Leveraging Your POS System

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- Boost Sales
- Increase Productivity
- Unleash Yourself

INTRODUCTION

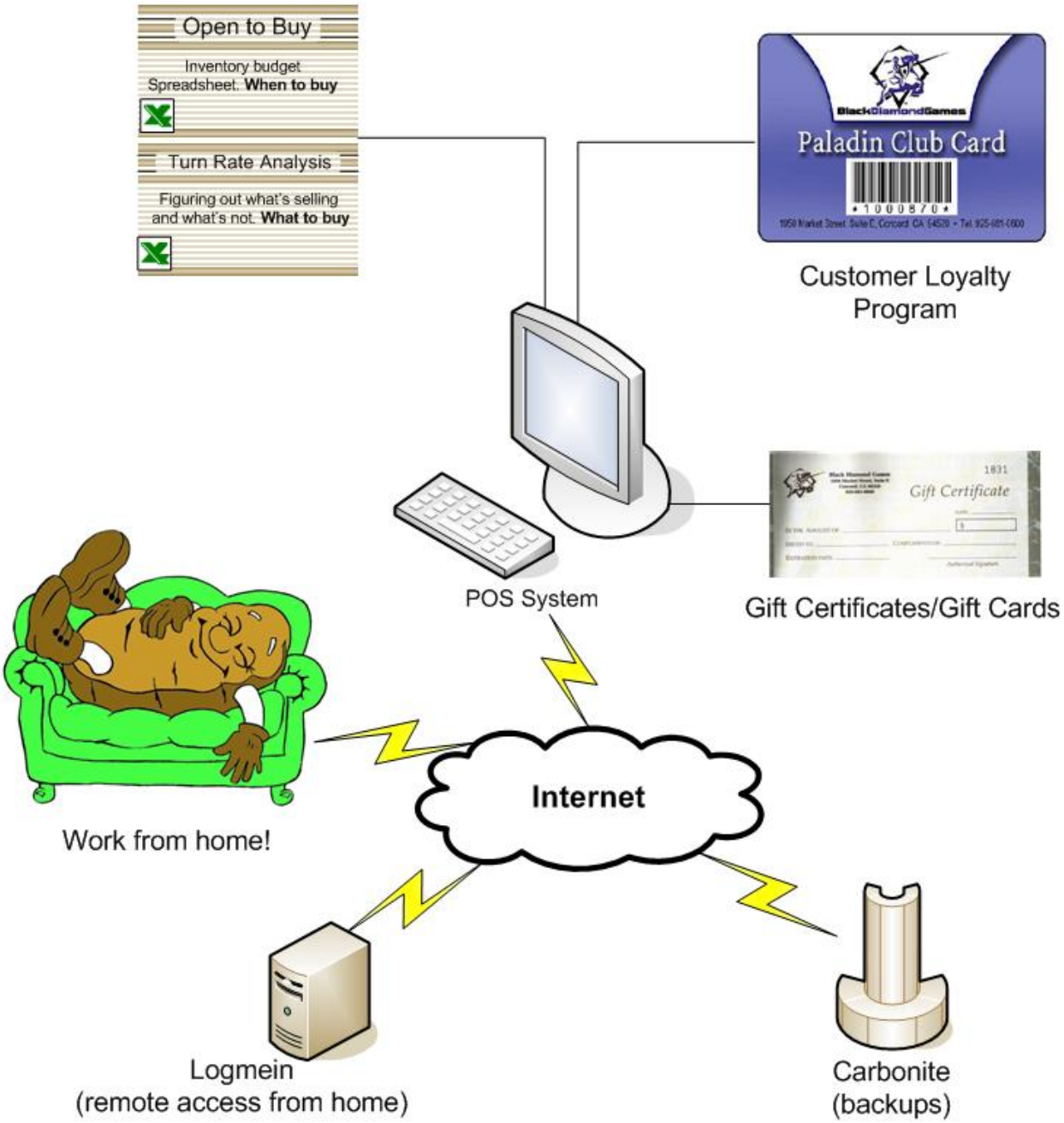
Spending 10 years in IT didn't prepare me for game trade technology. What little technology exists is rarely implemented properly or fully. Distributors don't use open standards of transmitting data, point-of-sale machines provide a lot of information but rarely in a format that's necessary to make important decisions. The situation is made worse because small retail businesses like ours struggle to find funds for even the most rudimentary, consumer grade technology.

