

In this series, consultant Steve Bailey gets down to the nitty-gritty of garden center financials to see where profits can be generated and losses stopped.

Profit & Loss

The Path To Profit

by Steve Bailey

Listen. Are you still hearing it? “It” is the sound of some type of rustling paper moving about. I described that same sound two years ago in the first P&L Study article, and it is still being heard at many garden centers. That rustling sound is dollar bills blowing in the wind and not landing on the Profit line.

If you followed the series of articles outlining The Garden Center Group’s 2005 P&L Study, you know that Profit was becoming even more of an elusive goal due to several factors. Our industry’s inherent lack of business management skills, and external pressures from other retailers selling *our* product and competing for *our* customers’ expendable dollars, were at the forefront. Pressure was also being applied from family members moving up the management chain and the resultant expectation of increased salaries.

Fast forward to 2007. Business skills have improved as garden center owners and managers have realized their position in their companies is to manage the sales, expenses and resources to maximize the return on their investment in the form of Profit. The only reason we more clearly hear the rush of Profit dollars leaving is that you know what to look and listen for!

Unfortunately, Mother Nature didn’t get the memo that we were all better prepared to make money in 2007, and

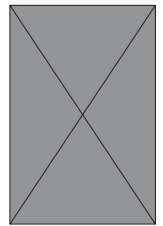
as a result, dealt many garden centers across the country a low blow by freezing out a good portion of those sweet April revenues. Toward the end of the year, the national media dealt another low blow as news of the impending economic downturn became a 24/7 item in and on every print and broadcast venue.

Dealing With Adversity

Weather has always been a factor in our business, and we’ve learned to deal with it. Covered retail shopping has proven time and again to be a valuable investment to offset the effect of bad weather and actually increase sales. Drought was a factor in the South and Southeast, and

news was another story. Many took the news to be an indication that “the sky is falling” and realigned their business plan to sell less merchandise since there was going to be less money out there for our product. Others took advantage of the economic situation to steal market share from those shrinking back. Was our reaction a real effect or a self-fulfilling prophecy? It depended upon the individual garden center and management team. The effects in this area continue to be felt this year, and will undoubtedly affect the P&L Study for 2008.

What’s a garden center owner or manager to do? Manage what you have, given the hand you are dealt. We work on the premise that increasing Revenues is not always the answer to increased Profitability. Give me a dollar in increased Revenues, and I receive 10 cents in Profit dollars if my center is at a 10 percent Profitability level! But save \$1 in Expenses, and my Profit increases by \$1, no matter the level of Profitability. The effect on



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Confused About P&L?

The term Profit and Loss is confusing, isn’t it? How can you have both a Profit and Loss? Well, if you look at your own P&L, you will discover that there is Gross Profit and Net Profit/Loss. It is possible to have Gross Profit (Sales minus Cost of Goods Sold) but a Net Loss if Operating Expenses and Wage & Wage Benefits combined exceed the Gross Profit. Not what we want, but it is possible! Thus the term Profit and Loss!

there was little we could do about that except institute damage control measures for the better times ahead.

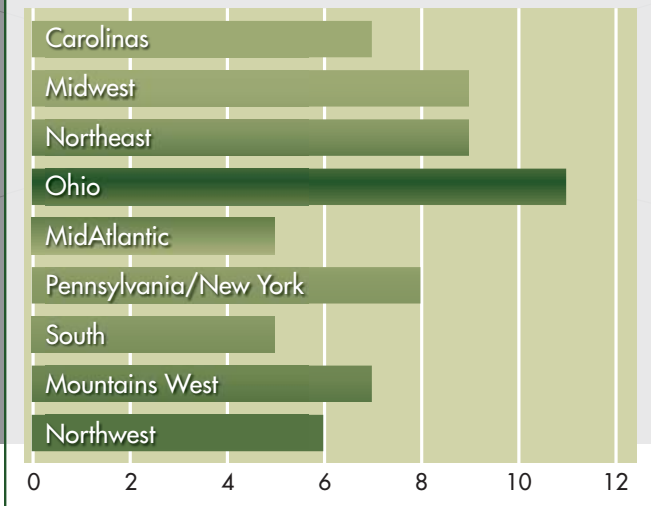
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For More Information

If you would like to receive The Garden Center Group Chart of Accounts, send your name along with your garden center’s name and address to steveb@thegardencentergroup.com. The Chart of Accounts will be e-mailed to you in an Excel format.

