

# In Favor of an Eleven Month Year...

By David Shappee

I hate Christmas. I like the profit. I like the busy-ness in our stores. I enjoy the season, and the challenge of maintaining some Christmas cheer amidst the turmoil and traffic of our most important month of the year. But I really hate what it does to our books.

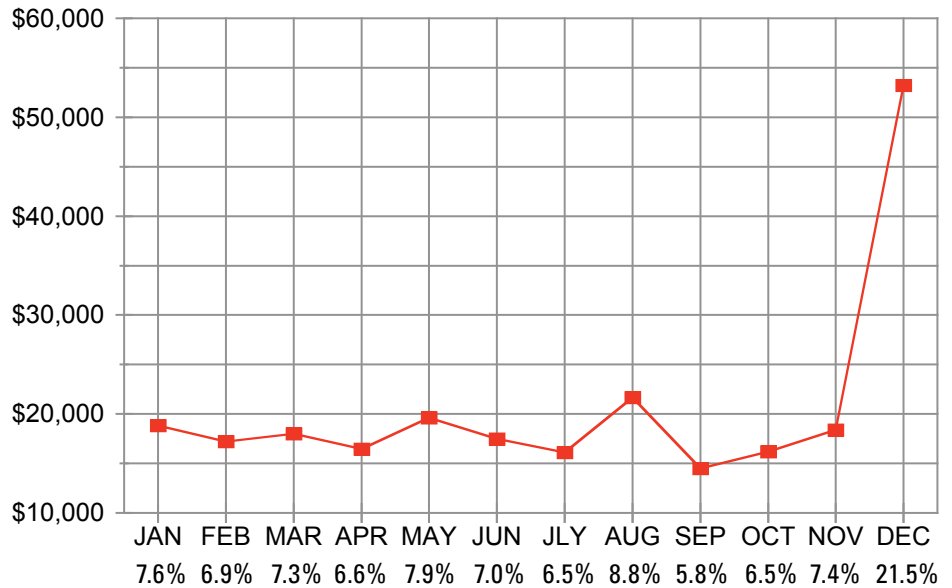
It's common in any business to analyze things in terms of averages—average sale, average count, average profit—and December just screws that all up! A good Christmas counts for as much as 30% of our sales, *and sometimes as much as 50% of the whole year's profit*. Retailers call the Friday after Thanksgiving "Black Friday" not because it's so stressful and busy, but because, for many of them, it's the first time during the year that their profit's made it "into the black," referring to the old accounting practice of journalizing negative entries in red ink.

When we average the year based on the whole, profitability looks great—on the average. Unfortunately, as a banker friend of mine likes to point out, half the businesses that go broke every year are making a profit. The problem is, they just don't have any cash! Making May decisions based on December's sales is a formula for disaster, yet it's an innocent mistake that many of us, including the professionals that counsel us, make.

For example, current expenses may be well below "average," but that's no reason to celebrate. Why would April's payroll, or advertising, be related in any way to December's? I'm always hoppy to see the Easter Bunny come to town (in fact, I get eggcited), and we certainly ship a lot of baskets, but we don't need to hire seasonal help to do it. Likewise Halloween doesn't scare me—as a retailer, it's spooky how much people spend on that holiday, and we're part of it. But again, it's only a ghost of a holiday compared to Christmas. The best way to illustrate this is to compare the difference between a representative store's sales for a calendar year (12 months) and the other eleven months.

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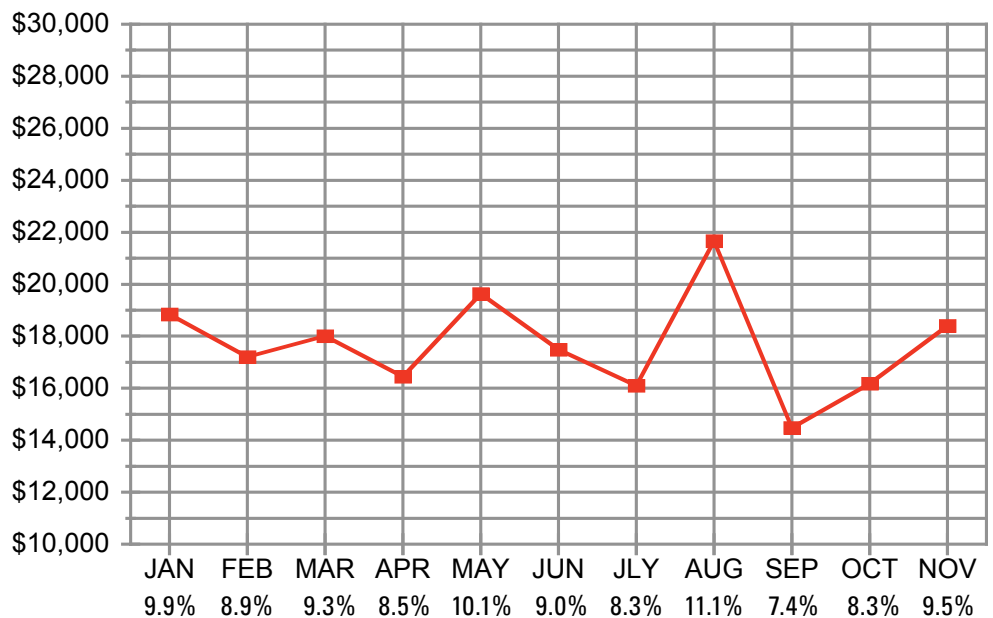
Sample Store Sales  
Twelve Month Year



Sales Graph 1

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Sample Store Sales  
"Eleven Month" Year



Sales Graph 2

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# ELEVEN-MONTH YEAR...

