How to Grow a Shop

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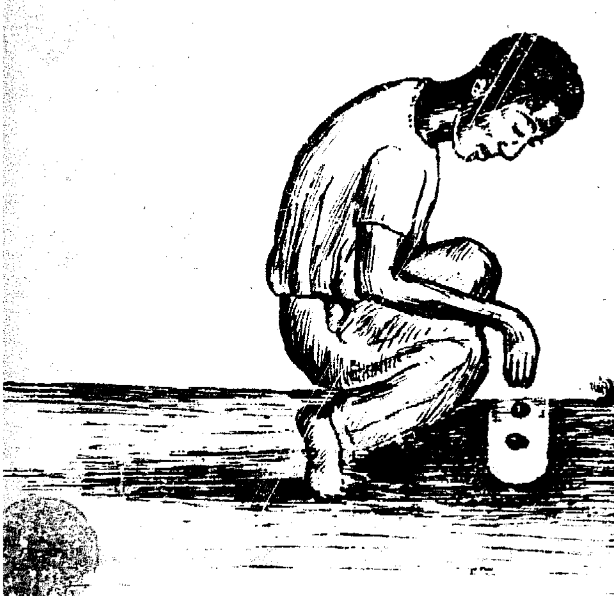

a companion to - A COMPLETE ACCOUNTS SYSTEM FOR BUSINESSMEN

The Author

The author has at various times been:

In Africa (1956 - to present)

A Government Trade Development Officer responsible for the development of Africans in Trade (10 yrs).

A General Manager of a National Trading Corporation.

A Head of a Business Studies Dept. in a College of Commerce.

An Examiner with East African Examinations Council.

A Founder Fellow of an Institute of Management.

A Member of the British Executive Service Overseas with voluntary assignments to aid development of small business-men in various countries.

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A Managing Director of a Distributive Company.

A Member of the British Institute of Management.

A Cambridge Examiner in Commerce.

A Training Supervisor with the Distributive Industry Training Board.

These often parallel experiences have created not merely a wide and practical knowledge of commerce, particularly in the distributive trade, but a deep understanding of the problems facing African Business-men. Though these problems emerged through cultural and educational causes they were worsened by foreign dominance of trade and lack of training opportunities. Few African business-men of today were "born behind the counter". Economic independence can be hastened if a simple and practical introduction to commerce and accounts is encouraged in schools, (and how useful this in all walks of life), and more directly relevant study material made available to budding business-men.
Hence this book.

HOW TO GROW A SHOP

Introduction

Most Africans will happily admit that they know better how to grow a crop than a shop. Thus no apologies are offered for the metaphorical treatment of this book. Agriculture has sustained them from the beginning of time. They can no longer rely entirely on this, nor must they permit their commercial needs to be mainly supplied by outsiders. Political development has applied strong pressures for economic independence for which they are still insufficiently prepared.

This book aims to improve attitudes towards trading and, indeed, towards money itself. If it can convert its retailer readers into more efficient and properous traders and strengthen and develop the growing number of wholesalers, then its publication will have been well justified. It attempts to cover every aspect of shop-keeping. Not merely to expose many common barriers to progress but to demonstrate how these might be overcome. The petty daily problems peculiar to traders and omitted in so many books on business, are carefully dealt with, for they have so frequently occurred in the author's own practical experience and in his dealings with others.

He understands the reasons for the hole-in-the-counter method of depositing sales income, the hesitance in display, the fear of glass windows and the reluctance to specialise etc. Nevertheless, changes must be made. Some can only come about with changes in consumer habits and general progress. Others can and should be made now in order to bring efficiency, prosperity and a sense of pride to a profession that is the backbone of any country. Attractive stocks in good shops provide the greatest national incentive to work and progress.

A further book teaches his Cash-analysis system of accounting specifically designed for businessmen.

Note: Money figures printed will often be unrealistic. This is because of differing currency areas.

HOW TO GROW A SHOP

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1. Two Seeds

In considering whether "to be or not to be" a trader, presumably one has already decided that Health, Temperament, Age, Intelligence and Interest are all favourably inclined towards trading as a career. The big question is is it worth it? Will the long hours of toil and worry, the humiliations, the price wars, the credit losses and all the other risks be justified in the profits earned ?

How do we measure these earnings? If we are to succeed we must measure them against two quite different considerations: Me and My Capital.

ME

So far as "Me" is concerned I am a human being, I have been educated at some cost, I can work, I can think, I can adhere to certain standards. In short - I can serve. I am not measuring my needs or those of my family; these are not a valid claim to what I am seeking - and that is payment for service. Will trading employ my abilities to good advantage or would I be happier and better paid elsewhere? Will the benefits of being employed by "Me" offset the security and the regular hours and income from employment by someone else? I am not yet qualified as a trader; I can learn but am I qualified in any other directions to earn more? Will trading enable me to retire earlier on an income at least equal to a good pension ?

Customers will not pay me monthly wages for my work done but will they instead tolerate the prices I intend to charge for the services rendered to them by "Me" ?

Is "Me" as a trader of any great value to the community? This is easy to demonstrate if we move back less than 100 years in parts of Africa. There are no shops; there is no money, almost nothing is manufactured and nothing is imported. People try to grow or kill their daily food. If they need something which they do not have they effect an exchange, or "barter". There is little point in producing more than one's immediate need, for nothing can be sold and nothing can be bought. Unstorable surpluses are waste. Production cannot result in improved conditions, money in the bank or export to develop the country. Bluntly it is a state of stagnation and at the poorest level. Then along comes a railway the outside world comes in; a shop is opened, new things become available. How can people get them? They must sell surplus crops and "sell" simply means exchange for money. Money, also of course the medium for buying, now enters between the two persons in the barter transactions, and the value of the trader becomes obvious.

He was often the produce buyer, exporter, importer and retailer rolled into one. He is, and will always be, the impetus to progress. His goods attract; people are driven to produce more and to work harder, exports begin, foreign exchange comes in and provides for more imports. Living conditions improve as more and more goods enter the shops. Incentives further grow as money to obtain new goods is increasingly sought. Productions and exports soar; the country develops. As it does so, the traders increase and place themselves strategically to serve the people; carrying goods from ports and factories into every area. Ultimately almost every need is met withing a "stone's throw", enabling the minimum time to be spent on providing and the maximum on producing. Without the trader we have little use for any other profession!

CAPITAL

So, for the time being, that justifies "Me" and some profits for my services rendered if I enter business. We shall have to assess later just how much. Now let us turn to "Capital", and let us first clearly understand one important point: what I contribute in work and money are not one and the same thing. Certainly trading results from a marriage between human resources and money, but the money, or "Capital", does not necessarily have to originate from the same source as the contribution of human work and brains. It often does, particularly in a small business. Sometimes capital is contributed by two or three persons, one or more of whom might work in the business.

This could be a Partnership or Private Company. The capital of a Public Company is largely contributed from people outside, many of whom have never seen the company offices nor met its directors. All this will be dealt with later. It serves now only to stress that payments or profits are required for "Me" and, separately, for the employment of anyone's "Capital". Money successfully put to work must grow and this growth normally belongs to the investor who plants the initial seed. A man in the employ of someone else earns his salary for services rendered. He may save some of this salary and invest it. This "capital" may be placed in the Savings Bank, or in one of the large companies who can put it profitably to work. Wherever it goes it will normally grow, and it will do so without any other contribution from its owner than the initial decision of where to invest it. Perhaps it will be employed in buying and selling, perhaps it will be lent to a borrower who will pay "interest" charges for its use. Like "Me" it will work and earn. The amount it earns will usually depend on how fast it works and at what risk.

Blending

It will be agreed that it is pointless putting 10,000.00 into a tiny shop where it cannot be fully employed. It is also as wasteful to put 1000.00 only into a business employing the full-time services of "Me" In the first case the potential trade is not there to keep the money working fast enough in buying and selling. In the second case the money is not itself enough to keep "Me" working hard enough. My salary in profits can neither be justified nor earned. Successful trading thus first depends upon the correct blending, or balance, of human resources and capital. A one-man business will generally require less capital than a working partnership. Both "Me" and the "Capital" must earn and receive profits at least equal to those receivable elsewhere.

The wages, or profits, payable to me must therefore be, at minimum, those payable by an employer for my abilities for so many hours per day. In addition I want an extra bonus to offset the absence of a provident fund or pension scheme. I want another allowance in lieu of payments during sickness and I would hope to make just a little more for the lack of employment security. For no-one can be sure of continuous success in business. Admittedly there are many obvious advantages in being self-employed, including a good chance of becoming wealthy - but there are also the obvious risks. And these I must provide for. If I employ staff - up must go my earnings, for my responsibilities and my worries will increase as they would with promotion in employment.

And again, quite separately, I must see that the right amount of capital is invested along with "Me" and that it also earns what would be the minimum receivable elsewhere, plus a substantial amount towards development, plus another substantial cover against risks. It matters not whether it is "My Capital" or someone-else's: the hole is provided for the seed and the seed must satisfactorily grow.

If we cannot reasonably be sure of our trading abilities (our earning abilities blended with the right amount of capital) and sure of our potential trade giving good returns on investments, then we should not trade.

Before we go any further let us clearly understand this first golden rule of trading: CAPITAL is a **DEBT** which a BUSINESS OWES to its INVESTORS. It is immaterial whether an investor is the sole owner.

2. In One Hole

The seed of human resources (Me) and the seed of money (Capital) must now be planted together. They must be planted to grow and not just left in a safe dark hole. Their combination is not to insure against one being barren but to ensure that jointly they propagate with maximum harmony and fertility.

Now where shall we make the hole? We want to have it in good soil and we need to find a spot where there is a reasonable chance of sufficient sunshine and rain. The soil of any business is the potential trade that surrounds it. To make the hole near to our back door simply because it is convenient could be folly. But if plenty of other doors around us are of houses and not of shops then we might have the potential we are seeking right under our noses. A little survey might give us the answer: How many people live in the area? What approximately is their total monthly spending power? What of this is in daily needs and what is in irregular purchases? How far do they go to obtain the former and how far for the latter? Do they have to spend money in getting to these supply sources? Would they go there anyway for other reasons ? Is their income steady or seasonal ?.

These are not difficult questions to answer. Some people take this research much further; many successful traders first checked the potential of their "hole" by counting all day and every day for one week the number of people who passed it. Others look for near-by bus stops and check whether car-parking facilities are available. It is, after all, a little pointless hoping that folk will "drop in" to our little hole if they cannot get near to it!

What about the other shops? Are they going to help or hinder us? Will they attract potential customers to us or will they knock us out of business in the first round? Can we contribute or can we merely compete? The little trader finding that a giant multiple store had bought the plot next to him despaired to the verge of suicide. Soon afterwards he retired - a very rich man; thousands of people had daily been brought to the front of his shop-window. He only had to cast his line to catch these fish. He had a very direct personal interest in everyone of his customers and their needs. He was trained to **SERVE** them.

