

FRAMED

Pro Shop Finances, In-Depth

By Pat Williams

**Professionals should think in terms
of the total profit picture to get
an honest appraisal of how much
it costs to run a shop**

We are now getting into that cycle of the year when the majority of golf professionals are starting to give a lot of thought to next year's lines. The new merchandising lines and the new equipment lines are now being shown and are available for sale. The old "wheels" are grinding away trying to figure out what is going to be "good" next year. The astute professional realizes that the fall and winter months are the most important months of the year. Why? Quite simple. Things ease off a bit and he realizes that he now has some time to think and reflect on his business operation. As a professional you have to take advantage of this opportunity and put it to the best possible use.

The present cycle you are in and how well you plan are going to dictate what next year will be like: Profitable, unprofitable or maybe just a "sort of" type of year. You are getting ready to gamble your investment money on future returns. It is virtually impossible to do this planning, budgeting or buying un-

less you have an honest appraisal of what it costs to run your business.

Let's pose a simple question. Before you buy do you actually think about how much merchandise you have to sell just to recoup your personal investment? Very few people do. There is a general tendency to think only about the gross margin per unit rather than the net profit for that particular line of merchandise. By thinking in terms of specific units you may be blowing the total profit picture. The following basically outlines just how easy it is to think in terms of the total picture for better profits.

When anybody is involved with running a business on a day-to-day basis, there is a tendency to think about the separate little parts of the business rather than about the whole business. This thought process is natural. We tend to think about facts such as, those slacks cost me \$14.80 a pair; my assistant is paid \$375 a month; my phone bill last month was \$63, and so on. How many of us can say, "It costs me \$120 a day every day

I open the front door of the shop." Profit and loss, whether involving specific item or the whole business operation, must be based on a *break-even analysis* of that particular item you sell in the shop.

Basically, break-even analysis is concerned with developing those cost figures which you need to determine what sales and/or income figure you must obtain to make a profit. As was mentioned, it is applied to a specific items or to the entire operation. Preferably break-even analysis should be applied to major departmental categories. In the golf shop operation this would include such areas as golf cars, men's apparel, women's apparel, shoes, balls and clubs.*

In any business operation you have
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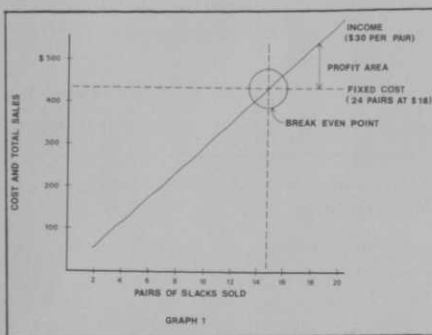
*The author is aware that this explanation of break-even analysis will be out of context with true economic theory. However, small business operations do not normally conform to formal theory, but rather to a more practical and usable approach.

fixed costs and variable costs. All this means is that some costs remain constant over a long period of time and some costs fluctuate depending on the activities of the business. In big business an item such as rent would be considered a fixed expense; an item such as wages would be considered a variable expense. This is not true of the small operation. For the most part all expenses in small business are really fixed. In the golf shop, most merchandise is bought before the season starts; the number of employees will probably not change during the calendar year, and utilities are generally the same. If there are variations in the operating costs of the shop throughout the year they are usually minimal variations.

Let's look at a simplified example of break-even analysis as it applies to one specific item. Assume that you have purchased 24 pairs of slacks from a supplier. The retail price is \$30; your cost was \$18 per pair or a total investment of \$432. (If we were fooling around with variable costs, we would also consider alterations on the slacks and freight, which would make total cost slightly higher.)

Now the real question comes up. When you bought those slacks you knew they cost \$18 a pair and that you had invested \$432 of your hard earned money in them. Did you ever stop to think when you were buying them how many pairs you must sell just to break-even? Chances are you didn't.

It is really a simple process to determine how many. All you have to do is divide \$432 by \$30 and you get 14.4 pairs you must sell to break even. To make this article academic, let's throw in an academic looking graph which proves the point of 14.4 pairs of slacks.



You don't actually make a profit on the first, second or even third pair of those slacks you sell. You only start making a profit when you have sold more than 14 pairs. It's obvious that you will make a profit of \$288 if you sell 24 pairs. Twenty-four pairs bring in \$720. Subtract the \$432 cost and you have a profit of \$288. The graph also reflects this profit area.

The whole purpose of this example is to prove one point. You must equate costs with potential sales just to break even. You cannot, repeat cannot, think of profit on a per item basis. Profit can be thought of when all costs are paid.

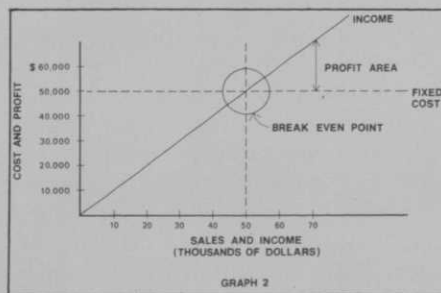
Let's take a brief look at this principle when it is applied to the entire business operation of a golf shop. We have included only the major items for the sake of simplicity.

Assume that we have the following expenses for one year:

Salaries and wages	\$15,000
Merchandise inventory	\$25,000
Overhead	\$ 5,000
Miscellaneous	\$ 5,000

Total fixed expenses \$50,000

This obviously means that somehow we are going to have to generate \$50,000 in sales and income before we can even start to think about how much profit we are making. Take a look at the following graph:



You may be sitting there thinking, "Well this really doesn't fit my situation." However, there is a lot of information in that one little graph.

First, No profit is made on anything until your income and sales reach \$50,000.

Second, It shows you how much it costs you to sell a certain dollar amount of goods. In a real case the income line would be curved indicating that your costs are not proportionate to sales. In other words, salaries are going to cost you the same whether you sell \$5,000 worth or \$50,000.

Third, It shows you the profit po-

tential based on cost and projected sales and income. Likewise, the loss you might incur if sales are off.

Fourth, It shows you what it costs to run your business. Let's say you have a nine-month operation at your shop and you are open six days a week and your expenses are \$50,000 a year. Did you ever stop to think that you have to average \$214 a day just to break even? So, it costs you some "dough" to turn that key in the door each morning.

In conclusion we are not advocating that every golf professional sit down and draw charts and graphs and all that fancy stuff. We are simply advocating that you should think break-even analysis. There are no disadvantages with this kind of thinking—only advantages. Put it to work and see.

If you take in \$500 one day and you know that you have not reached that break-even point for the year, you are going to need part of it tomorrow to help you turn the key in the door.

When you are buying merchandise you don't think about the profit made on selling one of the items, but how many of these things you've got to sell before you get your money back and start making a profit.

When you are thinking about new things which are going to increase your operating costs, think about how many dollars you have to come up with before the idea is profitable to you.

Finally a point to consider. A major difference between big business and small business is that big business can afford to make more mistakes and still survive. You cannot make many mistakes and survive. So, the more sound business management techniques you implement in your operation, the risks you take are proportionately reduced.

Think about it. Take this year's financial statement and see what it costs you to open your door everyday. Then, plan accordingly. □

Pat Williams served for four years as director of education and special projects for the Professional Golfers' Assn. and has had experience in urban land planning and financial capacity programming techniques. He recently formed a golf course architects and operations consulting firm with golf course architect Don Sechrest.