This presentation will cover some of the things I wish I had known about game trade technology when I first started. Some of it was figured out on my own. A lot of information was obtained from seminars like this, but often by questioning the experts about my particular issues outside the session. Today I'll be going over basic extensions of your point-of-sale system, things you can do with a spreadsheet, rather than spending thousands of dollars on add-on packages or customer software (although there's some of that too).

The topics will include:

- Using gift certificates with your POS
- Customer loyalty programs with your POS
- Using an Open to Buy worksheet to budget your buying
- Turn rate analysis to figure out what to buy
- Cutting edge technology at cut rate prices: remote access and backups

Life Beyond the POS



USING GIFT CERTIFICATES WITH YOUR POS

Every store should sell gift certificates (or gift cards). They're free money. This was hard for me to grasp at first, because there's an expense to gift certificates, about $.65 per certificate for printing costs; less if you want to make them yourself. It's free money because the statistics are true: about 30% of the value of gift certificates are never redeemed. Over the past few years, this has resulted in a balance of about $3,000 for the store. It's not only $3,000 of free money, but it's also counted as a liability on my taxes.

I think they're a good idea for customers who don't know what to buy. Some parents will regularly come in to buy them for their children as rewards for good grades. Most sell during the holidays, purchased by the confused non-hobbyist. It's not a scam, as many gamers will blow their entire gift certificate, which I recommend unless you want to add to my gift certificate unused balance. However, many will end up getting thrown away, destroyed in the washing machine, lost or forgotten. That last balance of a couple bucks might not mean a lot to the average customer, but it's what props up that big gift certificate "deficit." Some will assume the certificate has expired, which is not true in California. In California, if you purchase a gift certificate, it never expires. If you're given one, such as part of a contest, it can have an expiration date.

Giving gift certificates is a much better idea for donations than actual games. If you give a game, what have you done? It's a thing with no link to you that may not get to someone who actually enjoys it. It might not be age appropriate or interest appropriate.

A gift certificate given for a school auction or church charity event means the winner, who spent money to get it, *wants* games. They will have to seek you out and learn about your store. The best balance is probably a mix of gift certificates with a little bit of product. That helps explain what *kind* of games your store sells, since most will assume electronic games. Gift certificates given in this fashion are the ones that come back the least often, but when they do, they often bring along a new customer. What do you have to lose?

Gift cards are rumored to be even more effective than certificates, as customers are said to spend more money on cards than paper certificates. The newest version of *Microsoft Retail Dynamics* has integrated gift card support.

TECH TIP

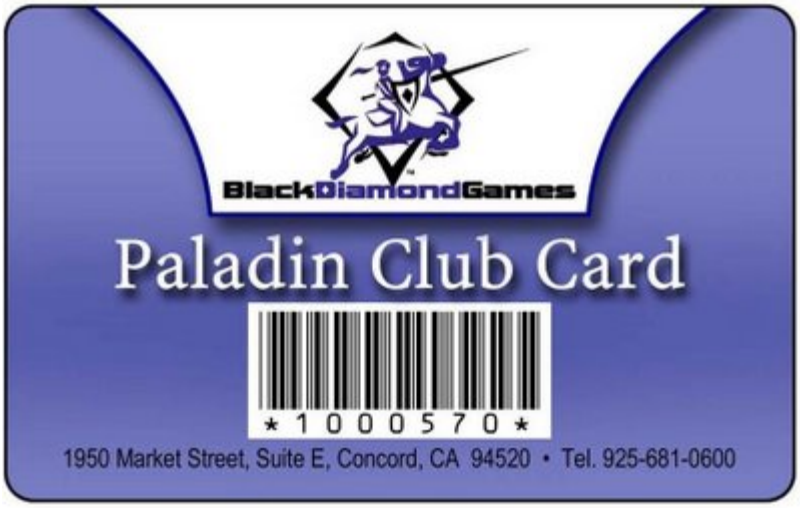
In Microsoft RMS, gift certificates are called *vouchers*. As long as you sequentially number your gift certificates, RMS can keep track of balances.

Remember not to enter gift certificates as part of your daily sales (subtract GC sales from your daily totals). Gift certificate sales are only realized upon redemption; otherwise you're double booking your sales.

You'll notice that big box stores will rejoice in January when their December gift cards are finally redeemed, even though they've had the customers money for a month. I usually dread that time, being more concerned about my bank account balance than my accountant's happiness.

