



A Retail Guide to Growth

How to manage cash, inventory and seasonality, while preparing for the future



Brought to you by



kabbage.com



INTRODUCTION

IN THIS GUIDE

1

CASH FLOW

2

INVENTORY
AND SUPPLIES

3

MARKETING
AND BRANDING

4

HIRING

5

GROWTH

The retail industry is undergoing profound change as consumer behavior shifts and online commerce continues to grow. Retail sales hit a record of \$5.7 trillion in 2017, according to U.S. Census Data. Online retail grew 300% between 2000 and 2018;¹ meanwhile, department store sales dropped nearly 50%.

There's never been a more exciting time to be in retail—if you can navigate challenges like cash flow and inventory management and anticipate the needs of your customers. A Kabbage study of retail business owners revealed that two-thirds of retail businesses are profitable within their first year in business, and nearly as many double their profits within four years.

This guide, based on the Kabbage study, outside data and real stories from business owners, takes a deeper look at how to navigate the fundamental challenges of the early years of your retail business and how to ensure you find a foothold for growth.

¹Source: Commerce Department



1

Cash flow

Retail is a highly seasonal business, with roughly 20% of annual sales occurring during the holiday season.¹ Careful planning to prepare for the ebbs and flows is critical—savvy retailers build their reserves at busy times and use the slow seasons to plan and prepare for the next wave of business. Experts also say it’s important to have access to financial resources for unforeseen expenses.

Retail businesses focus on cash flow during their first year, with 14% citing it as their primary concern. More than 40% borrowed up to \$100,000 during that first year, usually from family and friends. Far fewer businesses used either online or bank loans or lines of credit during the first four years, even after they’d established themselves and reached the point where they could more easily qualify.

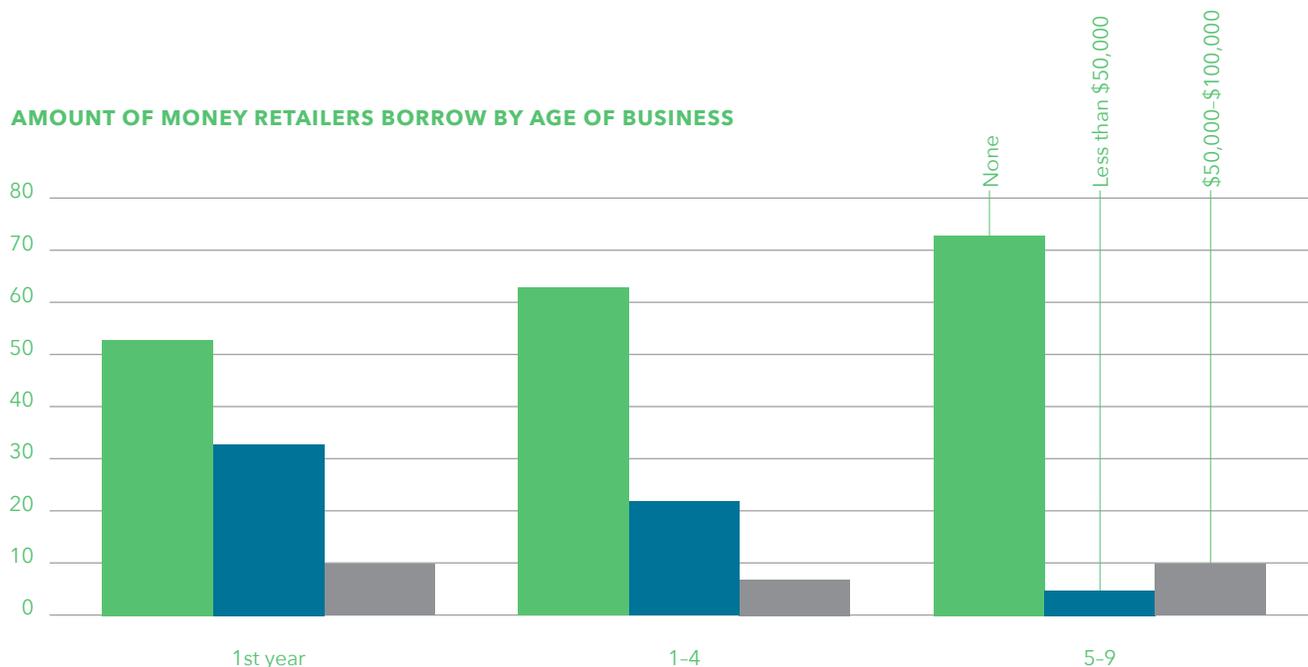
Biggest challenge during the first year in business

