

BEST PRACTICES FOR HIGHER PROFITS

Step by Step Guide To Business Success



Based on Survey Work With Shops In Jakarta 2016

Best Practices for Higher Profits

A word from authors	3
Why should you try to implement these practices in your shop?	6
Record keeping	8
Calculating profits	25
Making stock up decisions	35
Attracting Costumers	51
Making decisions together	59





A word from the authors

About us

We, the authors of this book, are Patricio Dalton, Burak Uras, and Bilal Zia. Dr. Dalton and Dr. Uras are economics professors from Tilburg University in the Netherlands and Dr. Zia is a Senior Researcher at The World Bank.

For the project's administration and logistics, we teamed up with two local partners – The Abdul Latif Jameel Poverty Action Lab (J-PAL) and The Microfinance and Innovation Center for Resources and Alternatives (MICRA).

J-PAL, is a network of 136 affiliated professors who work to facilitate worldclass research to ensure that public policy is informed by scientific evidence. Representing J-PAL, Jenna Juwono and Raisa Annisa are working towards the satisfactory implementation of this project.

MICRA, is an Indonesian foundation, which is committed to promoting innovations, transparency, and improved outreach in the micro-finance sector. You will have received this handbook by one of their local facilitators.

Below, you can find photographs of all the authors as well as a contact information, in case you have questions. We are happy to hear back from you.



Dr. Bilal Zia
bzia@worldbank.org



Dr. Burak Uras
r.b.uras@uvt.nl



Dr. Patricio Dalton
p.s.dalton@uvt.nl

Indonesia Contact Information:

e-mail: info@micra-indo.org | phone: +62217823615 / +62217805988

What we do?

As researchers, we are working to understand how shops like yours operate as well as what your goals and needs are. Our aim is to use this information to offer advice to you on how to improve your business.

Furthermore, we aim to make the advice as realistic and the information as local as possible. All the suggestions we provide are the product of more than 1300 interviews we conducted with shop owners just like you in the same city that you operate in – Jakarta.

Why we do this?

As researchers, our motivation is not to earn money, but to understand what exactly helps small businesses like yours to foster and to help you grow.

Our aim is not to make money. In fact, the research project “Enabling Innovation and Productivity Growth in Low Income Countries (EIP-LIC/PO5639)”, which this handbook is a part of, is funded by the Department for International Development (DFID) of the United Kingdom and implemented by Tilburg University and partners. Further, we acknowledge additional funding by the World Bank

We can guarantee you that all the information we have received or will receive remains anonymous and none of it will be given to any government or other institution.

How we know what is best for business?

We have, first and foremost, all studied economics and businesses for most of our lives and we continue doing research to improve our understanding.

In addition, so as to understand the particular situation which retailers face in Jakarta, in February and March 2016 we ran a large survey which not only you took part in, but more than 1300 other retailers all over Jakarta. This handbook is our attempt to fulfill our promise and give back to you the knowledge we gained from all the shops we interviewed.

The information we provide in this handbook is truthful and taken exclusively from what we encountered in our interviews. Based on the evidence, all we did was to identify what is best for businesses like yours.



What this handbook is about

Despite the fairly identical size and product variety across kiosk-style shops in Jakarta, some of them are more successful than others. This leads to the question if there are certain factors that separate the wellperforming shops from the rest.

From our survey results, we discovered that the following business practices are common among successful businesses:

1. Record keeping
2. Profit calculation
3. Efficient planning of stock-upcs
4. Active efforts to attract customers
5. Making business decisions jointly with others

In this handbook, we will discuss each practice in detail and offer suggestions to improve sales and profits. You will also be provided with two supplementary books: an exercise book, where you can try out these practices before applying them to your business; and a short guide, which provides you with overviews of the practices, along with a summary of each step within each practice.

How you can use this handbook

In the pages that follow, we describe the business practices we found to be the most important in our Jakarta-wide survey of retailers of your size and type.

We start each section by addressing some common misunderstandings. Then, we show in easy steps how to get started and explain the benefits of implementing each practice. You will see quickly that none of them are difficult once you know how to implement them! After all, the most successful shops in your area are already using these practices.

In most cases, we finally add some tips and tricks which give you some ideas about more advanced techniques or generally further applications of the advice presented in the guidelines.

Why should you try to implement these best practices in your shop?

Evidence from a large-scale study of retailers in Jakarta



RECORD KEEPING

Shops with written business records achieved monthly sales 28% higher and monthly profits 26% higher than those of businesses without written records.

Firm owners who keep track of the debt which customers owe to their business by paying goods later, experience monthly sales that are 40% higher than the sales of same-sized firms which keep no such records. Likewise, monthly profits are 36% better.

Firms with business records which are detailed enough to see whether they can take out a loan experienced monthly sales are by 35% higher than the sales of businesses with less detailed or no records. At the same time, their monthly profits are 36% higher.

STOCK UP SCHEDULE

Shops whose owners had a fixed schedule to stock up their main products, rather than to just stock up whenever need be, had 26% higher monthly sales and 25% higher monthly profits.

Shops which stock up daily rather than weekly yield monthly sales that are 48% higher and monthly profits that are higher by 37%.

Monthly sales of shops which never run out of stock for their main products are by 25% higher and their monthly profits exceed firms which do at least occasionally run out of stock by 27% higher.



PROFIT CALCULATION

Shops which have records detailed enough that they allow for the shop manager to calculate profits including all major costs to the business achieve monthly sales 42% higher and profits 45% higher than businesses of the same size without this detailed a recollection or without any records at all.

ATTRACTING CUSTOMERS

Businesses whose owners introduced at least five new products within the last three months before the survey have monthly sales that are 35% higher and monthly profits that are 28% higher compared to businesses which introduce less products.

Shop owners who decide to get back to former customers to see the reasons why they quit buying at their shop have monthly sales 24% higher than the sales of businesses whose owners just let it go. Their monthly profits are also 23% higher.

Business which use discounts to attract new and retain loyal customers have monthly sales that are 40% higher than the sales of businesses which do not give discounts. Also, their monthly profits are 29% higher.

JOINT DECISION MAKING

Shop owners who said they jointly made decisions with others on any business matter whatsoever had monthly sales which were 25% higher and monthly profits which were 27% higher than those of shop owners who did not want to consult with others.

If decisions were made together on the topic of which new products to introduce next, monthly sales were by 30% higher and monthly profits by 35% higher.

Shop owners who decide on whether to try out at least one new practice in the shop had monthly sales 26% higher and monthly profits were 27% higher than those who insist to make decisions alone.



KEEPING-RECORDS IN 9 EASY STEPS

What this section is about

- We address **common misunderstandings** of record-keeping and show you that, once you know how to, it is neither complicated or troublesome. From the housewife, over sellers to managers, everybody can do it.
- We point out the **importance of keeping records** and what it is about business records that makes them so essential for your business. Along the way, we will show you evidence on how much money the decision whether to keep records or not means for your business!
- In nine easy steps, we explain to you how to **get started keeping records** which are both simple and useful for your business. We go into detail regarding the material, the notes to take and calculations to make and leave no major question unanswered.
- With our **tips and tricks**, we offer some practical advice on how to put some of our ideas to good use in reality.

False beliefs about record-keeping

“With good habits and the will to do it, everyone can keep proper records and benefit from them!”

Some people think, keeping records is-hard for people without higher education

We can assure you, this is wrong.

In our survey, those who keep records of their daily transactions varied widely in the education they had. Some completed high-school, some did not, only few have university degrees. With good habits and the will to do it, everyone can keep proper records – and benefit from them!

Below ([steps 1-9](#)), we describe how to approach record-keeping step-by-step and with precise guidelines. You will see, it is both simple and very useful!

Some people think keeping records is complicated

Be assured, it really is not.

We will show you easy steps to take in order to keep track of your daily transactions ([steps 1-9](#)). Hence, for a complete guideline, just read further.

In fact, if you keep records the wrong way, it can be confusing and may not help at all – not so if you follow our guidelines ([steps 1-9](#))! They are easy to understand and very practical

Some people think keeping records is a lot of work and yields no benefit

We will show you that once you know how to do it and how to integrate it into your everyday routines, record keeping is a lot easier than it seems.

Also, it benefits you greatly! You will know exactly which products are in stock, how much money can be spent on new products, and how much money remains at the end of the day. In our survey we found that a majority of people confuse what profits are. As a consequence, they end up spending more than they actually have and thus risk running into financial trouble.

With our step-by-step explanation ([steps 1-9](#)) we want to help you avoid this and take control of your shop.



Why record-keeping is important?

It is what differentiates successful businesses from those with less success!

In our survey, record-keeping turned out to be one of the most distinguishing features of successful businesses. While the most profitable do it every day, others are yet to implement it.

Generally, shops with written business records achieved monthly sales 28% higher and monthly profits 26% higher than those of businesses without written records.



In our survey, a typical shop turned out to make about IDR 15 million in sales per month. Here, 28% higher sales would mean monthly sales of IDR 19.2 million – that is a difference of more than four million in sales per month! Bigger shops in our survey made about IDR 30 million. In that case, 28% more in sales would mean IDR 38.4 million per month in sales – almost IDR 8.5 million difference!

Now, business records are not all the same. In fact, **firm owners who keep track of the debt which customers owe to their business by paying goods later, experience monthly sales that are 40% higher** than the sales of same-sized firms which keep no such records. Likewise, **monthly profits are 36% better**.

