PLAY BY THE NUMBERS, BUT SHARE THE RESULTS

You gotta keep score to win

I AM A SELF-PROCLAIMED DATA-PIG number-geek. While others' eyes may glaze over at the sound of statistics recited in a seminar, my eyes light up. I am so fond of statistics that when I took a class in Structural Equation Modeling from the Chicago School of Business two years ago and Karl Joreskog (co-writer of software used to conduct SEM) unexpectedly entered the room, I felt like a basketball player would feel if Michael Jordan came to my practice.

Why the fascination with numbers? I'm not sure what my psychologist father would say about my love of all things quantified, but I see the numbers as a way to keep score. I'm a competitive person who likes to win. But, if you don't keep score, how do you know who won?

Can you imagine NCAA's basketball March Madness without scores? It would look like college football's Bowl Championship Series at the end of the season: so what school is really No. 1?

The same is true in business. We have many ways we can keep score, but do we?

The numbers game

I visit numerous businesses throughout the year and invariably ask for some numbers. How low is your employee turnover? Do you know the cost of production for product X? How do you determine price of product Y? How much did this new greenhouse cost per square foot? What is your average sales per full-time employee? How has your net profit margin changed over the last three years? Sometimes I get answers. Sometimes I get puzzled looks.

Imagine my delight when I recently visited Skinner Nursery's distribution center near Jacksonville, Fla., and saw numbers posted throughout the meeting room. I quickly started snapping photos due to the fact that these numbers were posted and shared with all employees and not just known by management.

I've taught my management students how to calculate some key financial ratios. I have also preached to them about the importance of sharing this information. Skinner was a real-life example of a profitable company actually sharing its financial information. And I had to know more about what motivated this company to operate this way — openly sharing such critical information.

In the game to win

Skinner Nursery's distribution center works from the philosophy of Jack Stack, SRC Holdings Corp. president and CEO, in his book "The Great Game of Business." I'm working my way through the book, but Stack's philosophy makes business a game where employees are players and everyone is in the game to win. Win what? Money! It is open scorekeeping for this team and everyone who plays by Stack's philosophy.

Stack's business philosophy embraces not only knowing what the score is in any business, but sharing that information so every employee knows the current score. Why? So they can share in the "win" whether that is reduced plant shrinkage or improved customer satisfaction.

Don't keep employees in the dark

Why does there seem to be great reluctance to share financial information within a company? Well, knowledge is power for starters. Some company officials don't share for fear their employees will know as much as they do. I'd argue for sharing because you might be surprised about the financial misconceptions floating around your company.

Ask any horticulture undergraduate student, or any horticulture employee for that matter, how much net profit an average company is making. You would likely get numbers of 20 percent or higher, if they knew that net profit was ratio of (sales - cost of goods sold - overhead expenses)/sales. You might be surprised to learn that the benchmark average net profit margin for many horticultural companies is 3-5 percent.

Knowing how little is left after costs and expenses are covered can motivate some employees to be better stewards of the resources they're given. It may be even more motivating if employees get to share in some of those savings. So, their knowing can be a powerful way to improve a company's bottom line.

Know average sales per customer

When I speak to industry groups about marketing, I typically ask the attendees who are keeping score and
how they’re doing this. One critical number to keep track of is average sales per customer. Usually, less than 25 percent of the hands are raised at any one talk as an indication of who knows average sale per customer.

It is a relatively simple number to calculate. Take your daily or weekly sales and divide it by the daily or weekly customer count.

National Gardening Association average sales can be used as a benchmark against which you can compare your average sales figure. In 2005, average sales for flower gardening was $71, $300 for landscaping, $21 for herb gardening, $48 for container gardening and $36 for flowering bulbs.

More importantly, take your past year’s average sale per customer and use that as a benchmark against what your target is for this year. Most businesses could target a 5-20 percent increase in average sales per customer, depending on how fast the market is growing. This is an important number to know and to share with your employees. If they know what it is, they can help you improve it.

Add ZIP to your marketing plan

I’m a huge fan of ZIP codes. They may have revolutionized distribution of U.S. mail delivery, but they can also revolutionize your marketing plan. Have you been asked to provide a company with your ZIP code after a shopping experience lately? It is a benign number that nearly everyone has. It is difficult to lie about your ZIP code. If you want to skew Radio Shack’s demographics, next time tell them your ZIP code is 90210 (Beverly Hills).

Only number geeks know how to skew another’s demographics! Aside from the fun, ZIP codes can be pretty serious business. There is lots of free information available about the demographic characteristics of any ZIP code; just use your favorite search engine with the keywords “ZIP code demographics” to see what you come up with.

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