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The extremity of Christmas for an “average” store, in which shipping counts for as much as 60% of annual sales, is shown in Sales Graph 1. Note that when looked at this way, even with the sales “spike” in August, *the average month to month difference is only a little over 1%*. Each month’s sales range about 1% either side of 7%. It’s hardly worth distinguishing one from another.

Now, compare the difference in each month’s contribution to our success when we look at sales in an “Eleven Month Year” as in Sales Graph 2. We throw out December because it doesn’t have a thing to do with making the other eleven months’ payroll. You may be able to get some of your creditors to wait until Christmas, but not your employees. In fact, December is so extreme it should be considered a separate “year,” all on its own. When we total the other eleven months sales, then consider each month as a percentage of that real-world retail “year,” look how everything changes. Our monthly spread now ranges as high as 4% of the total, an average of 1.4% per month, a 40% increase. Our sales, and cash, cycle just went from mild to wild.

We’ll never be able to make each month like December. It is our task as managers, however, to either flatten the cycle through sales increases, or survive it by budgeting and preparation. You can’t do either very well with just annual averages, or just an annual financial statement. Every month must succeed on its merit, and the best way to understand that is with a monthly income statement. Nowhere is this more obvious than in the story of a recent purchaser of a mail and parcel center who called me to lament, “What’s happening? The seller showed us a profit for every year, what are we doing wrong?” The only thing wrong is that the financials they reviewed were for the year including December, not the “real” year that faces them each of the other eleven months.

For most of us, our disproportionate reliance on shipping, that we’re a “category killer” specialist, isn’t a strength, but a weakness. When 60% of your income depends upon two or three major brands in a single service segment, you may as well put a bulls eye on your back. Indeed, it is other products and services that can “flatten” our sales cycle and provide more constant, and secure, income. Likewise we can further balance our sales by recognizing our reliance upon retail shippers vs. commercial or “B-2-B” (Business to Business) customers. Although businesses are subject to seasonal trends, according to their nature, they tend to anticipate, or precede, retail seasonality, thus flattening our sales, while elevating them. If you’re like most MPCs, the majority of your customers are retail, and although few of us will never flip the ratio, we all have opportunity to increase into a more reliable commercial clientele.

While working with over 200 MPC owners in preparing *The Numbers News*, a financial reporting and feedback program I ran for our industry from 1997 to 2000, the disappointing deficiencies of the primitive bookkeeping procedures we limit ourselves to became painfully apparent. Most of us have our hands full just producing something for the I.R.S. on time every year. What seems to be an effective compromise is the quarterly report. The first three quarters—January through March, April through June, July through September—each coincidentally contain a usually equal share of the year: 21.8%, 21.5%, and 21.1% respectively in our sample 12-month year. So if getting your books in order every month just seems like too much, then don’t worry about it. Worry about the quarters first.

There’s Ancient History, and there’s Modern History. Which are you? Although long-term trends are important, today’s competitive environment demands long term decisions based on short term events—and this month’s sales trend in relation to last month’s, not December’s. Internet entrepreneurs speak in terms of “dog years,” that compressed time span that makes a three-year-old dog the equivalent of a 25-year-old human—and a three-month trend the predictor of a three-year Profit Center. You should have the previous month’s income statement in your hands by the end of the following month. If you can’t have that, then at least have an estimate, based on current margins and known expenses. That’s better than no financial statement at all.

There are several quick and dirty checks you can do on your business health, but nothing replaces a current and accurate financial statement, analyzed according to the context of its timing. Don’t get caught making decisions based on your twelve-month average. “If there were no Christmas,” one retailer once said, “we’d have to invent it.” In our business, December is its own little year. If we manage the other eleven as if they were as crucial to our success as December, then maybe someday we won’t need Christmas. ☒



**David Shappee** and his partner Kathryn founded The Shipping Depot®, a Montana chain of retail business service centers, in 1986. David consults in customer service and retail management, and has served as trainer to AMPC, the American Bankers Association, Honda Motor Corporation, the Medical Managers Association, and many other businesses. He is a partner in MPC Coaches Network, a business consulting service devoted exclusively to the success of MPCs, and can be contacted at [daves@mpccoaches.com](mailto:daves@mpccoaches.com).