Again, if you make monthly sales of IDR 15 million, that would mean a difference of IDR 6 million – or IDR 21 million in monthly sales! For slightly bigger businesses with sales of about IDR 30 million per month, it would mean IDR 12 million more in sales!

Beyond this, keeping records has other advantages too. For instance, in our survey, businesses who kept records knew precisely whether they had the money to take out a loan. We will briefly come back to this below at the end of this section.

In the next section ([steps 1-9](#)), we will show you in nine simple steps how to achieve a business record detailed enough to keep track of all of the above, yet easy enough to handle every day.

It allows you to take full control over all business decisions

In our survey we found that many people believe they know their profits, know how much to re-invest and how much to spend, when in fact they do not have a good idea of any of this.

It is not until you start keeping simple records of your daily sales, purchases and costs, that you really take control over what you do. In what follows, we will show you how, once you do record-keeping, you will know exactly how much you make per day, how much you can re-invest in your shop, how much you can save, and how much you can spend for you and your family.

We will show you how to gain control over your costs ([steps 4-6](#)), and thus not to risk ruining your business by wasteful spending, as well as how to get a handle on profits ([calculating profits, steps 1-3](#)). Moreover, we will show that this is easy and possible for everyone!



It helps keeping household and business finances separate

You may already separate the money that belongs to your household from that of your business.

Most people understand that only separating these finances puts you in a position to know precisely how well your business is running as well as to be able to invest in it without its finances being eaten away by other expenses.

We understand it may not be easy to properly separate these two accounts over the long-run. Hence, you may appreciate our guide below which will help you get to grips with account separation ([steps 1, 5](#)).

Ultimately, as we will explain to you below ([steps 1-9](#)), only keeping proper records gives you the full control over both business and household finances.

You will be better able to save up and withstand unexpected events

Some people think that you cannot prepare for unexpected events, since nobody can predict the future.

This, of course, is wrong and **record keeping is a good example of how you can, in fact, prepare yourself**. In what follows, we will show you that, unless you keep proper records, there is no good way of knowing how much cash you have on your hands or how much to save. And without savings, unexpected events can hit you and your family hard.

This applies especially to big bills which represent costs to your business for more than just a day and whose arrival you sometimes cannot perfectly predict in advance. It makes a lot of sense to save up for those bills which arrive periodically like, for instance, electricity and telecom bills, and if applicable rental costs and taxes.

Building on sound record-keeping ([steps 1-9](#)), we will show you some simple steps both on how to accumulate savings for business expenses ([extra step](#)) and on correct profit calculations ([calculating profits, steps 1-3](#)).



It is essential to borrow money from banks, lenders – and family

In many people's lives there comes the point where their shop has grown, their sales improved, but now, to make the next big step, they need some additional capital.

If from a bank, another lender or your family, as soon **as the sum you are borrowing is big enough, people will ask you “how can I make sure your business runs well enough for you to pay me back?”**.

There often is no way of convincing someone if there is not good evidence in black on white. Keeping records of your daily sales and weekly or monthly profits does just that. **It gives you proof of how well your shop is running and that the money will be paid back in time.**

Moreover, in our survey, keeping records in such a way that you know whether you have the money to pay back a loan turned out to be very useful.



In fact, for firms with business records which are detailed enough to see whether you can take out a loan, **monthly sales are by 35% higher** than the sales of businesses with less detailed or no records. Equally, **their monthly profits are 36% higher**.

With monthly sales of IDR 15 million, like a typical shop of those we interviewed, 35% higher sales would mean a difference of in sales of more than IDR 5 million! For slightly bigger retail businesses with sales of IDR 30 million per month, the difference in monthly sales would be more than 10 million!



How to keep simple records step by step



Step I: Separating private and business finances

The best idea to start is to separate money that belongs to your business from that which belongs to your household. By that, we do not mean to say that you should not use your shop's money to pay for your household. However, we want to help you to maintain control over what goes out and what comes in and thus make informed decisions.

The easiest and most effective idea is to **physically separate the two finances**. Do you have two wallets? Two separate drawers in your desk? Or just two different boxes? Put clear labels on them and the first step is done to make sure that henceforth your finances are neatly organised.

For all the remaining steps, please always use your business wallet/drawer/box. Keep a watchful eye on this box and see to it that money is used for business alone. Do not be afraid to be strict here – it is the first step towards a well-organised business!

Besides, if you have another wallet/drawer/box, put it aside too. At the end of this section we will tell you more about its use ([record-keeping, extra step](#)).

Step 2: Preparing the ledger book

So, what do you need? You will basically not need more than one ledger book (your record book) and one pen – and, if at hand, one coloured pen.

The larger the format of the book, the easier to fill in little details. The picture [above](#) shows you the two most common formats.

Take the book, open it on its first page and add the day's date. Below, divide the page into six columns. Just like in the picture below, make sure the first and the last column are about twice as wide as the four columns in between. Now, draw a horizontal line at the top.



Here, you add labels to the columns:

- **The first (long) column shall be labelled “products”.** This will be your space to specify exactly which product you sold or purchased and in which size it came.
- **The second (short) column is called “amount”.** Here, you will add the quantity that you sold or purchased of the product you specified earlier.

- **The third (short) column** as “Unit price”. Here, you note down the unit price of every product or transaction occurred
- **The fourth (short) column** as “cash in”. It is meant to be the space where you note down the money you received in case the transaction you record was a sale.
- **The fifth (short) column** is then “cash out”. Here, you note down the money you spent in case the transaction was a purchase (stock-up).
- **Finally, the sixth (long) column** is labelled “comments”. This space can be used for anything you need to add to the transaction. For instance, in the case that you allowed a loyal customer to pay their stuff at a later date, here you jot down their name and the pay date you agreed on.

Date:					
Product	Amount	Unit Price	Cash in	Cash out	Comments



Step 3: Recording daily sales

As an example, let's say your sales were 20 gallons of mineral water ($20 \times 19\text{-litre gallons}$) as well as 20 strings of 10 shampoo sachets each ($20 \text{ strings} \times 10 \text{ sachets} = 200 \text{ sachets}$).

For the moment, the first row of the page in your ledger book – or fill in zeros in both column four and five as shown in the table. This represents the beginning balance which you have left from the last day. Since we are only just starting out with the record book, we will come back to this later.

Now, it is easy to see how you can take note of these products in your ledger book.

Take the mineral water. Just like in the picture below, in the first column you note down the product and its size, for instance “Mineral water, 19l gallon”, and in the second column you add the amount (“20”). Even though in this handbook we do not, do add the brand of the water, since prices will be different.

Since we are recording a sale, you add the sum of money you received as “cash in” in the fourth column. Let's say you charged a price of IDR 15,000 per gallon and so you add “300,000”. The fifth column remains empty – this was not a purchase but a sale after all! In this case, the sixth column remains empty too. We will come back to what useful comments can be added here later in this handbook.

As for the shampoo sales, their entry could either be written down as “Shampoo sachets, 25ml” and with an amount of “200” or like “Shampoo string, 250ml” plus an amount of “20”. Either way works just fine! Be aware, however, that if you want to get the best result, the units better be similar for all entries in your records. That means that noting he shampoo down per sachet of 25ml will make more sense if people usually buy less than a full string of sachets from you. Again, write down the brand as well so you can remember the exact purchase and make sense of the price.

Let's assume you can sell a sachet for IDR 1,500. You can write up the entry in your records in the same way as you did for the water. For an idea of how both these sales would look like in your book, have a look at the table below.

Date: August 31, 2016					
Product	Amount	Unit Price	Cash In	Cash Out	Comments
Mineral water, 19l gallon	20	IDR 15,000	IDR 300,000		
Shampoo, 25ml sachets	200	IDR 1,500	IDR 300,000		

Step 4: Recording stocking-ups (product purchases)

For simplicity, let's assume that those sales of water and shampoo we mentioned earlier (step 3) were your only sales for the day.

In the end of the day, you want to stock up just those two products and exactly the amount you sold. Let's say your supplier demands a price of IDR 13,000 for a 19l gallon of mineral water and a price of IDR 10,000 for a string of ten shampoo sachets.

In case of the mineral water, this amounts to the same entries as we have seen above. **The only difference being that instead of in an entry under “cash in” (fourth column), you will make a note of the sum of the money you spent on the new products under column five “cash out”.**

The shampoo purchase works just the same way. Keep in mind that it makes sense to use the same unit as for your sales. So, if you counted your shampoo sales in sachets earlier (“200”), do not change it here! At any rate, column four remains empty in both cases.

Date: August 31, 2016					
Product	Amount	Unit Price	Cash In	Cash Out	Comments
Mineral water, 19l gallon	20	IDR 15,000	IDR 300,000		
Shampoo, 25ml sachets	200	IDR 1,500	IDR 300,000		
Mineral water, 19l gallon	20	IDR 13,000		IDR 260,000	
Shampoo, 25ml sachets	200	IDR 1,000		IDR 200,000	

Step 5: Dealing with household expenses

We emphasised in the beginning how important it is to separate household from business finances. Now, nobody's perfect and sometimes your kids will take a snack or your aunt may borrow money.



If you pay attention and document those instances, however, they can easily be dealt with. Simply note them down as you note down any other purchase. Column one and two, as usual, contain the product your child took and the amount. So as to recognise it later, add a comment that says “kids” or any line that reminds you of the incident in column six. Columns four and five remain blank since no money has been exchanged.

