

## RUNNING A RETAIL HERB BUSINESS

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Plunging into the depths of running a retail business takes courage, stamina, commitment, money, time, energy, fortitude, flexibility, bravura, patience, tolerance, compassion, cleverness and above all a good sense of humor. I am sure that there are several other attributes that could be added to the list but you definitely get the idea that much is demanded from the owner of a retail business.

### **PERSONAL COMMITMENT**

The first place every prospective entrepreneur should start is with a thorough self-examination. Take a serious look at why you want to start your own business. Is this something that you've always wanted to do and have been gradually acquiring the necessary skills? Could it be that suddenly an opportunity landed in your lap and you feel compelled to run with it?

Consider the impact that this undertaking will have on your personal time, your family and your primary relationship. Is your significant other supportive and willing to participate enthusiastically? Your personal time will be drastically diminished if you enter the retail business. No longer will you celebrate your holidays the way other people do. You will be too busy trying to bring the holidays to other people. The average small business person easily works 50-70 hours a week, sometimes more. Can you see yourself putting in that kind of time for several years?

Starting a new business requires stability in all the other aspects of your life before you climb out on a new limb. Starting up a new business should not be undertaken immediately after a divorce, death of a loved one, job loss, recovery from major illness or geographical move. Make sure that you have a good support system in place. Identify those people who can be your mentors and will understand your problems and are willing to discuss them with you. Spend time working part-time in a similar retail shop to see if you like working with the general public. This is also a good way to see how other businesses have set up their policies and operational procedures.

It is also important to clearly understand whether you will need to earn a living from this business or if it is merely a way to spend your free time and be a very expensive hobby. How much income do you need to derive from this business in order to survive? Can you depend on the income of a significant other for at least three years until your business gets off the ground?

### **VISION**

Once you have determined the extent of your personal commitment, you will need to clarify your vision. What is it that you want to accomplish? Why do you want to do this? Do you want to create a place of beauty that will attract the general public? Do you want to build the best herbal tea room in the country and hire top quality chefs to prepare a gourmet menu? Or do you simply want to add an herbal gift shop to your existing greenhouse business?

All of these potential business ideas begin with your vision of what you want your business to be. Also define your role in this vision. What part do you see yourself playing? Be as specific as you can. Clearly outline the items that you want to do as well as what you would prefer not doing.

## **BUSINESS PLANNING**

After you have clearly written down your vision, you can begin to write your business plan. A business plan is the worksheet for carrying out your vision. The business plan should be considered as a tool not a paper that you have to write for a grade. Business plans are simply planning tools and will change as time goes by. Planning is time well spent especially before you start your business. The more time you spend planning, the more likely you are to succeed.

Business plans typically include Mission, Purpose and Goals statements. This is probably the most crucial part because it requires you to carefully put down on paper exactly what it is that you envision, why you want to do it and what you want to accomplish with the establishment of this business. What type of product or service do you plan to offer in the business?

The next part of the planning is the Operational Strategy which describes how you intend to meet your goals. How do you want to operate your store? The remaining parts of the business plan include financing, marketing, advertising, assessing the competition and financial projections.

In the beginning it will be hard to know exactly how your business will be run. However, if you attempt to tackle these challenges in the early stages, you will be less likely to suffer the consequences later on.

## **TYPE OF BUSINESS**

It is important to understand what kind of a business you are running. I have visited many herb shops across the country and I have to tell you that no two are exactly alike. This is good and this is bad. It is good because we herb lovers tend to want to be unique and our customers love unique and quaint. However, when it comes to finding someone like an accountant who understands your business, you may find that your uniqueness has several challenges attached to it.

Types of Retail Herb Businesses

1. Greenhouse
2. Herbal Gift shop
3. Herbal Tea Room/Gourmet Food Shop
4. Medicinal/Health Business
5. Herbal School
6. Boutique Approach: Combination of several of the above under one roof

## **LOCATION, LOCATION, LOCATION**

Although this is an old saying in business, it is still true. The physical placement of your business can determine its overall health. Herb store locations vary from suburban

strip malls to downtown city residential areas to out of the way picturesque country settings. Some herb shops are mobile in that they have no specific location because they appear only at festivals, craft shows and flea markets. Your product mix will be determined by your location. If you are in a residential area, your products will be very different from a shop that is located in a high traffic tourist attraction. Tourists may visit your shop only once or twice a year whereas the residential shop has weekly even daily customers and everyone is known on a first name basis.