The vendor we use for gift certificate printing:

www.nebs.com



CUSTOMER LOYALTY PROGRAMS WITH YOUR POS

Game stores cannot afford to discount. They cannot offer 10% or more off products like you see online or even at some of the bigger book store chains. Margins continue to shrink and small stores just can't afford to do this. So what *can* you offer customers? Besides the obvious perks of game space, cold drinks, and your expert advice (yeah right), customer loyalty programs are a way to retain customers without literally giving away the store.

The goal of customer loyalty programs is to give customers an incentive to shop with you rather than a competitor. You get them to do this by offering small incentives based on money they spend. All things being equal, and this is important, a dollar spent with you is more valuable than a dollar spent with your competitor. If your competitor also has a loyalty program, it's the store they're more likely to spend the **most** money with that gets the benefit. Customers will actually stop shopping at the least desirable store and start spending all their money with the better store with a loyalty program. Luckily, most of your competitors won't have the resources for such a program, which gives you the advantage.

Our program works with our point-of-sale machine. Each customer is given a "Paladin Club" card with a sequential number. It's funny handing these out sometime; I've noticed younger customers give me the smile and nod because a *paladin* is the cool character from *World of Warcraft*, they're only exposure to the word. I chose *paladin*

because of our knight logo.

When scanned in with the barcode scanner, the club card looks up the customer in our POS database. We've gathered an extensive mailing list of about 500 regular customers through this program. This is one of the key values to me as the retailer, I can send mailings to my customer base, either electronic or snail mail.

Once customers have a club card, they present it before making a purchase. For every dollar they spend, they get a point. After 200 points, they get a coupon that prints out after their receipt. The point value and the coupon value are variable, but we give a 10% off coupon. With the average purchase, this probably comes out to a 2% or so discount overall, and only about 30% of our club members have ever gotten one. We're still discounting, but it's not as severe as say, a 10% across the board discount for every customer. We've got about 800 club members, probably 70% of our total customers.

This small token of appreciation may not seem like much, but many customers take the card seriously, and avoid shopping at other stores so they can build up their points. There are also those who will carefully top off their card so they can make a bigger purchase with their gift certificates, which increases add-on sales.

TECH TIP

Microsoft RMS can track customer purchases in its customer database, but it has no integrated method for customer loyalty programs.

We use a third-party package called ADI Customer Loyalty, by ADI: www.adionline.com However, they do not have an upgrade path for Microsoft Retail Dynamics, so you may need to do some research to find another vendor. In fact, it's what keeps us from upgrading to Retail Dynamics from RMS.

The vendor we use for club cards is:

www.duracard.com

USING AN OPEN TO BUY WORKSHEET

Open to Buy is the term used to describe how much money you have in your purchasing budget for spending on new inventory. Most point of sale software *can't* provide this without a very expensive add-on, but you can make a basic version with a spreadsheet for your budgeting. Open to Buy does three things: It prevents you from overspending and cutting into your bottom line. It prevents you from under spending and losing sales, and it provides a level of control of where you spend your money. The level of control depends on the work you put into it.

Starting out, I suggest you make a simple "open to buy" spreadsheet. As you get familiar with the process, you might *pull out* one department that's doing really well. For example, your *Games Workshop* sales might dominate your store sales and you might want to track it separately to keep it from eating into your general purchasing budget.

A more sophisticated spreadsheet would track purchasing dollars by department, which avoids having your inventory involuntarily shift between departments. However, it means you would need to input departmental sales into the spreadsheet regularly instead of your basic cost of goods number. I've allowed my store to grow more organically, with a generic open-to-buy procedure, but you may have other plans.

Below is an example of how my Open to Buy spreadsheet works using numbers from my first year in business:

Starting Budget:$ 1,000.00

DATE	SALES	COGS	AVAILABLE	PURCHASES	BALANCE
27-Feb	$ 358.15	$ 208.59	$ 1,208.59	$ 201.00	$ 1,007.59
28-Feb	$ 543.69	$ 255.59	$ 1,275.96	$ 1,193.30	$ 82.66
1-Mar	$ 334.35	$ 194.12	$ 286.49	$ -	$ 286.49
2-Mar	$ 690.33	$ 415.53	$ 722.79	$ 500.00	$ 222.79
3-Mar	$ 597.10	$ 339.16	$ 578.91	$ 901.44	$ (322.53)
4-Mar	$ 453.38	$ 246.19	$ (64.03)	$ 94.61	$ (158.64)
5-Mar	$ 391.26	$ 212.69	$ 64.68	$ -	$ 64.68

Sales. You don't need the sales category, but you can use it to come up with other calculations in your spreadsheet, like your cost of goods percentage. I track my overall sales using this spreadsheet, including year over year comparisons.

