

An Analysis of La Canasta Basica

San Pablo Tacachio (1/2/15 to 1/9/15)



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An Analysis of 'La Canasta Basica'

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Introduction

We believe *La Canasta Básica* has a great deal of potential as both a retailer and distributor of basic food items, snacks, and other goods in the San Pablo Tacachica region of El Salvador. In large part, this is due to the dedication of the women involved in the new economic initiative. However, despite the vast potential of the store, there are a number of issues that need to be addressed for the store to become successful. The following sections outline some of the larger problems *La Canasta Básica* faces. Some of these issues are quick fixes, such as creating signage for marketing purposes that will allow individuals driving past to recognize *La Canasta Básica* as a store or rearranging products to better display popular products. Other issues that must be addressed are recurring—maintaining accurate books, ensuring proper inventory, and obtaining good prices from distributors and wholesalers. In both instances, issues will require teamwork on behalf of the women working the store and perseverance through both good times and bad. This report will start with some of the more structural financial issues of the business, such as book keeping, purchasing, and pricing, and then move on to more of the organizational and promotional issues.



Financials

This section discusses the margins that each product should have when being sold, the type of product that should be featured within the store based on sales, and, finally, the importance of finding a wholesaler to purchase products from at a low cost. Other topics that will be covered are controls within the company for inventory purposes to make sure every product is being taken into account as well as just-in-time inventory to increase working capital.

After doing some product analytics, which looked at the amount of sales for each product and the gross margins that the products produced. It was clear which products sold the most and needed new pricing to increase profits. The products that consistently performed the best were ice creams such as sombrilla's and cookies. This means that these top two selling items should have an increased price to increase margins because of its tremendous popularity. We

recommend raising the price of these items by \$0.05. The margins before the recommended 5-cent increase were around 20-30 percent. However, with the price increase, the new margins are around 50 percent.

As an overall indicator when pricing a product three things should be taken into account: the market price, gross margin, and the breakeven point. If the market price (prices of items at stores nearby that are realistically accessible to the customer) is too low to produce a significant margin on the product then the product should not be stocked or sold. For example, products producing about a 8 percent margin are only producing about a penny each sale (depending on the price of the product), which is not worth holding onto for store profitability. Again, about a 25 percent or higher gross margin should try to be achieved for each product and this price can only be used if the market price allows it. For example, if the price with a 25 percent gross margin on a chicken is \$1.00 and the market price is \$0.80, we recommend you do not sell the chicken because the margin is too low. The formula to calculate gross margin is:

$$\text{(Product Selling Price – Cost of the Product) / (Cost of the Product) = Gross Margin \%}$$

In the previous example, then, if you buy the chicken for \$0.80 and are selling it for \$1.00, the formula looks like this:

$$\text{\$1.00 – \$0.80 / \$0.80 = .25 (or a 25\% margin)}$$

As for breakeven point it is important to keep track of sales to make sure there are enough sales to get rid of a box of a product in around a months time frame (this will change as the supply and demand of the product fluctuate). For example if a box of ice cream contains 24 units then all 24 units should be gone within a month.

As for controls of inventory it is important to have a standard name for each product. This will make it easier for the accountant to balance the books and clearly see which products are successful and which ones are not. Furthermore, the cashiers should mark down the sales of each product and then count the sale numbers of each product to make sure that they match inventory (See Appendix 2). This should allow for a biweekly inventory check to be done quickly and produce results where sales match inventory.

Buying goods from a wholesaler is the most essential part for the store. It is important to buy goods at a wholesale price because this allows for costs to be cut and an increase in margins. It is important to send an employee that is strong and a good barterer to negotiate a good price for the store. If this is done well the store will see a tremendous profit increase from the reduced costs.

