

The Case For Increasing Close Rates

How To Dramatically Improve Your Bottom Line!

By
Jay Townley

How many of the people who walk into your store buy something? The answer is absolutely crucial to your survival as specialty bicycle retailer ... and to your ability to profitably grow your businesses!

Close or closure rate is also referred to as conversion rate. Close rate is the percentage of shoppers that enter your store that actually purchase something. Some retailers measure the percentage of shoppers that purchase during the same store visit, and some measure the close rate based on shoppers who come back the same day to purchase. It really doesn't matter which ratio you use, as long as you establish a consistent and accurate method for measuring close rate.

Mike Basch, CEO of YaYa! Bike has become the specialty bicycle retail channel expert on close rates. His research shows that most bicycle storeowners don't know their close rate, and when asked to estimate they guess all over the map. However Mike's research indicates that most specialty bicycle retailers have close rates on new bicycles ranging from a high of around 30% to lows of 10%. This means that on the high side bicycle stores are closing 3 out of 10 new bicycle shoppers, and on the low side are closing 1 out of 10.

We believe in the knowledge based education principal that everything you and your staff do today is marketing. Accordingly, what ever you do to bring shoppers into your store is all for nothing if your store and staff and the shopping experience they provide can't continue the marketing process and convert a shopper to a buyer, and do so consistently and effectively. By the way, we also believe that the process continues from buyer (or customer) to client, and on to client for life!

We will review methods for measuring close rate a little later, including a method for auditing to determine your close rate over several weeks. Before we look at measurement methods, I would like to spend some time looking at the financial implications of close rate.

According to the National Bicycle Dealers Association (NBDA) 2004-2005 Cost of Doing Business Survey the typical¹ bike shop has an annual net operating profit of 1.8% of total revenue². The same typical gross margin on sales of new bicycles is 37%, the gross margin on sales of accessories is 48%, the gross margin on sales of clothing is 43.5% and total operating expenses are 42.5% of total revenues³.

¹ The 2004-2005 NBDA Cost of Doing Business Survey reports most performance indicators based on medians rather than arithmetical average or means. The term typical refers to the median.

² The 2004-2005 NBDA Cost of Doing Business Survey, page 13.

³ Ibid, pages 11 and 13.

In other words, the typical bike shop is taking a loss of 5.5 percentage points on each new bicycle sold, and is taking a profit of 5.5 percentage points on accessory sales, and a profit of 1 percentage point on sales of clothing.

With this as background, let's look at a scenario of a typical bike shop that sells, on average 2 to 3 bicycles per day, over a total of 300 days for a total of 900 new bicycles per year. We will also assume that \$100 worth of accessories is sold with each new bicycle.

We will assume the average new bicycle sells for \$400, so with the accessories added the average sale, or ticket, is \$500. At an average of 3 new bicycles sold per day, and 300 selling days in the year, this totals \$450,000 in annual revenue.

The typical bike shop is generating \$450,000 in annual revenue, with a middle range of \$261,330 to \$720,523, so our scenario fits comfortably in the middle. Another touch point is the typical bike shop does 46.9% of its business in new bicycle sales, and 35.1% in parts and accessory sales for a total of 82% of typical revenue.⁴ Based on this our scenario may be a little on the high side, so it may also skew to the upper side of the middle range.

The average gross margin on our \$500 retail sale of a \$400 bicycle and \$100 in accessories is 39.2%. The gross margin on each bicycle is 37% or \$148 and the gross margin on the accessories is 48% or \$48. The total gross margin dollars is \$196 divided by the total sale of \$500, resulting in an average gross margin of 39.2%.

The typical bike shop makes a net operating profit of 1.8% of total revenue.⁵ For our scenario we are going to use the typical operating margin instead of gross margin on each sale, and subtract total operating expense for our typical bike shop, resulting in a 1.8% net operating profit on the sale of each new bicycle and the accessories sold with each bicycle. You of course can apply your own actual financial percentages to this example and our scenario.