Z REPORT

Report Da	8/27/20
Report Ti	10:54:4
Register	1
Batch #	1434
Batch Sta	Closed
Start Dat	8/26/20
Start Tim	10:23:0
Date	8/27/20
Time	10:54:3
Opening T	$0.00
Sales	$1,291. SALES
Returns	$0.00
Tax	$101.39
Shipping	$0.00
Debit Sur	$0.00
Cash Back	$0.00
Paid on L	$0.00
Paid to A	$0.00
Deposit M	$0.00
Total	$1,392.
Paid Out	$0.00
Dropped	$0.00
Layaway C	$0.00
Paid on A	$0.00
Deposit R	$0.00
Closing T	$0.00
Total	$0.00
Over / Sh	($1,392
Total Ten	$1,457.
Total Cha	($64.76
Discounts	$84.85
Cost of G	$697.38 COGS
Commissio	$0.00
Customer	52
No Sales	4

Cost of Goods. This number should be provided to you on your POS end of day report, also known as the *Z-Report*. Some store owners use a flat rate of 60%, but I think this is too inaccurate and puts additional money into the purchasing budget that doesn't belong. Your end goal is to have a 60% cost of goods that includes credit card fees, shrinkage, shelf worn items, take homes, etc. However, if you don't have a POS machine, calculating the actual COGS is impractical. If you want to use a flat number, try 54%.

Available. This is how much money you can spend on new inventory. It's calculated by taking the balance from the day before and adding the cost of goods for today.

Purchases. Here is where you put how much money you've spent on inventory that day.

Balance. This is your actual balance, taking into account all the other variables. You want to keep this to as close to zero as possible. You might want a surplus if you're saving up your money for a big release. You might run a deficit if you've just had some big releases that you couldn't budget for.

The Goal of the open-to-buy process is to carefully track your inventory purchases to avoid extremes. If you buy too much, you'll lose money that could be profit or used

elsewhere in your business. If you don't spend enough money, you can starve your store of new inventory and drive away customers. This assumes you're not in a growth phase, expanding your inventory as you move forward. If you are in a growth phase, you can create another field in your spreadsheet where you add in new inventory capital, so you can grow in a measured rate.

TECH TIP

You can use this tool to save money by creating an additional column and putting in a negative buy number each week if you know a big release is coming up. This might be your savings column.

You can use the same method for permanently reducing your inventory, if you're overstocked for example or you need short term funds (I always send a check immediately to avoid dipping into this fund).

If you want a more powerful open to buy tool, you can buy an RMS integrated Open to Buy Wizard for $2995:

www.opentobuywizard.com

Cat #	Category Name	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
100	Ladies			1841	3156	2877			1821	6285	7473	2712	
200	M Solid Shirts										295	483	
	M Fancy Shirts		377	3331	1061	714	134		6333	8473	5976	3924	
	M Swtr/Fleece				380	829							
	M Outerwear					4569			1244				
	M Bottoms								86	419	258	142	
	M Accessories									1159	905	497	
280	Kids									104	103	38	
300	Footwear			896	545				352	1762	1276	468	
330	Hosiery									345	274	100	
350	Clubs	199	341	508	315				231	1010	515	189	
400	Equipment		1219	5091	3493	804	394	78	4520	7279	5016	3205	219
450	Headwear			2254	1647	792	334		4223	5526	4108	2857	
500	Sundries									1674	2295	843	
	Shop Totals	199	1936	13921	10597	10584	861	78	18810	34035	28494	15459	219

Screen shot of *Open to Buy Wizard.*

TURN RATE ANALYSIS: WHAT TO BUY

At a trade show a couple years ago I sat in the hospitality suite between two store owners who both did a million dollars a year in sales. One store owner had a turn rate of 6 while the other had a turn rate of 1. What does this mean? The turn rate is how often you sell through, or "turn" your inventory in a year. The guy with a turn rate of 1 had a million dollars in inventory (retail). The guy with a turn rate of 6 had $167,000 in inventory. Put a different way, the guy with the 1 turn rate was sitting on $833,000 in inventory that wasn't performing for him. That's a lot of money that could be in his pocket. I don't think anybody plans to do a million dollars in sales with a million dollars of inventory; it just creeps up on you over the years. Who has that kind of money?

