• They want to improve their marketing intelligence• Increase store traffic• Increase “average spend” and number of visits• Sell Gift Cards (without extra fees)• Spot “hot” items• Do a better job of “cross-selling” / “up-selling”• Integrated Credit Card processing – for ease of balancing the nightly drawer• Faster checkout / faster service for customers• Sell products online – reach outside of Michigan for new business	<ul style="list-style-type: none">• Reduce labor costs• Spend less on accounting fees• Reduce Credit Card fees• Eliminate Gift Card fees• Spend less on inventory• Free up cash for marketing initiatives• Increase inventory turns• Eliminate markdowns• Have a better balance of inventory – based on sales• Reduce “shrink” / fraud• Eliminate mis-priced items at checkout• Reduce downtime• Reduce the ongoing cost of maintaining their current system• They’re getting little or no support or training – and it’s costing the business money!

Expense or Investment?

Based on research, over 60% of these companies plan on investing more money in their point-of-sale solutions this year. The same percentage say they will recoup their investment within the first year of implementation. Over 80% believe they will see a return on their investment within the first 24 months. It is not uncommon for a retailer to experience 300-400% return on their investment over the first few years of installing a new system. Where else can you invest your hard-earned money and see that kind of return? Stocks? Bonds? Pork belly futures?

What about me?

You are probably asking yourself, “If I were to invest in a new retail management system, what would be *my* return on my investment?” That’s the purpose of this document. There are dozens of areas where a retail automation product can help you in your business. But we will focus on the following 8 key areas:

- Inventory management
- Sales
- Purchasing
- Customer relations
- Theft / shrinkage
- Management information
- Store operations
- Bookkeeping & accounting

Let’s get started!

1. Better Inventory Management

Improving your inventory management helps you in two ways: 1) you can either reduce your total inventory and pocket the money; or 2) you can invest the difference in additional *new* inventory. A good retail automation solution will help you quickly identify fast and slow moving items. This allows you to adjust your product mix in response to your customers' buying patterns.

In addition, it can help you increase your inventory turns.

Consider the following example: A retailer has sales of \$600,000 per year. The average inventory value (at retail) is \$300,000 and has an average gross profit margin of 40%. That means your annual turn rate is 2 times. If the retailer can increase his turn rate from 2 to 2.5 times – a modest 25% increase – that would put \$36,000 in his pocket in the first year alone! A big return for a rather small change.

But it doesn't stop there. Faster turning inventory also means reduced carrying costs and fewer markdowns – your inventory doesn't stay on the shelves as long to look old and worn. Instead, your inventory looks fresh. And with the money you save, you can afford to invest in new product lines. This keeps your customers coming back to you instead of your competition.

2. Increased Sales

Loyalty programs... up-sell... cross-sell... industry buzzwords for the current trend in retailing. We call it, "milking the cow you already own". Simply put, it's more profitable to sell more to an existing customer than a new customer. You've already incurred the cost of getting the customer in your store. Now you want to nurture that relationship and maximize your return on the investment you've made in them.

How? By utilizing your customer sales history to get them back into your store for more sales opportunities. Creative customer loyalty programs have changed the way retailers view their customer base. With a fully automated system, keeping in touch with personalized marketing programs is easy and results in BIG returns.

Consider Amazon.com. Within 4 weeks of ordering a music CD you can be sure that you'll receive an e-mail saying, "Thank you for your recent purchase of [your title here]. Perhaps you'd be interested in purchasing your own personal copy of [new title here]." By keeping and analyzing your customer purchase history, you can easily customize marketing programs to appeal to your customer's unique needs.

But you don't have to be a multi-million dollar retailer to see these kind of results. We have a local client in Plymouth, Michigan who realized a 20% increase in sales by implementing targeted marketing programs to past customers. But, even a modest 5% increase on annual sales of \$600,000 adds \$30,000 per year to your sales. That adds \$12,000 to your bottom-line (if your gross profit margins are 40%). Not bad. BIG returns for a small increase.