Often if one studies a trading centre or a particular trading section of a town one will notice that a certain type of trade is missing. If it is a mixed-trade area then here would seem some potential - if, in fact, we have the ability (capital-wise and otherwise) to handle this neglected trade. If it is a specialised area e.g. an area of goldsmiths or drapers or car-dealers then we may not do so well by introducing a strange stock. This is because customers entering that area are intent on making a particular purchase, not on general shopping. They will not give more than a glance at your fresh milk if they are looking for a tin of brake fluid!

We might consider entering a specialist area if the trade being handled is the one we intend to pursue. In this case we have to break in on well-established businesses already competing energetically against each other. We must introduce something really good to launch ourselves successfully. We may find an opportunity in a particularly fortunate purchase, or in a entirely new and attractive line of stock. We may instead offer a new line of service or a variation of an old theme. What-ever the case, the immediate or ultimate business potential must cover the special costs - though it need not be derived from the direct sales resulting from that service; we have to make our name. Just advertising it as one more name in a wide field of runners will not do. We have to cause a sensation.

A new development area is a popular target for traders and can be very successful if we can afford to get in at the beginning. This usually means "planting the flag" to discourage too many other competitors in our line of business but contenting ourselves with very low initial sales and profits. The area might be a new suburb of a town or a completely new settlement area.

Obviously there can be no conclusion from all these hints that one particular location is best. It depends on who we are, where we live, what we want to do and what opportunities there are for doing it. The important thing is to "look before you leap". A few weeks spent on our "survey" is not likely to be wasted if we think and plan objectively. It could be very difficult to find the resources to dig another hole.

3. What Type of Hole ?

Well - we can have the conventional round hole lined with mud and thatched or we can go for something more elaborate. Shall we rent it, shall we buy it, or shall we build it ?

Building

Theoretically there is nothing wrong with a round mud and wattle shop. It is usually the coolest, Ideally, of course, it would require to be a little larger than the normal house and to have a ceiling. The roof should be close to the walls and secure enough to keep out rain and bats etc. A concrete floor would be another advantage, especially for cleaning, and plastered inner walls would add light and suggest greater cleanliness. With two good side windows we would have an airy and very attractive shop! The counter would run across the lower third of the circle, leaving this part for customers and the top two thirds for stock and "Me". Neat shelving, nicely painted white and curving gracefully around the walls, would look better than any angular units could do. And surely it would have the fullest approval from the "Time and Motion" study expert? The operating area of "Me" would be a little circle behind the counter. From this we could greet our customers, reach for their requirements and register their sales. We would be almost able to do our work standing on one spot!

Compare this to the oft-seen oblong shop where the poor trader covers some miles every day either heading north to the goods from his customers in the south or moving east and west across a long counter! In either case there is a great amount of wasted space and thus unnecessary costs of building. And the resultant fatigue is a just reward for the trader whose pride alone tempts him to build the greatest shop his folks have ever seen!

Often the shop is never completed because money runs out first. But if money outlasts the building operations there is usually too little left to fill the shop with stock. The customer scans the empty spaces despairingly. Naturally she would have expected to see a larger stock in a larger shop.

Capital must decide the size of the shop and the shape must be decided by "Me". Money poured into cement and sand and roofing is money gone for ever. Yes - it is usefully spent in providing a shelter for "Me", my customers and my stock but it will be of no more value ten years from now. Not so with stock. Stock of 5,000-00 sold becomes 6,000-00 or so on its next turnover. When it reaches 50 thousand it can comfortably grow to 60. It constantly returns to us a little bigger than before.

So, our aim when building or renting or buying the shop must be to get the maximum amount of stock into the minimum amount of space. We might qualify the latter by stressing that the minimum space must allow for the proper display and suitable storage of our stock whilst also giving sufficient space to our customers. Usually a square-shaped shop best provides these requirements unless we are thinking of super-markets where self-service replaces counter-service. In a square-shaped shop the customer area would occupy about one third of the total space. Customers should not occupy more than just sufficient if this means shortage of space for saleable stock and display. For it is displayed stock that will pull the money out of peoples' pockets. We want them to be able to see most of it without walking up and down or across the shop.

And in all these considerations we must seriously consider "Me". Light and air is required not only for the comfort of our customers and the good condition of our stock but for "Me". Pleasant surroundings are essential if we are to keep good health and temper for the years of service ahead. Time and motion studies and proper equipment will likewise help our health, our business service and our atmosphere. If we are to be traders in the service of others let us enjoy it. But let our main consideration always be **"GROWTH"**.

Renting

If we are short of capital, a rented shop will leave needed money for stock. That extra stock will earn, we trust, enough profits monthly to pay the shop rent. And these monthly rental charges will be entered in our books as expenses, thus reducing our net profits and the taxation assessment which is based upon them. In theory 1,000-00 of capital devoted to retail stock, instead of to building costs or property purchase, could produce 150-00 of gross profits per month - if the sales potential is really there. Therefore if perhaps half of this gain was spent on rental charges we still clear 900-00 of extra profits per year. And this, of course, goes back into stock to produce even more. We shall also avoid the annual taxation on the 900-00 of profits paid into rents.

Leasing

Nevertheless we must consider the other sides of the argument before we decide to jump into a little rented "hole". With a rented shop we shall occasionally have to pay out for interior decoration and repairs, electricity and possibly water charges just as we would in our own premises. Also we shall be at the mercy of a sometimes unscrupulous and often unsympathetic landlord. He may evict us at short notice unless we sign a tenancy agreement or lease. If we sign a lease we are legally bound to remain, or pay rentals, for an agreed period. Thus business developments necessitating location changes, or even a closure, immediately face this barrier. He may also increase our rental payments, particularly if he sees us doing well, unless our lease or agreement restricts him. Such a document is, of course, usually fair to both parties for, basically, it ensures a satisfactory tenant and a satisfactory tenancy and divides the maintenance responsibilities. A business can be completely wrecked by a change of location; few sound businessmen would operate without a lease - whether landlords or tenants - and most tenants would insist upon a sub-letting clause so that they could try to let the premises to another party, even if at a loss, should they decide that a move seems potentially profitable.

Purchase

A purchase presents other difficulties not least of which is finance and all maintenance; and often as with rented property, makes a barrier to extensions. One does not usually want to buy or rent a shop which is several times bigger than immediate requirements. And it is not often that one finds a building with extra adjacent space permanently available at no cost for reservation. Yet few lively businessmen would wish to consider their expansion prospects almost nil. Nevertheless a purchase gives greater security of tenure than with rented premises. It also gives lower monthly overheads in relation to profits made; there is additionally some tax relief on the expenses of depreciation (this will be dealt with later). The property can be sold to recover part of, all or more than its original price - depending on market demand - when our business expansion is imperative. It may then be possible to obtain larger rented accommodation, so freeing the capital for more productive uses. Alternatively it can produce at least a substantial deposit towards a larger purchase. At any earlier time it will be acceptable to a bank as security against an overdraft, provided there is a proper ownership title (Freehold) or land rental document (Leasehold). Likewise the bank may be willing to finance the second and larger property purchase if we can offer the new title document and have contributed a substantial deposit, leaving the balance at a lower figure than the quick-sale market value. The bank can, in this case, clearly see that, should we fail to meet our repayment committments, the debt can be recovered by sale of the property. As our debt decreases so the recovery prospects improve for the bank, unless of course there is a tendency for property values to severely drop. This is unlikely.

More or less the same disavantages and advantages in purchased property apply to having one's own property built. It swallows capital and requires maintenance but cuts monthly expenses and gives security in tenure and finance. There is however an added benefit in that the land bought or leased for building upon can be large enough to allow for future expansion of property without absorbing too much additional capital in the initial stages of business. It also allows the whole plan and shop design to be designed by "Me" - subject of course, to local building rules and covenants.

As with the problem of where to have the hole, the questions of shape and category depend on individual needs, desires and limitations.

4. What Crop ?

No-one has yet found or created a seed that can produce more than one different fruit, flower or vegetable. Neither can several plants, bushes or trees grow successfully in one small hole. In human terms a surgeon cannot be an expert accountant, a mechanic, and an author all at the same time.

Can one trader therefore be a perfect tailor, an authority on medicines, a knowledgeable grocer, a master of hardware and ironmongery, a connoisseur of cosmetics and an expert in cutlery and crockery? Of course he cannot. And yet so many traders imagine that they can. They live in a dream world, whereas our world is increasingly becoming a world of specialists. In every field we have to be specialists to compete and succeed, whether we be scientists, electricians, agriculturalists or whatever else. A departmental store or super-market certainly may handle a wide range or goods but, in doing so, it also employs a wide range of people. Many are experts in one field or another. And yet, even then, one store will develop a reputation for value and variety in a particular range of goods, or for a particular service.

Of greater importance is the fact that the large departmental stores have ample capital to stock their various departments. Each department usually carries a sufficient variety of one range of goods to justify consideration as a complete trading unit and it attracts as many customers as would a single specialist shop. The stock value in each department would often be many times as large as the total stock of one average African shop. This whole African shop would thus have difficulty in competing against even the single department of the multiple store. And yet with pitifully small capitals many African shop-keepers attempt not merely to cover one range of goods but the whole lot! In one corner there may be some cycle parts, in another some medicines, a few shelves hold textiles and a few boxes show grocery lines, there's a debbi of paraffin on the floor next to a bag of sugar and in the glass counter are a few cups and saucers, mixed up with batteries, writing pads and knives. Hoes lie next to gymshoes whilst cigarettes and tea absorbs the scent of soap in the box below! By no stretch of the imagination can such be called a professional trading establishment. It is trying to cover eight different trades without sufficient capital to cover one. The fault arises, of course from attempting to follow the earlier traders but there is a tendancy to forget that these developed this habit when shops were few and far between. One only has to look at the specialist Car dealers, Printers, Chemists, Photographers, Ironmongers, Restaurants, Grocers, Music Stores and Furniture Dealers in the cities to see the results of specialisation.

Each of these merchants is master of his trade; he knows where to buy and when to buy. He knows the subtle differences between products which might look the same to us. He sells heavily in one range and he buys it heavily. Therefore he buys at lowest prices. He is a professionalist and he is successful. Compare him with the poor shops in the back streets. What better proof is needed to support trade specialisation? An African trader will study specialisation and agree entirely with its desirability but, too often, he will not practice it. He will tell you that trade is too seasonal; textiles might sell well in the crop seasons but not between. Customers coming into his shop for one thing ask for another.

But it is physically and financially impossible for him to stock everything so he is obliged to refuse many requirements. And by spreading his meagre capital over a number of lines of trade he must buy in petty quantities, often from another retailer. Usually this retailer is in a nearby bazaar. He serves the same field of consumers but buys at slightly better prices. The smallest trader thus makes less profit per item sold or, by making the same profit - limits his sales to the occasional consumer who hasn't time to visit the cheaper source of supply. The simple fact is that the smaller African trader cannot ever compete unless there is a drastic change in the rural pattern or unless he practices specialisation.

When African trading centres were originally encouraged the purpose was not merely to improve services but to boost African trade by combining otherwise meagre resources. Each trader would contribute to the greater local range and sale of goods in his centre through the intensive use of his small capital. Let us study a simple example of why the scheme cannot work without specialisation.