A 1.8% net operating profit on each of our scenario sales means ... a net operating profit of \$9.00 on each \$500 retail sale of a \$400 bicycle and \$100 in associated accessories! We are not making this up ... check it out yourself, and as we have already suggested, apply your own actual financial percentages to this scenario. I can only add that we are being generous ... many bike shops are actually taking a loss, whether they fully realize it or not, on exactly the same \$500 retail sale.

We will also tell you that this does get somewhat better for High Profit Bike Shops, where the typical total operating expenses are almost 7 percentage points lower, and the net operating profit is 5.2 percentage points higher. However, the net operating profit for

⁴ Ibid, page 11.

⁵ Ibid, page 13.

High Profit Bike Shops is \$35.00 on each \$500 retail sale of a \$400 bicycle and \$100 in associated accessories ... and again, we are being generous!

The total gross margin dollars for High Profit Bike Shops on each \$500 sale is \$194.40 and the total operating expenses are \$178 on each sale, so the net is actually \$16.40 per sale! We are using the higher \$35 per sale based on the High Profit Bike Shops 7% net operating profit.⁶

What we are getting at, and what you already know is ... that it is difficult, and some bike shop owners might say extremely difficult, to make a decent bottom line profit on the sales of 800 to 900 new bicycles per year, even with relatively substantial accessory sales associated with every new bicycle sold. The middle range of net operating profit (or loss) for all bike shops in the U.S. is currently between -1.6% and 4.8%. The middle range of net operating profit (or loss) for the high profit bike shops in the U.S. is currently between 2.5% and 8.5%.⁷ Some of you think this stinks, some of you think this is good, but I am confident that very few, if any of you think this is great!

OK, enough with the percentages. What can you do about this dismal operating profit? You can increase your Close Rate, that's what!

You will recall that Close Rate is the percentage of shoppers that enter your store that actually purchase something. Our scenario is based on a close rate of 30% on new bicycle sales ... that is our typical bike shop is closing 3 out of every 10 new bicycle shoppers, as follows.

Table 1
Annual revenue and annual net operating profit based on a 30% Close Rate

Close Rate	Close Rate in Units per day	Average Retail Sale Ea.	Typical Operating Margin Ea.	Typical Total Operating Expenses Ea.	Net Operating Profit Ea.	Total per Day	Days per Year	Annual Total
30%	3	\$500				\$1,500	300	\$450,000
			\$221.50	\$212.50				
					\$9.00	\$27	300	\$8,100

Table 1 shows the net operating profit on the sale of 3 new bicycles per day at an average retail sale of \$500, including a \$400 bicycle and \$100 in accessories. The Annual net operating profit on these transactions is \$8,100 or 1.8% of revenue, which corresponds to the typical net operating profit for all responding bike shops to the 2004-2005 NBDA

⁶ Ibid, page 13.

⁷ Ibid, page 13.

Cost of Doing Business Study. Remember, this is based on the very real assumption that the typical bike shop is closing 3 out of every 10 shoppers that enter the store, or the close rate shown of 30%.

Now, let's improve by selling one more bicycle per day, or increasing to a 40% close rate, selling 4 out of every 10 shoppers that come into the store.

Table 2
Annual revenue and annual net operating profit based on a 40% Close Rate

Close Rate	Close Rate in Units per day	Average Retail Sale Ea.	Typical Operating Margin Ea.	Typical Total Operating Expenses Ea.	Net Operating Profit Ea.	Total per Day	Days per Year	Annual Total
40%	4	\$500				\$2,000	300	\$600,000
			\$221.50	\$212.50				
	3				\$9.00	\$27		
One additional unit	1	\$500	Gross Margin \$194.40	Less G&A Expenses \$79.50	\$114.90	\$114.90		
Total	4					\$141.90	300	\$42,570

Table 2 shows what the immediate positive financial impact of closing, or converting one more shopper per day. A 40% close rate ... increases annual unit sales to 1,200 bicycles with \$100 in accessories per bicycle, and a revenue increase of \$150,000, or 33% over the base 30% close rate where the typical bike shop is today. More importantly, the net operating profit increases by \$34,470, or 426% to \$42,570 for the year.

