

More Profit

OR LOSS?

The saga of improving financial performance continues with more of the numbers.

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The first article in this series laid the groundwork for the The Garden Center Group's 2005 P&L Study. We discussed the why – eroding profits, and improving financial performance through internal and external benchmarks. We covered the whom, at least partially, as 44 garden centers with more than \$88 million dollars in combined sales. With this article, we begin to address the actual results.

More About The Retailers

But before we do, a little more of the “whom” and what they received as a participant in the industry's only annual Profit & Loss (P&L) Study.

All participating garden centers received final reports comparing their performances in sales, cost of goods sold (COGS), operating expenses (OE) and profit as a percentage of sales. Percentages are the common-thread business ratio we use to compare garden centers of like size, region, Total Group and with our Best Practices Group.

Revenues (sales) dictated a very distinct split in the garden centers reporting. In this and previous P&L Studies, we were able to divide the garden centers into three basic sales groups:

2005 P&L Study Sales Groups

Sales Level	<\$1.5 mil	\$1.5-\$2.5 mil	>\$2.5 mil	Total
# of Garden Centers	15	19	10	44

These sales groups were representative of all of the centers in our Group. Average sales for the 44 garden centers in the P&L Study was \$2,000,766. This correlates with average sales of The Garden Center Group comprising more than 100 centers.

In addition to receiving their reports at their sales levels, each center received regional group comparisons in which their percentages were matched with other reporting garden centers in their area of the country. Participation drew the following regional groups, again repeating our Group and past P&L divisions –

2005 P&L Study Regional Groups

Region	South	Carolinas	Midwest	Ohio	PA/NY	Northeast	West	Total
# of Garden Centers	5	6	5	9	7	8	4	44

Since sales levels in a regional group might vary from \$200,000 to more than \$6 million, percentages were again the only like-comparison possible. Sales levels may have differed greatly, but the results were in a relevant measurement so all would benefit.

Our Best Practices Group, those seven centers attaining 10 percent profitability or greater, were comprised from the following sales and regional groups:

2005 P&L Best Practices Group

Sales Level	<\$1.5 mil	\$1.5-\$2.5 mil	>\$2.5 mil	Total
# of Garden Centers	1	4	2	7

Region	South	Midwest	Ohio	PA/NY	West	Total
# of Garden Centers	1	2	1	2	1	7

All centers received the Total Group (44 centers) report, as well, in addition to their sales and regional groups for performance comparisons. The Best Practices group was the only one cited as the goal standards they should be aiming to achieve.

So there's the groundwork – what their sales levels were, where they were from and how many were recognized in the Best Practices Group. Let's start analyzing the results by sales, region and Best Practices in the area of the Profit & Loss Statement that interests us the most – sales dollars. But let me warn you – if you're not into numbers and how they can improve profitability, you might as well stop here!

Down To The Numbers

Let's face it – owners and managers are sales driven. Give me more sales, and I'll make more money. We'll put on hold arguing

that point until the next article in this series dealing with expenses. For now, let's look at category sales and how they contributed to the overall revenue picture of the garden centers in this study.

Our Group's primary focus is on core categories. These are the six categories that rise like cream to the top, dominating the sales in percentage to sales and hopefully in margin percentage, as well.

Though we have 26 total categories, these six core categories usually contribute 65 percent-plus of sales and even more in margin dollars. And we know that if we concentrate on these core categories, better management and performance will follow in the other 19 smaller categories. For our P&L Sales groups, they lined up as follows:

2005 P&L Study Sales Groups Core Categories

Sales Level	<\$1.5 mil	\$1.5-\$2.5 mil	>\$2.5 mil	Best Practices
	← % of Sales →			
Annuals	24.0%	25.4%	20.9%	23.9%
Shrubs	15.6%	14.1%	14.5%	13.0%
Perennials	14.6%	12.5%	12.0%	12.5%
Trees	7.3%	7.9%	6.4%	5.7%
LNP - Mulches	8.1%	5.9%	6.6%	7.2%
Hardgoods	5.8%	6.6%	7.0%	5.2%
Core Category Total %	75.4%	72.4%	67.4%	67.5%

» The Series Online

To read the first story in the series, go to www.todaysgardencenter.com and click on Retail Resources to find the Profit & Loss series.

There is a definite shift in emphasis seen as a garden center grows in sales volume. Smaller centers tend to concentrate on the core categories even more, adding additional categories as their sales grow.