Ten African shops in a typical centre might carry an average stock of 5,000-00. If each shop deals in an identical mixture of petty daily needs we have a 5,000-00 range of stock repeated ten times. Nine shops are thus unnecessary, for the consumers are restricted to the choice offered by a single shop. The nine act merely in competition to destroy the one whose competitive ability is sadly restricted by his inability to buy at wholesale rates.

With applied specialisation each of those ten shops could handle a largely separate range of stock. The result would be something like a departmental store. The variety available to the local consumer would amount to nearly 50,000-00. This in turn would not only prevent many customers drifting to the nearest town but multiply the profits in the African centre by several times their former level. For if 5,000-00 stock can bring 3,000-00 monthly sales and 500-00 gross profit then 50,000-00 stock should secure 5,000-00 gross profit. It is a fact that a ten-shop African centre can often receive combined monthly sales of little more than 3,000-00. Admittedly it is more likely to be 10,000-00 but not 30,000-00 without a good degree of specialisation.

Naturally there must be some overlap, for an ordinary rural area might not have the potential to justify ten entirely different trades. It would, however, support ten shops, overlapping perhaps on a few basic commodities. (A Grocer might sell patent medicines, and a Chemist might sell toilet soap etc.), but each carrying 90% of different lines. One could cover a fair range of groceries, another medicines and cosmetics and a third might concentrate on tools, hardware, radios and cycle parts. Two with a little more capital than the others and with a knowledge of tailoring could specialise in drapery, giving special attention to ladies dresses and handbags in one and shoes and mens' clothes in the other. A sixth might have a postal agency and carry stationery, books and students' needs. A seventh would find crockery, glassware, cutlery and other household equipment successful, especially if electricity was available. Number eight might be a bar and number nine could handle essential building materials such as C.I. sheets, cement, locks, windows and timber, especially if he was, or employed, a carpenter. The last might be a butcher. He is perhaps the only trader in Africa who has consistently specialised. One would be surprised to see a butchers' shop showing cloth and hanging cycle wheels amongst the legs of beef! We ought to be just as shocked to find sugar mixed up with paraffin and shoes but unfortunately this often happens.

With a reasonable degree of specialisation the African trading centre could supply much of the needs of the people within a three to five miles perimeter. The drift to the town would cease. Each African would sell more of fewer lines enabling him to buy (and possibly obtain deliveries of) better quantities of goods at low rates from wholesalers. Competition between the African shops would be drastically reduced and each trader would become an expert in his own field of interest.

Each would rapidly acquire a name as a reliable supplier of certain goods. A consumer wanting rice would head straight to the grocer, one wanting a cough mixture would visit the medicine shop. Cups and saucers would be obtained immediately from the crockery shop. Someone needing a lamp or a primus stove might choose from stocks at both the hardware shop and the shop for kitchen requisites but these overlaps would help to keep traders "on their toes". Specialisation brings economy to the trader and saves time and journey costs for the rural consumer.

The seasonal trade argument is a valid one but is exaggerated. There is a limited demand throughout the whole year for every commodity. In the towns, etc., where salary incomes are steadier through the year there is less seasonal fluctuation in trade. The further away a shop is situated the greater usually is the fluctuation, although in some areas there is a greater diversification of produce and thus only small seasonal gaps. Certain districts grow tobacco, cotton, coffee, fruit, vegetables and then enjoy a steady income from fishing. One thing is certain - commodities not in daily demand bear heavier profits which can sustain specialist traders through limited slumps.

It is possible that greed is the obstacle to specialisation. One trader is jealous of his neighbour gathering in a few sales daily during the slack season. Thus he is tempted to buy more lines from the travelling wholesalers instead of sticking firmly to his chosen trade. To break away he must use capital reserved for specialist lines. This tendency develops until the boom season finds him stocked with daily-sale lines and void of capital for the seasonal high profit lines.

Co-operation is highly desirable to launch specialisation in any non-specialising centre but it is not essential. If the new trader, having surveyed the local trading situation decides to open, for example, a hardware shop it will not be long before he is recognised as a hardware merchant. People needing such commodities will soon make straight for him rather than waste time searching amongst the mixed-trade shops. These later will then find it pointless stocking hardware in competition with him. As they dispose of their hardware items his own sales and purchases will increase. They will utilise their surplus capital elsewhere; some increasing in one line, some in another. This in itself, apart from any demonstration of his success, will prompt further specialisation. As soon as one trader builds up in textiles, having dropped hardware, so another will be forced into another direction because he now finds his textiles sales down. All we need, and need badly, are more trained traders who see clearly the virtue of specialisation.

In the town there is a much greater incentive to specialise and a better access to supplies. There is, of course, the difficulty of what to specialise in but as previously pointed out much depends on personal abilities, experience and opportunity.

5. Germination

Preparing to open

So far we have chosen the place and what we intend to put into it through the medium of the two seeds - Money and "Me".

Before we actually tackle the enjoyable task of buying our first stock let us consider what else we need. Have we provided ourselves with sufficient shelving? Is it the right depth - 10 to 16 inches is normal for most stock: otherwise there is a danger of leaving the rear items to deteriorate and become dusty whilst the front row is constantly replaced with new stock. The lower shelves should be progressively deeper, slanted backwards, and more spacious than those on eye level. This tilted effect provides an easier area of vision to the customer, allowing larger items to be shown to good advantage without occupying valuable eye-level space. It also obliges staff to walk just that little space away from the higher shelves where elbows might knock off delicate goods. The shallowest and narrowest shelving at eye level should show the smallest goods and those goods we wish to "push" for profit or promotion motives, for the human eye is happiest at short-range assignments.

Are the shelves smoothly finished and gloss painted? These are much easier to wash than rough and badly painted wood. Stock standing on clean grey or white gloss shelves can look twice as valuable as the same stock on dull shelves or inside boxes. It can actually command higher prices. Thus cheaply finished shelving is false economy. And can we not afford proper price moulding - smart plastic strips running along the shelf edges and holding at the flick of a finger and thumb the prices of the commodities on the shelf above? A price-change takes a second to effect and the whole appearance is so superior to nasty little gummed-paper tear-offs on which are written prices that customers can hardly see.

The shelving units should not stand more than $2\frac{1}{2}$ yards high. Again the top shelf, getting further from eye level, should be more spacious and should contain one layer of large commodities. These will attract more attention and will be easier to handle. The trader who stacks two tiers of jars on his top shelf and in trying to reach one has his head bombarded deserves the various cracks received.

The roof shelf at $2\frac{1}{2}$ yards should, if possible, be left for display. Its height is too difficult to provide open stock. Stock in cases is unattractive. There is a tendency for top shelves to become dirty, unsightly and wasteful. A neat show of stand-up show cards with regularly-changed displays of dummies or actual stock will produce attractive and possibly more profitable results. The aim should be to let all the shelves appear as display units standing forward of the walls-not replacing the walls.

The counter can be glass-fronted or closed. Goods on show inside a counter are never on eye level even if the top itself is glass. No-one likes to stick their own bottom out to study an article on the counter bottom! Generally the counter can be used much more profitably for reserve stock-unseen but ready for immediate use. It can also be used for unattractive stock that contributes nothing to the shelf displays. Goods that the grocer weighs and packs such as sugar, salt, rice, potatoes, onions (or nails, screws, and staples in a hardware shop) can usefully occupy counter interiors. But care must be taken that the counter does not become a rubbish dump - with the attendant smells. The front and top should be polished and spotlessly clean. Any counter-flap allowing access into the customer area should hinge neatly, and the general positioning of the counter or counters should be exact, and parallel to walls.

On the counter and firmly screwed down should be a cash register or cash drawer. A register is expensive but saves time, for, as it registers the amount of each sale and issues a printed receipt automatically, so it stores the figures and provides the sales total at the end of each day. The cash-drawer simply activates a wheel which moves a paper roll about 1 centimetre on every sale. Some rolls are carboned to provide a tear-off receipt from a second roll working through a slot in the side of the cash-drawer at right angles to the main roll. By writing the sales total before opening the drawer a continuous sales record is provided. But this needs adding at the end of each day. In a busy shop this is a formidable task; as it is in a shop where sales are generally petty, such as sweets and sticks of cigarettes.

An assistant can steal from a register or drawer but must falsify entries or the push-key registrations to avoid the discrepancies coming to light at the day's end. On a register the amount of sale registered by the keys appears in the glass frame visible to the customer and to those on the sales side of the counter and, of course, is printed on the receipt. It is thus difficult to take more from the customer than is received in the sales register. With the drawer the past four or five sales recorded are visible in the glass frame under which the sales roll moves. The shop owner or manager can thus make the occasional and inobtrusive check.

No system yet invented for money is infallible. The hole in the counter certainly is not, for the retention in the hand of part of the sales payment is easy. No mechanical record supports the daily total of sales and, worst of all, the money in the box below the hole cannot be used for change, unless the owner or manager unlocks the box below the hole. In most countries absence of change is considered one of the most unforgivable trading errors. It is bad service and inefficient. African traders are often neglectful in this respect. To have change available in an open box behind the counter is not a good idea. It is dangerously exposed and makes the counter-hole almost pointless. A cash register or drawer can be so fixed that a thief must stagger out with the counter on his back if he wants the money. It is closed between sales and has useful divisions for separating coins and notes of different denominations thus providing ample and accurate change. Large notes can be removed at suitable intervals and transferred to a separately locked portion of the cash drawer or to the office safe.

In any system a cash float or change is essential and should be recorded in a traders books as a capital expenditure item along with other initial assets. It is a tool or item of trading equipment. On "cashing-up" at the end of each day this float, in the most useful forms of change possible, should be returned to its respective cash-drawer divisions ready for tomorrow. The remaining money represents today's sales. This should not all be banked tomorrow for it is often necessary to resort to the safe for further change if the run on float has been heavy.

The hole in the counter is primitive and inefficient but costs almost nothing to provide. It may cost much more in short droppings! The cash-drawer costs more, is fairly secure and efficient but time-absorbing on cashing-up. It can be combined with an adding machine, dispensing with the written drawer roll, but we are then almost up to the cost of a simple cash register. The most elaborate cash-register can, of course, cost a fortune for ordinary retail sales but, provides all sorts of information! It can for example analyse sales as different stock lines and it can separately register the sales of each assistant for sales incentive schemes and bonuses. It does all the adding up of a customer's purchases, gives her a receipt and can also give sub-totals of sales during the day without disturbing the day's final figure. Naturally this type needs electricity to operate and thus we have added costs.

Some customers, particularly institutions, will not accept cash-register receipts as sufficient documents of sales. Only the date, item prices and sales total are usually printed, sometimes with the traders name and, or, a thank-you-for-buying message. They need details of each purchase for budgeting or accounting purposes or for the benefit of the prime buyer when the purchase is merely by an agent e.g. an errand boy. Thus we must have a proper receipt book. This should preferably be printed, though it is much cheaper to buy standard books which we can stamp with our trading name.

We also need invoices if we intend to allow sales on credit. Like the receipt book these can be bought in standard form for heading with our name-stamp, or they can be printed. The duplicate copy, as in the receipt book, is not printed but carries an identical number to the top original copy which goes to the customer. It is, incidentally, advisable to have the customer sign the invoice acknowledging the debt, just as the trader signs the receipt acknowledging payment.