One more bicycle per day – and you can realize an increase in net operating profit of 426%! How? The answer is simple. The first three bicycles and the associated \$100 in accessories are covering all or the majority of the stores total operating expenses. The one additional new bicycle sale is incremental ... or an increase in operating profit at the same selling price because most of the costs are already covered by the first three bicycles that were sold that day. You will note that we have reverted back to gross margin on the incremental sale because it is the more conservative number, and we have also deducted the typical general and administrative expenses of 15.9%⁸, or \$79.50 to make sure that the incremental sale does carry what we feel is an appropriate portion of the store's operating expenses.

Before you ask ... yes there are specialty bicycle retailers already reaping these kinds of gains in revenue and profit, and we will present an actual case study at the end of this article, and there will be more case studies as the year progresses.

Also, start thinking about how you can not only increase your close rate by one more bicycle per day, but also increase gross margins and reduce costs – both of which will enhance your net operating profit. By the way ... reduced costs can come in the form of increased inventory turns.

⁸ Ibid, page 13.

OK, we have looked at the significant incremental impact of closing one more sale per day – so let’s think ahead, and look at what the impact would be of closing two more sales per day, and moving close rate up to 50%, or converting 5 shoppers out of every 10 that visit your store.

Table 3 covers the metrics of a 50% close rate – which our experience says is very doable and was actually being achieved by a number of specialty bicycle retailers during the 2005 selling season. A 50% close rate moves unit sales up to 1,500 bicycles with \$100 in associated accessories. Annual revenue on these transactions increases to \$750,000, or 67% over the base 30% close rate. Annual net operating profit increases to \$77,040, an increase of 851% over the base 30% close rate net operating profit.

Table 3
Annual revenue and annual net operating profit based on a 50% Close Rate

Close Rate	Close Rate in Units per day	Average Retail Sale Ea.	Typical Operating Margin Ea.	Typical Total Operating Expenses Ea.	Net Operating Profit Ea.	Total per Day	Days per Year	Annual Total
50%	5	\$500				\$2,500	300	\$750,000
			\$221.50	\$212.50				
	3				\$9.00	\$27		
Two additional units	2	\$500	Gross Margin \$194.40	Less G&A Expenses \$79.50	\$114.90	\$229.80		
Total	5					\$256.80	300	\$77,040

We have emphasized that an increase in measured close rate from 30% to 50%, that is increasing from converting 3 out of 10 shoppers to 5 out of 10 shoppers has been done, and we have included a case study for you at the end of this article. We are also aware of several specialty bicycle retailers who are approaching 60% close rates, and others that are at or near 50% who are setting their goal for 2006 on achieving a 60% close rate and total annual revenue of \$1 million.

We will cover how to measure close rate and also how to achieve steady increases in close rate, but first let’s take a look at what the metrics of our scenario are at the 60% close rate level.

Table 4
Annual revenue and annual net operating profit based on a 60% Close Rate

Close Rate	Close Rate in Units per day	Average Retail Sale Ea.	Typical Operating Margin Ea.	Typical Total Operating Expenses Ea.	Net Operating Profit Ea.	Total per Day	Days per Year	Annual Total
60%	6	\$500				\$3,000	300	\$900,000
			\$221.50	\$212.50				
	3				\$9.00	\$27		
Two additional units	3	\$500	Gross Margin \$194.40	Less G&A Expenses \$79.50	\$114.90	\$344.70		
Total	6					\$371.70	300	\$111,510

Closing 6 out of every 10 shoppers that enter your store ... can have some very significant and pleasing financial rewards, as table 4 shows. New bike sales increase to 1,800 with \$100 in associated accessories per unit. Total annual revenue on the sale of 1,800 bicycles increases to \$900,000 and the net operating profit ... increases to \$111,510 or 12.4% of revenue. Since we already know that our scenario is about 82% of typical bike shop annual revenue, we can also view this as the \$1 million revenue projection that some of your fellow specialty bicycle retailers are aiming for this year – because they have already experienced the financial power of increasing their close rates over the last two years.