In the case of your aunt borrowing money, record it just the same way. **This time, however, note down the sum you lent out under column five and mark it with colour. In the comment column 6 note down the name of your aunt and the date you agreed for her to pay you back** (e.g., “Aunt Fitri, 1 Oct 2016”).

As we will show you later ([profit calculation, step 1](#)), the colour will help you when calculating daily profits. Have a look at the table below to see how to record the loan to your aunt.

Date: August 31, 2016					
Product	Amount	Unit Price	Cash In	Cash Out	Comments
Mineral water, 19l gallon	20	IDR 15,000	IDR 300,000		
Shampoo, 25ml sachets	200	IDR 1,500	IDR 300,000		
Mineral water, 19l gallon	20	IDR 13,000		IDR 260,000	
Shampoo sachet, 25ml	200	IDR 1,000		IDR 200,000	
Lent Money				IDR 50,000	Aunt Fitri, 1 October 2016

Step 6: Dealing with **stalled payments (“paying later”)**

Now, sometimes it happens that a customer comes to your shop and has forgotten their money or does not have enough to pay their purchase, but still wants to take the product home. Likewise, many people pay some of their suppliers a week or two after they have purchased products.

As an example, let's say when Pak Agung comes to your shop to buy 10 cans of condensed milk, he does not have the money. Pak Agung, we assume, is a loyal customer of yours who often pays his purchases from your shop later and who needs the condensed milk right away for the steamed cakes he sells at his handcart. Say, the condensed milk is priced at IDR 10,000 per can, so **Pak Agung owes you IDR 100,000**.

In your records you deal with this in just the same way as you learned to note down sales above (step 3). Additionally, **in the comment section of column 6, you enter the customer's name and the due date of the payment** (e.g., “Pak Agung, 7 Sep 2016”). It is always a good idea to agree on a date to be paid back. As a last step, you **put brackets around the total sum of money of the sale you noted down in column 4 (“100,000”)** to remember the fact that this sum is not yet been paid. Have a look at the picture below to get an idea of how this works!

This works just the same in the opposite case – when you pay your suppliers later for purchases you make today. Let's say you want to stock up 10 bottles of soy sauce from your supplier Toko Akbar who prices them at IDR 9,000 each. You are on good terms with the owner and so you have agreed that you generally pay what you buy a week later from the proceeds of your sales. **In total, you owe Toko Akbar IDR 90,000.**

This time, you deal with this in just the same way as you have learned to record any purchase (step 4). Again, in **the sixth column, you note down the due date and the name of your supplier** (e.g., "Toko Akbar, 7 September 2016") and whatever else you need to remember the transaction. Again, **you put the outstanding sum of money in column five in brackets** to remind the fact that it is not yet paid.

See the table in the next page for an example of delayed payments on both sales and purchases. As we will show you later ([record-keeping, step 9](#)), using brackets for the sums of money not yet paid will make it easy for you to calculate your daily **balance. the outstanding sum of money in column five in brackets** to remind the fact that it is not yet paid.

Date: August 31, 2016					
Product	Amount	Unit Price	Cash In	Cash Out	Comments
Mineral water, 19l gallon	20	IDR 15,000	IDR 300,000		
Shampoo, 25ml sachets	200	IDR 1,500	IDR 300,000		
Mineral water, 19l gallon	20	IDR 13,000		IDR 260,000	
Shampo sachet, 25ml	200	IDR 1,000		IDR 200,000	
Lent Money				IDR 50,000	Aunt Fitri, 1 October 2016
Condense milk can 360gr	10	IDR 10,000	IDR (100,000)		Pak Agung, 7 September 2016
Soy Sauce, 135ml	10	IDR 9,000		IDR (90,000)	Toko Akbar, 7 September 2016

Step 7: Adding other costs (electricity, transportation, rent, etc)

Apart from the costs from stocking up, you have a lot more bills to pay. Examples being electricity and telecom bills, transportation costs, or costs for any kind of renovation or replacement in your shop and, if applicable, salaries, rent, and taxes.

Many of these costs have one thing in common, **they are not paid for on a weekly, let alone daily, basis**. Most people pay their rent monthly. Renovations and general work on your shop arise in irregular intervals that are hard to predict. Electricity can be paid monthly (bills) or topped up depending on usage with a voucher system. Petrol, for the transportation of goods, may have to be refilled only once in a while.

As you will see later, when we show you how to calculate your daily and monthly profits, **counting these expenses on the day they are paid, would give you the wrong picture**. Depending on which exact day you paid a major bill, that day would appear to be unduly low in profits. Other days, without such expenses, too high – even though you sold the exact same number of goods.

There is, however, an easy way to deal with these costs. For every major expense that represents costs for more than just a day, simply **highlight the sum you paid (fifth column) in colour**. This will show you later that, though you paid those expenses here and now, **they represent a longer period in time than just that day**.

Additionally, divide the sum you paid by the number of days you paid it for (here, 31 days in August) and add this amount in brackets under the total sum paid. The table in the next page will give you an impression of how this will look like.

Finally, it is a good idea to staple the bills right on the back of the pages you record the costs on. Alternatively, you can file them between the last pages of the ledger book. Though, keep in mind that you will need to be able to find them back later and match them with the cost entry. So, stapling them right here and now on the very same page is arguably the best idea.

Date: August 31, 2016					
Product	Amount	Unit Price	Cash In	Cash Out	Comments
Mineral water, 19l gallon	20	IDR 15,000	IDR 300,000		
Shampoo, 25ml sachets	200	IDR 1,500	IDR 300,000		
Mineral water, 19l gallon	20	IDR 13,000		IDR 260,000	
Shampo sachet, 25ml	200	IDR 1,000		IDR 200,000	
Lent Money				IDR 50,000	Aunt Fitri, 1 October 2016
Condense milk can 360gr	10	IDR 10,000	IDR (100,000)		Pak Agung, 7 September 2016
Soy Sauce, 135ml	10	IDR 9,000		IDR (90,000)	Toko Akbar, 7 September 2016
Electricity Bill				IDR 310,000 (10,000)	For August (31 days) (per day)

Step 8: Summing up at the end of the page

When you reach the bottom of a page in your book, it will be helpful to quickly sum up both cash-in and cash-out. This will make your life much easier – especially to calculate your profits, as we will show you later (calculating profits, steps 1-3).

Therefore, leave two rows free at the end of each page, draw a line beneath the last entry, and use these last rows to sum up both money received (cash in) and money spent (cash out). You may ask yourself why you leave two rows each. This is because, for column four (cash in) and column five (cash out), you want to calculate two sums each.

For the first sum, go through all the money received (column four) and add up all entries, but leave out the ones in brackets (do count all coloured entries). Note this total sum down in the first row under all the entries of column four. Do the same for “cash out” in column five.



For the second sum, go again through column four and add up all entries, but leave out the coloured ones (do count all entries in brackets). Note this total sum down in the second of the two rows under the column. Again, do the same for column five.

Have a look at the table in the next page for help! As you will see later, the brackets will make it simple to calculate your daily balance while the colour makes the daily profits more precise.

Date: August 31, 2016					
Product	Amount	Unit Price	Cash In	Cash Out	Comments
Mineral water, 19l gallon	20	IDR 15,000	IDR 300,000		
Shampoo, 25ml sachets	200	IDR 1,500	IDR 300,000		
Mineral water, 19l gallon	20	IDR 13,000		IDR 260,000	
Shampo sachet, 25ml	200	IDR 1,000		IDR 200,000	
Lent Money				IDR 50,000	Aunt Fitri, 1 October 2016
Condense milk can 360gr	10	IDR 10,000	IDR (100,000)		Pak Agung, 7 September 2016
Soy Sauce, 135ml	10	IDR 9,000		IDR (90,000)	Toko Akbar, 7 September 2016
Electricity Bill				IDR 310,000 (10,000)	For August (31 days) (per day)
Excl. brackets (...)				IDR 600,000	IDR 820,000
Excl. colours				IDR 700,000	IDR 560,000

Step 9: Balance at the end of the day (and for the next)

Finally, let's wrap up by calculating the day's balance.

By the day's balance we understand the total amount of money that you have on hand at the end of the day. In order to calculate this, use the first row of the two you calculated in step 8 ("excl. brackets"). Now, simply **subtract the sum in column 5 from the sum in column 4**.

Keep in mind that in this example we only have one page of entries and therefore only one sum in column four and five each. That makes the whole calculation very simple. However, **if in reality you have multiple pages of sales and purchases per day and thus many such sums calculated at the end of each page, the whole procedure is just one step longer – not more complicated!**

Simply add together all your sums for sales and for purchases, respectively, at the end of each page. Do not forget – use the sums where you do not include the brackets! Once you have added up all sales into this day's sum (column four) and all purchases and costs into another sum (column five), you can subtract the latter from the first just as outlined above.

Once you have calculated your balance – and before you turn to sales, costs and profits – you may want to prepare for the next day by writing over your balance. Here, you may proceed as shown in step 2 with the difference **that the balance to fill into the first row of the next day is the balance you have just calculated**. This will give you a good start into the next day and will make record-keeping even easier.