Those of us starting out have limited inventory dollars. Every dollar needs to count. Inventory needs to perform in a timely fashion or else get dumped like a bad employee. You need to be ruthless with your inventory. We can determine if our inventories are performing well using various tools, but one I like to use is turn rate analysis. You divide sales by the retail value to come up with a number, usually between 1 and 8. So what's a good number?

Old school retail sources say that 4 is a good turn rate overall. I think this is a good number, and some things in the game trade will turn faster or slow than this baseline number. For example, the collectible model is known for a small amount of inventory that sells continuously. You might have a turn rate of 6-10 on collectible miniatures or trading cards. On the slower end of the spectrum are things like paint. You probably won't get a high turn rate out of your paint department unless you've limited your selection drastically. Everything else is in between, but aiming for a turn rate of 4 is a good practice.

Having a very low turn rate, overall, clearly wastes money. Those inventory dollars could be put into better inventory or into your pocket. A very high turn rate, overall, is also a danger. It could mean that you're losing out on sales and you're running too lean. Adding more inventory in those areas might increase your sales.

Your trusty spreadsheet is the tool you'll need to perform turn rate analysis. Some point of sale machines can do various turn rate reports, but I haven’t been able to find a report I like. Here's one I did recently, removing departments that are less than a year old. It's got some excellent performers and some real dogs:

Department	Inventory value	Sales	Turns
Trading Card Games	$6,086.38	$ 62,358.22	10.2
Snacks	$1,415.95	$ 10,937.64	7.7
Collectible Miniatures	$4,484.53	$ 32,910.95	7.3
Role Playing	$9,923.92	$ 45,276.85	4.6
TCG Supplies	$1,815.34	$ 6,750.44	3.7
Dice	$2,573.20	$ 8,754.92	3.4
Card Games	$6,280.93	$ 18,949.66	3.0
Tactical Minis	$31,349.07	$ 85,140.38	2.7
Board Games	$18,717.86	$ 45,001.21	2.4
Paint	$7,949.84	$ 18,025.49	2.3
Flames of War	$7,736.43	$ 11,827.88	1.5
Miniatures	$9,089.09	$ 8,662.81	1.0
Classic Games	$7,440.71	$ 6,190.49	0.8
Puzzles	$2,989.10	$ 1,911.00	0.6
Total	**$117,852**	**$ 362,697**	**3.1**

The numbers from this spreadsheet come directly from my point of sale machine. It can run a report on annual sales by department and a report on inventory value, but it lacks the ability to crunch these two numbers together.

What does it say? The most important number, I think, is the overall turn rate. It's 3.1 on this analysis, which tells me I have room for improvement to get to my target number of 4. We moved the store in October and increased inventory by 65%, so there is still a lot of room for performance improvements. Still, turns are up by about 20% from last year.

The blue items are very good, as the highest turn rate items are mostly collectibles and food. I could look at the numbers for role-playing and decide I could loosen up the inventory there, taking a few more chances since the turns exceed 4. It's probably the only department in this report that warrants increasing inventory.

The green items are average, but might need some attention. I was concerned with dice last year, so I made some changes. I down-sized my dice collection by about 50% from the year before and sales went up 25%, doubling the turn rate and providing me $1,000

to spend on other things. You *can* have too much inventory and a reduction of slow sellers or dead product can often increase visibility of your good product.

The red items are in need of attention. Miniatures have dropped over the last couple of years, and we're slowly reducing slower sellers, hoping that D&D 4th Edition will pick up sales. We've tried to become the local source for board games, so we've allowed the board game inventory to grow at a rate beyond what's justified by their sales. Our main board game competitor closed up shop recently, so we'll look at this again in a few months to see if it improved. Departments like classic games and puzzles have been disappointments, but we've seen a turn around since I pulled these numbers.

Caveats. This is just a tool. You can use turn rate analysis by department, by game category, and by item. When I'm re-ordering items, I check the turn rate and drop things that aren't performing. Beginning stores will likely see a fairly slow turn rate, possibly 1.5 the first year, 2 the second year, 3 the third year, etc. We're in our fourth year and I would be very happy with a 3.5. It's important to give your inventory a chance and to avoid dumping a product lines before you really know what your customers want. That could take as long as 18 months. Also don't be afraid to gradually bring things back that you dropped early on.