Table 5 is a summary of the key financial metrics in comparing the base 30% close rate with the increases to 40%, 50% and 60% close rates that we have presented and discussed for the typical bike shop.

Table 5
Comparison and Variance between 30%, 40%, 50% and 60% Close Rates

Close Rate	Total per Day	Annual Total	Annual Variance from 30% close rate	Annual Variance from 30% close rate
30%				
Revenue	\$1,500	\$450,000		
Net Operating Profit		\$8,100		
40%				
Revenue	\$2,000	\$600,000	+\$150,000	+33%
Net Operating Profit		\$42,570	\$34,470	+426%
50%				
Revenue	\$2,500	\$750,000	+\$300,000	+67%
Net Operating Profit		\$77,040	+\$68,940	+851%
60%				
Revenue	\$3,000	\$900,000	+\$450,000	+100%
Net Operating Profit		\$111,510	\$103,410	+1277%

Before we move on to how to measure close rates, and more importantly, how to actually make a close rate increase happen, I want to cover three questions that are probably already going through your mind.

- I already am achieving higher net operating profit than your typical bike shop – so what will increasing close rate do for me?

We realize that High Profit Bike Shops are already performing better and achieving better financial returns than the typical bike shop that we have used in our primary scenario. We have included Appendix A to the article that contains a full analysis of increasing close rates from 30% to 40%, 50% and 60% for High Profit Bike Shops. If you are already achieving a net operating profit of 7%, up to 8.5% or greater you are already among the best in our channel of trade⁹.

What table 6 in Appendix A shows is that a 30% close rate for High Profit Bike Shops that are selling around 900 new bicycles annually is already yielding a net operating profit of \$35 per unit on the same \$500 sale we have been using. \$450,000 in revenue on the sale of 900 bicycles is producing \$31,500 in net operating profit per year, or 7% of total revenue. Not at all bad based on the overall performance and metrics of all bike shops in the U.S.

When you have time, take a look at Table 7 in Appendix A. An increase to a 40% close rate, or converting 4 out of every 10 shoppers ... takes annual net operating profit up to \$65,970, or 11% of total revenue, and increase of \$34,470 or 109% over the 30% close rate. If these metrics for a 30% close rate track at or near what you are now experiencing ... how could you not want to increase your close rate and make an additional \$34,000 this coming year?

- You make this sound easy – can I actually increase close rate and keep doing business the way I have been?

In our enthusiasm, we probably do make it sound too easy ... and it isn't, which you have probably already figured out. While increasing close rate isn't easy, it is achievable if you are willing to change the way you do business, and depending on how you are operating today, you will have to change a lot, or only a little. But change you must – so the answer is, no ... you probably can't achieve a real increase in close rate without making changes in the way you are doing business.

We are closing in on the details, so you will be able to better determine what kind of changes you will have to consider and make happen in your store and your operations.

- What can I do to increase close rates besides reduce my prices further, or pushing my staff to be “pushier” with our customers and selling them stuff they don't want or need?

From what Mike Basch tells us, this has been an all too common question and/or response from bike shop owners when presented with the case for increasing close rates. Reducing

⁹ Ibid, page 13.

prices is the last thing you want to do, and is totally out of the question as a tactic to increase close rates.

Pushing your staff to get “pushier” with customers is also out of the question, and is not an acceptable tactic on the road to increasing close rates. We have already made it as clear as we can that you will probably have to make changes in the way you do business and in your store in order to achieve a sustainable increase in close rate.

The changes include moving from being product focused to being consumer focused, and for your staff to become consultant-advisors that use information they gather about customers to craft individual solutions. This is not about any of the old ways of selling, and increasing close rate is all about shoppers, customers and clients and the experience they have in your store.