- 24% New customers
- 21% Retaining good employees
- 14% Cash flow
- 7% Technology
- 7% Retaining customers
- 7% Competition
- 7% Government regulations

TIP

By seeking out unconventional sources of funding, you can build a cash-flow cushion that will enable you to think about the long-term

AMOUNT OF MONEY RETAILERS BORROW BY AGE OF BUSINESS



CASH FLOW

¹Source: National Retail Federation





PUTTING HIS BEST FOOT FORWARD



14% of retail owners said they wished they'd had more knowledge about bookkeeping and cash flow as they prepared their company for growth

COMPANY: Dunn's Attic & Auction House

OWNER: Wes Dunn

LOCATION: Ormond Beach, FL

Wes Dunn opened his consignment store in 2013 with an eye toward creating a retail business that could survive in an online world. Dunn's Attic & Auction House is an extension of Dunn's family history. He's a **fifth-generation member** of a family whose surname graced nearby houseware and toy stores until big-box companies put them out of business—but it's also meant to personalize the shopping experience by putting an emphasis on quality and service. (The one-dollar mimosas available to customers don't hurt, either.)

Because of Dunn's Florida location, summers can be slow as they "wait out the snowbirds," Wes says. So he opened a line of credit, which he's used to cover routine expenses like labor costs and rent. He also recently purchased picnic tables for the front of the store, to "put our best foot forward going into the fall."

"Having that cash there allows me to make sure that I don't make a rash or inappropriate decision," Wes says. "It keeps you moving forward instead of retreating."





2

Inventory and supplies

Inventory and supplies are by far the largest expense for retailers. Nearly 60 % of say it was their biggest cost-driver in the first year, and that number drops only slightly for older businesses.

Despite that, more than 40 % of retail businesses wished they'd spent even more on inventory and supplies in years one through four—and that number swells above 50 % for more mature companies.

But how can retailers make sure they spend that money smartly?

Point of Sale (POS) systems are key to helping business owners gain a better command of their inventory costs. Beyond a POS system, it may also require developing a year-round plan. Replenishing inventory often can make things more exciting for your customers and help you manage your cash-flow.

Retailers who wish they invested more in inventory and supplies

43% First year

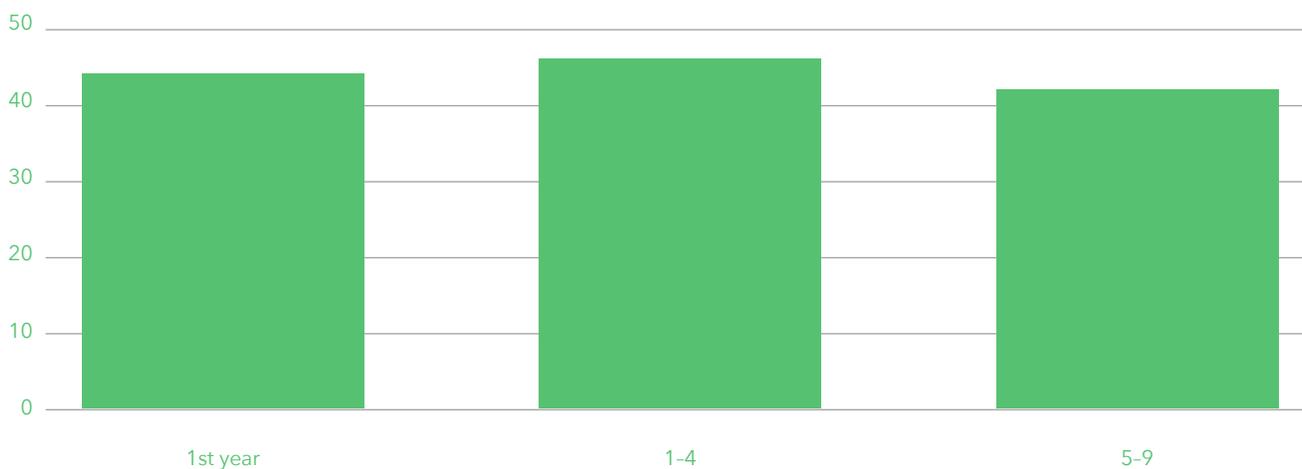
43% Years 2-4

52% Years 5-9

TIP

Spreading out your inventory orders as much as possible can ease many cash-flow issues