Finally, one of the most important things this analysis can do for you is allow you to be nimble with your ordering. If you see a game declining, you can begin shifting inventory dollars to something that's performing better. This keeps you from having a lot of inventory dollars captured by dying games and having to spend your valuable time liquidating inventory on eBay or in-store sales.

CONSCIOUS CHOICE

You may decide that you want to have a lot of inventory, more than warranted by turn rates. Perhaps you're the only store in the area and you want to be the one stop game shop. One of my friends who owns one of these game stores calls his strategy *Shock & Awe*. Shock & Awe is a fine strategy, but make that decision consciously.

Also be careful not to cut too deeply, too often, or without considering your overall plan. You might also allow slower sellers to remain out of a sense of cohesion.

For example, we made a point of stocking every Dungeons & Dragons book in print because we wanted to be the local D&D source. The key here is that you want it to be a conscious decision, not something you do on instinct or because you're a gamer.

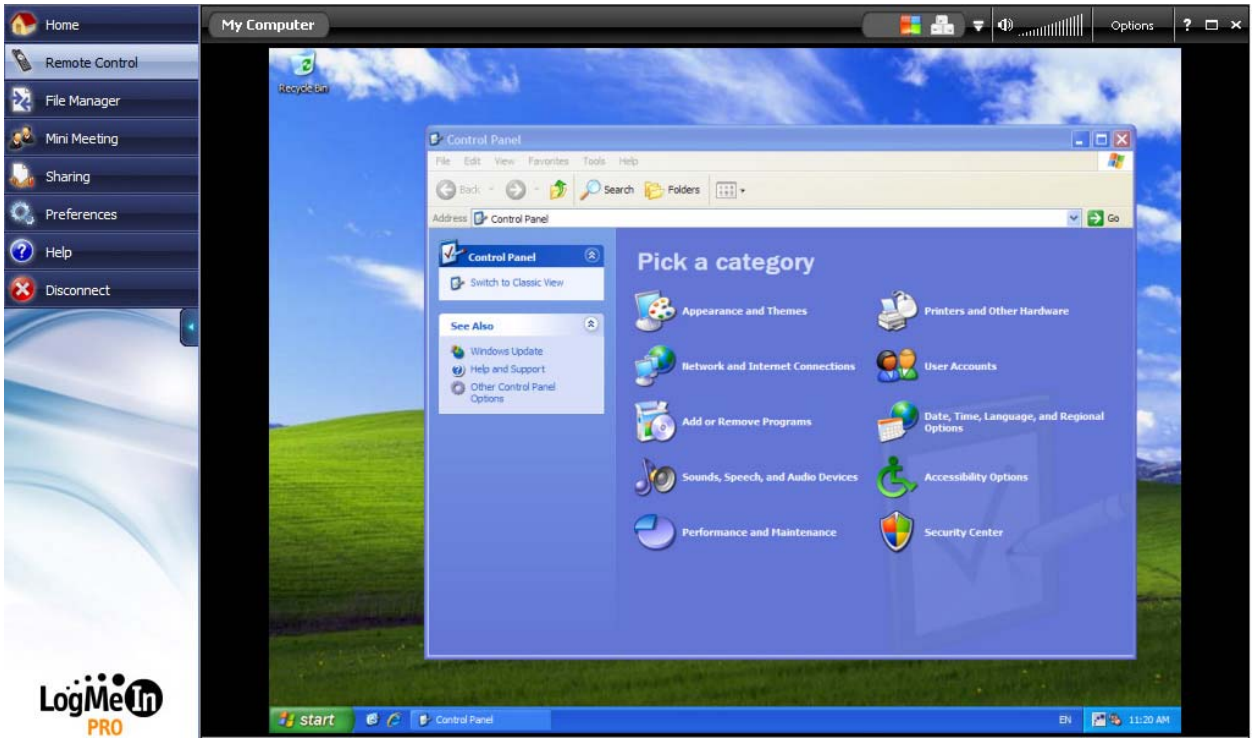
CUTTING EDGE TECHNOLOGY AT CUT RATE PRICES: REMOTE ACCESS AND BACKUPS

There have been some really great technologies that have developed since I left IT and opened the store several years ago. Some of these resemble the dot-com attempts I remember from the beginning of the decade. Others are smart, simple solutions to complicated, expensive problems that I labored on in my IT career. All leverage the Internet.