How to measure close rate:

There are at least four methods that we know of, and if you know of or can think of any others, please let us know.

Point-of-sale software system: If you already have POS software installed and operating you can track close rates if the system allows you to enter prospects and track them against closed sales. If you can enter shoppers names and contact information for follow-up, develop a procedure with your staff for entering every new bicycle shopper or prospect, and matching these entries against closed sales. The advantage is being able to measure close rate over longer time frames, and tracking who comes back to purchase after multiple store visits and over weeks or months. You will have to make sure you put a procedure in place and then make it policy for staff to do the required entries. One way to encourage them is to have them call or E-mail prospect or shoppers 24-hours after they visit to answer questions – which normally produces a high sales rate because shoppers appreciate the store reaching out to them and developing a relationship.

Body Scanning CRM System: If you are already a Body Scanning CRM retailer your System software will allow you to code prospects, or shoppers and closed sales. If you are a Body Scanning CRM retailer and don't know how to track close rate using the software call or E-mail and we will get you started. Also, the Body Scanning software will interface with several POS systems so prospect or client contact information has to be entered only one time. At the least – total Scan's divided by total sales for the day will give you a close rate. However, your staff has to consistently follow the process of Body Scanning every new bicycle shopper that enters your store (which we recommend anyway) – or at least entering them in the database.

Poker Chip Method: This is our recommended method for quickly auditing your store close rate to find out where you are now, and the quickest and least expensive method for

measuring close rate if you don't have the other support systems installed. The equipment consists of two large containers or bowls and enough white and red poker chips to cover the total number of shoppers you have in your store every day. The procedure, which you and your staff must follow consistently, is to start each day with an empty container or bowl. Each staff member takes a white poker chip and puts it into the container for every shopper that enters the store. A red poker chip is put into the container for every sale that is closed. At the end of the day count the number of white poker chips representing shoppers, and the number of red poker chips representing closed sales, and divide reds by whites and you will have your daily close rate. Record the daily close rate on a form or in your computer and review and post the results for our staff. If you are auditing to find out what your close rate actually is, we suggest you first hold a meeting to educate your staff as to the vital importance of consistently following the procedure, and review close rate metrics at your regular staff or store meetings. Conduct the audit and record the daily close rates for at least two weeks, and if you can consistently audit a month it would be better.

Door Counter: This is our least liked method, but this is a personal bias. When a door counter is installed it will count every time your main entrance is opened – both in and out for a single door. The door counter will also not know if a staff member or UPS or Fed Ex driver is accessing your store. So, if you have or will be using a door counter you will need to determine what the norms are for entry and exit by other than shoppers. When you have established the base norms you will have a daily count of how many times your main entrance was opened and closed and you can divide this by the number of sales to determine close rate. As we said, this is our least favored method for determining and tracking close rate, but it seems to work for some retailers, and we favor any method that will result in a reliable and consistent tracking of close rate as opposed to not knowing or tracking this vital piece of information.

How to increase close rate:

The answer is simple ... become totally consumer-centric, but this answer is also difficult because many specialty bicycle retailers think they are already consumer-centric, and unfortunately they are wrong.

One thing is for certain. Unless you are already truly consumer focused, delivering an extraordinary shopping experience, continuing to do business the way you have for the last five or ten years ... will probably not do anything to improve either your close rate or your profitability.

What our research has found is our channel of trade has focused on product and the enthusiast sub-culture for so long that it has developed an endemic prejudice – a snap judgment about what a cyclist should look like, and what they should ride and where they should ride. Too many bike shops and their employees simply don't see ... and I mean literally ... don't see the seniors, baby boomers, women and minorities that venture into their stores. Unfortunately this total lack of interest and worse yet active neglect has turned many “regular” folks away from what they consider elitist bike shops.

Now, let's look at the flip side. Consumers, shoppers, also have hard-wired prejudices, and they will make a snap judgment within seconds of entering your store as to their overall comfort, and their impression of the shop-ability and friendliness of your store.