Date: August 31, 2016

Product	Amount	Unit Price	Cash In	Cash Out	Comments
Mineral water, 19l gallon	20	IDR 15,000	IDR 300,000		
Shampoo, 25ml sachets	200	IDR 1,500	IDR 300,000		
Mineral water, 19l gallon	20	IDR 13,000		IDR 260,000	
Shampo sachet, 25ml	200	IDR 1,000		IDR 200,000	
Lent Money				IDR 50,000	Aunt Fitri, 1 October 2016
Condense milk can 360gr	10	IDR 10,000	IDR (100,000)		Pak Agung, 7 September 2016
Soy Sauce, 135ml	10	IDR 9,000		IDR (90,000)	Toko Akbar, 7 September 2016
Electricity Bill				IDR 310,000 (10,000)	For August (31 days) (per day)
Excl. brackets (...)			IDR 600,000	IDR 820,000	IDR -220,000
Excl. colours			IDR 700,000	IDR 560,000	

Extra step: Setting aside money to pay for regular bills (electricity, rent, etc.)

In the beginning we mentioned, as an aside, you may want to see whether you have one **more wallet, an extra drawer in your desk or a simple box to spare** (record-keeping, step 1).

The reason for this is that, now that you know precisely how to deal with big bills as those for electricity (step 7) in your records, you will appreciate the possibility to **save up for big bills from the start**.

After all, now that we have seen the difficulty to deal with longer-term costs, it becomes clear why some people neglect those costs in their profits. Unlike you, they have not received help to deal with them! However, if you neglect those costs until the day they come due, you risk either not being able to pay them or sacrificing other (family) needs instead. Hence, **this is especially important for you and your family not to get into trouble once a big bill is due**, but to have saved up the amount equally over the days.

A good idea is thus to **dedicate a third wallet/drawer/box to savings for these longer-term expenses and to label it clearly** (for instance, "savings for big bills").

Put aside the respective amount of money every single day. Imagine, again, you received a bill over IDR 310,000 in electricity costs for the month of August. Let's assume, this is about what you usually pay per month. As seen in before (step 7), since this cost is monthly, the daily sum you will have to exact is IDR 10,000 (IDR 300,000 / 30 days = IDR 10,000 per day).

So, looking forward to the next bill it will be helpful to put aside the money day by day – just to be on the safe side!

Tips & trick

Dealing with sales you forgot to jot down

It is only human to sometimes forget to jot down one sale or another. Whenever you realise you have, just leave as many lines free as you remember transactions that you forgot to pin down and fill in all the information you remember. For instance, the product name and the unit (e.g. "Shampoo, 25ml sachets"). Should you not remember anything, simply leave one single line empty and carry on.



Do keep in mind, though, that if you did not receive/pay the money on the spot ("paying later"), there is no way of knowing how much money the transaction was worth. Unless, of course, you remember the exact amount of goods. With the method shown here, only transactions which actually took place can be recovered.



In order for it to be realistic, in this example, let's assume you have IDR 1 million as the beginning balance from the day before. Now, when you get to the end of the page, simply take the day's beginning balance (first row of the day) and add on to it all cash-in entries (third column), leaving out all entries with brackets around them.



In a second step, subtract from that sum all cash-out entries (fourth column) – again, leaving out all entries with brackets around them. Finally, if you compare this sum of money to the money in your drawer, the difference is the sum of money you forgot to note down earlier. Have a look at the picture below to see how this is done!

As an aside, there is generally no need to record the money in your drawer in your record book. At any point in time when you forget to note down a sale or purchase, just have a quick look and do the calculation on any other sheet of paper or in your record book.



Date: August 31, 2016					
Product	Amount	Unit Price	Cash In	Cash Out	Comments
Beginning balance			IDR 1,000,000		
Mineral water, 19l gallon	20	IDR 15,000	IDR 300,000		
Shampoo 25ml sachets	???	IDR 1,500	???		
Mineral water, 19l gallon	20	IDR 13,000		IDR 260,000	
Shampo sachet, 25ml	200	IDR 1,000		IDR 200,000	
Lent Money				IDR 50,000	Aunt Fitri, 1 October 2016
Condense milk can 360gr	10	IDR 10,000	IDR (100,000)		Pak Agung, 1 October 2016
Soy sauce, 135ml	10	IDR 9,000		IDR (90,000)	Toko Akbar, 7 September 2016
Electricity Bill				IDR 310,000 (10,000 per day)	For August (31 days)
Ending balance					
Excl. brackets (...)			IDR 1,6000,000	IDR 820,000	IDR 780,000
Exlc. colours			IDR 1,700,000	IDR 560,000	
Forgotten entry					
Beginning balance			IDR 1,000,000		
Cash in/cash out, excl brackets			IDR 300,000	IDR -820,000	
Cash, see above			IDR 480,000		
Money in drawer			IDR 780,000		
Sales you forgot to jot down			IDR 300,000		Amount of money that is forgotten to jot down today



Dealing with electricity bills (vouchers)

Dealing with bills which come in less than daily can be inconvenient. You may not know exactly when you will have to pay precisely how much. So, you are either left with uncertainty and the hope to be able to pay or you struggle setting aside money (we will come back to this in: calculating profits, extra step).

Since you may have some control over your payments for transport and stock-up, **electricity bills may entail the biggest uncertainty**. Here, it will be useful to think about switching to the voucher system. Frequently used all over Jakarta, both by households and businesses, **the voucher system allows you to top up your electricity balance when you want with just how much you want**. Also, it is convenient in that you can pay via your smart-phone.

Do not worry in case you do not own a smart-phone, though! You may as well top up in your local mini market (Indomaret, Alfamart). Just ask at your local **PLN office!**

Though, its usefulness in handling electricity bills any payments should be immediately apparent, you will **understand the full story once we have talked about how to calculate daily profits (calculating profits, step 2) and how to make daily profits more precise by making those bills more manageable** that come in less than daily ([calculating profits, tips & tricks](#)). It will come in even handier.

CALCULATING PROFITS: THE NATURAL ADDITION TO RECORDS



What this section is about

- There are some misunderstandings about how profit calculations are done. We comment on those first and explain why with a decent record book ([record-keeping, steps 1-9](#)), profit calculations are only a few very minor steps ahead.
- Next, we show the crucial importance of profit calculations and that whether to implement them or not is a decision about a good amount of money
- In 3 easy steps, we explain understandable for everyone how to do profit calculations yourself. This builds upon, and complements perfectly, the earlier record-keeping exercise, but can be done even without.
- Finally, with some tips and tricks, we offer further advice for those going the extra mile.

False beliefs about profits

“Only if you calculate profits correctly and track them with your records, will you be able to make the right decisions in your business..”



Some people think it is okay to just track sales

When we did our survey back in March 2016, we asked detailed questions about how people dealt with costs, sales, profits and record-keeping in general. We found that many people had given up on profits and just looked at sales as a guide for the performance of their business.

However, this is bound to result in trouble. Image a day on which you receive IDR 1,000,000 in sales. That day you also have to purchase products for IDR 400,000.

Now it becomes obvious how people who do not calculate profits and use these sales numbers as indicators for their business run into trouble. **If you go out and spend those IDR 1,000,000, you neglect the costs for stocking up!** In fact, in the example, you have no more than IDR 1,000,000 (sales) – 400,000 (stock-up) = IDR 600,000 today. And that is still leaving aside all other costs your shop might incur (electricity, transport, rent, maintenance, etc.).

You see, there is really much less money to spend as expected by just looking at sales! **And spending money now when you actually need it for bills later can make it very hard for your family and you to make ends meet when those bills become due.**

Moreover, if you carry on neglecting costs over a longer time, some costs may change. Imagine, for instance, prices rise or electricity costs increase. Unless sales rise too, in the longer run, you will have to adapt and buy less so as not to go out of business.

Your sales, however, will not tell you any of this ...

Some people think it is “sales minus stock-up costs”

Beyond just tracking sales, many people believe that when you subtract stock-up costs from your sales, what you calculate are real profits.

By way of doing so, however, you will neglect all other costs we outlined above. And with potentially grave consequences. Image, just as above, a day on which you receive IDR 1,000,000 in sales. Again, you also have to purchase products for IDR 400,000. On top, for your stock-ups, you refill petrol for IDR 50,000 and receive an electricity bill of IDR 300,000, just as above

This time, you come up with IDR 600,000 in “profits” that day. It is easy to see that, just as above when tracking sales only, this is bound to spell trouble. Since if you track sales and subtract only the cost for stock-ups then you do not account for all the others costs, being transportation, electricity, and others.

Furthermore, just as shown above, **in case of changing prices or rising electricity costs over the mid-and long-term, this way of calculating “profits” will not help you either.** Though you will want to adapt and buy less so as not to go out of business, only the correct calculation of profits will help.

It is useful knowing this in advance, so you have full control over your business and can better plan for the good of your family. If you already started



keeping records like shown above (or you plan to do so), this section will give you an idea about how to correctly calculate profits.

Some people calculate “sales minus everything you pay that day”

You may think the solution to neglecting costs in your profits calculation is simply to include all costs you paid on the respective day in your daily profit calculation.

Granted, this is more plausible than all the above, but still misleading! Imagine yet again the same situation – IDR 1,000,000 from sales, IDR 400,000 for stock-ups, petrol for IDR 50,000, and an electricity bill of IDR 300,000. Accounting for all costs, you calculate your profits to be IDR 250,000.

In order not to run out of stock, you plan to stock up the next morning for just about the same amount as today. To decide whether you have the money to pay tomorrow's stock-ups, you use today's profits. Your calculation reveals, that you are short by IDR 150,000 ($\text{IDR } 250,000 - 400,000 = \text{IDR } -150,000$) and will not be able to pay your supplier tomorrow. Hence, you decide to play it safe and not go for stock-ups tomorrow – even if that means that you will experience stock-outs!

