

If you only *think* you're doing fine, there's a good chance you're not



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In recent columns, I have written about the value of knowing your financial performance and cash flow—and knowing what you must do to improve each number. I also “came clean,” admitting that during my 10-year stint as a flooring storeowner, I *never* looked at my financial measures, nor understood financial management. The closest I got to managing our finances was monitoring our checkbook and reconciling the bank account. I believed the business was doing well if we had money in the checking account.

I had never even taken a business class in high school or college. Instead I earned degrees in microbiology and biochemistry. My credentials for running a store came from growing up in the carpet industry. At age eight, I was laying carpet with my father. As soon as I got a driver's license I was taking samples to customers and selling them. My carpet-laying skills and selling abilities enabled me to raise a family and attend college at the same time. Despite my ability to earn a living wage while going to school, my father believed I was too lazy to succeed in the carpet industry.

To my father's utter dismay, just before completing my doctorate in medical research, I quit school and opened a carpet store. However, I have never looked back. I believe this is a great industry, and I am proud to be part of it. It has given me a great life and enabled me to raise a family. My family is my most cherished possession (though admittedly there have been times when my business has clouded that value.) I believe I succeeded three decades ago not because I was particularly *smart*, but because I adopted a strong work ethic (my father's assessment notwithstanding).

Why do I share this? Because I have come to realize that a strong work ethic is no longer enough. Many retailers work hard and long ... yet still fail. Welcome to the 21st century: the age of the abundant flooring stores and survival of the fittest. Profits no longer flow from hard work alone. Today's business owner must

measure every financial data-point and know how to improve it, employ best practices, make smart decisions, study the market and run the business instead of letting it run him or her

For 13 years, I've been associated with Mohawk University. During that time one tool has helped me learn business more so than anything else. And, for years, I have encouraged retailers to use it. Yet few do. That's why I'm writing this column. This dynamic tool is the annual *Financial Management Report* from the World Floor Covering Association.

WFCA collects financial statements from many of its members and organizes the data into useful, benchmark “industry averages.” The report organizes the data to enable storeowners to find the averages for *stores like theirs*. You'll find averages for Retail Oriented Firms, Retail/Main Street Commercial Firms,



Comparing apples to apples: The World Floor Covering Association's Financial Management Report enables flooring retailers to compare their performance to colleagues in the same business.

The Critical Profit Variables – 2005

Critical Profit Variables	Retail Oriented Firms		Retail/Main Street Commercial		Contract/Commercial Firms	
	Typical	High Profit	Typical	High Profit	Typical	High Profit
Sales Per Employee <i>(Measures employee productivity)</i>	\$244,945	\$267,172	\$269,691	\$295,241	\$393,731	\$422,384
Gross Profit Margin <i>(Reflects the ability to buy and sell right)</i>	38.3%	39.4%	34.6%	36.7%	24.2%	29.3%
Operating Expenses as a Percentage of Gross Sales <i>(Focuses on expense control)</i>	35.2%	32.8%	31.7%	29.9%	20.2%	20.8%
Net Profit Before Taxes <i>(Measures Net Profit earned as a % of sales)</i>	3.4%	6.2%	3.3%	6.9%	3.5%	8.3%
Inventory Turnover <i>(Shows how well inventory is managed)</i>	8.2	8.1	8.0	6.2	19.3	12.8
Accounts Receivable Collection Days <i>(Reflects A/R collection practices)</i>	52.7	92.9	43.2	55.1	41.1	20.2
Accounts Payable Days <i>(Reflects use of supplier financing)</i>	31.1	41.7	28.0	27.7	21.8	20.6
Return On Assets <i>(The ultimate barometer of financial success)</i>	10.6%	9.6%	12.5%	25.5%	13.7%	34.8%

Contract / Commercial Firms and sometimes, Cleaners / Installers/Inspectors. Within each of these categories, you'll find averages for "All Firms", for "High Profit Firms" (the top 25 percent), and for stores with different volumes of sales.

As I stated, I am a self-study. I learned, by studying this report's plain language, to find the crucial numbers on any dealer's financial statements. I can tell him or her how to improve them. I regret that so few dealers use this treasure of information.

The report provides crucial *benchmark* information – how your peers are growing their sales, shifting Gross Profit Margins, trimming expenses, changing salaries, avoiding Bad Debt losses, and wringing out Net Profits. You see the

critical ratios on their Balance Sheets.

You cannot know if you are doing well if you have no guidepost to set goals for you. Think of the information that drives athletes to perform better. It's the standards set by other athletes. The success of others tells us what we can achieve if we work smarter. They inspire us to raise the bar on our company's performance. *Without* the promise of such inspiring goals, we often aim only to stay busy, *hoping* we will somehow eke out a profit. Often, the only thing we achieve is the ability to stay busy, but that's about it. Our take-home pay, company profit and the market-value of the operation stay stubbornly stagnant. For 10 years, I worked far too hard too have earned what I did. But

changes in critical profit variables can significantly affect profitability.

Most helpful is the section revealing the Critical Profit Variables. (The numbers I have discussed in previous columns.) These variables determine a firm's profitability. You want to know these variables, so you can concentrate your precious time on them. (See chart.)

The report tells which numbers were raised above industry averages by the high profit stores (which, of course, is how they distinguish themselves as high profit stores. You learn which of *your* numbers needs to change to *become* a High Profit firm (or even a *Higher* Profit firm). The good news is that you needn't improve *all* your numbers. Most dealers need to improve only a

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that's not what I lament. Looking back I dearly regret being too busy for the most important people in my life: my family.

This *report* teaches where and when to take decisive management action. It presents the data in three sections:

How to Keep Score – Financial Principles that Define Your Business

Highlights of the key financial numbers (explaining their purpose), and the key ratios that are critical to understanding a company's performance.

How Did We Do? – Industry Performance by Business Type

Specific financial performance data by business type and sales volume. These are our industry averages and benchmarks.

How Will We Improve? – Surviving and Flourishing In Our Changing Industry

How you can improve your future performance. It documents how minor

few, and by only a few percentage points.

The information found in this report has lifted me from running a business by the seat of my pants to knowing how to analyze numbers and how to improve performance. You can do it, too.

Charlie Tremendous Jones once said, “*Your success in life will be determined by the people you know and the books you read.*” Because I want you to avoid the results of ignorance and mistakes that I suffered, I recommend you do two things.

First, if you have not already done so, join the World Floor Covering Association. I have found that dealers improve their financial performance and have more enjoyment running their stores more when they take advantage of what the WFCA has to offer. When they rub shoulders with fellow retailers, they realize they are not competing against dealers in far-away cities; rather they are hobnobbing with colleagues who are also struggling to win consumers’ hearts. Members share productive strategies


and other tips that can increase each other’s profits. That same spirit permeates our Mohawk University seminars: the partici-

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pants learn as much from each other as they do from me.

Second, *please* do yourself a huge favor and decide to learn more about financial

management. When you buy the annual *Financial Management Report*, you can read its clear descriptions of the crucial profit variables. You can use performance of your colleagues to set a goal for you. And best of all, when you send your financial statement to the WFCA for processing, you receive a free, personalized, financial report for your business.

If you commit yourself to these two things, I expect you will be able to spend more time with the most important people in *your* life. How dearly I wish that for you! I believe that none of us, on our death-beds, will ever say, “Gee, I wish I’d spent more time at the store?” I write to you, so we all can become more effective at work, and be more joyful at home. 

(EDITOR’S NOTE: To find out how you can purchase the annual *Financial Management Report*, contact the World Floor Covering Association at www.wfca.org)