RETAILERS WHO SAY INVENTORY AND SUPPLIES IS THEIR BIGGEST EXPENSE





FRESHENING UP YOUR INVENTORY



The number of customers who visited physical stores rose from 42% to 44% between 2012 and 2017¹

COMPANY: Reedy Consulting and Analysis

PARTNER: Allison Boswell

LOCATION: San Francisco, CA

Allison Boswell has spent decades consulting with independent brick-and-mortar retail businesses. These days, rather than advising them to move more of their business online, she tells them to focus on what they can provide that ecommerce companies can't. That includes a focus on customer service, but it also means taking a close look at their ordering habits and working to adjust them when possible.

Rather than suggesting those businesses focus on the “double-humped camel” of ordering in mid-spring and mid-fall to prepare for busy seasons, Allison helps them create a forecasting plan and encourages them to work with vendors when possible to spread out those orders over the course of the year. While you may still order more inventory during the busy season, you'll wind up with less overstock and fewer cash-flow issues.

“It's really important for retailers to have fresh inventory every single month to make it exciting for the customer,” Allison says. “Freshness sells, and older shipments get older.”





3

Marketing and advertising

The importance of marketing and branding in the crowded retail space is paramount, yet it can often be difficult to know how or where to direct your resources.

Only 7% of retail businesses said marketing was their biggest expense in the first year, though that number more than doubled between years two and four. Yet nearly one-third of business owners retrospectively wish they'd spent more on marketing at both stages of their growth.

Marketing strategies can vary widely depending upon the focus of your business. But experts increasingly recommend grassroots method and direct outreach. For a brick-and-mortar business, that may mean exclusive invites to customer events or a rewards program. For e-commerce businesses, targeting customers on Instagram or Facebook through a combination of paid and non-promotional posts can pay dividends.

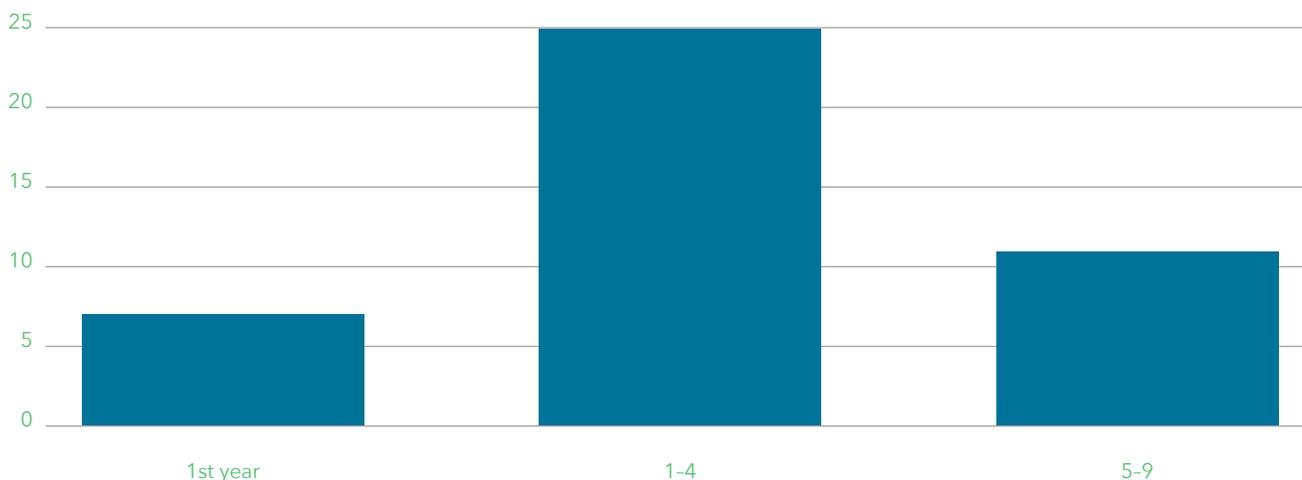
Retailers who wish they invested more in marketing