## **CUSTOMERS**

Customers are a necessary component of your business. You can't live without them. The demographics of your customers are extremely important. Knowing the age, sex, income, and living habits of your customers will tell what to buy and how to sell it. If you are starting up, visit the area where you want to locate. Spend several days watching the customers in the other stores. Visit at key times such as lunch time, weekends, and rush hour. Observe the number of people in the area and how many are shopping. Are they buying or just looking? Notice the types of products they are purchasing. Count the numbers of shoppers to get an idea of how much traffic you can expect. Observe the sales numbers and calculate what the average sale might be.

## **COMPETITION**

Determine who your competition is. Visit these places frequently and understand what they are offering and how you plan to make your business be different. Read their advertising, listen to their customers talking about them. Observe how customers are treated.

## **FINANCING**

Start up costs are usually significant. It always costs at least twice as much as your best estimate because there is always that additional fixture or stereo system or inspection fee that you did not know about when calculating your opening budget.

Most businesses are financed through the owner's savings. Banks are unwilling to lend money to a business that has yet to prove itself. Money can also be borrowed from investors such as a family member or partners. Borrowing against your family's home should be your last resort.

## **ADVICE AND COUNSEL**

Your best friend in business is going to be your accountant. Spend time finding a good one because a bad one will only cost you lots of money in the long run. Find out from other successful business owners who the good accountants are. Big accounting firms often employ young and inexperienced accountants to work with new businesses. Better to find an accountant who has experience working with retail establishments and knows the ups and downs of your particular business. A good accountant will not only fill out the tax forms for you but should also be able to advise you on any financial planning and cash flow management. He or she will be knowledgeable about the local banks and be able to make connections for you when seeking financing. Your

accountant should also be able to offer connections to other business people who are reputable and suggest bookkeepers who are honest and trustworthy.

A lawyer will also be a must. If you incorporate you will need one but also at some point in time, most businesses end up needing a lawyer to address some legal matter. It is always good to have one waiting in the wings rather than trying to find one after a problem has developed.

Consultants come in many varieties. No one in business has all the answers and at some point in time the expertise of another person is required. If you believe that you need the assistance of a consultant, make sure that you fully understand the terms of their services. Also ask for a list of references that include retail establishments.

If you have never run a retail business before, it may be a good idea to pay the owner of a successful retail business to sit down and talk to you frankly about running a retail shop. This information is valuable and the retailer should be paid a fair fee for sharing business knowledge. Most retailers would be very happy to act as consultants to new entrepreneurs who were not directly competing with them. Often, new business owners bypass this valuable source of information thinking that consultants wear three piece business suits and have expensive offices.

A consultant can also be a specialist who can recommend particular products for your shop. If you are planning to carry items like medicinals, paying a recognized expert in the field of medicinal herbs would be well worth the fee. Quality of medicinal herb products vary from vendor to vendor. Knowing ahead of time which products are superior will save time, money and customers in the future.

## **BUDGETS & COSTS**

In starting up your business you will have to calculate your expenses even before they have occurred. You need to do this so that you will be aware of how much you must sell in order to stay in business and meet your expenses. Budgets vary depending on the size and type of business but most of them will follow the same rules of thumb.

Gross Sales	\$300,000
Cost of Goods	<u>-150,000</u>
Gross Profit Margin	\$150,000
Operating Expenses	<u>-135,000</u>
Net Profit/Loss	\$ 15,000

1. Salaries and wages should not be higher than 20% of the gross sales.
2. Operating expenses will be approximately 40-45% of gross sales
3. Retail sales are based upon a 100% mark up on cost of products.

Expenses will include but not be limited to the following:

Inventory/Merchandise	Office Supplies	Repairs/Maintenance
Employee Payroll	Insurance	Legal/Accounting
Owner Salary	Taxes/Licenses	Rent/Mortgage
Utilities	Telephone	Dues/Subscriptions
Store Supplies	Advertising	Postage/Shipping
Equipment	Donations	Auto/Travel

## INVENTORY

Inventory purchases will always be the biggest challenge facing the retail store owner. What, how much and when are the eternal questions. In starting out, one should set up an itemized list of regularly occurring expenses using the best guess estimates available. Once the regularly occurring expenses are calculated, then it is an easy process to determine how much in sales must be generated to cover those costs. For example, these are imaginary costs estimated for a 1,000 sq. ft. store paying \$1500 a month in rent with one full-time and two part-time employees:

Rent	18,000
Employee payroll	33,000
Owner Salary	25,000
Advertising/Promotion	10,000
Utilities	8,500
Postage/Shipping	3,000
Repairs/Maintenance	4,000
Equipment/Fixtures	3,000
Store Supplies	10,000
Insurance	11,000
Legal/Accounting	5,000
Auto/Travel	3,000
Taxes	7,000
Telephone	3,000
Miscellaneous	<u>5,000</u>
Total Operating Costs	\$145,500 x 2 = \$291,000 = required retail sales to cover expenses