Supply Chain

A company's supply chain is critical to its success. A well-developed supply chain will allow for optimal pricing that guarantees profitability and competitiveness. In its current state, *La Canasta Básica* is purchasing from retailers (a store that purchases goods from a wholesaler and resells those goods at a premium to an end user) rather than wholesalers (a store that provides goods, generally in bulk, to retailers). This practice guarantees low margins or prices that are too high to be competitive in order to maintain profitability. This is because you are purchasing goods already meant for final sale. The producer has already sold them to the distributor. This distributor sells the goods to a retailer who then in turn sells the goods to the end user. At each level in this example, prices increase as participants in the supply chain take a slice of the profits. Since the goods purchased from the retailer

are meant for final consumption, any consumer can receive those prices. If you purchase goods to sell again from a retailer, you have no choice but to charge a higher than market price to make any gross profit on the sale. If you charge too high of a price, your customers will go elsewhere for lower prices (i.e. the retailer you purchased from). With this purchasing strategy, you make a slim gross margin. When accounting for other operating expenses, profits dry up and become almost nonexistent.



The existing strategy of purchasing from retailers and reselling to neighborhood stores could also be improved through an optimized supply chain. As of now, your clients can go straight to distributors for the cheapest price possible or visit the same retailer you are to minimize costs.

By reducing your costs, you can provide more competitive prices to your resale clients making you more profitable. One way to go about completing your goal of becoming a distributor to other small stores in the area to create a co-op group and purchase together. By doing this, you will be able to command a lower price because you are buying bigger quantities.



Furthermore, your existing strategy calls for stocking only healthy items. This strategy does not allow for high margin and high

volume items such as chips. Adding chips and other similar snack food products to your inventory will improve your margins and lead to more profit at the end of the month.

The current strategy of purchasing from retailers and reselling to customers and neighboring stores will ultimately reduce margins and is not sustainable in the long run. By implementing the recommended changes, your store can establish strong, long-term relationships with distributors and wholesalers which will position you for success in the future as the store continues to grow.



Marketing

Marketing is the promotion and selling of products to customers and is very important in establishing the business. Marketing *La Canasta Básica* to new customers will be most effective after the product line is reevaluated, as described above. This section of our report will detail marketing techniques that may increase traffic to the storefront and introduce *La Canasta Básica* to the San Pablo Tacachico community. It will detail short-term, medium-term, and long-term goals.

Short-term goals for *La Canasta Básica* include mobilizing the resources the store already has and doing things that do not require much money. The first short-term goal is to paint the sign and ensure it is set up in a visible place each day that the store is open. The sign should be painted on both sides, with the name of the store and

several popular items written in large, legible letters.



The next priority is to organize the part of the storefront that is visible to customers. Goods should be organized on the shelves in an attractive way that showcases the store's most popular and highest margin items. Homemade signs should be taken down in order to showcase goods more effectively, and professional advertising materials provided by other companies (Coca-Cola, mobile phone companies, etc.) should be organized attractively around the storefront.



Third, the store should contact the company that sells prepaid phone cards and have them put one of their machines inside. They

are set up and operated for free and *La Canasta Básica* would keep 5% of all revenue they create - which could end up being around \$15 a week, based on estimates from other stores. More importantly, this will bring in new customers. The company provides posters and these should be hung up next to other store advertising. Fourth, store employees should contact other large companies and see what other kinds of free advertising they can get. Many companies like Coca-Cola provide signs displaying their products to vendors for free, and *La Canasta Básica* could benefit from this. Fifth and last, a list of all goods and their price should be posted outside the store. These short-term goals should immediately increase traffic into the store within a few weeks.

Medium-term goals can be done within the next few months and may require more planning and investment. One would be redesigning the storefront on the left side of the store. Right now, it does not appear to the casual viewer to be a storefront. Painting over this or covering it with advertising material would make the store more visible which would draw in customers.

The store can also start having regular sales on goods and advertise these on the front of the store. A ‘Grand Reopening’ event could be put together in order to showcase new goods the store is offering and offer sales on some specific items. In addition, getting more permanent signs to place along the road directing drivers to *La Canasta Básica* would be ideal if possible. Spotlights, which display the store’s items, could also be installed.

Long-term goals are things the store can pursue six months to two years in the future. Once a sustainable profit margin is achieved, *La Canasta Básica* can focus more on its original mission of empowering women in business. Workshops training other local women on business techniques could advertise the store throughout the community and increase traffic from outside areas for women interested in receiving the training. The store could also get professionally made signs with a real logo created by a graphic designer rather than the homemade ones being used now. Lastly, advertising the store as a distributor to the microtiendas and other potential wholesale

buyers would be required for the store to move primarily from retail to a retail/wholesale mix. While these goals are important to strive for, they are not as



immediately critical and should thus not be prioritized over the short-term goals.