3. Improved Purchasing

There is an adage in the real estate business: You don't make money when you sell... you make money when you buy." A savvy buyer can make you thousands of dollars every year.

Consider what would happen if you could simply improve your margins by only 2% on your existing sales.

Example: If your sales were \$600,000 with a gross margin of 40% your gross profit would be \$240,000.

Increasing your margin to 42% would result in an increase of your gross margin of \$12,000.

How do you achieve this increase? By automating your purchasing function, you take the guesswork out of the job. Guesswork results in over-buying in some areas and under-buying in others. It also results in impulse buying. A slick sales rep will prompt your buyer, "You know, if you buy 6 more you'll qualify for a 1% discount." You know the rest of the story. Now you're sitting on excess inventory for who knows how long, and then end up selling at a markdown because it's old and the box is beat up. Do the math. Was it worth the 1% discount? I think not.

In addition, you achieve other savings. By automating the purchasing function, you can create more purchase orders in less time. This allows your purchasing agent to spend that time where you reap big savings – through negotiating better pricing from your vendors.

4. Improved Customer Relations

Let's face it. The Internet has changed the level of customer expectations. Automatic e-mail messages when your order has shipped... personalized marketing efforts targeting past buying preferences... fast and efficient delivery. The list goes on and on. If the progressive retailer is going to combat this attack, he must be aggressive.

You must carry the right product. You must be competitively priced. You must make the buying experience quick and easy. You must treat me like a valued customer through a more personalized approach.

Automated retail systems can help you do just that. Faster checkout. Properly priced merchandise. Knowledgeable store personnel who know how to answer my questions on previous purchases. Only computerized in-store systems can provide these results.

How much are they worth? It's hard to tell. But the cost of NOT doing something to cement your retailer/customer relationship can be disastrous. Irritating a customer will drive him/her into the arms of another – another retailer, that is. And they will tell a friend, too. No, you've worked too hard to get them into your store only to drive them away by not catering to their needs and wants.

5. Reduce Theft/Shrinkage

This one is tricky to measure. Most retailers aren't sure how much they're losing every year to theft and shrinkage. Industry research has estimated that retailers are losing 1.75% of annual sales due to theft. If you do \$600,000 per year, over \$10,000 is being taken from you.

The theft comes in many different forms. Here is a breakdown of how retail analysts have measured shrinkage:

- Annual theft/shrinkage in America: \$32 billion per year
- Theft by employees - 46%
- Theft by customers - 31%
- Shrink due to internal administrative error - 18%
- Vendor fraud - 5%

You could just consider it a “cost of doing business”. Or, you could take steps to control it. How? In many cases, you can virtually eliminate employee theft by simply implementing a new computer system. Suddenly, your employees sense that “big brother” is watching and they stop. Some will still steal, but through system security measures, better inventory practices and management reporting you can identify your areas of weakness and take steps to control the problem. In addition, administrative errors can largely be eliminated. Vendor fraud issues are easily tracked and resolved.

*How much can **you** save? Since the industry average is 1.75%, a very conservative estimate would be 1% of sales. If your sales are \$600,000 per year you would save \$6,000 per year (based on sales). If you are working with 40% profit margins and you feel that you could only reduce your total shrinkage by 50%, that equates to \$1,800 in hard dollars stolen from your pockets.*

6. Better Management Information

First, the good news: VERY significant benefits can be achieved in this area. Now, the bad news: this area is perhaps the most difficult to put a dollar value on. Why? Many of the benefits are intangible. How do you put a dollar value on the following:

- Happier employees
- Ability to make important business decisions faster because you have better access to information
- Ability to grow without adding staff
- Peace of mind knowing that ALL your important accounting data is being stored ‘off site’ just in case you had a fire
- Ability to effectively measure employee performance – cashiers, sales reps, etc.
- Improved employee morale because they can spend their time doing analytical tasks and not the daily mundane duties they do now
- More consistency in store operations

- Better data to make better floor planning decisions
- More free time to do the things you REALLY want to do in life

See what I mean? This area has definite savings potential. However, putting a dollar value on them is difficult. But, let's take a stab at it.