However, the electricity bill you just happened to pay on this day represents costs for a whole month ($\text{IDR } 300,000/30 \text{ days} = \text{IDR } 10,000 \text{ per day}$). That means, the bill really drags your profits down just today and does not give you an accurate picture of how much money you have left for stock-ups. As a consequence, you now experience unnecessary stock-outs.

Below, we will show you how to deal with these costs using the sums you highlighted with colour

([steps 1-2](#)). You will also get to know more about how useful it is to plan ahead for these costs and save up ([calculating profits, extra step](#)).

Some people think calculating profits is complicated

... but it really is not.

It is all about knowing what to do and how to use your records in the right way. Moreover, if you have started to keep records or are planning to do so according to our easy steps (record-keeping, [steps 1-9](#)), you are almost there – this section will be a breeze for you!

Hence, if you heed the following simple steps to calculate profits ([steps 1-3](#)), it will be as easy as it is useful for the future of your shop.



Why calculating profits is important?

It is what distinguishes successful shops in Jakarta!

From our retail survey of small businesses in Jakarta, we know that calculating profits correctly is what separates very profitable businesses from those which are doing less well.

In a first step, keeping records is crucial as it enables you to know precisely what was sold and, importantly, which costs were incurred. While some shops, however, include only stock-up costs, others manage to add this all other costs once they are paid for. As such, we count electricity bills, transportation costs, telecom bills and, if applicable, costs for salaries, marketing, rent, and taxes.

Apart from being essential in knowing precisely how much money your shop makes, the documentation of these costs is good value!



Shops which have records detailed enough that they allow for the shop manager to calculate profits including all major costs to the business achieve monthly sales 42% higher and profits 45% higher than businesses of the same size without this detailed a recollection or without any records at all.

Let's assume, just as above ([record-keeping, why calculating profits is important](#)), the sales of a normal shop in our survey of IDR 15 million per month. Here, the

difference would mean more than 21 million monthly sales as compared to 15 million! For bigger shops in

our survey, which makes about IDR 30 million in sales per month, this would mean IDR 42.6 million – a difference of IDR 12.6 million!

Building on the business records you will be able to keep with our introduction above ([record-keeping, steps 1-9](#)), we will talk about how to achieve just this in three simple steps below ([steps 1-3](#)).



Only if you calculate profits, you can draw the right conclusions from your records

As our examples above show, you can easily be mistaken if you rely only on sales or the wrong kind of profits calculation (taking into account nothing but stock-ups).

In the worst case, as in the first or second examples of false beliefs above, you end up spending too much today of what you actually need tomorrow to meet your dues. This can make it unnecessarily hard on your family and you further down the line.

However, the reverse case, too, is detrimental. Imagine, like in **the third example of our false beliefs, you calculate profits by subtracting all costs you had to pay that day** (that is, including all longer-term costs like electricity, rent, etc.). This sure is better than not to take account of any costs or only stock-ups! However, **by doing so, you overestimate your income on days without major expenses and underestimate it on those very days when bills become due**. This means that you might be more likely to run low on cash when bills are due since you overspent in times without major expenses.

In both cases, only if you calculate profits correctly and track them with your records, will you be able to make the right decisions in your business

It is a natural extension of the records you (plan to) keep

Beyond its usefulness, one straightforward argument for calculating proper profits is that, **once you keep simple records as shown above, it almost follows naturally to wrap up your records by calculating profits.**

This is because it both naturally follows from the sums you already calculated ([keeping records, step 8](#)) and is **very easy to do once you have records**. If you have started keeping records or plan to do so, this section will be more than easy for you. In the following you will see that once you know how to and follow a few simple rules, you're better off with profits for sure!

How to calculate profits step by step



In advance: Profits without good sales and cost records

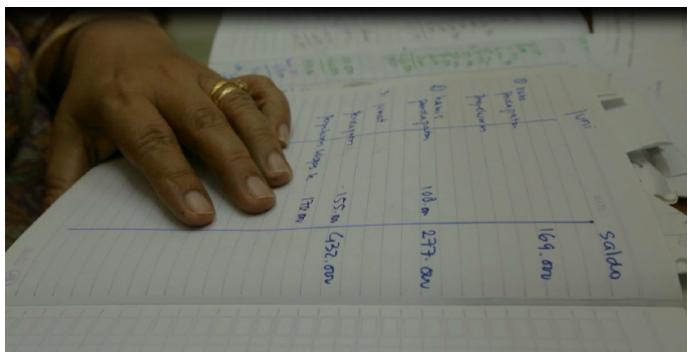
In case you have not (yet) followed our first nine steps ([record-keeping, steps 1-9](#)), you may still follow these next steps to calculate profits.

However, profits will obviously only be as useful as the knowledge accumulated to calculate them.

In fact, calculating “profits” without any exact knowledge about the transactions which have taken place over the day may rather mislead than help you. It may give you a sense of certainty where really you would do better keeping simple records to get accurate data on your shop. In this case, have a look again at the section above.

If you still want to continue, for instance to see how easy and practical it is, you will have to come up with rough estimations of your total daily sales and your total daily costs. Pose yourself the question “How much do I sell on a normal day?”, then also “How much do I normally pay for stocks, transportation, electricity, rent, taxes, and all other costs?”.

You may then skip the following [step 1](#), in which just these indicators will be calculated, and start directly with calculating daily profits.



Step 1: Total daily sales and costs at the end of the day

At the end of each day, in order to sum up both sales and costs, you can proceed just like you did with your daily balance ([record-keeping, step 9](#)).

To that effect, again make use of the sums you calculated at the end of each page. Here, **you took the sum of all entries excluding those in brackets as well as the sum of entries excluding all that were coloured**.

Now, you may wonder why earlier you summed up first all entries without brackets and then a second time without colour ([record-keeping, step 8](#)). We already saw that the first sum, which excluded stalled payments ([record-keeping, step 6](#)), was of use in calculating the day's balance ([record-keeping, step 9](#)). The sum where you disregard all coloured entries will now be used to calculate profits. These coloured entries represent costs which either do not belong to your business, such as household expenses or money lent to your aunt ([record-keeping, step 5](#)), or which represent costs for a period considerably longer than just today ([record-keeping, step 7](#)). Hence, they would make your daily profits seem unreasonably low..

On the contrary, if you calculate your daily sales using the sum you calculated excluding coloured entries (column four) and your daily costs by means of the equivalent sum in column five, your profits will be-

much more precise!

The calculation is basically the same as for the day's balance. Simply add up all the sums you made for sales at the end of each page (excluding coloured entries) to one single sum and add up all costs (again excluding coloured entries) accordingly. For an overview see the picture below.

Date: August 31, 2016					
Product	Amount	Unit Price	Cash In	Cash Out	Comments
Mineral water, 19l gallon	20	IDR 15,000	IDR 300,000		
Shampoo, 25ml sachets	200	IDR 1,500	IDR 300,000		
Mineral water, 19l gallon	20	IDR 13,000		IDR 260,000	
Shampo sachet, 25ml	200	IDR 1,000		IDR 200,000	
Lent Money				IDR 50,000	Aunt Fitri, 1 October 2016
Condense milk can 360gr	10	IDR 10,000	IDR (100,000)		Pak Agung, 7 September 2016
Soy Sauce, 135ml	10	IDR 9,000		IDR (90,000)	Toko Akbar, 7 September 2016
Electricity Bill				IDR 310,000 (10,000)	For August (31 days) (per day)
Excl. brackets (...)			IDR 600,000	IDR 820,000	
Excl. colours			IDR 700,000	IDR 560,000	

Step 2: Calculating daily profits

In order to know your daily profits, you may now simply take your total daily sales and subtract from it your total daily costs. The result is a very good approximation of your daily profits. Have a look at the picture below to see how this is done.

You may also want to have a look at the tips & tricks section below for a way to make your profits even more precise!

Date: August 31, 2016

Product	Amount	Unit Price	Cash In	Cash Out	Comments
Mineral water, 19l gallon	20	IDR 15,000	IDR 300,000		
Shampoo, 25ml sachets	200	IDR 1,500	IDR 300,000		
Mineral water, 19l gallon	20	IDR 13,000		IDR 260,000	
Shampo sachet, 25ml	200	IDR 1,000		IDR 200,000	
Lent Money				IDR 50,000	Aunt Fitri, 1 October 2016
Condense milk can 360gr	10	IDR 10,000	IDR (100,000)		Pak Agung, 7 September 2016
Soy Sauce, 135ml	10	IDR 9,000		IDR (90,000)	Toko Akbar, 7 September 2016
Electricity Bill				IDR 310,000 (10,000)	For August (31 days) (per day)
Excl. brackets (...)			IDR 600,000	IDR 820,000	IDR -220,000
Excl. colours			IDR 700,000	IDR 560,000	IDR 140,000

Step 3: Calculating monthly profits and profits on a “normal day”

In principle, **calculating your monthly profits is equivalent to calculating profits on a daily basis**. Hence, all you have to do is adding up your daily profits for all days of the month.

Likewise, you may want to know how much you get in profits on a normal day – such as we asked you in our survey, if you remember? Simply divide your monthly profits by the number of days which that month had. That way you can, for instance, easily compare your last day's profits to what you normally get and thus have a good and reliable way of judging whether last day was a good day or not.



Tips & tricks

Making daily profits more precise (stock-ups for multiple days)

As for now we have treated all purchases as “purchases for the day”, meaning that they represent costs only for the very day they are made on.