Implementing the short- and medium-term goals of the store will help increase *La Canasta Básica*’s profit margin and will lead to the possibility of achieving the long-term goals outlined here. Remember that keeping prices consistent (**no special prices for friends**) and only advertising what is actually in stock are very important to establishing yourselves as independent

women in business. The bottom line of the store is most important to ensuring its success, and only after the store is profitable can any social goals be achieved.

Marketing will help achieve this by increasing traffic at the store and thus increasing profitability.



Job Responsibilities

In order to run a successful business clear organization is necessary. Assigning specific job responsibilities helps individuals discern their role within the business and gives them a clear purpose. When individuals have concrete job responsibilities their job performance can be objectively measured, which helps managers evaluate their successes and shortcomings. Below is a list

of three job responsibilities we believe would help the store run efficiently and effectively: team members, a manager, and an accountant. In addition, the manager and accountant would collaborate on tasks that required both of their expertise. Keep in mind, the manager and accountant are also team members, so every person has equal interest in the store.

Team Members

Team members are the face of the store and their daily responsibilities are necessary for keeping the store running. Regardless of how many team members there are working, consistency is vital for maintaining an effective system and profitable business. Outlined below are the tasks we recommend team members (including manager and accountant) should carry out during their work shifts at the store.

- Organizing products, stocking shelves, designing attractive displays
- Cleaning the store
- Opening and closing the store
 - Counting money at beginning and end of each shift
 - Storing money in a designated and safe place
 - Report to manager/accountant if numbers do not match
- Consistently record sales
 - Noting the quantity and price sold
- Keeping outdoor signs updated on specials, stock, etc.
- Tracking items customers ask for that are not part of inventory
 - Tally the number of times customers ask for a specific product

Manager

The store manager should be a person who is well organized, attentive, good at communicating and can commit more time to the store than the typical team member. Apart from being a team member, the manager is responsible for ensuring that the store operates efficiently. This means that the manager is responsible for inventory, working with mini-tiendas, marketing, scheduling, and staff meetings. Though the manager has a lot of responsibilities, they should be compensated appropriately for their work and they have the authority to delegate tasks to other team members as needed.

- Manage inventory

- Count and document inventory
- Coordinate with accountant weekly to ensure sales match inventory
- Manage and maintain relationships with mini-tiendas
 - Organize initial meeting with representatives from all the mini-tiendas to discuss wholesale purchasing
- Conduct and lead work meetings as necessary
- Marketing/Signage
 - Contact companies that will provide free signs for advertising
 - Create a road sign to advertise the store
 - Determine store hours and post them outside of the store
- Create checklist to maintain consistent management
 - Create daily, weekly, and monthly checklist that outlines necessary tasks
 - Ensure team members are completing given tasks
 - Discuss problems with team members if any issues arise
- Scheduling
 - Work with all team members to create a consistent schedule based on availability
 - Change schedule as conflicts arise
 - Create a substitution system if a team member cannot make it to work
 - Post schedule in a place where everyone can read it
- Schedule monthly staff meetings to discuss: problems, goals, questions, progress, schedule

Accountant

The accountant should be a team member that is trained in basic accounting practices (outlined above). The major responsibility of the accountant is to record sales and calculate profit to make sure the business is making a profit. The accountant should also possess good communication skills and should be able to work closely with the manager to make sure sales

match inventory. This means that the accountant is responsible for making sure team members know the prices of the products and ensure they do not give special discounts to friends and family. In addition, the accountant should maintain good relations with the distributors in order to negotiate desired prices for products.

- Record sales and purchasing information in standardized balance sheet
- Handle all bank deposits and withdrawals
- Manage purchases from distributors
 - Make sure margins ensure profitability
 - Timely shipments
- Internal controls
 - *Adds up all sales*
 - Meet with manager weekly to ensure sales match inventory
- Plan profit reinvestments
 - Get feedback from team
- Set prices for all items and create a price reference list

Manager/Accountant (Management Team):

Part of both the manager and accountant job descriptions is to work together to ensure the store is functioning cohesively. This means that the manager and accountant are responsible for making sure all practices are consistent and that both customer service and bookkeeping are consistent with all team members. In addition, the accountant should assist the manager in monthly meetings by giving a report on sales and progress toward financial goals.