I mentioned that most specialty retailers think they are already consumer-centric. Here is a simple test you can take to determine if you, your store and your staff are already consumer focused. This test has been taken from *What Are You ... A Bike Shop or a Specialty Retailer* an article by Elliot Gluskin. The complete article is published as Chapter Three of our E-Book, *Creating An Extraordinary Specialty Retail Shopping Experience*.

- Is your store atmosphere appealing?
- Will the customer find what he or she needs easily?
- How quickly is the customer acknowledged?
- Will the customer feel comfortable in your store?
- Can you truly say that you and your employees consistently deliver an extraordinary, satisfying shopping experience?
- Are you making the bicycle buying experience simple, fun, and easy?

Be honest, and ask your friends, relatives and any non-enthusiast cyclists that you know to apply this simple test to your store as well. Look over all the responses and see if you reach any conclusions about how consumer focused you are ... or are not.

I mentioned that most of the specialty bicycle retailers that think they are now consumer-centric are wrong. I have reached this conclusion because to be truly consumer-centric a retailer has to not only totally focus on the consumer and their shopping experience, but also on measuring their success by the sale gain generated from an individual client.

The consumer today is in charge. All the leverage in the marketplace has shifted from sellers to buyers. Consumers have gained this leverage because of the power the Internet has given them to research and obtain more knowledge about your store, your products and the prices readily available from multiple sources for your products – than you and your staff have. The only viable option you have to neutralizing the knowledge that consumers and shoppers have about you and your products is to gather more information about them, and their wants, needs and preferences, and use this knowledge to create and provide individual client solutions.

In a consumer-centric store; gathering, retaining and appropriately utilizing information about individual customers drives a total shopping experience where product-transactions are replaced by individual client solutions that are priced discriminately – that is, individually priced to fit the solution. When you can do this, and tell me what your share of individual client's wallets is, you will be totally consumer-centric!

In between being a bike shop and becoming totally consumer-centric is migrating to being a consumer focused specialty bicycle retailer, and increasing your close rate. The transition involves:

- Communicating with and understanding your most loyal current customers.
- Defining the new client base or target consumers you want to attract.
- Educating your staff to the wants, needs and preferences of both your current loyal customers and the new client base or target consumers you want to attract.
- Evaluating your staff performance using tools like mystery shopping and customer satisfaction surveys to further focus your staff education.
- Recruit staff members that are your target market(s). Seek people-people and educate them about your business and products.
- Layout, design and merchandise your store to be as warm, friendly and consumer-centric as possible, and seek input and suggestions from current and target customers.
- Develop a retail shopping environment and process that is totally consumer focused and is all about the shopping experience. Make it all about them!

All of your efforts in moving away from being product focused and becoming consumer focused will culminate in your increasing your close rate and being able to increase your gross margins, and eventually reduce costs.

A Case Study:

Following is a case study covering a specialty bicycle retailer who has made the journey from bike shop to specialty retailer and is on the road to becoming totally consumer-centric. Beth Annon-Lovering, owner of B & L Bike Shop in Davis, California has grown over the last three years from \$650, 000 to \$870,000 in annual revenue, has increased close rate over the same time frame from 33% to 48%, increased gross margin to 48.5 in 2005 and is on her way to a \$1 million year in 2006. Beth has been good enough to make her figures and metrics available to us for publication in this case study, and we will provide other case studies as they become available for publication.

Case Study: B & L Bike Shop, Davis, California¹⁰

“We have worked very hard on redesigning the flow of the store and on customer service. Everyone shopping for a bike will go through our process.” Beth Annon-Lovering, Owner.

The core of B & L’s success is the owner’s vision and values. As Beth Annon-Lovering will tell you, B & L stands for her vision “Bicycling and Loving it.” Davis California is a

¹⁰ Interview conducted by Tad Hylkema and case study written by Tad Hylkema with excerpts taken from a case study by Mike Basch, CEO of the YaYa! Bike Cooperative.

very bicycle friendly community, and was recently given a Platinum award as the most bicycle friendly city in the country by the League of American Bicyclists. However, with this said, Davis is also a highly competitive, and stagnate bicycle market. There are no less than seven other bike shops within walking distance of B & L's location.

