

Part 1 of 4

# Profit **OR** Loss?

We begin a four-part series on a profits and loss study conducted by The Garden Center Group.

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**L**isten. Did you hear that rustling sound? What was that? Listen again. It sounds like leaves or paper blowing. And it appears to be coming from the back room. You go back to investigate, but you can't find the source. The sound continues . . .

If you were like most garden centers in 2001, you eventually identified the source of the rustling sounds in your back room – it was profit, in the form of dollar bills, blowing out the back door. No one, including you or your staff, intentionally left the door open and let that money out. Rather, various internal and external factors contributed to the profit erosion so many garden centers were experiencing.

A little history of garden centers helps explain the back-door profit-eroding scenario. Most retail plant centers started out as family operations that discovered a niche in retail – selling plants. No other segment of retail wanted to deal with a highly seasonable and perishable product like plants, even though the margins (and resulting profitability) were sizable. Profits were not hard to come by, and all you had to do was throw those plants out there, sell them and realize profit. Business acumen wasn't a necessity, as long as people kept buying your product at the price you asked. Also, there were more family members coming up the pipeline in the form of sons and daughters that could carry on the business and reap the future rewards of retailing plants.

**Times Change**

Then came the pressure on profits.

Other retailers began realizing the potential of selling higher-margin plant inventory. Retailers started cutting into our sales base by offering competing products for consumer's expendable dollars. It became a combination of sharing our product and the expendable income available. The rustling sound described at the start became much louder than in the past, and family members who were expected to carry on the family business began to look to other industries for more lucrative opportunities. The rustling sound grew deafening.

What to do to stem the tide of eroding profits? The Garden Center Group has long recognized the value of both internal and external benchmarking. Within The Group, the Weekly Department Review – the only weekly sales comparison and reporting tool in the garden center industry – was already in full operation before 2001. The value of external benchmarking was evident in the 50 to 60 centers reporting sales dollars and events that drove those sales each and every week of the year. The detailed report they receive back within days of reporting gave them the comparison and networking opportunities they need to correct problems and expound on opportunities.

But that wasn't enough. Sales are only part of the equation.

If your center is operating at 10 percent profitability, increasing sales by \$1 will yield 10¢ in profit. At the other end of the Profit & Loss (P&L) Statement, decreasing expenses by \$1 yields \$1 in profit.

Big difference. So it stood to reason that in order to turn this thing around, we needed to measure and benchmark not only sales, but expenses as well.

Measuring, benchmarking and thus controlling Cost of Goods Sold (COGS), Operating Expenses (OE) and Wage & Wage Benefits (W&WB) became the driving force behind what later became known as The Garden Center Group P&L Study.

In order to make any external benchmarking valuable, it has to be a like comparison. The first three years of the P&L Study, though basic, provided our Group centers a percentage comparison in the essential expense areas listed in the preceding paragraph. The 2001 and 2002 total Group results are shown as an example:

P&L 2001-2002

	2001	2002
<b>Sales</b>	<b>100%</b>	<b>100%</b>
<b>LESS -</b>		
COGS	50%	51%
Oper Exp	23%	19%
Wages & WB	22%	28%
<b>EQUALS =</b>		
<b>Profitability</b>	<b>5%</b>	<b>2%</b>

Impressive profitability? Hardly. The Group is aiming for a Profitability Goal of 10 percent, considered the reasonable return for most investments with the amount of risk and time allocated. Performance had to improve for a number of reasons.

This same information was provided to the individual participating garden centers in order for them to compare their



center's performance in the basic reporting areas. As good as this information was, if a center was not performing up to par, there was no way to "drill down" for further insight into improving problem areas. It was clear more detailed information was needed.

The only way to compile reliable detailed information was to require the centers to report their year-end numbers in a standardized Chart Of Accounts (COA). This was no small undertaking, since a Chart of Accounts has to have enough detail to provide the information for business management while allowing a Group centers' CPA the ability to "roll-up" the detail into a tax-accountability report. The Group Chart of Accounts was the result of starting with what we (a CPA and I) thought were the essentials of reporting in order to achieve both goals. The first COA was sent to Group clients for their input and comments. Changes deemed necessary to all garden centers were added. Changes needed by just a few centers, such as regional taxes, were added as a subcategory on those centers' reports and then rolled up into the standardized COA for

Group reporting purposes. This process was repeated several times over the course of eight months until all centers felt they had a Chart of Accounts both they and their CPAs could use. Most centers participating in the P&L Study adopted The Group Chart of Accounts as their own, while others chose to keep their COAs and align their results into the standardized report form.

### The End Result

The final version of The Group Chart of Accounts was ready for our first detailed P&L Study covering 2004. Each center received a report form in which their center's numbers were aligned. Thirty-nine centers took part in the 2004 Study, which contained more information than any other study of its type. But after this study, it became apparent that tax issues were affecting some of the business ratios being measured, and measuring those business ratios was the original purpose of the P&L Study. For that reason, the 2005 report was designed to include only information in an EBITDA format – Earnings Before Interest, Taxes,

Depreciation and Amortization. This is the equivalent of an Operating Profitability, eliminating most business decisions made to reduce tax liability.

A long road was traveled to arrive at the 2005 P&L Study. And the results? We'll get to that next month, but I will give you a preview. Imagine comparing your center's P&L statement with other centers your size, with other centers in the same geographic region, with all Group centers that reported (44 centers with over \$88 million dollars in sales combined), and with a Best Practices Group that averaged 13 percent profitability. I can almost hear those dollar bills blowing back in your back door now . . .

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. TGC

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