



# Profit & Loss Keeping Cost In Check

The second part of this series on Profit & Loss focuses on the importance of Cost of Goods Sold on your bottom line.

by Steve Bailey

**M**oney talks. Large amounts of money shout. The Garden Center Group's 2007 P&L Study screams.

With combined revenues of reporting garden centers exceeding \$130,000,000, the P&L Study gave our centers more pertinent information with which to compare than any other in the industry. It can for you, as well.

I've got to warn you. If you like to run your business by the numbers, this is not going to be a "sit back and read type series." It's time to work! Get out your 2007 P&L Statements, calculator and pencil. As we proceed through this series of articles, compare your garden center performance with The Group's



Steve Bailey

If you have a question as to what fits on a certain line item, drop me an e-mail and request The Garden Center Group's Chart of Accounts (see "For More Information" sidebar). Variances between your numbers and our results will point to areas of concern or possible expansion. That's what we use them for!

## It's That Simple?

This month's topic is one near and dear to my heart – Cost of Goods Sold (COGS). Why is it so important? COGS are the greatest expense in a garden center selling products. In order to understand it better, let's look at a P&L Statement in a very

### Garden Center P&L - SIS

	Dollars	Percentage
Revenues	\$1,000,000	100%
Less	-	-
COGS	\$450,000	45%
Oper Exp	\$180,000	18%
Wages & WB	\$270,000	27%
Equals	=	=
Profit (ability)	\$100,000	10%

simple format – one I prefer to call the SIS (Simple Income Statement) (above).

With only five line items to view, this type of P&L is much easier to analyze on a yearly or trend basis than the average three to four page P&L I see on my consulting visits each week. Let's give definitions to each line item in the SIS chart:

- **Revenues** are sales less discounts.
- **Cost of Goods Sold** is the cost of the inventory you sell. More on this below.
- **Operating Expenses** are the necessities such as rent, insurance and fuel. We'll look at this section in detail next month.
- **Wages & Wage Benefits** are the wages, benefits and staff-related expenses attributable to owners and staff. Yes, owners are included on this line at a fair and reasonable rate. More on that subject when we cover this section of the P&L next month, as well.

• **Profit** is the amount we planned for in our yearly Budgets and Goals projections, correct? Notice I didn't say it was the amount left after we sold inventory

and paid all of the expenses related to those sales. Planning for Profit will be discussed in the last article in this series.

By the way, the percentages you see in the SIS example are our Group goal for 2008.

Dollars (especially Profit) are our main objective here. Percentages are only business ratios we use to compare your center with yourself (internal benchmarking) or with other centers (external benchmarking). Percentages are calculated as described and should be in the range noted.

- Revenues divided by Revenues will always be 100 percent.

The percentages expressed in Cost of Goods Sold, Operating Expenses and Wage & Wage Benefits are Expenses/Revenues. We want these numbers to be as low as possible.

- Profitability is Profit Dollars/Revenues. We want this number to be huge!

## It Cost How Much To Sell Those Trees?

One thing you should notice about the SIS is the percentage allotted to Cost of Goods Sold. The biggest piece of money expended goes to the cost of what we

## 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](mailto:steveb@thegardencentergroup.com). The Chart of Accounts will be e-mailed to you in an Excel format.

## 2007 P&L Study Regional Groups (SIS)

	Carolinas	Midwest	Northeast	Ohio
Average Revenues	\$2,224,300	\$2,713,828	\$1,824,440	\$1,958,357
COGS	51.1%	46.3%	45.0%	46.8%
MidAtlantic	PA/NY	South	Mtns West	Northwest
\$2,498,160	\$1,885,311	\$1,786,860	\$1,627,099	\$1,405,609
49.6%	48.7%	45.8%	50.8%	43.2%

## 2007 P&L Study Sales Group (SIS)

	<\$1.5 mil	\$1.5-\$2.5 mil	>\$2.5 mil	Total Group
Average Revenues	\$889,813	\$1,992,770	\$3,896,692	\$2,004,289
COGS	48.2%	46.2%	48.0%	48.1%

have to sell. This means the biggest piece of the Profit puzzle is in COGS.

Not Revenues. We want to make money, no matter the amount of Revenues, so the percentage of Expenses to Sales is what we hang our hat on. COGS are not Purchases (true in many P&Ls) or Cost of Sales (the measurement your POS spits out). Instead, it should be calculated on your P&L by your bookkeeper or accountant using a very simple formula –

$$\text{Beginning Inventory} + \text{Purchases} - \text{Ending Inventory} = \text{Cost of Goods Sold}$$

Your accountant may adjust your Purchases and come up with the same number. That's OK. The important thing is that this one number says it all. We started with this much inventory, we bought in this much and we had this much left over. The resultant number was the cost of the inventory we sold. All discounts, dead plants, broken bottles and theft are ac-

counted for. No ifs, ands or buts. It's there.