To calculate how much product is needed for purchase, one takes the gross sales and divides by two since products are generally marked up 100%. This provides us with a total wholesale amount for the year. Most stores average between 4 and 6 turns in their inventory. An inventory turn refers to how often the inventory is sold and replaced. The longer an item stays on the shelf, the lower the turn. To stay in business a minimum of four turns is considered necessary by most business experts. If \$291,000 is required in gross sales, then the amount of inventory needed to start up is calculated as follows:

$$\$291,000/2 = 145,500/4 = \$36,250 \text{ wholesale purchases based on 4 turns of inventory}$$

In this calculation one would need to spend an initial \$36,250 to stock a business that plans to generate at least \$291,000 annually. This figure of \$36,250 does not include the cost of fixtures. It only covers the products that are sold.

## SOURCES FOR PRODUCTS & PURCHASING

Products come from a variety of sources. Subscribing to trade publication is an excellent way to discover vendors. Attending conferences with trade shows is another way where vendors set up booths displaying their product offerings. Memberships in Professional Trade Associations will also provide you with product information as well as networking opportunities.

Products can also come from local crafters and artisans who might possibly deal with you on a consignment basis. Consignment inventory is the optimal way to stock your store. In this

arrangement the store displays a product and sells it but does not pay the vendor until after payment is secured from the customer. Most stores will pay the artisan 60% of the retail price and keep 40%. This way the merchant is never stuck with dead inventory which accumulates and ties up necessary dollars. However, it can be difficult to stock an entire store with consignment products. Also, the artisans can claim their products and remove them from your store leaving you without inventory if the arrangement is too loose.

## **PURCHASING FROM VENDORS**

Purchasing inventory outright is the general practice for most merchants. Before contacting any vendors you should prepare a credit reference sheet that contains the following information:

- Business Name
- Address
- Owner's Name and Address
- Federal Employer ID Number
- State Tax or Resale ID Number
- Bank Contact, Account Number, Address & Phone
- List of 5 vendors with who you have done in the past

If you are buying from a vendor for the first time, be prepared to prepay or pay C.O.D. After a few purchases most vendors will allow your company to pay within 30 days. Also most vendors will have a minimum purchase amount. Before you place the order, contact the vendor to send you a catalogue and price sheet. Also ask for any information concerning their best sellers, literature explaining the product, and most importantly if anyone else in your area is buying from them.

When you contact a vendor to place an order you should already have written down the times you want to order on your own order sheet. Make sure you understand the shipping costs, how back orders and damages are handled. Keep this order form in an alphabetical folder, so that when the order arrives you can make sure that your order is complete.

When attending a trade show always take your business cards and credit reference sheets. Trade shows should ideally be the place where you can identify new products, get ideas and discuss concerns with vendors. This should not be the place where you do all your ordering. If you attend the same trade shows twice a year and you are only placing orders twice a year, then your dollars are simply sitting on the shelf and are not being utilized to their highest good. You will be getting only two turns on your inventory investment. That is a waste of good money.

Orders should be placed on a regular basis. So that you only stock what you can sell in a month or two month time frame. Products will have varying shelf lives. Plants and food products need to be turned or sold more quickly than herb books or wreaths. Some products will be seasonal such as gardening items or Christmas ornaments and must be sold within a given time frame. The frequency of your orders will be made obvious once your business is underway. Capturing the appropriate data and details will improve your ordering accuracy.

## **CAPTURING DATA**

Retail businesses produce enormous amounts of data and details. It is up to you to determine which data is the most useful. Your cash register is generally the first place to

capture data. Make sure that when you purchase a cash register, it does more than simply add and subtract. Most office supply stores sell registers for approximately \$200 - \$300 that will provide sufficient detail for the start up business. Generally you want to be able to gather your daily sales and also monthly totals if possible. A cash register with a least 12 department keys is a must. It is important to keep track of the sales by category. Some possible categories might be body care, plants, medicinals, bulk herbs, food products, gifts, classes, candles, oil, etc. the register then tracks the sales for each product category. These sales then become your budget for future purchases and let you know what your customers are buying. This becomes a helpful tool especially if you think of your store as being a health center but then upon analyzing sales, you find that gourmet food products and teddy bears are outselling the medicinal herbs two to one.