In this highly competitive market B & L has increased total revenue by 113% and net pre-tax profit by 328% from 2004 to 2005! What is even more intriguing is the fact that B & L carries none of the top three bicycle brands! This means that B & L's growth came, primarily from the seven other bike shops that are within walking distance, and the other retailers of bicycles in the market area ... some of whom are carrying the top three bicycle brands. It is readily apparent that Beth Annon-Lovering has established B & L Bike Shop as a preeminent brand in the minds and hearts of her clients.

T.H.: Please describe your store. (Layout, square footage, location, et cetera)

We are located in the Downtown of a University Town, just 15 miles from a major metropolitan city. The retail square footage of the store is 2500, with a repair area of 500 square feet. We have 300 square feet of upstairs for storage and offices.

T.H.: How many employees work for you? (Full time, part-time)

Three full time and eleven part time employees.

T.H.: Please describe your market. (Population, socio-economics)

A family bedroom community with a population of 60,000.

T.H.: Please describe your client. (Families, enthusiasts, juvenile)

We have a large young family population but also the mix of the University students and faculty. We cater to the family market and enjoy the benefits of 30,000 students each September.

T.H.: What brands do you carry?

Jamis, Hampton Cruisers, Bianchi, Electra, Breezer, KHS, Manhattan, Free Agent and Redline.

T.H.: What was your business like five years ago compared with today? What changes have you made? What changes are you still making? Are there any other changes that you are going to implement?

We have grown from \$650,000 to \$870,000. We worked very hard on redesigning the flow of the store and on customer service. We implemented ClientCare and Body Scanning CRM. We consistently work on improving customer service and for 2006 we

are going to have a staff session to define our Vision and Mission and create goals for every level of staff to work towards obtaining.

T.H.: Do you track closing rates? If so, how do you track it and what is the rate?

We track closing rates through the Body Scanning CRM system. Our current closing rate is 48%. In 2004 our close rate was 33%. The increase in close rate has directly contributed to our increase in both revenue and profitability.

T.H.: What is the biggest contributing factor to your success?

Defining our market and adjusting the inventory to fit our market, getting the high-end money hog inventory out since it didn't fit with the demographics of our market.

T.H.: Where do you see your business five years from now?

Maintaining steady growth that corresponds to the growth of the community along with the growth of household turnover.

T.H.: Please describe your sales flow (process) from the time a consumer comes through your door to the time they leave.

When a customer comes in, we greet them and start a conversation with them; if they are looking at bicycles, we bring them to the Body Scanning CRM area and scan the customer while asking the questions needed to complete the Body Scanning process. We get a very good idea of what type of bicycle will best fit the needs of the customer, we then pull out our first choice of a bicycle for them, adjust it to their measurements and send them out on a test ride.

While they are out on the test ride we find a second bicycle and have it fit and ready for them as they return from the first test ride. As we close the sale we outfit the bicycle with the accessories necessary to get the customer riding comfortably and safely. We explain the 2 levels of Client Care, which started with the Body Scanning and finalize the paperwork.

The bike goes into the repair area for accessory install and we give the customer the time frame needed to pick up their new bicycle. When the customer comes to pick up the bicycle we go through the uses of all their accessories and show them how to shift, brake and undo the brakes for tire removal.

T.H.: Would you be willing to disclose your margins?

48.5 Gross Profit for 2005.

T.H.: What is the average selling price of a bicycle in your store?

\$300.09

T.H.: What do you do for staff education?

We do monthly training meetings and online training with Growth Cycle.

T.H.: How do you market yourself?

Mostly through word of mouth, but we do a little newspaper advertising, email marketing and currently a once a year mailer, but we are going to do a couple more mailers this year as the one we currently do is very successful.