We have done this because it is difficult to accurately determine how many days it will take to sell the goods of one stock-up. However, most shops stock up less than daily for most products.

Though you may not know in advance how well the goods you buy will sell, and therefore for how many days exactly you have stocked up, **through your day-by-day experiences you are sure to have gained a good knowledge of how many normal days a certain stock-up will last for.**

Here, we want to encourage you to try to estimate the number of days for each stock-up. The way you deal with the entries in your records will be the same as with costs that represent more than one day. Just as you have done already ([record-keeping, step 7](#)), every purchase that represents more than a day shall be marked with colour. Like above, in brackets you then add the total purchases for those products divided by the days they will last for according to your rough estimate.

Try it out! The closer your estimates get to the truth the more precise your profits will be, and the better you know how much money your shop is really making.

Checking how precise your daily profits are (using monthly profits)

On a related note, you can even find out how accurate these estimations of yours are once you calculate monthly profits!

This is because, once you look at a month as a whole, no expenses such as monthly electricity bills, monthly rent or even taxes need to be broken down for a single day. Hence, if you want to know how well you accounted for these expenses in your daily profits, and thus how precise these were, just do the following. At the end of a month, first, **calculate the monthly profits** as shown above. Then, go back to each day of the month and note down, **on the page that you are calculating your monthly profits, both the total daily sales and that day's total costs including those you marked with colour**. If you now sum up the daily total sales, you receive your monthly total sales. Likewise, you can calculate the monthly total costs.

Again, as with daily profits, subtract the monthly costs from your monthly sales. You can now compare these monthly profits to the monthly profits you calculated earlier – either the normal ones ([step 3](#)) or the more precise version ([Making daily profits more precise](#)). This is easily done by subtracting one calculation of monthly profits from the other. That way you see by how much money you were off when estimating for how many days a bill was paid.





MAKING STOCK-UP DECISIONS: A SCHEDULE FOR EVERYONE

What this section is about

- We answer existing **misunderstandings about stock-up questions** such as that it bears no risk to stock up only when products are almost running out, to stock up just the same amount everytime, and to rely on only one good supplier.
- We show the **importance of a good stock-up schedule** for you to know the exact stock-up needs of your shop and to be independent from suppliers. Particularly, we present evidence on how much exactly the decision to work on a good schedule or not is worth in money!
- In **7 steps** and many accompanying pictures, we explain in detail how to determine how much exactly you need to stock up and when, so as to ultimately come up with your own schedule. Beyond that, we show how you can get a precise idea about stocking- up even without knowing your inventory just by **tracking stock-outs (step 3)**.
- In our **tips and tricks**, we add some practical advice on fluctuating prices and the importance to know about supplier's discount offers.

False beliefs about good stock-up decisions



I simply stock up when something is lacking from my shelf

In our survey, we found that concerning stock-ups some people go by the principle that stocking up is not necessary until things are lacking on your shelf.

However, imagine you run a shop and go by this rule. As usual, you have not yet stocked up but run out of a certain product when a customer comes along and asks for it. You have to decline and send the customer away asking them to come back tomorrow or whenever you have done your stock-ups.

The above situation happens to many retailers and few realise how detrimental to your shop they can be. **Figure every customer you send away as a foregone opportunity.** It is not just that the customer may need the product straight away and may turn to a shop which stocks up more regularly this time. He or she may get the impression that while you cannot be sure to end up getting what you want at your shop, the other shop which stocks up before stock-outs happen is sure to have everything on offer. **In the longer run, customers may therefore turn to that other shop without coming back to yours.**

If you want to win over new customers, this is crucial to develop a schedule which lets you approximate what you need and when and stock up accordingly. Before stock-outs happen!

We will cover both how to deal with stock-outs ([step 3](#)) and how to assess general demand and inventory ([step 4](#)) later in the text.



“Your own stock-up schedule will make you more independent. It will make you see clearly where you can stock up for the cheapest price, when to do so and how much the limit is”



I simply stock up the exact same amount that I had in my shelves before

Now, some people understand the above problem and therefore seek to avoid stock-outs. However, their stock-up decisions remain inflexible in that they only ever stock up the same amount as the last time, just “filling the holes in the shelves”.

There is nothing inherently wrong with this, but do consider the following example. There are special days in the year, most of all the Ramadan season and Eid Mubarak, but also other minor days. **It is likely that people buy more before festive days and potentially less thereafter. Also, some products might differ in demand depending on the season.** For instance, diapers will be more sought after in rainy seasons, while sales of fresh drinks should vary in the reverse way. The same goes for product trends, when products are suddenly more sought after or less so and new products without a reliable track record of sales.

Now, if you keep on stocking up just the same as you used to, you will experience more frequent stock-outs in certain times and idle products on your shelves in others. It is therefore crucial to stay in touch with changes in the market and customer demand. And to adjust your stock-ups accordingly. We will talk more about how to assess stock-outs

and demand later ([steps 3-4](#)) to come up with your needs for stocking up.

I have my favourite supplier with the best prices and do not need any other

Certainly, price is important. And establishing a long-term relationship to your supplier based on mutual trust and reciprocity is just as much.

However, what happens to people who concentrate on only 1 or 2 suppliers for all of their products is that they become dependent on those suppliers and their conditions.

What happens, for instance, if the supplier goes out of business? And if that is unlikely, **what if they raise their prices?** Perhaps not due to a general shock to the market (every supplier raises their prices), but simply because something unexpected happened to that business? And if that is yet too unlikely, when prices move (and they do often), **will it not be beneficial to your business to compare the offers by each of your suppliers and decide according to the best price (or price and quality) where to buy at a particular point in time?**

When we talk to small and mid-sized shop owners and ask for advice they would have liked to have when their business was smaller, one of the most frequent answers is **“do not rely on one or two suppliers alone and once you have sought out a good few for you, always keep up to date with their prices!”**

We will talk more about comparing different suppliers ([step 6](#)) once we have examined how to deal with stock-outs ([step 3](#)), assess the demand for your products ([step 4](#)) and find out your own constraints to stocking up ([step 5](#)).

Why a good stock-up schedule is important?

AGUSTUS						
Minggu	Senin	Selasa	Rabu	Kamis	Jumat	Sabtu
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

Good stock-up decisions are what characterises successful shops in Jakarta!

In our survey of small Jakartan retail businesses in February and March 2016 some basic stock-up decision-making stood out as practices which distinguish very profitable businesses from the less successful.

For one, it turned out that, shops whose owners had a fixed schedule to stock up their main products, rather than to just stock up whenever need be, had 26% higher monthly sales and 25% higher monthly profits.

Assuming the monthly sales of a typical shop in our survey, that equals the difference between IDR 15 million and IDR 18.9 million a month! For a bigger firm with IDR 30 million in sales per month, this would mean IDR 37.8 million!

However, most businesses do not plan ahead for supplies. Hence, if they stock up less frequently than daily they will already experience stock-outs. This is why shops which stock up daily rather than weekly yield monthly sales that are 48% higher and monthly profits that are higher by 37%.

Again assuming a typical shop, this equals a difference from IDR 15 million a month to IDR 22.2 million! For bigger shops with sales of IDR 30 million per month this would mean sales as high as IDR 44.4 million!

With a ready plan for stock-ups you will not have to purchase supplies every day and can still adjust if the situation changes! Moreover, stock-outs are harmful for your business.

In fact, we found that the monthly sales of shops which never run out of stock for their main products are by 25% higher and their monthly profits exceed firms which do at least occasionally run out of stock by 27%.

That means daily sales of IDR 18.75 million rather than IDR 15 million per month for a typical shop from our survey and IDR 37.5 million instead of IDR 30 million for bigger businesses!

Furthermore, businesses which experienced stock-outs at any point in time had on average 7.5 customers less per day! In the following ([steps 1-7](#)) we will show you that none of this is too hard to handle and





in fact intuitive once you have understood how to and have begun practicing.

You will get a better idea about and control over your shop (especially with records).

Once you work out a viable plan of stocking up for your business and follow it along through time, you will be able to more closely track the changes in demand as well as the areas of improvement.

You will, for instance, become more aware of seasonal changes in demand or trends for certain products. You will more clearly see the sales of a newly introduced product and whether to (dis-)continue with it over time. Most importantly, you will decrease stock-outs and avoid stocking up late – one of the keys to good business.

All this will be easier to track with a fixed stock-up schedule in place. Beyond that it will be facilitated by keeping simple business records as we have shown how to above (keeping records, steps 1-9).

You do not make yourself dependent on your supplier's schedule, but follow your own

If your stock-up schedule is not fixed, you will tend to stock up more according to what is available at your suppliers and when it is, rather than to see what sells well at your shop and when you need it.



On the contrary, your own schedule will clearly tell you when you need which products if you do not want to run out of stocks, **so you will more strongly rely on your own planning** and switch suppliers in case of non-availability instead of simply stocking up different products.

In that sense, **your own fixed schedule will make you more independent in your planning and will give you more fully the control over your achievements.**

How to get to a good stock-up schedule

Step 1: Preparing the material



In order to come up with a suitable schedule for stock-ups, it will be helpful to organise the notes we will ask you to take below ([steps 2-5](#)).

We recommend you **note down everything in a normal ledger book (your inventory book)**, just like the one we recommended using above ([record-keeping, step 2](#)). For each day, you can plan with at least one or two pages.