- 30% First year
- 32% Years 2-4
- 21% Years 5-9

TIP

A combination of paid and non-promotional posts on social media can help you both find your target audience and build it

RETAILERS WHO SAY MARKETING AND ADVERTISING IS THEIR BIGGEST EXPENSE





TARGETING HIS CUSTOMERS



27% of retail-business owners wished they'd been more knowledgeable about new marketing strategies as they prepared their companies for growth

COMPANY: Tame the Beast

OWNER: John Cascarano

LOCATION: Nashville, TN

John Cascarano got the idea in the shower: A line of cleansing and grooming products designed just for men. Hence, Tame the Beast was born. John first envisioned the signature product, Nut Butter, as a novelty until a Kickstarter campaign he established for it far exceeded expectations.

John marketed his initial product by posting on social media to connect with friends and family. Once he'd built up an audience of roughly 100 guys in his target demographic, he found a "look-alike" audience based on other, more established products and began running paid ads on sites like Facebook and Instagram targeted at that group. He also recorded videos for the Tame the Beast Instagram account featuring an employee who had worked as an actor.

"If you've got money, you can run [traditional] ads, but you're shooting in the dark a little bit," John says. "You have to think, Who's my customer?' And try to target them in different ways."





4

Hiring and payroll

Hiring employees in a robust job market can be a difficult task, particularly for retailers seeking specific skills. According to a recent survey by job-search site Indeed,¹ 70% of retail employers reported difficulty finding in-store candidates with the appropriate technical experience to work with things like POS systems, scanners, and tablets, and 82% struggled to find candidates with cross-functional experience.

Retail employees themselves often feel as if they're overworked and don't have a strong career path.

Industry experts suggest keeping payroll expenses to roughly 10% of overall budget before social-security and taxes. Those numbers can be mitigated by offering commissions, which can also incentivize employees. Hiring employees who click with your creative vision whenever they happen, and not only when you're actively seeking a new hire, can boost your bottom line.

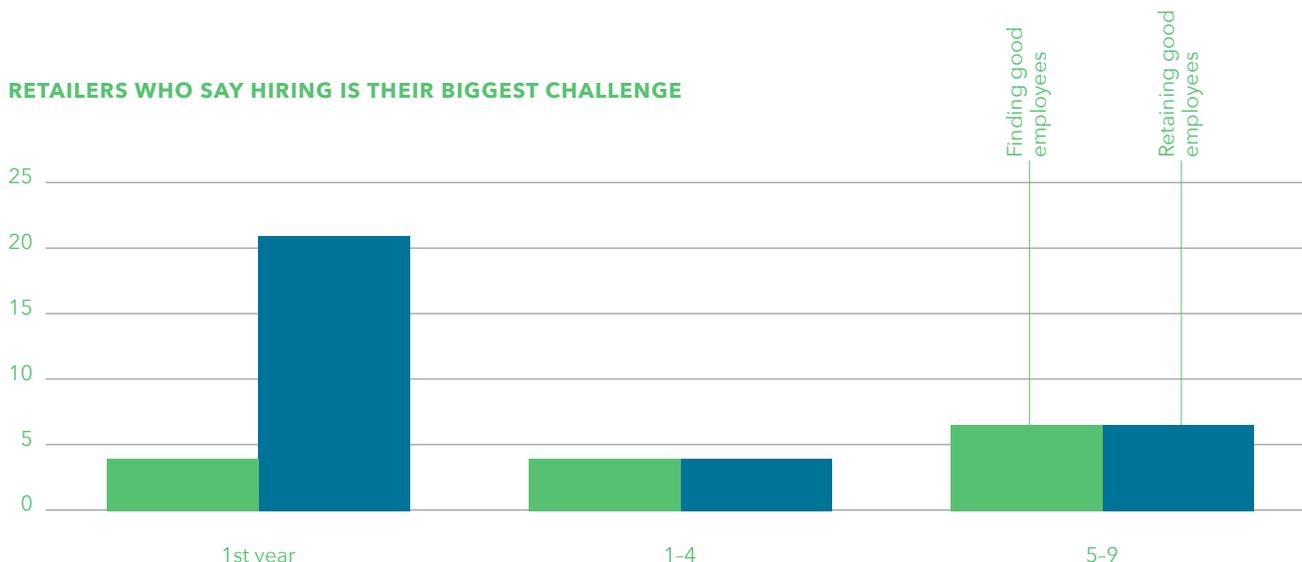
Reason for first full-time employee hire