T.H.: Do you consider your store your brand?

Yes – we carry second and third tier bike lines so we NEVER advertise the brands we sell as who we are, B & L Bike Shop is the brand and we stand behind the brands that we happen to sell.

T.H.: Do you actively use your database that is generated by Body Scanning?

Yes and No I guess would be the answer here, since our POS system syncs with Body Scanning CRM and we use our mailing and email data base from the POS system for marketing then the answer would be yes, but not directly from the Body Scanning CRM data file.

T.H.: Where do you see the industry five years from now?

I see the industry condensing by at least 20% - losing small independent stores in larger markets as the industry big players convert to theme stores of their main suppliers and losing small suppliers that can no longer compete with the freight benefits and pricing of the larger suppliers.

Appendix A

This Appendix consists of the five tables, numbers 6 through 10 that show the dramatic positive financial impact on High Profit Bike Shops of increasing close rate from 30% to 40%, 50% and 60%.

Table 6
Annual revenue and annual net operating profit based on a 30% Close Rate

Close Rate	Close Rate in Units per day	Average Retail Sale Ea.	Typical Operating Margin Ea.	Typical Total Operating Expenses Ea.	Net Operating Profit Ea.	Total per Day	Days per Year	Annual Total
30%	3	\$500				\$1,500	300	\$450,000
			\$221.50	\$212.50				
					\$35	\$105	300	\$31,500

Table 7
Annual revenue and annual net operating profit based on a 40% Close Rate

Close Rate	Close Rate in Units per day	Average Retail Sale Ea.	Typical Operating Margin Ea.	Typical Total Operating Expenses Ea.	Net Operating Profit Ea.	Total per Day	Days per Year	Annual Total
40%	4	\$500				\$2,000	300	\$600,000
			\$221.50	\$212.50				
	3				\$35	\$105		
One additional unit	1	\$500	Gross Margin \$194.40	Less G&A Expenses \$79.50	\$114.90	\$114.90		
Total	4					\$219.90	300	\$65,970

Table 8
Annual revenue and annual net operating profit based on a 50% Close Rate

Close Rate	Close Rate in Units per day	Average Retail Sale Ea.	Typical Operating Margin Ea.	Typical Total Operating Expenses Ea.	Net Operating Profit Ea.	Total per Day	Days per Year	Annual Total
50%	5	\$500				\$2,500	300	\$750,000
			\$221.50	\$212.50				
	3				\$35	\$105		
Two additional units	2	\$500	Gross Margin \$194.40	Less G&A Expenses \$79.50	\$114.90	\$229.80		
Total	5					\$334.80	300	\$100,440

Table 9
Annual revenue and annual net operating profit based on a 60% Close Rate

Close Rate	Close Rate in Units per day	Average Retail Sale Ea.	Typical Operating Margin Ea.	Typical Total Operating Expenses Ea.	Net Operating Profit Ea.	Total per Day	Days per Year	Annual Total
60%	6	\$500				\$3,000	300	\$900,000
			\$221.50	\$212.50				
	3				\$35	\$105		
Two additional units	3	\$500	Gross Margin \$194.40	Less G&A Expenses \$79.50	\$114.90	\$344.70		
Total	6					\$449.70	300	\$134,910

Table 10
Comparison and Variance between 30%, 40%, 50% and 60% Close Rates

Close Rate	Total per Day	Annual Total	Annual Variance from 30% close rate	Annual Variance from 30% close rate
30%				
Revenue	\$1,500	\$450,000		
Net Operating Profit		\$31,500		
40%				
Revenue	\$2,000	\$600,000	+\$150,000	+33%
Net Operating Profit		\$65,970	\$34,470	+109%
50%				
Revenue	\$2,500	\$750,000	+\$300,000	+67%
Net Operating Profit		\$100,440	+\$68,940	+219%
60%				
Revenue	\$3,000	\$900,000	+\$450,000	+100%
Net Operating Profit		\$134,910	\$103,410	+328%

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