If we are going to be involved in butchery, grocery, green-grocery, hardware or confectionery we shall need scales. Dual dial scales which show the customer and her server the weight of purchases are best but more expensive than the simple arm-balance scales. The dial type saves time, for the pointer can approach more rapidly to the required weight indicating clearly the narrowing margin. With the arm balance this margin is usually passed, necessitating a removal of the commodity being weighed and a further attempt to bring about the exact balance. In a wholesale business or in any retail business dealing in heavy weights a platform scale might also be needed.

A retail food business selling perishables will also need a refrigerator as also will a restaurant or bar. Other equipment might be needed in other businesses; for example a sewing machine in a tailor's shop. All such items are bought from and remain as capital. They are not expenses. Smaller equipment such as knives, scissors, tailors rulers, scoops, receipt and invoice books will have lesser effective lives. These expendable items are expenses and are replaced out of profits. Thus capital equipment holding fairly permanent values and, in fact, saleable should the business be sold, are ASSETS. They include buildings, shelving units, counters, scales, refrigerators, sewing machines, float and stock. The lesser items are equally necessary before we can begin to trade but must be considered of no asset value and later recorded along with such items as wages, lighting, rent, etc., as operational expenses.

The actual purchase of stock will be dealt with later. The present object is to provide ourselves with the essential tools of trade, leaving as much money as possible for stock. This stock will directly earn profits. Our tools can only help us indirectly to make the sales which earn these profits.

To allocate and at the same time account for the opening capital utilised, we may use an example. We will assume that we are entering the grocery trade in empty rented premises with a capital of 1,000-00.

PROPOSED CAPITAL ALLOCATION.

Capital 1,000-00	Shelving	80-00
	Counter	80-00
	Scales	80-00
	Cash-drawer	20-00
	Refrigerator	200-00
	Cash float	10-00
	Cash reserved for expenses	30-00
	Cash for stock	500-00
		1,000-00

If we were purchasing the premises this cost would appear as the top item on the right. Naturally we would then need more capital on the left of the account otherwise there would be no money for stock.

6. Rain

Germination needs moisture and the seed begins to sprout. Stock is, as we have said, the largest and most important component in our capital seed. Its growth will best be assured by regular rain in the form of good buying. Good buying precedes good selling just as sunshine is most valuable after good rain......

It has been wisely said that the secret of good buying is to "have the right goods in the right quantity at the right price in the right place at the right time".

A good trader does not buy the things that attract him but those that will attract his customers. He is not tempted by special offers or discounts if the purchases are going to result in slow sales. It is pointless buying cheaply if turnover is to be slowed down; the same capital would work faster and earn more profits on rapid-sale items. This does not mean to say that every item must have a rapid sale. It is essential that we keep as wide a range as possible in order to create and maintain a reputation as a reliable source of supply in a particular trade.

Buying must be planned. Capital available for stock must be used to best advantage. This means deciding which goods have priority and when and from where they should be bought. Is it worth buying at quantity rates if this means cutting out another attractive line? Would we save what we would lose on the quantity price difference by the increased sales which a more varied range would attract?..

Should we deal with the main importer far away whose prices are lowest or with the higher-cost source near at hand? Would the former choice mean paying out precious capital which cannot begin to earn profits until the goods arrive days or weeks later? Even if advance payment was not required would the delay result sometimes in goods running-out of stock? If so would it be better to buy smaller and more regularly nearby? But are our competitors buying in quantity from the further and cheaper source of supply? If so do we content ourselves with lower profits on certain lines or do we leave them to our competitors and find some special low-cost lines of our own? All these are questions (food for thought) and there are no universally correct answers.
We must simply be aware of:

(a) Our customers needs in the specialised trade we have chosen.
(b) The tricks and methods of our competitors.
(c) The limit of our capital and how best to make it work.

Credit On point (c) we must consider the possibility of credit purchases. If our stock can be increased by using credit, then we are employing the capital of someone else. If our potential sales are definitely greater than our current sales then it would seem logical to go all out for some credit, even if it means paying slightly higher prices, e.g. losing cash discounts. Naturally wholesalers are in competition with one another so they welcome increased trade through credit provided their extra capital employed in their stocks held at our premises is earning more than it would do otherwise invested in banks etc.

And, of course, there is one other larger proviso. Are you an honest and sound trader? Is your business record going to be good? Will you be constantly aware that not all that attractive stock on your shelves is belonging to you? Will you be tempted to use some of that increased sales income in buying a car or building a house?

Would you extend credit facilities to someone who might not measure up to these qualifications? Some wholesalers have had their fingers very badly burned. You must expect them to watch you and investigate you before granting you any sustantial credit, much as they would welcome the sales.

And if you are ambitious and that extra sales potential is there (e.g. in a popular trade your monthly sales would almost equal your average stock) then you should welcome the wholesaler's interest in your credit worthiness. But, again, he is not going to be really interested unless you are likely to use him as one of your main suppliers. If you dodge hither and thither buying petty amounts from dozens of wholesalers you are not likely to establish a sound and useful relationship with one.

In any case, it is not usually good policy to deal with too many suppliers. More work is involved and it is difficult to get down to quantity rates. Try therefore to choose one or two or three main suppliers, depending on your trade, and use them as much as possible. Before choosing them find from whom is the best to buy what, by the following exercise, after you have already decided your stock lines:

COST SURVEY

Stock Section — Canned Fruit, Meat & Vegetables.					A	
Item	Size	Supplier	Pack	Pack Price		After discount
Wham	8 oz	Meat Packers Limited	48	96.00	3	93.50
Wham	12 oz	,, ,,	24	70.00	3	68.00
Wham	8 oz	Best supply Co.	48	95.00	1	95.00
Wham	12 oz	,, ,,	24	69.50	1	69.50
etc						
etc						

One sheet, at least, would be prepared for each section of stock, making easy reference, especially when all are clipped or filed together with heads only protruding, each behind and above the other.

We should probably need a dozen or more foolscap sheets, resulting in a total length of half a yard if each heading occupies nearly an inch. But this is then a very useful file or document, for, not only can we discover our best initial source of supply, but we can readily find it later when re-ordering. And we can see how many bottles, cans or kilos there are to a pack and how many packs we must buy to qualify for different discounts. We notice that the wholesaler's price is higher than the factory. Naturally the wholesaler buys at top-quantity and lowest prices, then adds his costs and profits. But he might save you transport costs and possibly he might allow you credit. Also he is willing to sell a single case, and this may be what you normally need or can afford. Note the quantity division in the discount column.

So, depending on these considerations, you would or would not list "Wham" as one of this wholesaler's lines when trying to break your purchases into limited groupings from limited suppliers.

Incidentally if you were without staff you would use an extra column to the right of the supply sheet showing your retail price. Then all the information you need is at hand. Obviously it would not be wise to constantly change your retail price if you alternated between different suppliers. Nor would it always be wise to let your staff know your profit margins.

DANGERS

To return now to credit buying; it is unlikely that, when we first open our shop, we shall have offers of credit made from good wholesalers. There might be several who are looking for outlets for their "dead" stock, or who are offering credit at high costs. It is doubtful whether we can sell goods which they have bought badly or which will have to be priced high. We must avoid these supply sources and stick rigidly to our buying plan. After meeting our chosen supplie[illegible]d creating a good impression, we might find that one will allow us to take just a few more items than we are able at the time to pay for. We shall probably have to agree to pay "next week" or at the end of the month. The amount may be petty but we must strictly honour our agreement.

The following month may see us enjoy a better relationship with him and consequently a little more credit. Again and always we must honour our debts. We must remember that a certain proportion of the stock we have belongs to him. It is held in our store instead of his. On this borrowed capital we are earning profits. Possibly we are making 20% within the 30 days credit allowed. Even if his credit-price is 5% higher than the cash-price of the purchases. we are still clearing 15% i.e. 15.00 in each 100.00. But all this calculation depends on whether we are really gaining extra sales. If we are not, or if we can ultimately maintain our sale at maximum level without credit, we should clear our debts and become independent. We should not be tempted to turn someone else's capital into unnecessary business or domestic luxuries. Nor must we fall into the extremely bad habit of dishonouring our debts with one supplier whilst turning to another for credit. If we do we might be surprised how rapidly the news will spread amongst the local wholesalers that we are unreliable and dangerous to deal with. No businessmen who intends to progress (and one who doesn't is rarely a businessman) can afford a tarnished name.

Finally let us avoid the mistakes of trying to run before we can walk. Indenting from abroad, with its attendant complications and tying down of finances, running lorries that eat slices of our profits whilst operating only partly full, and trying to become wholesalers before we have learnt the tricks of retailing, can be destructive. Instead let us try to buy as best we can, seeking to co-operate with our fellow traders in the operation of combined buying of popular lines.

We are all in business to make money. Provided the consumer does not have to pay more for her goods, there is nothing wrong in making greater profits by securing the best buying terms. A buying-group of retailers can often share considerable gains by joining in the purchasing of certain lines.

But it needs good co-operation, efficiency and reliability. It also needs careful budgeting so that all are equally ready for each purchase It also often means the payment of cash in advance and a single delivery to one shop. Receipts should be obtained from whoever is handling the cash and placing the orders.

To summarise:

The most productive rain is regular, steady, easily absorbed and not wasted. Avoid the storms of bad buying, over-buying and disrepute.

7. Sunshine

Sales are the sunshine of any business. Without the sun we cannot live and grow. The brighter our shop, our displays, our personality, and our salemanship generally, the brighter will be our prospects and the greater our growth. In employment our wages are paid according to our abilities. In trading we must regard our customers as our employers. They will only be prepared to pay us wages, in the form of profits, in relation to the services we render.

Some traders believe that they can decide these wages with mere regard to hours worked or capital invested. They draw income from their business in the assumption that plenty more will be there tomorrow, next week or next year. Often this income is derived not entirely from profits but from the dissipation of their stock. In fact our drawings, expenses, our purchases of new assets and our reserves for future development should, in a healthy business, be met entirely from profits. Constant profits can only come from satisfied customers.

A satisfied customer is someone who believes that he or she is being given a fair exchange of goods and or services for money. In a shop we hold in stock, ready to provide, commodities which he or she requiries. Without a shop in her vicinity the fulfilment of that need would involve her in considerable difficulties of travel and cost. With plenty of shops she will naturally patronise the best. And the best will be the one that offers the swiftest, cleanest and most efficient supply of the commodity she seeks. She will, however, often buy as much as possible from a single source, in order to save time, if she is satisfied that the service is good and the prices, generally, are reasonable. This, in turn, often means that certain lines can carry slightly better profit margins than those of competitors where service, efficiency and cleanliness are inferior. It is a matter of gaining her confidence and loyalty. To establish loyalty with anyone there must be mutual respect.

Our first essential in building up a "cliental" of loyal customers rests therefore upon our acceptance of what a customer really is:—

A customer is the most important person in our business.

A customer is not dependent upon us. We are dependent upon her.

A customer is not an interruption of our work; she is the purpose of it. We are not doing her a favour by serving her; she is doing us a favour by giving us the opportunity to do so.