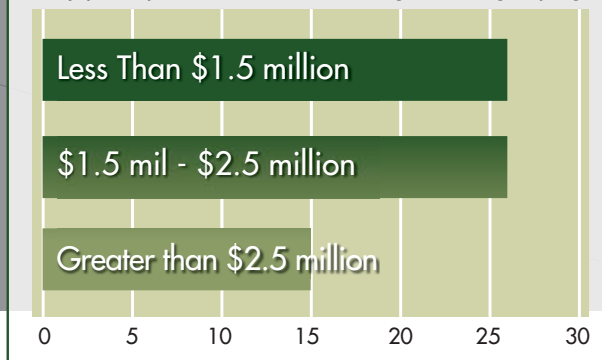
2007 P&L Study Regional Groups

Study participants fall into the following geographic locations:



2007 P&L Study Sales Groups

Study participants fall into the following revenue groupings:



Profitability that can be attained through controlling Expenses vs. increasing Revenues is much, much more.

That's not to say I don't want to increase Revenues. I do, as long as the percentage of Profitability is there to reap the rewards. Why increase Revenues when your Profitability is at 0 percent? The net effect is no increased Profit dollars.

Dissecting The Numbers

To that end, garden centers in our group have been attuned to internal and external benchmarking for some time now. The Weekly Department Review, which averages 75-85 garden centers reporting each week, allows them a weekly comparison of what is occurring in category revenues and events across the United States and Canada.

We started the P&L Study in a very basic mode. The first few years of the P&L Study were in a SIS (Simple Income Statement) format. This allowed our Group to measure and compare performance in the very broad and general areas of Revenues, Cost of Goods Sold, Operating Expenses and Profitability. Though it gave us more information than we had in the past, it still lacked the detail needed to bring about improvement in performance.

This evolved into a detailed P&L Study in 2004, which was a line-by-line stan-

dardized report of Revenues, Expenses and the resultant Profit. Other key ratios were measured, as well, to assist decision makers in their quest for improvement. The P&L Study is based on The Group Chart of Accounts (see sidebar, left, to find out how you can get a copy), which many of our centers have adopted as their standard. Others kept their existing COA and are able to align their numbers into the standardized report form.

As good as the study was in 2004, we still had variances in tax liabilities,

depth and reliability.

The Garden Center Group has always been a diverse one in both revenues and locations. The P&L Study is representative of The Group as a whole. Revenue levels fell within three very distinct groups, and the number of centers reporting within those groups allowed a balanced look at our garden centers from a Revenue standpoint as outlined in the chart above.

The geographic representation of the participating garden centers also followed along the lines of The Group as a whole.

The Group has been expanding into the West the past two years, and the resultant number of reporting centers allowed us to split the West group from 2006 into

The effect on profitability that can be attained through controlling Expenses vs. increasing Revenues is much more.

which played havoc with our business management needs. For that reason, participants in the 2005 P&L Study were the first to report in an EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) format. Known as Operating Profitability, it allowed our centers a true apples-to-apples comparison with other centers in their region and at their sales level.

As the P&L Study has evolved, the number of centers reporting has increased. There were 67 centers in the 2007 report, a 52 percent increase over 2004. As a result, the data is much improved over the last four years in terms of

Mountains West and Northwest groups.

We've laid the groundwork for what the P&L Study is, the size of the garden centers involved and the location from which they reported. Is there a sales level at which a garden center outperforms the others? Is there a geographic location that lends itself more to Profitability? Stay with us as we travel the path to Profit in the next four months and reveal the secrets to becoming a Best Practices garden center. TGC

Steve Bailey is the Financial Analysis Consultant for The Garden Center Group, a business resource alliance of 100-plus independently owned U.S. and Canadian garden centers. For more information, go to www.thegardencentergroup.com or call 410-313-8067.