It is not strictly necessary to have a ledger book for this. Any booklet or notebook will do. You will surely be able to do what we ask you for just as well with a free collection of sheets. However, just as for the records, organisation is key here, and you will greatly appreciate the neatness of a ledger book as you go along!

Step 2: Figure out your most important products

Before you begin thinking about how exactly you want to stock up, what and when. First, see whether you can single out the five, six, or seven most important products in your shop.

This step is not strictly necessary, but **it will facilitate considerably the process of coming up with a stock-up plan which is tailored to your very needs and goals**. With a focus on just five, six, or seven products it will simply be more straightforward to track every single product's stock-outs ([step 3](#)), each product's demand ([step 4](#)), compare its requirements for storage, capital, and transport relative to other products ([step 5](#)), and compare relevant prices, product quality, availability, and supplier schedules ([step 6](#)).



Different products have simply very different constraints in terms of all the factors named above. While one may be profitable but costly to purchase (e.g., cigarettes, etc.), another may be too large or heavy to stock up much more than just a few (e.g., watermelons, rice, peanuts, etc.) and yet another may run off while stored safely in your store (e.g., eggs, etc.). It is crucial to see which products matter to you and which constraints you face with them.

The more products you take into account here, obviously, the more precise your schedule will be. Hence, we would recommend you start with just the five or six most profitable products and once you feel you have a good schedule that is working well for your business, you may extend it first to seven and subsequently to how many products you think are of importance to your shop.

Importantly, we asked you to list your **most important products in terms of profits**, not sales. For an explanation of profits and how to get at them, see above ([calculating profits, steps 1-3](#)). Here, it is best to

rely on **monthly profits or profits on a normal day** which are more stable over longer periods of time. If you do not (yet) calculate profits, **in order to get started, try to get a rough estimate of your profits.** Ideally, you want to start keeping records and take your first day's profits. Later, when you have records of a week or a month, you can switch to monthly profits. Again, it shows how useful record keeping really is!

Now, after having added the date right in the first row, **divide the first page of your book into six columns** – the first of which short, the other five equally wide. Though we have not yet introduced you to any of the following steps ([steps 3-7](#)), leaving space for them already will come in handy later. In the first two columns write down the list of your most important products. Hence, the numbers from 1 to 5 (or however many products you chose to track) in column one and the product names in column two, as can be seen on the picture below

Thursday, September 1, 2016					
Rank	Products				
1	Soy sauce				
2	Drinking water (gallon)				
3	Cigarettes				
4	Condensed milk				
5	Shampoo				
...					

Step 3: Get an idea about stock-outs

With the list of your most important products, first, go and see how often you experience stock-outs.

As such we mean **any instance that a customer asks for a product which you do not have in store at that moment.** Do make it a habit, therefore, to ask your customers “whether it can be anything else?”. That way, you may find out about demand which customers simply might not mention since they can not see the item in your store. Try asking your customers for their wishes since, **ideally, you want to know how many items a customer would have bought had you had the product on your shelves.**

Take the ledger book with your most important products ([step 1](#)) and start a **tally of how often stock-outs occur**. If you ask your customers how much exactly they would have bought had the product been in store, you will have to come up **with a unified measure**. For instance, say, the first customer would have asked for two kilos of rice and so you note down two lines on your tally sheet. If now the second would have wanted to buy just 500g, this of course will have to be noted in kilos as well – and so you note down half a line (a short line) on your tally. You can also note down the exact numbers (e.g., “2” and “0.5”) and add them up. This will only take more space, but is of course equally feasible.

You can organise your stock-out notes in the following way. You have already added the day and date and have noted down a list of your most important products ([step 2](#)). We asked you to divide the page into six columns, of which four are still empty. Now, label the third column as unit” and the fourth as “stock-outs”. Have a look at the table in page 40 for how this is meant to look like.

Thursday, 1 September, 2016

Rank	Products	Unit	Stock-outs		
1	Soy sauce	135ml bottle			
2	Drinking water (gallon)	19l gallon			
3	Cigarettes	Packs			
4	Condensed milk	360ml cans			
5	Shampoo	Sachets			
...					



In fourth column you will keep the tallies for stock-outs of all your main products. Hence, whenever a customer asks for a product on the list but you do not have it in stock, you will note down the incidence with one line. You can see that in the example above customers asked for four packs of cigarettes more than were in stock. They also asked for four bottles of soy sauce more than were in stock. They also asked for one gallon of water when there were none left and for seven cans of condense milk when that product was equally out of stock.

As mentioned before, for your later stock-ups, it will be good to remember the exact amount requested by customers. Therefore, in third column you may define the unit (e.g., "bottle" for soy sauce, "packs" for cigarette, etc.) for each product. Once you have defined the unit, one line in the tally tells you that one unit of the product was requested. Hence, in the example above, , four bottles of soy sauce, one gallon of water, and **seven 360-ml cans** of condense milk.

Keeping count of stock-outs in this way is especially practical since **it is not necessary to count your whole inventory**. Hence, even if you have no precise idea of how much you have in stock, this method will help you! Thereby keep in mind that the more precise this list becomes, **the more precisely you will know how much exactly to stock up**. Therefore, keep asking your customers and note it down immediately!

Just to be clear, this way of counting stock-outs is independent of sales too! You may have sold 5, 10, or 100 cans of condense milk before they went out of stock. This count simply tells you how many more you could have sold on that day, no matter what you had in store or what you sold.

It is useful to know that if you experience many stock-outs on a day and so your row for that product is full, **you may simply start a new row under the same date**. Hence, say, if for condense milk you have reached the end of the line because so many customers that day asked for it but you did not have any stocks left, write it down just like in the table in page 41. At the end of the day, of course, you will have to add up the stock-outs of both lines.

Thursday, 1 September, 2016

Rank	Products	Unit	Stock-outs		
1	Soy sauce	135ml bottle			
2	Drinking water (gallon)	19l gallon			
3	Cigarettes	Packs			
4	Condensed milk	360ml cans			
5	Shampoo	Sachets			
4	Condense milk	360ml can			

Step 4: Get an idea about your inventory

Now, as we said above, in normal times keeping count of stock-outs works perfectly fine even without keeping count of the full inventory.

However, it is only when you know your full inventory that you can start trying to predict how long from now stock-outs are going to occur. Also, you will see which products you have in stock are taking up too much of your shelf space because you never get even close to running out of stock.

We asked you above to divide the page in six columns, but have so far only labelled four. While the first four columns will stay as above (first “rank”, second “product”, third “unit”, and fourth “stock-outs”), label the fifth column as “items sold” and the sixth as “inventory”.

It is easy to see that, in column five, for every item you sell of any of the products in the list you will simply keep count just like you did with stock-outs. Again, we recommend to do this by help of a tally chart, so you can go on without adding numbers. However, if you are more comfortable with real numbers, just as in the case of the stock-out list, you are free to choose your way. In the table below we have started a sales tally in which, on that day, the shop has sold **fifteen bottles** of soy sauce, **seven gallons** of water, **twelve packs** of cigarettes, **eighteen cans** of condense milk, and **seven sachets** of shampoo. (For ease of reading we have added the real numbers in brackets.).

Thursday, 1 September, 2016

Rank	Products	Unit	Stock-outs	Items sold	Inventory
1	Soy sauce	135ml bottle	(4)	(15)	
2	Drinking water (gallon)	19l gallon	(1)	(7)	
3	Cigarettes	Packs		(12)	
4	Condensed milk	360ml cans	(7)	(18)	
5	Shampoo	Sachets	(0)	(7)	



Now, have a look at both the fourth column with stock-outs and the fifth with the items sold on that day. If you have been persistent in asking your customers whether they wanted to buy more but could not find it ("whether it can be anything else?") and thus have a precise count of your stock-outs, then **by adding up items sold and stock-outs, you already know what the real demand was on that day.** That is to say, you know what you could have sold had you stocked up enough.

By the same token, you know have an idea of what to stock up the next day. Assuming that today was a normal day, and you want to be prepared for a demand like that of today, **the sum of items sold and stock-outs is what you want to stock up the next day.**

Further, though no one wants to experience stock-outs, they have one great advantage. The moment you run out of stocks of a product, you can start tracking your inventory for that product – without ever having to count the stocks in your shop. Hence, **for all products for which stock-outs occurred, note a 0 for the inventory and start tracking your stocks with the very next purchase you make.** In our example, the shop has run out of soy sauce, water gallons, and condense milk, so their inventory is currently at 0. Have a look at the table below for an illustration.

Thursday, 1 September, 2016					
Rank	Products	Unit	Stock-outs	Items sold	Inventory
1	Soy sauce	135ml bottle	(4)	(15)	0
2	Drinking water (gallon)	19l gallon	(1)	(7)	0
3	Cigarettes	Packs	0	(12)	?
4	Condensed milk	360ml cans	(7)	(18)	0
5	Shampoo	Sachets	0	(7)	?
...					

Now, we still do not know the inventory for products which have never been out of stock, like cigarettes and shampoo in the example above. It will of course be easiest to wait until you have once run out of stocks and keep track from there on. However, if these are products you rarely, if ever, sell out, this may take too long. Hence, **for products that do not normally sell out it will be inevitable to actually count your inventory.**

Now, if this sounds daunting because your shop is big or your time is limited, **you can also resort to rougher estimations.** For instance, if you store all stocks of condense milk in one place, you can estimate your stocks by counting the number of cans in one pack or pallet and then roughly estimate the numbers of packs or pallets in your store. For the beginning this is perfectly fine. Do not, however, forget that the

more precise your count is, the better you know when to stock up and how much. In the table below we illustrate how this may look like.