A customer	is not a cold statistical name on a receipt or a ledger account. She is a flesh-and-blood human being with biases, prejudices, feelings and emotions.
A customer	is not someone to argue with. Nobody ever won an argument with a customer.
A customer	is someone who brings us her wants, it is our job to provide these profitably to her and to ourselves.

Unfortunately in Africa, we must also accept that certain commercial standards cannot be so easily applied as in highly developed countries. African customers still tolerate bad shopping conditions, so we are not too disturbed. This tolerance does not, however, give us reason to treat customers as any less important here. Certainly we may expect them to have less spending power per head but we are foolish if we believe that only the wealthier justify respect. Certainly also we may be excused mud and wattle shops but not the sale of goods spoilt by damp and dirt. We may not be expected yet to have glass-fronted show windows in rural areas but this does not mean that our stock should not be neatly and cleanly displayed within our shop. If we are trading within a town we shall have to fit burglar proofing to our display windows but must we display dead flies and other insect marks?.

If we really believe that African customers are not conscious of these differences we are insulting their intelligence, and we are not observing how they react when given better facilities and service. In this case there is no point in our becoming or remaining traders. Loyal customers are won by respect. If we respect their desires, but make little effort to meet them, we are lazy. If we were really lazy we would not be reading this! Perhaps we are neither lazy nor ignorant but purely afraid to break out of the rut? We accept conditions as they are for much the same reason that some African customers do. We believe that changes have to come slowly and in step with each other. We do not, in fact, recognise that rural trading has been falling out of step for many years. Can we not see the ultra-modern buildings in the towns, the industries running effectively, electricity, railways, and the planes flying over our heads?

Then neither will we see nor hear the African customer who is trying to keep pace with other progress. She is disappointed and discontented. She is intelligent. She has some idea of what could be pleasureable shopping and what is and what is not value for money. She is also beginning to look for indications of business ethics. And she is a leader influencing others. She is also perhaps a mother, with children who will be future customers. She is not entirely confined to the towns,

This is the customer to whom your efforts should be directed, irrespectively of what type of business you are in or contemplating. You attract not merely her, but her respect. And she will be followed by all who wish for better things. Encourage this movement. If you are a rural trader be a pioneer. Many great strides in progress in Africa have been stimulated by the foreigners who introduced what to them was commonplace. Do we accept that this is why we are and can remain out of step? Or do we accept this as a challenge and a golden opportunity? Naturally, if we do and are, as we almost certainly must be, successful, then many will follow us. But it will not be difficult to keep in the lead; there is such a long way yet to go!

Quietly, carefully and efficiently let us proceed. First let us make sure that the outside of our shop is clean and welcoming; not littered with signs advertising the bigger businesses, but displaying most prominantly our own name. If we are appointed agents for the distribution of certain commodities, certainly we must indicate this. But we must indicate that we have been selected by them not that our shop is one of their possessions. Next let us have room enough for a few customers before a good solid and polished counter. Avoid sacks of food standing where customers ought to be. Behind the counter let us place a smiling "Me". Not merely smiling but clean and sensibly dressed. These first impressions are so important to any customer and to our own confidence. A slovenly man suggests slovenly habits and the psychological reactions might go even further into dirty goods and methods. Admittedly a "smart" man can suggest trickery but we do not have to look smart in that context. Our manners will portray our true selves.

Humility should not be confused with an inferiority complex. The greatest men in the world are usually the most humble. They no longer need or wish to prove themselves superior. Nor should a trader. He may, in fact, be considerably superior in some ways to many of his customers but if he endeavours to prove this he immediately proves himself inferior as a businessman. Customers want service and customers are money. Money is very interesting so customers must also be. We must be interested enough to greet them pleasantly and ask about their health. We may also show interest in their family without appearing too inquisitive. We should particularly try to remember to enquire about any member of the family who is sick or is of some special concern to the customer. Possibly a child is absent or taking important examinations, or perhaps going abroad. Naturally we must also be very interested in their shopping needs.

Our aim must be to please them in every way. This means providing them with not only what they came to buy but also an item or two which they had probably forgotten they needed, or a new line of stock which they might wish to try. Explain that this new item has just come in and is of good quality or compares well in price with a similar line. Give the impression that it is already proving successful and that it would be to her, rather than only your, advantage to try it. Hand it to her for inspection. An item in a customer's hand is already half-sold. If she asks for a packet of tea, check whether she also needs sugar or a tin of milk. If you are a hardware merchant and a customer asks for roofing sheets, check whether he has the right nails. If a drapery and the request is for cloth try to sell the zip or buttons or reel of cotton, or with a new shirt sell a new tie. And so on.

Make yourself and your assistants interested in always achieving a little greater sale than the minimum. But, obviously, avoid being a nuisance in your selling efforts. Show no disappointment or impatience. The customer's judgement and decision must be respected, whether apparently right or wrong.

Socially perhaps we should expect no reward for manners, friendship and help, other than natural reciprocation. In business we do. To what extent are we rewarded? Well, a customer entering our shop to spend 1.00 might give us a 20% return i.e. .20, but if she can be persuaded to spend 2.00 our return is .40. It may take us 2 or 3 minutes to extract this extra .20. Would we not consider this a fair wage? For every 2 or 3 minutes wasted in a nil sale we might easily make a 2.00 sale to offset it. The only business that could gain nothing from efforts of salesmanship would be a business where the owner and his assistants were "rushed off their feet" in meeting the immediate and minimum demands of their customers. Minutes spent in endeavouring to sell extra items would be offset by losses in sales to customers who can wait no longer. Such businesses are rare. Not only are they rare but they are working at sub-potential. They need either more space or more staff, or both. Nothing succeeds like success, but we do not have to prove our popularity to the extent where potential is not fully exploited.

We must aim to constantly expand. If the sunshine stops so does the growth. In business we must either more upwards or drop. We cannot easily maintain a fixed position. The rot of disinterest will quickly strike us, just as it does any worker whose progress and ambitions are thwarted.

Finally let us make our shop really shine. If we dare not display goods on the counter, let us display them on the shelves. Let the sunlight shine through good windows even if we are obliged to barricade them at night. Clean looking goods on clean well stocked shelves look attractive and valuable. Avoid litter and dust on the shelves and on the floor. It is not a sign of a busy business but a careless one. If we have no pride in our business appearance how can we have pride in our service and our motives ?

To summarise:—

Sales are our business sunshine.

The customer is the "boss".

Our appearance portrays our character.

Salesmanship means money.

The mastery of one trade indicates professionalism.

8. Cultivation

Some of the dictionary definitions of cultivation are: to improve develop, pay attention to, cherish. Cherish is a particularly nice word. If we cherish our business, we must pay attention to it. If we pay attention to it, it will, given normal opportunities, improve and develop.

HOURS Too many traders treat their business as a part-time occupation: something to do when it is too hot to work in the fields. The shop might sometimes be open and sometimes closed. Customers do not like to waste time and energy visiting a shop that might be open. We must have proper and regular opening hours. These need not be from dawn to sunset and every day. An eight to ten hour working day is enough for anyone and we should always have one day of rest per week. Customers will soon fit their shopping habits into our times. If we are operating within a trading centre we should try to secure some co-operation from our fellow traders, as to opening hours, such as those applicable in the towns. For, by all keeping open until dusk seven days a week, none of us will gain any more trade. Also we must consider staff. It is unfair to expect employees to work long hours and every day. It is also unreasonable to expect the successful business that employs staff to operate shorter working hours than the single-handed trader. We should all aim to be employers and think as successful businessmen. If our business fortune rests upon our ability to make petty profits after other shops have closed, we are unlikely ever to be a great success.

STAFF When we reach the degree of success that obliges us to employ staff we must, of course, see that every member of our staff reflects ourselves. It is not easy to find trained staff in Africa so usually we must do the training. Do not employ a relative purely because it is nice to see the family receiving financial assistance. We can look after that need when we have really succeeded. An employee must be chosen on his personal appearance, his abilities, his apparent honesty, and above all his willingness to learn. We should then show him patiently how everything is to be done. These initial hours of time will be well offset later when we are able to leave him without supervision. As with the customer, we must gain his loyalty and respect. To do this we must treat him decently, pay him reasonably and, most of all, set him a good example. If possible we should also provide him with some incentive to help us make more profits. This could be done in the form of salary increases as sales rise, or in the sharing of a small part of the profits at the trading-year end. Very often this means no loss to ourselves, but the opposite through profits that would otherwise not have accummulated.

It also often means a deterrent to dishonesty which is one of the biggest problems facing the progressive African trader. It seems that honesty is not often suitably rewarded. Let us create an honesty-is-the-best-policy motive. Wherever reasonable let us take our employees into our confidence about progress and future plans. Let them feel that doors will open for their own promotion. Gain their enthusiam as we "bubble" with our own. Let them see that we really do cherish our business and that they are almost as important as we in its cultivation.

EFFICIENCY How else can we cultivate it? We have attended to cleanliness, tidiness, the right equipment, good buying and consequently attractive goods. We acknowledge the importance of service, good manners and efficiency not only from ourselves but from our staff.

Can we improve upon our efficiency? Apart from having the right goods, knowing their prices and never running out of stock, being open when we are supposed to be, and making no mistakes in any records of credit we may allow, what other factors might we consider?

One of paramount importance and briefly mentioned earlier and so carelessly and frequently neglected is the maintenance of sufficient change. How often do we see a trader look at a customer as if she is a nuisance when she offers paper money? He then expects her to ask someone else in the shop for change or go off in search of it outside. When she returns she has to be served again, sometimes waiting her turn again and causing the trader almost the same time again to serve her. Let us understand clearly that the responsibility for holding a constant supply of change rests with the trader. He should never run out of silver and copper change and rarely out of notes. At least one 10.00 bag of copper and one 50.00 of silver should be available in the safe in addition to the normal daily float of change which is left in the cash-register or drawer, or placed in there each morning. This float is a part of our equipment and is always separated from our ordinary cash and sales income. The additional change is, however, part of our "cash-in-hand". We try to keep at least 60.00 of this as reserve change, replacing it as soon as possible if we are obliged to use it for expenditure. Naturally, if we use it for shop change we simply exchange it for notes from the cash-register or drawer.

We need not allow the excuse that we have no safe prevent us from operating our money affairs efficiently and safely. A safe, the size of a brick, which can be securely fitted into the wall or floor with mortar, costs very little and can give the trader far less risk of losses and much better sleep. This size of safe can comfortably hold all the paper money from one or two days sales plus a good quantity of silver. If we did happen to become over-loaded we would naturally have to leave some of the copper elsewhere.

STOCKS The good habit of bringing goods forward to the front of the shelves when almost out of stock to avoid the impression of a half-empty shop, should not allow we ourselves to be deceived. In a small shop we should constantly check on stock to avoid running out. We should calculate, in relation to our weekly sales of a particular line, an optimum stock and then re-order as soon as numbers fall below that level. In a large business this is done under a proper stock-control system. An elaborate system would not be justified in a small shop but the same results must be achieved. We must not wait until the travelling wholesaler or manufacturer's salesman visits next time. If sales of a particular line have been unusually heavy then we must somehow replenish stocks. If we have no telephone, we must send a message. If the supplier cannot deliver we must arrange to collect. We must **not** run out of stock. Our reliability and thus our hopes of success are at stake. We are trying to cherish and cultivate our business.