- 37% I needed administrative help, so I could focus on the core business
- 37% I had more demand/sales than I could meet on my own
- 19% I needed someone experienced in a professional area outside my expertise

TIP

Some of the strongest job candidates might get referred to you at a time when you're not actively looking, but hiring them could pay off long-term

RETAILERS WHO SAY HIRING IS THEIR BIGGEST CHALLENGE



¹Source: Indeed





SEIZING OPPORTUNITIES



Opening a new physical store increases a retailer's web traffic by an average of 37%¹

COMPANY: Ministicks

OWNER: Robbie Illos-Gerth

LOCATION: Buffalo, NY

Soon after she quit her full-time job, Robbie Illos-Gerth began doing some freelance graphic design and administrative work for a company that manufactured trophies and souvenir miniature hockey sticks. In 2007, she bought the company.

At first, Robbie ran the business out of her living room. Then it took over her entire house. She rented an office and later a nearby warehouse. The company continued to grow, mainly through referrals and word-of-mouth.

Eventually, Robbie hired five full-time employees—two of whom were former colleagues. “I knew their work ethic and creativity,” she says. “One guy does woodworking, another likes to repair cars. They’ve helped me streamline all aspects of our production process.”

She found a graphic designer after a friend mentioned someone with experience.

“I wasn’t really looking for somebody, but when someone comes around that fits your way of thinking, I don’t want to pass that opportunity up,” Robbie says. “It might not come along for a while.”





5

Investing for growth

As retail businesses look toward the future, they focus on marketing and expanding their product offerings. Looking back, nearly half of experienced retailers say focusing on marketing or expanding their offerings led to their biggest jump in profits.

Experts suggest that when it comes to a growth strategy, retailers should drill down to find potential areas of expansion. That may mean focusing on product categories that seem poised for a boost rather than trying to expand into too many areas.

Surveys that ask customers questions such as "Where else do you like to shop?" can help you set prices and gauge your competition. Engaging a PR professional might help raise your company's profile.

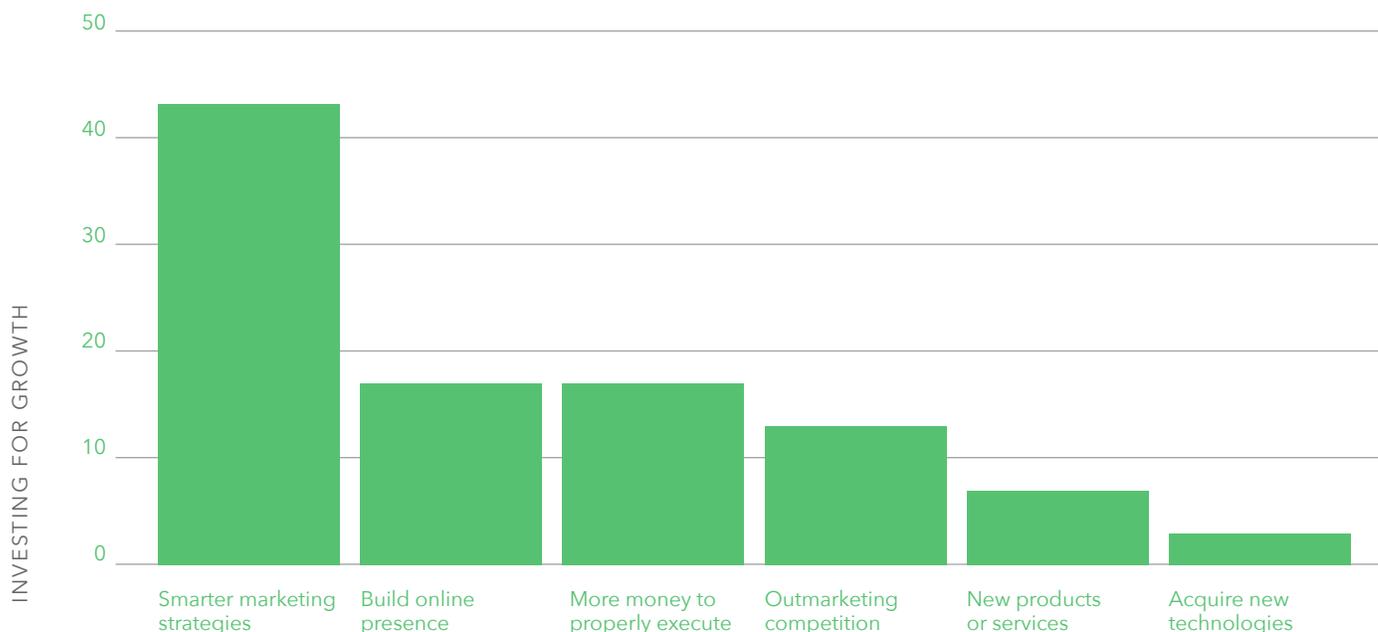
Business decision that led to biggest jump in profits with this statement