Let's say your employee costs represent 25% of sales. If your sales were \$600,000 then your direct employee costs would be \$150,000 per year. If it normally takes 8 weeks to fully train an employee and your turnover is 20% per year, your cost of training is \$4,800 per year. If you can simply reduce your training time from 8 weeks to 2 weeks, you can save \$3,600 per year.

7. Improved Store Operations

Few things in life compare to a finely tuned, well-run retail operation. And a retail management system can help you improve your internal efficiencies faster than any other vehicle available.

Take bar coding for example. By simply bar coding/tagging your inventory, you virtually eliminate mis-priced items. In addition, you greatly increase the validity of the data you are collecting. This also allows you to provide a higher level of customer service because you have access to up-to-the-minute information.

Here's another example. By tracking sales history and traffic volumes from past periods, you can better plan your employee work schedules. This will result in better service to your customers, less employee "burn out", reduced overtime pay and happier employees – which leads to reduced turnover.

To calculate possible savings in this area, focus on eliminating mis-priced inventory items. If only 2-4% of your inventory items are incorrectly priced, this could impact you by as much as 1% of sales. Again, if your sales are \$600,000 you could be losing as much as \$6,000 per year.

8. Bookkeeping/Accounting Savings

The biggest return on your investment in the bookkeeping/accounting department comes in the form of hourly wage savings. Consider these scenarios:

- General ledger preparation normally takes 4 days per month – reduced to 1 day
- Bank reconciliation normally takes 1 day – reduced to 4 hours
- Daily balancing normally takes 2 hours (40 hours per month) – reduced to 15 minutes per day (5 hours per month)
- Annual fees paid to your outside accounting firm of \$1,000 per month – reduced by 25%

To calculate your savings, estimate the total number of hours it takes to accomplish the tasks mentioned above. Then calculate the reductions based on the examples provided. Multiply the number of hours by your estimated employee labor rate and that will be your approximate savings.

Based on the example above, we've estimated the current time requirements to be 80 hours. After automating, that time was reduced to 17 hours – a 63 hour savings each and every month. At an average wage of \$15.00 per hour there is an estimated savings of \$11,700 per year! Add the savings realized from your reduced accounting fees, and you are saving \$14,340 per year.

9. The “Intangibles”

For many retailers it's not the 'dollars and sense' that motivates them to make the investment in a point of sale system. Very often it's the intangibles – what I call “quality of life” issues. Things like:

- Spend less time at the store – so they can spend more time with their family
- Make the job easier – for the owner and the staff
- Feel more in control: inventory, purchasing, etc.
- Be more organized – reduces the stress level
- Spend more time on planning – working “on” the business... not “in” the business
- Feel more at ease not being at the store – knowing the controls are in place to monitor the business while the owners are away
- More free time to do other work-related things (and non-work activities)
- Build the value of the business for future retirement – understanding the ‘exit strategy’
- Pride of ownership and accomplishment – building a highly successful company is very rewarding
- Sleep better at night!

Conclusion

So, what's the bottom line? If we simply add up the savings outlined above a retailer with \$600,000 in annual sales and an average inventory value of \$300,000 can **save \$85,740 in the first year!**

Wondering what YOUR savings would be – year after year after year...? You get the idea.

Give us a call we'd be happy to work through the numbers with you. You work hard – you deserve it. Again, it's not uncommon to see a 300-400% return on your investment over a 3-year period. Lately, we've been able to provide zero-down, no-interest leasing. This allows you to get up and running, enjoying the benefits of your new system before your payments start.

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We invite you to discover the many benefits that our solutions can bring do your company by giving us a call, or sending us an email. Our consultations are always free and there is no obligation.