CORRESPONDENCE There are many occasions when the first impressions of a business are gained through correspondence. A letter emanating from a trader can give an impression of efficiency, business acumen, good manners and common-sense, or it can suggest laziness, carelessness and a lack of appreciation of the situation to which it relates.

An application to a manufacturer for a wholesale sales agency of his products can open the door for future profitable business or it can close it firmly before the principal has even met the potential agent. A letter such as follows is not uncommon:—

The Chairman

Such and Such Company

Dear Sir,

My company was formed and registered last year and has already proved successful. We are in position to handle your products much better than your present agent here, Mr. Nogood. Everyone complains about him not giving good service.

Please send a telegram fixing an appointment for the undersigned to meet you to discuss when we can commence to sell your goods.

Please reply soon.

Yours faithfully,

Managing Director

The only good points about this letter are:

(a) It is short and to the point.

(b) It begins correctly **Dear Sir** and ends correctly **yours faithfully.**

What is wrong with it ?

(a) It is addressed to the Chairman instead of the Sales Manager (or Marketing Manager).

(b) It offers no facts and figures to support its writer's claim of success.

(c) It gives no reason why he is able to handle the Manufacturer's particular lines to advantage.

(d) It does not appreciate that the Manufacturer's main concern must be with sales promotion.

(e) It insults the Manufacturer's selection of the present agent and assumes that he is unaware of his conduct.

(f) It is not specific in passing complaints against the present agent.

(g) It assumes that the Manufacturer is prepared to spend, and possibly waste, money telegraphing for urgent negotiation when there has been no initial and polite preliminary enquiry.

(h) It also assumes that the Manufacturer must be ready to open business transactions without investigation.

The following would be much more appropriate and should be typed out suitably on headed paper:—

Address
date

The Sales Manager,
Messrs Such and Such Clothing Company Ltd.,

Address

CONFIDENTIAL

Dear Sir,

You may be aware that our company recently began operations in this district. It is currently enjoying monthly sales of 3,000-00 in piecegoods and ready-made clothing.

It occurs to us that the addition of your products to our wholesale range of stock might be mutually beneficial since we operate weekly delivery services within a radius of 50 miles and are dealing with outlets where your products have proved popular. Also we have three senior staff members who have a combined total of 14 years experience in drapery.

We do appreciate that your company has already appointed an agent for this area but we are taking the liberty of approaching you so that our enquiry might be considered should developments warrant it.

If you wish the undersigned to visit your office to give more information about our operations and prospects we would be most happy to arrange this at a date and time suitable to you.

Copies of our Memorandum and Articles are available. Our bankers are Messrs Trader Bank Ltd. whom you may approach for reference if desired.

Yours faithfully,
(etc.)

Here we make merely a polite preliminary enquiry but offer useful information and prospects. If no change of agent (or no additional agent) is envisaged there is no point in proceeding further at present. There should be no harm, however, in sending a copy of the letter if we came to know that the situation was likely to change. In this case we might simply say:

Dear Sir,

We approached you last year on the possibility of our company being appointed your agent and we wonder whether you might now be interested in this proposal ?

A copy of our original letter is attached for ease of reference.

Yours faithfully,

(typed name of writer)
Managing Director.

Obviously a good filing system is essential so that copies of all such letters and their replies are filed in date order.

A wholesale trader might need to keep several separate files. One file might be entirely devoted to enquiries regarding agencies. When and if an agency was agreed he would open a seperate file for all correspondence with this particular supplier. Another file might be devoted to general correspondence with customers. This may occasionally include letters of complaint regarding prices or delivery. A suitable answer would not be as follows:—

Dear Sir,

Your letter of last month was very surprising and written in bad taste. My assistant assures me that he told you the price of the item and said that he could not deliver it until we were delivering other things in your area.

The other trader you mention must have reduced his price just to steal business from me. In any case be cannot give you the same service as we can because he has little stock and I can hardly call him a trader. I hope this will satisfy you and that you will not write such nasty letters in future.

Yours faithfully,
(etc.)

As in the previous bad letter it is written partly in first person and partly third person (we) but this is not so important as:—

(a) He insults his customer's letter (even if it was atrocious there is nothing to be gained by doing so).

(b) He makes no apology for either price or service.

(c) He does not attempt to defend his price except in a reference to service which the customer finds unsatisfactory.

(d) He speaks offensively of his fellow trader and thereby gives the impression of being not only ill-mannered but jealous of that trader's ability to compete.

(e) He makes no attempt to regain the confidence of his customer.

(f) He appears concerned only with the damage his pride has suffered rather than what his customer and his business has suffered.

(g) He replies apparently rather late. He might achieve better results with this sort of answer:—

Dear Sir,

We were most disappointed to receive your letter today and to learn of your dissatisfaction with the price of one of our commodities and our service. We have always endeavoured to give as good a service as reasonably possible and to fix our prices with due regard to value and competition.

Nevertheless there are occasions when competitors offer reduced prices, as we ourselves do, to clear certain lines or to attract new trade. Overall we believe you will agree that our prices are fair in relation to quality and service. In reference to the latter we do regret our inability to deliver promptly on this occasion but, as you are aware, the transport costs over such a distance are considerable and, unfortunately, we had no other orders pending for your area.

Yours faithfully,

9. Pruning

To achieve the best results from our crops we must prune them at an early stage. To obtain the maximum sales with the best possible profits we must prune or trim our selling prices so that:—

(a) Our customers receive good value

(b) We achieve a fair return on capital invested

(c) Our profits relate to work and risks involved

Our customers would perhaps receive good value for money spent if we charged a standard 25% (25 per cent) of profit on the cost of every item. That would mean charging 1.25 for an item which cost 1.00 and charging 5.00 for an item which cost 4.00. This profit would also repay us for capital invested, risks and services rendered. There are several reasons why we cannot employ this simple method and they will become clear as we deal further with the three considerations above.

Before we do so we must agree upon whether our profit should be calculated, as above, on cost price, or on selling price. In trading, most of our expenses result from selling, not buying. We keep no records of our sales at cost prices. Our annual accounts find the gross profit and then the net profit we make against our sales. Unlike manufacturing where everything revolves around costs, trading revolves around sales. Also, the percentage figure of profit against selling prices needs to be less to secure the same volume of profit as on cost. Thus if we ever disclose our profit percentages they would appear more reasonable on sales rather than cost prices. For example the profit on the articles sold at 1.25 would be 20% and not 25%. Likewise the 1.00 profit on 5.00 is 20%, since 1.00 is one fifth of 5.00 and 20 is one fifth of one hundred (per cent meaning in each hundred). An item bought for 1.00 and sold for 1.50 would show 50% profit on cost but only $33\frac{1}{3}$% on selling price. Admittedly, either way, it is a high profit.

Few traders would perhaps now disagree that percentage on selling price is the better method, but let us set down a simple conversion table to enable us to see the different percentages resulting from exactly the same volume of profits:—

Cost	Selling Price	Profit	% on Cost	% on Sales
.10	.20	.10	100 %	50 %
.20	.30	.10	50 %	33½%
.30	.40	.10	33⅓%	25 %
1.00	1.25	.25	25 %	20 %
2.50	3.00	.50	20 %	16⅔%
5.00	5.75	.75	15 %	* 13 %
10.00	11.00	1.00	10 %	* 9 %
20.00	21.50	1.50	7½%	* 7 %
40.00	42.00	2.00	5 %	* 4¾%

* approximately.

Some interesting observations may be made from this table. Firstly on the very low percentages of profits there is little difference occuring between profits relating to cost and profits relating to selling price. In the higher percentages, however, the difference can be enormous. We should feel far less embarrassed at admitting a 50% profit on the item bought at 10 and sold for 20 than we would at 100% profit.

Secondly we appear to be more justified in making higher percentages of profits on goods lower down in the price scale. The volume of profit 00.10 on an item sold at 00.20 is low. Indeed it would be ridiculously low at higher cost prices and would hardly pay us for the time involved in selling the article. But as a percentage it is very high (100% on cost or 50% on sales). This should finally convince us that pricing on sales is preferable. For there is a minimum amount of work and time involved in any sale and we have to receive suitable wages. We might be reluctant, for example, to accept a 00-02 profit on an item costing 00-10 but a 2.00 return on an item costing 10.00 would, though the same percentage, be ample. Thus, though we must make higher margins on lower-priced goods, the percentage figures should still sound as reasonable as possible.

Thirdly, we may observe that a good volume of profit on an expensive item can give us a poor return on our capital invested. If we have to put out 40.00 to make a sale of an item at 42.00 we have received less than 5% profit on sale. Out of this we must cover our sales expenses and our time in selling the item. So possibly we can estimate that only 1.50 out of 2.00 remains as a profit or return on capital invested. This works out at 3¾%.

If that same 40.00 was employed three times during the year (e.g. the item was bought in January sold in April, repurchased in May, sold in August and again repurchased in September and sold in December) we would have received 3 x $3\frac{3}{4}$% annual return on capital invested. This approximate figure of $11\frac{1}{4}$% is barely more favourable a return than we might receive from an investment in much safer directions. We could probably get 7% by lending our money to the Government in buying Treasury bonds. This $11\frac{1}{4}$% is therefore not good enough for we need sufficient return on our capital to also cover business risks and to provide for future development.

Therefore we must either sell at a faster rate in order to turn-over our 40.00 of capital more frequently or we must increase our margin of profit. Obviously, so far as the customer is concerned, the former is preferable, but it may be difficult. There are certain slow lines that traders have to stock (varying, of course, according to their trade) in order to maintain their reputation as specialists. The minimum order from the wholesaler might be one case of 50 items or perhaps only a loose order of 10. In either case it might take 2 or 3 months to clear them. We can only therefore apply high profit margins in order to make their sale truly profitable.

At the other extreme are the lines which enjoy particularly rapid sales. Let us take cigarettes for example. If we allocate 100.00 of our initial capital for stocks to the purchase of cigarettes, we shall probably be disappointed to note that the advertised selling prices, or our competitors prices allow us only an 8% margin of profit. Nevertheless we shall probably find that our sales are so rapid that we have to completely re-stock, on average, every two weeks. This means that our 100.00 has brought in 8.00 on each turn-over. This is 16.00 per month and thus 192.00 in one year. The annual return on this 100.00 capital investment is therefore almost 200.00. The actual margin on cigarettes sales might, incidentally, be better if it were not for the fact that Government duty has to be levied by the supplier on his prices to distributors. Without this duty to collect he would be able to sell at his production price plus only his own profit margin. On this much lower wholesale price figure our same volume of profit would give a considerably higher percentage. The same situation applies, of course, to all dutiable goods. To give an example: an item whose wholesale price might be 1.00 would give a 20% profit if sold at 1.25. If duty of 1.00 was then levied we would have to pay 2.00 and possibly content ourselves with approximately the same volume of profit. i.e. .25 on 2.25. This gives us only an 11% percentage of profit on sales. Naturally there are constant complaints from wholesalers and retailers against this situation and, where there is no price control, attempts are made to achieve profit margins which better relate to capital outlay. Pressure is strongest on high-cost lines that do not enjoy rapid turnover of that capital.