Let's begin by laying out the first two lines of the SIS for both the sales and regional groups (above).

In the sales groups, you can see that the \$1.5-\$2.5 million garden centers averaged the lowest Cost of Goods Sold. This is very important, since any expense (in percentage or dollar) saved is a resultant increase on the bottom line – Profit. In this case, this group is already 2 percent ahead in the race for Profit vs. the smaller garden centers with less than \$1.5 million in sales.

Our new regional group, Northwest, really had their inventory systems in place to achieve a 43.2 percent Cost of Goods Sold. Lowering Cost of Goods Sold/increasing Margin Percentage is a whole series in itself. Suffice it to say they were buying at the right price, buying the

correct amounts, reducing shrink and working a number of other

factors in order to hold Cost of Goods Sold to this level. Nice to start out with an 8 percent advantage over the Carolinas and the Mountains West groups.

Does this mean the mid-size and Northwest garden centers will be more profitable? Only time and three more articles will tell.

One issue that has been brought to the forefront from these P&L Studies is the necessity of the Core Categories. As a total Group, these six or seven categories comprise around 70 percent of our Revenues but contribute 72 percent of our Margin Dollars – the amount that pays the bills. Some sales and regional groups are an even higher percentage of Margin Dollars. The importance of Margin Dollars (Revenues – Cost of Goods Sold) cannot be underestimated

## 2007 P&L Study Sales Group Core Categories' Margin Percentages

	Carolinas	Midwest	Northeast	Ohio	MidAtlantic	PA/NY	South	Mtns West	Northwest
Annuals	59.7%	55.0%	61.5%	58.8%	57.9%	57.1%	45.9%	52.5%	59.1%
Shrubs	49.1%	42.7%	39.6%	51.0%	49.4%	53.1%	55.9%	51.2%	57.1
Perennials	54.2%	60.4%	62.8%	55.9%	50.1%	54.1	43.9%	53.5%	66.5%
Hardgoods	30.3%	32.6%	40.4%	43.9%	37.8%	43.4%	85.9%	44.1%	40.7%
Landscape NP	34.0%	62.3%	52.0%	47.7%	50.0%	48.1%	52.5%	39.2%	
Trees	49.8%	59.0%	74.2%	41.5%	59.1%	51.9%	62.8%	52.0%	59.8%
GC Floral		61.0%	63.0%	62.4%					
Trop Plant					58.5%	51.7%			
Pottery							16.3%		64.0%
Giftware									55.7%
Outdoor Liv	41.0%							38.9%	

since these dollars pay the remaining Expenses – Operating, Wage & Wage Benefits and Profit. Yes, Profit is a necessary expense.

Contrast the above with how much time we spend on the other 20 frivolous categories – buying shows, wages and space allotted in the garden center. You should know what your bread and butter categories are. The P&L will tell you.

## 2007 P&L Study Sales Group Core Categories' Margin Percentages

	<\$1.5 mil	\$1.5-\$2.5 mil	>\$2.5 mil	Total Group
Annuals	55.9%	60.7%	54.4%	57.4%
Shrubs	52.0%	50.9%	45.4%	48.6%
Perennials	56.5%	58.1%	55.1%	56.5%
Trees	56.9%	51.7%	58.1%	55.6%
Landscape NP	45.9%	50.7%	51.0%	50.1%
Hardgoods	37.4%	39.1%	55.5%	47.5%

### It Isn't What You Sell, It's What You Make

Margin Dollars yield another very important measurement of financial performance – Margin Percentage. This is the percent of the total sale we get to “keep” to pay those bills. Again, percentages are important for comparison purposes. Core category performance can be seen in the chart (above).

A point to note is that for the Total Group, there were six core categories – Annuals, Shrubs, Perennials, Trees, Landscape Non-Plant (mulches and soils) and Hardgoods. Yet for the regional groups, the core categories were expanded to seven due to the diversity between regions.

The main point of this particular analysis is that achieving a high-margin percentage (for that category) is very important to a garden center's ability to pay its bills and attain Profit. If a center is front-loaded with low margin core categories, either through mode of operation or the categories' inherent performance, you are predestined to be a low-margin garden center. The only way this will work is if your Expenses are low, as well.

The Simple Income Statement (SIS) presented at the beginning of this article will be filled out in the following months. How is your center faring so far? Are you on par with your sales and regional groups? What effect do Operating Expenses and Wage & Wage Benefits have on Operating Profitability? And what are the key ratios you need to know to manage your garden center? Stay with us for the next three issues for that information, as well as a peek at Best Practices (10 percent or more Profitability) performance. TGC

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