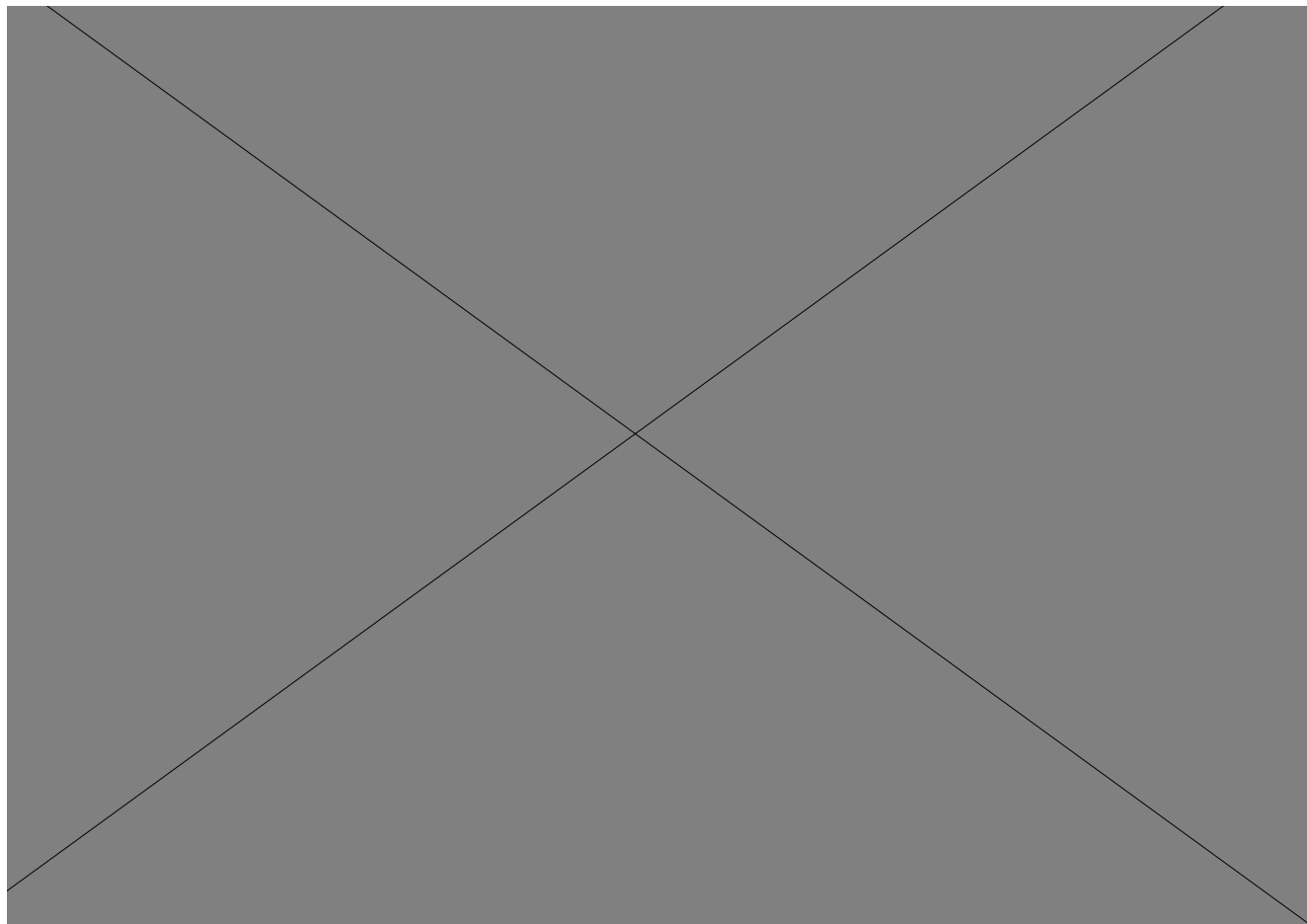
Annuals make up a major part of all centers' sales, first increasing, and then declining as a percentage of the total as sales rise.

Shrubs are the second largest category in all centers, especially less than \$1.5 million. Perennials are the third highest category, especially with the smallest centers, declining as sales increase.

Below those top three, the percentages decline dramatically. **Trees**, **mulches** and **hardgoods** round out the top six by contributing approximately 20 percent combined. Though they are considerably smaller, these are still substantial sales dollars.

Revenues are the one area we de-emphasized in the Best Practices group as a goal. The mode of operation, demographics and a host of other factors determine the category make-up of a garden center. The percentages presented here are only for review, and as we can see, follow the norm for the middle to large side garden center.

How does this same comparison look on a re-



gional basis? Let's take a look →

The common thread here was again the core categories remained the same across regional lines, except the Midwest, which replaced trees with floral and the West, where they sold more pottery than mulches. Otherwise, the line-up was the same.

The South and the West definitely concentrated on their top six areas, as they comprised 80 percent and 79.6 percent of their sales, respectively. The Midwest was the lowest in percentage at 66.5 percent, indicating a more diversified approach to their product mix. Shrubs made up a large percentage of the Carolinas' revenues. The Ohio centers relied on annuals for 29.1 percent of their sales percentage.

Focusing On The Core

Core categories and product mix are a large determining factor in margin dollars. Concentrating on higher margin categories will allow the margin dollars we need to pay operating expenses, wages and profit. A heavy emphasis on low margin categories is shooting ourselves in the foot before we even begin. Fortunately for most centers, our core categories are higher margin ones that, with good business management, allow us to achieve profitability. Dedicated management may even allow a center to join the ranks of the Best Practices. Now that's a goal!

Concentrating on core categories does not mean we abandon

2005 P&L Study Regional Group Core Categories

Regional Group	South	Carolinas	Midwest	Ohio	PA/NY	Northeast	West
	% of Sales						
Annuals	18.8%	20.3%	23.8%	29.1%	23.3%	23.3%	24.6%
Shrubs	16.5%	18.1%	12.0%	14.0%	12.4%	12.4%	13.5%
Perennials	14.2%	11.3%	11.1%	13.6%	13.3%	11.9%	15.7%
Trees	17.8%	6.8%		5.6%	5.7%	7.3%	9.3%
LNP - Mulches	7.9%	6.8%	6.7%	6.8%	5.4%	7.5%	
Hardgoods	4.8%	7.8%	5.2%	5.5%	7.6%	5.8%	11.7%
Garden Center Floral			7.7%				
Pottery							4.8%
Core Category Total %	80.0%	71.1%	66.5%	74.6%	67.7%	68.2	79.6%

the other categories that make up our sales totals. We won't determine that until we analyze them further for their margin dollar contribution, and then we'll make that decision.

That all comes next month, when we analyze the area of the Profit & Loss statement that will make you more money than any other – cost of goods sold. Are you feeling that wind? TGC

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