So our margins must be fixed after due regard to the interests of our customers, competition, and (price control excepted) on rate of turnover. Going through various trades we could expect low margins but high capital investment returns on the following lines: cigarettes, matches, beer, sugar, postage-stamps, pencils, aspirins, nails, screws, khaki drill, bread, batteries etc.

On other items such as books, stationery, tools, crockery, cutlery, shoes, piece-goods, baby-foods, cycle parts, roofing materials etc. we would expect higher margins but not higher annual returns. Lines such as shoes require a wide selection of designs and sizes to maintain comparatively low sales. Nevertheless a good specialist can still operate very profitably and often faces a lower level of competition.

Another factor to be considered is wastage or risk. Dress materials go out of fashion, milk goes sour, fresh meat and vegetables cannot be stored for long without expensive refrigeration. Sufficient profits have to be made on these goods sold to offset losses on those that have to be thrown away or sold off cheaply. On fresh items, refrigerated storage and sometimes refrigerated display costs must additionally be covered. Thus we should add between 5% and 20% more margin on most perishable items to the profit margins we would expect if the element of wastage did not exist.

Strictly speaking we should consider the amount of space occupied by goods; our premises cost a certain amount of money to build or rent and this capital or rental cost should be covered by profits from the sale of goods occupied by that space. Naturally there is a general contribution towards this space cost in our normal profit margins but large items of stock ought really to make a special contribution. If, for example, we had grass-cutting machines occupying one quarter of the space in our hardware shop, then the sales of those machines ought to bring enough profits to pay one quarter of our rental payments or amortisation of building costs (extinguishing of capital costs over a number of years.)

So to sum up we must take the following points into consideration when fixing our prices:—

(a) Price Control (in which case all else is ruled out)
(b) Competition
(c) Rate of turnover
(d) Deterioration, inc. fashion risks
(f) Occupancy of space
(e) Special storage or display costs

assuming no price control

We might also bear in mind that very low-priced articles need to carry a minimum profit to cover our operational expenses, and this sometimes causes a higher than normal percentage of profit.

A tailoring shop would be involved in an additional task, not strictly speaking of pricing but costing, i.e. the calculation of production costs. The same would apply to a furniture shop that made its own furniture. In cases such as these the production cost must be found before pricing applies. And there should be profits both on production and on sales.

We might take a simple example of tailoring a ladies dress:

3 yards of cloth at 2.00	6.00
Zip (or buttons) and thread	2.00
Tailoring time	2.00
	10.00

Add 20% profit $\frac{100}{80} \times \frac{10}{1} = \frac{100}{8} = 12.50$

In other words our profits must not be made merely on the cloth itself but on tailors wages and the incidentals. There is little point in having the extra responsibility of staff unless we make a profit on their employment. The price of cloth and incidentals should be the retail selling price, for we would have made that profit had we have sold the cloth to a customer to cut and sew.

Finally let us be constantly aware that the true cost of an item is the cost at our premises, i.e. including all transport and porterage costs. If we receive a lorry-load of mixed goods we must divide the transport costs so that each item bears an amount proportionate to weight and space occupied. There is no hard and fast rule but, obviously, if we hire a 7 ton lorry to bring 6 tons of an inexpensive but heavy item like salt plus 1 ton of expensive but small and light other commodities, it would be inaccurate to share transport costs according to item values. We would have to add 6/7th of the transport costs to the salt and 1/7th to the other goods.

EXAMPLE

Goods carried:—

3 tons of sugar	900.00
2 tons of Maize flour	100.00
½ ton of Paraffin	100.00
½ ton of Soap	300.00
(Transport cost 100.00)	1400.00

In this case we may simply divide the transport cost amongst the items carried in relation to their value:

1400 ÷ 100 (approximately	14.00	= worth of goods carried for 1.00)
Therefore the sugar bears	64.00	(value ÷ 14)
„ flour „	7.00	
„ paraffin	7.00	
„ soap „	22.00	
	100.00	

Taking the paraffin as an example the true cost is 107.00. Assuming the purchase is 25 containers then the cost per container is 107.00 ÷ 25 = 4.28. If we wish to make 20% profit on selling price we should calculate as follows:—

$$\frac{100}{80} \times \frac{4.28}{1} = \frac{5}{4} \times \frac{4.28}{1} = 5.35$$

* always deduct the % of profit to be made from 100.

If the goods carried were:—

5 tons Salt	520.00
1,200 yards of cloth	840.00
cigarettes	600.00
(with transport cost as before)	1960.00

We would not fairly spread the transport cost according to values, for the cigarettes and cloth would occupy little of the space and weight capacity, yet would account for most of the value carried. It would be preferable to consider the sharing of transport costs against space and weight occupied. Perhaps we would then share costs as follows:—

Salt 60.00 Cloth 20.00 and Cigarettes 20.00

10. Termites

We might literally suffer losses through termites if we do not properly rotate our stock and if we do not keep our store clean and keep any sacks of food on raised platforms. But, even if we are not selling food, there are plenty of other figurative termites. The four most common ones are pilferage, wastage, owner-theft, and unnecessary expenses.

PILFERAGE Pilferage is difficult to prevent if we employ inferior staff. As mentioned earlier, one of the most effective deterrents lies in the proper treatment of our staff. Also we are more likely to suffer losses if we continually absent ourselves from our duties. Short of searching staff as they leave work there is little we can do to check pilferage for we do not normally, in a small business, operate any effective stock-control system; we keep no itemised records of sales of stock, but merely money records of sales. We could, of course, apply a check-system to a particular line, e.g. cigarettes if we suspect that this is being hit particularly. In this case we would need to separately record all sales of that line daily. Comparing this with purchases and closing stocks we would discover any shortages. However, a cunning staff-member could still falsify the special sales records or attack another line.

We are not likely to find staff behaving honestly if we ourselves "steal" from the shelves. Yes, it is agreed that an owner cannot truly steal from himself, but the mere act of his taking stock from the shelves suggests that this is tolerated. In a partnership or company it is particularly bad, for the working member is being paid a salary before any division of profits and should therefore pay for the goods that he requires. Even where the business is that of a sole-owner it is still very unsatisfactory for he cannot ever find from his accounts his true business profitability. An efficient trader pays immediately from his pocket for everything that he or his family requires. If he is short of cash, he simply draws more, entering it as "drawings" in his books. Obviously it is advisable to draw one or two substantial amounts monthly rather than cause the necessity of entering many petty amounts. Also, obviously, he must restrict his drawings to a total annual amount well within his net profit figure or there will be no net profit remaining to "plough back" for development.

DETERIORATION In businesses such as bakery, greengrocery and butchery a certain amount of wastage is unavoidable and the profit levels should offset it. In other businesses careful buying and careful storage should avoid wastage. Ungalvanised metal goods should be treated occasionally with a light smearing of oil. Cloth should be kept away from sunlight. Bread, biscuits, chocolate etc., should be stored in cool dry places. Tea and cigarettes should not be stored near to soap or paraffin. Canned fish should not be stored more than a few weeks.

Nothing spreads decay as swiftly as decay. If we can avoid the termites of deterioration we shall make better profits and keep happier customers.

EXPENSES We must also try to keep our expenses down to a reasonable level. In every business there is a **break-even** point where profits just cover expenses. After that point profits continue increasing in relation to sales, but expenses should not. "Overhead" expenses such as rent, licences, electricity and salaries of essential staff have to be covered out of the profits derived from a minimum figure of sales. After that **break-even** point has been passed only comparitively minor expenses are necessary to permit further sales growth. The main extra expense is usually that of staff. This should not be allowed to absorb more than half of the gross profits earned from the extra sales. Otherwise little profit is being made on that staff by the employer who has the responsibility of administration, and there is little net profit available towards business growth.

A small business might be expected to show something like the following figures:—

Minimum expenses (monthly)	40.00
Minimum sales required to achieve 40.00 of gross profit at 20% on sales to break-even	200.00
Net profit at this point is **nil**	
Sales increase to 300.00 & gross profit to...	60.00
Expenses remain at 40.00 Net profit =	20.00
Sales increase to 1,000-00 & Gross profit to	200.00
Expenses increase to 100.00 & net profit =	100.00

As this suggests, it should be possible to increase sales to 300.00 without increasing expenses. The net profit at this point is still, of course, unsatisfactory, for the owner will need to draw it. Nothing will remain for development.

At between 300.00 and 500.00 sales it may be necessary to increase wages by 20.00 monthly and meet additional selling costs of approximately 5.00. This would then leave a net profit of 35.00 on 500.00 sales. The next 500.00 of sales might result in more wages and other costs totalling another 35.00, making our expenses reach 100.00. At this point our net profit figure could be regarded as relatively high. We could possibly afford then to trim our prices in order to further increase our sales, for we are now gaining sales at expenses costs of only 7.00 per 100.00, or 7%. If therefore our average gross profit is reduced to 15% we shall still achieve a very satisfactory net profit figure of 8%.

If we happen to be achieving these good results of 1,000.00 sales on a capital investment of around 1,200-00 thereby turning our stock over monthly (assuming 1,000.00 of stock) we are making an annual return of 80% or nearly double our investment (i.e. 80.00 monthly net profit x 12 months = 960.00)

We may find at this point, however, that our premises are becoming too full of stock and staff and it is difficult to progress smoothly any further. In which case we could, if we have suitable management, consider opening up a branch shop. If we do we shall again need to find our break-even point and do our best to pass it as soon as possible.

It is not always, of course, good policy to begin business with high margins in order to reach break-even point quickly. It might be easier to reach it by lower margins resulting in higher sales. Much depends on location, type of trade, and competition.

INSURANCE

Many business losses can be avoided through insurance. Briefly, insurance might be thought of as a fund through which the fortunate subsidise the unfortunate. All insured pay "Premiums". Those suffering losses are compensated to the value or the sum insured (whichever is lowest) of the item insured and subsequently lost e.g. premises damaged by fire, stocks burnt or stolen, profits lost through business closure due to fire, vehicles damaged, staff or customers injured within your premises, cash lost in transit etc.

An Insurance Broker or Agent will advise and quote rates for various "covers". Insurance as a subject is dealt with in most books on Commerce.

Two warnings however:—

Do not over-insure in the hopes of making a profit out of a loss. An Insurance company might accept the higher premium from you unaware that you are over-insuring. But the Insurance Assessor who visits you if you later claim a loss is specially trained and experienced in discovering accurately what those losses were.

Do not under-insure either. For example if you "cover" for average stock of 2,000.00 but your stock increases to 3,000.00 in a peak season advise your Insurance Company immediately. If you do not and either fire or theft removes, say, 1,000.00 worth of stock you are still left with 2,000.00 which is your insured figure. Therefore the assessor, upon calculating this, is perfectly entitled to refuse any payment. You have apparently suffered no loss. Likewise if your loss was 1,500.00 he would pay you merely 500.00 which added to that remaining restores your stock to the 2,000.00 insured figure.

Two cardinal principles of insurance are (a) all dealings must be with "utmost good faith" and (b) insured persons should not be restored to a better position than they were in prior to a claim.