Remote Access. I recently read an article by auto shop owners who said their primary goals were to increase the efficiency of their processes and spend less time at the shop. Amen! Remote access will allow you to spend less time at the shop, review sales and create orders from home and spend more time with your family. Each day I spend a half hour reviewing the previous days reports and placing orders, time I spend at home with my 3-year old instead of at a closed store. That's an extra 10 hours a month. The remote access is the easy part. The hard part is getting your POS system to reflect reality, something that you'll work harder on once you realize you rely on it to interpret reality remotely.

Remote access is the second biggest pain in the butt thing to set up for a company. It used to be that smaller companies would use something like *PCAnywhere,* which required that you poke holes through firewalls and bypass network security, or worse, come in through the back door via a telephone line. Corporate remote access took time to configure on both ends so the computers would sync up properly. The other solution was hardcore VPN (virtual private network), usually sitting at or on the firewall, which required client based software and configurations and a trained staff of network engineers to manage it. I spent two years setting something like this up for a large company at my last IT job.

Nowadays we have several *hosted* remote access solutions that require virtually no configuration to get started and no client (software) other than a web browser. They bypass all security like the old solutions, but they're much easier to use from any computer with a web browser (Internet Explorer only, unfortunately). This is the holy grail of remote access. Sit down at an Internet cafe in Paris and instantly log into your POS at the store. LogMeIn is the program I'm using for this. Large companies still need traditional VPN solutions, but a small company can get by with something like this.



LogMeIn screenshot

Backups. Backups are by far the biggest pain in the butt for businesses, even bigger than remote access. I've seen IT workers fired for not being able to manage backups effectively. My solution for backups when I started was a DLT backup drive attached to a server. Files on the various workstations would use Windows file synchronization to push files to the server. The server would then back up files to tape … theoretically. Backups were scheduled regularly, had problems regularly, and wasted my time regularly. Nowadays, you don't need to do this.

The new backup solution is hosted backups. These services run on you computer and periodically backup your files, streaming them onto the host servers on the Internet. With the advent of even cheaper storage, companies like Carbonite have no limit to your backups. Carbonite costs $50 a year, but a clunky file server uses about $120/year in electricity alone. These services don't back up entire systems for an easy restore, and won't until we have really high speed Internet, but cheap external hard drives allow me to use old fashioned programs like *Ghost* to backup my system nightly.

There are limitations, however. Without a full system backup stored offsite, your system image is not protected in the event of a disaster or major theft. Although an external drive can make an image of your system, it doesn't help if the drive is destroyed or stolen. I personally find such an unlikely scenario more of an inconvenience than a true disaster, as we can re-install the POS system in a few hours and restore the data from Carbonite. Until then we have a cash box and a *knucklebuster* in the office for convention style in-store sales. If this scenario seems like too much inconvenience, you can make a habit of taking home your external drive, but still consider the added benefit of knowing your data files are always backed up.

How solutions stack up

SCENARIO	Tape Backup with offsite storage	External Drive scheduled backup	Hosted Backup (Carbonite)
Deleted Data Files	Yes	Yes	Yes
Deleted App Files	Yes	Yes	No
Crashed Drive	Yes	Yes	Data Only
Theft or Fire	Yes	No	Data Only

CONCLUSION

The goal of all this is to make you more money and improve the quality of your life. Other topics you can read about on my blog (blackdiamondgames.blogspot.com) include:

- The reality of selling online
- Store Identity: Email, Website, Forum, Blog
- Essentials when buying a Point of Sale machine
- General unvarnished ramblings about the game industry
- Counterpoints from other store owners

TECH TIP

Ghost will let you set up effortless backups that allow you to restore your system by placing a CD in the drive, or selecting files off the external drive like any attached drive.

Carbonite will provide off-site storage of your data files only, keeping them safe in the event of theft or disaster. Your POS uses database files that Carbonite can't backup (I've tried), so be sure your POS system creates its own automated backups and have Carbonite back *those* up.

Norton Ghost: $60

External USB Drive: $90

Carbonite: $49.95/year

www.carbonite.com

You can find LogMeIn at:

www.logmein.com

LogMeIn Pro: $69.95/year