- 26% Marketing/advertising
- 23% Expanding our offerings
- 14% Technology
- 10% New location
- 7% Winning a particular client
- 3% Getting financing
- 3% Hiring salespeople

TIP

Drill down and analyze what sells well and focus your growth plan in those areas

ASPECT OF YOUR BUSINESS YOU'LL FOCUS ON TO ENSURE GROWTH



INVESTING FOR GROWTH





TELLING A STORY



77%¹ of small-business retailers handle product development themselves, and 74% handle marketing and advertising themselves

COMPANY: Salty Girl Beauty

CO-OWNER: Sarah Kelly

LOCATION: Biddeford, ME

When Sarah Kelly was 32 weeks pregnant, she found out she had Stage 3 breast cancer. As she lost her hair, she relied on scarves and lipstick to maintain her physical confidence. When she and her sister, Leah Robert, struggled to find organic cosmetics, they turned illness into opportunity.

Salty Girl began as an online boutique in 2016. Sarah and her sister have recently launched their own line of organic cosmetics. Before they did so, they surveyed their customers to gauge what products they wanted, what they'd be comfortable spending, and solicited feedback from surveys and during local events in the Northeast.

Now that they've established a cosmetics line, they're focusing on getting their products into more retail stores. Currently, they're in about 10 retailers, but they hope to triple that number next year. To do so, Sarah turned to a friend who works as a freelance publicist, who's helped get their story attention in some local and regional media.

"The media piece is a big piece for us right now," Sarah says. "We're telling a story."





Keys to growth

These tips can help ensure your retail business is a success

TAKE A CALCULATED APPROACH TO CASH FLOW

- ✓ Seek out unconventional sources of funding to give yourself a cushion.
- ✓ Having a line of credit rather than using credit cards will give you more flexibility.

REFRESH YOUR INVENTORY

- ✓ Take seasonality into account, but spreading out your inventory can help you ease cash-flow issues.
- ✓ The fresher your inventory, the more you can draw regular customers back.

HAVE A DIVERSE MARKETING PLAN

- ✓ A combination of paid and non-promotional social media posts can help you pinpoint your target audience.
- ✓ Once you find that audience, you can craft a social-media voice and story to help draw them in.

HIRE PROACTIVELY

- ✓ Sometimes an optimal job candidate may come along when you're not looking to hire.
- ✓ While specific skills matter, seeking out employees who fit your culture can pay off in the long-term.

POSITION YOURSELF FOR GROWTH

- ✓ Figure out what sells and build your expansion strategy around those products.
- ✓ Outside marketing and PR help can help you tell a story that appeals to media and bigger retailers.



kabbage.com

888-986-8263

Guides are for informational purposes only, and Kabbage does not guarantee any result or benefit to customers based on the content of this guide. The views expressed may not represent the views of Kabbage or Celtic Bank.

All Kabbage business loans are issued by Celtic Bank, a Utah-Chartered Industrial Bank, member FDIC.

Copyright © 2018 Kabbage, Inc. All rights reserved.