11. Weeding

Weeds check growth and must be removed. Weeds occur in a business when we accumulate dead stock. Dead stock causes our capital to lie idly on our shelves. While it is thus tied down, it cannot work. Its turnover is halted. Its growth is choked.

The answer is simple. - get rid of it. We cannot avoid the occasional line of bad stock, just as we cannot avoid weeds. But by spotting our weeds in the early stages we can maintain a much faster rate of growth. We should try to dispose of them while they can still command a reasonable price, but if this is difficult, we must be relentless. If the item is cloth becoming faded, or metal going rusty, or packeted goods losing their freshness it can only get worse, not better. The longer we delay, the longer our growth power is choked and the lower become our chances of recovery.

If the value of the item was 20.00 at cost price, this is 20.00 of capital dying. If we quickly dispose of the item at cost price we have lost nothing. How much have we lost if we sell it even at half its cost price, i.e. 10.00 ? Well, if this action is an alternative to allowing it to completely die, we have still lost nothing. In fact we may turn our apparent loss into a considerable gain.

The 20. .00 item sold for 10.00 will result in the conversion of goods into cash, even though the cash is reduced. It then becomes available again for buying stock and, if spent on a line enjoying fairly rapid turnover at 15% profit, will soon be restored to 11.75. This 11.75 goes back to work again as cash and buys more items which sell for 14.00.

The 14.00 converts again and becomes 16.50. Soon it has recovered its original 20.00 and the loss is corrected. The recovery might take 3 months but during that 3 months further deterioration would have occured had we not have taken action. Having recovered, of course, the growth continues and 20.00 becomes 23.75, then 28.00 and so on 'ad infinitum'. Well theoretically; it would soon pass the 100.00 mark and be up to 1,000.00 or so.

But, of course, we have our expenses to pay out of our profits and we must use part of our remaining profits in drawings and purchases of new assets. Thus we cannot say that this particular 20.00 may be permitted to work without any contribution towards our business operations and development.

But we can be sure that, had it been allowed to remain dying on our shelves, it would have made no contributions whatsoever. Thus our theoretical treatment is not too faulty. Capital working is capital growing. Stock turning over is stock bringing profits. If only a small part of those profits goes back into more stock to work and earn again we have constant growth. Otherwise stagnation, then rot and finally collapse.

Again. in the absence of any stock control system, we have no warning bell. We must merely keep our eyes open. There is often a reluctance to believe that we have made a buying mistake. Even the most clever trader does so. We should therefore not hesitate to bring it as a bargain offer to the attention of our customers. Often a counter display with a large price ticket showing the old price cancelled out and the new clearance price replacing it, does the trick. The customer is getting a good bargain, provided the price is cut before the value itself drops. And we are also gaining from the transaction, provided we do convert the sale into the purchase of items with a good sale rate.

CREDIT SALES

Weeds in another form destroy our purchasing power and our profits. It is very tempting to allow a well-known customer to buy now and pay later. But, in effect, she is removing part of our capital. The stock now in her hands cannot be "turned over" anymore. It has ceased to work. If you had purchased stocks on credit from a supplier your purpose should have been to increase your turnover and profits - not to pass the benefit to your customers.

In any case it is really of no benefit to them. If they cannot afford something today they cannot usually afford it tomorrow. And, since they are not in business, they cannot turn it into profits. A little credit allowed to grow like a weed can bring disaster to any business. Display the sign "For Credit Come Tomorrow".

12. Growth

Big plants grow from tiny seeds. We may easily measure their growth, for we observe this in the progress from seed to maturity.

GROWTH = INCREASED ASSETS.

We may equally measure the growth of our business if we begin at the stage of the seed (see final paragraph of Chapter 5). With wise trading the business assets will expand and, as they do, so also will our capital. For this is the debt which is owed by the business to its investors.

By keeping records of all our buying and all our selling we can calculate (after allowance for difference in stock figures at the beginning and end of trading periods) our gross trading profit. After deducting our business expenses from this figure we arrive at our net profit. This net profit, less any amounts we have drawn for ourselves during the trading period, will have inflated our assets. It will have been "ploughed back" not always entirely in cash but more usually into stock and new equipment.

Thus our daily recordings achieve for us not only the efficient control of cash and credit but the calculation of profits for any trading period. Our Balance Sheet then confirms or reflects this growth of Assets. We measure growth by the comparison of one Balance Sheet to another. Our Bank Manager will do likewise if we seek a loan or overdraft from him. The cash-analysis system of book-keeping is particularly suitable for retailers, and provides all of their needs simply and neatly within a single book. See the companion to this book.

It is not possible here to cover properly the large subject of business accounting, nor can real attention be given to various categories and structures of business, commercial law and the wider aspects of international distribution. These must be subjects for seperate study.

RETAIL STOCK-TAKING

Stock is less easily valued than our other assets. Stock-taking is rarely a wholly accurate exercise for the purpose is to assess the saleable value of commodities which have yet to be sold. Since so many factors (e.g. price changes, deterioration, losses etc.) can affect the ultimate saleable value after stock-taking the valuation is an assessment of what the market value might be.

The work and expenses of selling should be charges against the period in which the sales occur. Thus the valuation of stock should not include its potential profits. However, it would be a time-consuming and unnecessary exercise to search through invoices and receipts to locate the individual cost prices from purchased quantities which usually bear little relation to sales and present stocks. The retail prices are, however, conveniently at hand as is also normally the average overall profit figure from earlier accounts.

It is therefore customary to take stock in a retail establishment at retail prices and then deduct from the final total (empties excepted) an assessed gross profit figure. The result will usually give a better indication of up-to-date values (selling prices having already been adjusted for changes and deterioration since purchase). Any slight over or under valuation on the initial stock-taking will subsequently be rectified if a constant margin is used; Though it should be stressed again that no method will provide a guaranteed resale figure.

Where the proportion of sales of certain items do not relate to their proportion of stock (usually fast-sale low-margin items occupy a larger place in sales than in stock) then the overall gross profit margin might be adjusted before application as a constant deduction.

If we owe suppliers for stocks received prior to stock-taking we should deduct the value of these from our total stock value. If customers owe us for stocks sold to them prior to stock-taking we should add the total debt to our stock figure. In this way we have no need to enter "Purchase Creditors" and "Sales Debtors" in our Balance Sheet. We are equally correct, for stocks bought but not paid for can reasonably be considered as belonging to the supplier.

USING THE BANK

Most traders have to visit the larger towns and cities at least once a week in order to do their buying. If these buying centres have banking facilities, as most now do, then the trader can benefit by using the bank. If the trader is very close to the town, the bank can provide him with a great amount of security and improve the efficiency of his operations.

If he is located a long way from the town he may still find the bank useful, but not so much from considerations of security. For he cannot be expected to travel 50 miles or more daily, merely in order to carry money to the bank. His time and expenditure on fuel or fares would soon offset any gain in security. And he may, in fact, run risks of loss during journeys. He would perhaps have to bank on his buying journeys once weekly. In this case he would be wise to use his cash during the week for purchases from travelling wholesalers and local manufacturers who deliver. Having then taken the remaining cash to the town there would be little point in his banking it all and then drawing cheques for his purchases. He may just as well buy what he needs in cash from his suppliers and only bank any surplus. This would form a useful account either for purchasing when his shop cash was insufficient or for savings towards developments and improvements.

If for savings, he would best benefit by opening a savings, or "deposit", account. If he could see his way clear to leave a certain sum untouched for a certain time he could open a "fixed deposit" account giving him a higher rate of interest (between 5% and 8% per annum, depending on period). If he opened an ordinary deposit account he would still receive interest at the lower rate and be able to draw upon the account at any time. He would, not, however, be able to use cheque-book facilities. These facilities are restricted to "current" accounts.

With a current account there is no interest. In fact there are small charges (ledger fees) to pay to the bank in addition to the cost of cheque books.

What does the trader get if he opens a current account ? Firstly his money is safe once it has reached the bank. Secondly he is able to use this money without visiting the bank. Thirdly if his reputation and bank records prove good he may later be able to gain financial assistance from the bank, either in the form of an overdraft - where he can use money in excess of that (balance) standing to the credit of his current account or in the form of a bank-loan. In both cases he would pay interest to the bank and, particularly against a loan, might have to offer security with which the bank would be able to recover any amount unpaid by the trader.

It is perhaps the second benefit, however, that is most attractive. The trader has at hand an amount of payment facility that is valueless until his signature is applied to the cheque. A cheque is an instruction to a bank to pay a named person or organisation an amount of money indicated on the cheque. A copy of the signature of the "drawer" is kept at the bank with a record of the numbers of the cheque within his cheque-book. Thus when a cheque is presented for payment by the "payee", in whose favour the cheque is drawn, or by his banker through whom he wishes payment to be made, there is a check on the authenticity of the instruction. The cheque itself is worthless unless and until a signature exactly resembling that of the client is written upon it. If the cheque-book is stolen, not only is it difficult for the thief to forge the signature but also the payments by the bank can be immediately stopped by an instruction from the client.

The trader is thus able to carry with him in his shop or on his journeys an amount of purchasing power which is equal to his current account balance but which is not cash. He is also, of course, able to make payments by post. This is particularly useful when he wishes a supplier to bring goods to his shop following an order, and where he has a credit account with a supplier which is payable at credit-period ends. If such a cheque is payable to a person named in the cheque "or bearer" it can be converted into money by a bearer. It is thus dangerous to send cheques in this form by post. If it is drawn in favour of the payee "or order", the payee must endorse it by signing his name on the back before he can either get the money or negotiate to some other person. Normally it is safest to make the cheque payable to the supplier of the goods and cross it with two transverse parallel lines between which is written "A/c Payee only". The cheque is then not negotiable. There may, however, be occasions when a trader wishes to pay someone who has no bank account. The cheque should then be drawn to **PAY cash or order** entitling the payee to convert it into cash at the bank of the drawer or to negotiate it with another person after endorsing it at the back.

If a cheque is crossed with the words & CO written between the crossing it can only be paid through a bank. Where the bank is named in the crossing it must, of course be paid through that bank. Where a cheque is "open", i.e. there is no crossing, it can be cashed over the counter at the branch of the bank at which it is drawn, or paid into a bank account.

If a trader is asked to cash a cheque for a stranger, he should take care to wait for the cheque to be cleared, i.e. until his own banker has collected the amount from the drawee bank, before paying the cash to the stranger.

Some traders prefer to buy their cheques printed with the "& CO." crossing. In this case a cheque can be paid across the counter of the paying bank only if the drawer signs an order "Pay Cash" which is written in the crossing; this is "opening the crossing". The full signature of the drawer should then be written below the crossing as it should under any other alteration to a cheque e.g. change of date or name, or money figure and words. The signature is required under every alteration; thus a change in money figures and words requires two signatures. If not correctly written, or altered, a cheque may be returned unpaid with a brief explanation from the banker. If marked R.D., "refer to drawer", is usually means that there are insufficient funds in the account of the drawer.

The counterfoil of the cheque, retained in the cheque-book, provides a record of the payee's name, date and amount of the cheque. Many traders use this for their book-keeping entries: marking the counterfoil with an E when entered.

Remember that an incoming cheque is retained as cash along with other currency. It is not a payment into a trader's bank account until it is cleared.