- Negotiating with wholesalers with manager (personality-based - whoever is able to negotiate best price)
- Keeping track of requested items and deciding when to add/subtract store items
- Teach consistent bookkeeping system



Miscellaneous

Beside the above suggestions, there are a few smaller changes that could lead to increased efficiency and profits for *La Canasta Básica*.

- **Set standard and extended store hours:** standardizing hours means that customers can be relatively certain the store will be open when you say it will be open. To help facilitate this, we suggest having two shifts scheduled per day (one in the morning and one in the evening). An example would be a 7am to 2pm shift and a 1:30pm-8pm shift. In this way no one person is stuck at the store all day.
- **Use the association to your advantage:** as members of the San Pablo Tacachico women's association you have a ready base of customers as well as a wide ranging marketing tool. Use the association to drum up support in the community and raise awareness about *La Canasta Básica*.
- **Divide profits up between team members on a pro rata (proportional basis):** Finding a fair way to divide up profits must ultimately be up to the group as a whole. Whether you decide to divvy up profits equally, do it proportionally based on time spent working the store, or compensate certain positions (i.e. accountant or manager gets a larger percentage). The most important thing, like many of the issues you will have to work out as a group, is to sit down and discuss it both openly and honestly. Effective communication is important for your business to succeed.

- **Create a Mission Statement:** we encourage you to sit back and think about your founding principles and what each of you really hopes to get out of *La Canasta Básica* and craft a mission statement for your store. Remember, a mission statement is not just words on a piece of paper—they are a statement about who you are and what you wish to do. Once you have decided upon a mission statement, you actually have to live it out.



Conclusion

From the onset, it has been made clear that the goal of *La Canasta Básica* has been to contribute to the community. While the original intention was to go about this by selling low-priced, healthy foods, it has been determined that this noble goal is not sustainable. The association and the women running *La Canasta Básica* must understand that those are not the only ways of helping the community of San Pablo Tacachico. Economic empowerment and the goal of women being financially independent *is good for the community!* Having a sustainable income, being able to house, feed, and educate one's family *is good for the health of the community!* To do this will require vigilance and a strong work ethic but you have shown you are not above getting your hands dirty and putting in a hard days work. We are confident you have the abilities and work ethic to get it done granted you take some of the aforementioned suggestions into consideration.



Acknowledgements

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Appendix 1-Example Checklist

Checklist: Daily Tasks

Opening Tasks:

- Open store and count money—document in ledger
- Stock shelves, organize products, and ensure displays look nice, open shutters
- Update store signs for current sales, promotions, and products

Tasks Throughout the Day:

- Consistently record sales—noting price, quantity sold, and time of sale
- Track requested items and tally the number of times customers ask for a specific product

Closing Tasks:

- Clean store: sweep, wipe off surfaces, clean messes as necessary, and make sure there is no trash outside storefront
- Close store and count money—document money amount in ledger then store money in safe, designated place

Appendix 2-Example Sales Ledger

Basic Sales Ledger

Date	Time	Item Name	Qty.	Price	Drawer Total	Initial
1/30	7:00am	Bank		-	\$10.00	SD
	7:30am	Powerade-Red	1	\$0.50	\$10.50	SD
	10:00am	Sugar	1lb.	\$1.00	\$11.50	SD
	1:00pm	Eggs	1dz.	\$0.75	\$12.25	SD
	1:30pm	SHIFT SWITCH		-	\$12.25	SD/NH
	2:30pm	Soap	2	\$0.80	\$13.05	NH
	3:00pm	Popsicle	1	\$0.40	\$13.45	NH
	3:30pm	Sugar	1lb.	\$1.00	\$14.45	NH
	4:55pm	Powerade-Red	3	\$1.50	\$15.95	NH
	6:00pm	Matches	1	\$0.05	\$16.00	NH
	8:00pm	CLOSE		-	\$16.00	NH
1/31	7:00am	Bank		-	\$16.00	AH
	9:00am	Soap	1	\$0.40		
		Eggs	1dz.	\$0.75		
		Sugar	2lb.	\$2.00	\$19.15	AH