Point of Sales Systems and bar coding are very expensive programs. Most knowledgeable consultants advise small businesses to stay away from them unless they are extremely computer knowledgeable and enjoy spending lots of time entering data. In the grocery business bar code and scanning systems are generally considered useful for businesses taking in a minimum of \$100,000 weekly in sales. Below this amount they are not cost effective.

There are some very effective purchasing/ordering software systems that are affordable for the small business merchant. OTB out of California is one such system and has proven to be very effective for many retailers. It keeps track of orders placed, merchandise received, transferred and backordered. It also keeps track of daily sales and produces a calculated store inventory amount and purchasing budget for each month for every product category.

## **PRICING**

Pricing will vary from region to region. Visit other stores and see how they are pricing their products. Urban areas generally will have higher mark ups than less populated areas. Always use your good judgment when pricing but don't give away your merchandise either. Pricing your products is usually handled in the following manner:

1. Gift items are generally marked up 100% or keystone. Freight and shipping costs should be added on as well as the cost of a gift box and wrapping paper.
2. Bulk items (dried herbs, coffees, teas, candies, potpourris) should be marked up 300-400% to cover the cost of labor, packaging, labels, etc.
3. Books, music tapes and CDs 60% or as marked on the package
4. Health food items are marked up 60%
5. Don't be afraid to mark a product up higher in price. You can always lower the price but it is very difficult to increase a price once it has been set.

## **RECORD KEEPING**

Your accountant should recommend a package for record keeping. It can be as simple as the dome book or the safeguard one write system or as complicated as a computerized general accounting and payroll system. Whatever system you choose, make sure that you understand it and work with your accountant to make sure that it suits your business and works for you.

## **ADVERTISING & PROMOTION**

Advertising can include many different avenues. Newsletters keep existing customers aware of new products and upcoming events. Print media ads can be placed in newspapers, billboards, flyers, posters, coupon books. Radio and television advertising is available also. Whatever advertising you choose, make sure that you are targeting the appropriate customer base and that you have a way of tracking whether the ad is accomplishing its goal. The most effective advertising are ads that sell a solution to a problem.

Festivals and events are also ways of attracting new and existing customers but require much planning and organization. Getting several merchants to cooperate on a single event is usually very productive since you can combine your budgets for radio or print advertising. Many vendors offer cooperative advertising. This means that they will pay for a percentage of the advertising of their product and sometimes even produce the ad copy for you free of charge.

The most effective advertising are the newspaper articles or interviews that may come your way. Customers respond very quickly to favorable articles in local papers. It is invaluable to your business. Get to know the reporters who cover the garden, food, and lifestyle section of the paper. Feed them ideas. They will be grateful and include mentions of your business more frequently than most. Let the local media also know of your areas of expertise. Let them know that they can call on you for comments or ideas that might help them in their research.

## **OPERATING PROCEDURES**

As you get into your business you will quickly learn that some procedures need to become routine in order to get down to business. Make sure that you write down these procedures as you create them. This makes life less confusing for employees. Some examples of operating procedures would include pricing merchandise, opening store procedure, bank deposit procedure, petty cash or expense reimbursement, closing store procedures, customer refund or credit voucher procedures, etc.

## **IMAGE**

The image that your business projects to the public is very important. Consider carefully the layout, design and traffic flow through the shop. Lighting and signage will increase sales and attract attention where you want it to be. Keeping shelves and floors clean and tidy will tell your customers that you value your merchandise. A clean store will always generate more sales than a dusty, dirty cluttered shop.

Try to pick a logo design with colors that reflect your merchandise. Carry those graphic images out throughout the store. Use your logo on all printed materials, labels, on your newsletter and in any advertising.

## **EMPLOYEES**

The saying goes that your business is only as good as the people you employ. Employees can make or break your business. Employer-employee relationships are perhaps the most challenging part of business because there is no formula that

guarantees success in this area. What works with one employee does not necessarily work with another. Some things that are helpful would include:

- Always be clear
- Write duties and responsibilities down
- Put in writing all wage, benefit, pay dates, vacation time, scheduling, etc.
- Meet with employees on individual basis weekly
- Meet with employees as a group on a monthly basis
- Investigate incentive payment plans that reward employees who show initiative
- Consider profit sharing
- Treat employees the way that you would want to be treated
- Create opportunities to have fun together as a group – shut down store to do inventory and make it fun. Go out to lunch as a group. Buy lottery tickets for everyone!

### **TAKE TIME FOR YOURSELF**

Make sure that you schedule regular breaks for yourself. Balance is hard to maintain when you are working 100% of the time. Schedule times to be with friends and exercise. Refresh yourself and your outlook by going away for a week or two. You will be more productive upon your return and welcomed back by your employees.