Thursday, 1 September, 2016					
Rank	Products	Unit	Stock-outs	Items sold	Inventory
1	Soy sauce	135ml bottle	(4)	(15)	0
2	Drinking water (gallon)	19l gallon	(1)	(7)	0
3	Cigarettes	Packs	0	(12)	10
4	Condensed milk	360ml cans	(7)	(18)	0
5	Shampoo	Sachets	0	(7)	2 packs with 64 each = 12.8
...					

You have finally found a way to know and track your inventory! Now, where do we go from here?

Once you know your inventory, you can start predicting how long from now you will run out of a product, and therefore, when exactly to stock up. This is easier than you think.

Above we have already seen that the sum of items sold and stock-out occurrences (e.g., for soy sauce, 15 bottles sold + 4 bottles stock-outs = 19 bottles) is what you want to stock up as a minimum if you have no more stocks of a product and do not want to run out of stocks the next day.

You may say that this is easier said than done since some products are expensive to stock up (e.g., cigarettes, etc.), so you do not always have enough capital to satisfy all needs. This is, of course, correct and we will deal with constraints such as capital in the next step ([step 5](#)). Here, we simply want to see how much you would ideally want to stock up to satisfy customers' demand.

Let's take shampoo as the example of a product you did not run out of this day. As can be seen in the picture above, there are still 128 sachets of shampoo in store. Let us assume today was a normal day on which you sold 7 sachets. In order to estimate the number of days your stocks will cover, simply divide your inventory by the items sold today. In this example, you will see you still have shampoo in store for approximately 18 more days ($128 \text{ sachets} / 7 \text{ sachets per day} = 18.28$). Hence, there is no urgent need for stock-ups.

The case is quite different for cigarettes. Here, twelve packs were sold today, but a count reveals not more than 10 packs left in stock. If, again, you divide your inventory by items sold, you will see that your stocks will not last even for the next day ($10 \text{ packs} / 12 \text{ packs per day} = 0.83 \text{ days}$)! So, if you stock up cigarettes daily, you will need to buy two more packs and possibly a few extra ones just to be on the safe





side. If you stock up cigarette only weekly, you will want to have at least 84 packs in stock ($12 \text{ packs per day} * 7 \text{ days} = 84 \text{ packs}$). Thus you will want to add at least 74 more to the ten packs in stock ($84 \text{ packs needed} - 10 \text{ packs in stock} = 74 \text{ packs}$)!

All products taken together, for the next day you will have enough shampoo but will have to stock up at least 25 cans of condense milk ($18 \text{ sold} + 7 \text{ stock-outs} - 0 \text{ in stock} = 25 \text{ cans}$), 2 packs cigarettes, 8 gallons of water, and 19 bottles of soy sauce (all according to the same formula).

Once you keep count of stock-outs (step 3) as well as items sold and inventory (see above), this is the way to proceed for all of your products. In doing so, always remember the following:

- 1) **If stock-outs occur, then inventory of that product must be 0** (start tracking your inventory now!)
- 2) **Amount of next stock-up (daily)** = items sold + stock-outs – inventory
 $\text{Amount of next stock-up (weekly)} = (\text{items sold} + \text{stock-outs}) * 7 \text{ days} - \text{inventory}$
 $\text{Amount of next stock-up (any # of days)} = (\text{items sold} + \text{stock-outs}) * (\text{number of days}) - \text{inventory}$
- 3) **Days until stock-out** = inventory / (items sold + stock-outs)

Step 5: Identify constraints (storage, capital, transport, limited shelf-life, manpower)

By identifying stock-out occurrences and the sales of products against the quantity in stock (inventory), over time you will gain a good idea of what to stock up and how much.

You can come up with a first draft of what is to be stocked up. Ideally, you would want to stock up more than you need, so as to be sure there is enough in case, unexpectedly, you experience increased sales over a short period of time. There can be many reasons, however, as to why you cannot just stock up ever more but have to find the right balance between avoiding stock-outs and stocking up ever more.

If you do not have storage or a limited space, then stock-ups for all products combined will be limited. Likewise, if you stock up from a local supplier and delivery is not an **option, the size of your vehicle together with the time you can afford to spend to go back and forth limits your supply.** You may want to send a co-worker, your spouse or a relative to go get the goods for you. In that case, not your time is the limit but **how many people you employ and how much time they have.** Moreover, even though all of this may not be a problem, then still your capital (and possibly the supplier's credit policy and whether you can pay later) will decide about how much stocks you can get into your shop. Lastly, some of your produce may spoil and so when you stock up you will have to know exactly how much you expect to sell in order to take that risk.



What is more, most of these possible constraints to stocking up depend on the very product you are looking at. For instance, talking about cigarettes, most shop owners would contend that **capital is the main obstacle for stocking up more tobacco**. Cigarettes, though essential for many shops, are very expensive in comparison to other products, which is why for smaller shops stock-ups tend to be limited in volume but more frequent. **Rice, sugar, flour, and often peanuts and other nuts, if demanded in greater quantities, are usually limited in stock-ups due to their weight and volume**. Hence, if not delivered, the transportation vehicle tends to be the limiting factor, or else the space you have available to store them. Though these products do not tend to spoil easily, eventually they might. **Eggs are much more vulnerable to spoilage and indeed, this is often the first factor which limits stock-ups which people name**. Generally speaking, if you are working alone in your shop, your time is the most dominant factor to limit stock-ups since you do not want to spend too long if you have to close your shop while out. You may have a co-worker, your spouse or a relative working alongside yourself. Here, though, you probably do not want him or her to spend too long with simply stocking up, so again **the limiting factor is your co-worker's/ spouse's/ relative's time or the number of people you have at your disposal**.

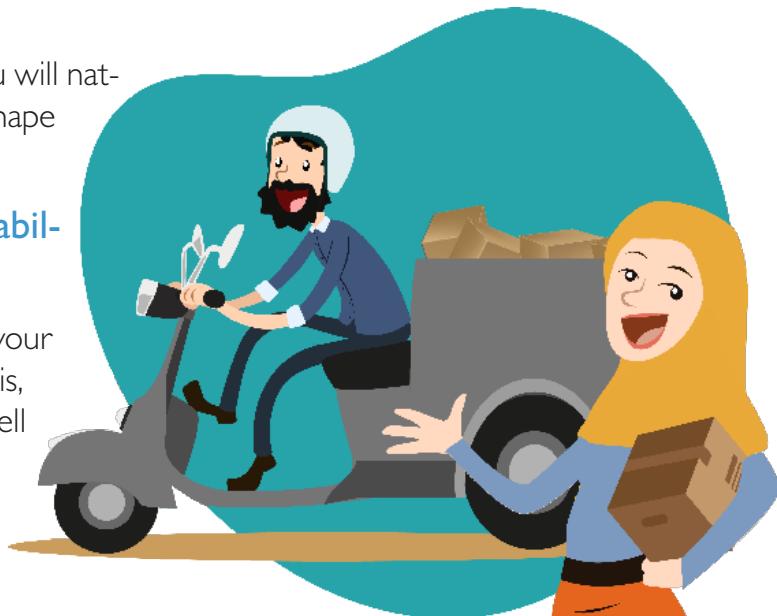
Hence, **have a look at your ideal stock-up schedule and identify the main constraint for each of your most important products**. Hence, in case you need to buy peanuts and rice and for both transportation and storage are the main constraints, **see where the balance is between the two products** that both your transport vehicle and your space can manage. Also, the more capital is the main constraint, the more likely it will be that you want to stock up more frequently but only little each time (e.g., cigarettes). Also, pose yourself the question – who can guard the shop when one heads out to stock up? Or do you have someone to go get it for you?

Once you start thinking in terms of your constraints, you will naturally appreciate the limits to your stock ups. This will shape the ideal schedule you have developed earlier (**step 4**).

Step 6: Compare suppliers (quality, prices, availability, schedules)

Knowing your own constraints to stock-ups for each of your most important products is the first step. The second is, to know when you can stock up those products as well as what the quality and prices across different suppliers are – in other words, your suppliers' constraints.

We mentioned the importance of relying on more than just one or two suppliers earlier (False beliefs about good stock-up decisions). It is crucial for any type of shop of whatever size not to rely on too few suppliers both so as not to suffer from unexpected shocks (supplier bankruptcy or price surge) and so as to find the very best prices for you – because prices are key!



We recommend you to find at least three or four suppliers for each of your most important products you identified earlier ([step 2](#)). That means, while most suppliers offer multiple goods and so one supplier may cover all or almost all of your most important products, do check that each product is covered by three or four.

Once settled, try to stay up to date with the prices of your suppliers! When talking to bigger shops, often times their best tip is to get the best prices by checking supplier prices often and noticing small price changes. A focus on this will guarantee that you will get the best prices and will therefore be able to sell cheapest, while still getting your normal mark-up!

Over time, by dealing with suppliers, you will get an idea of the availability of products (e.g., supplier stock-outs, late deliveries) as well as their quality. There is no single correct way to take account of this when comparing prices, but you will have to find your own way to make sure to get decent quality products when looking for the best prices.

In case there are too many suppliers for specific products, just note down the one who offers you the best price. You may prefer the one whose quality is unrivaled or who is much more reliable than any other – that is up to you! Prices, however, are the easiest to compare. So, a good idea is to look for suppliers of acceptable quality and amongst those list up the cheapest. Importantly, check the schedules of all your suppliers and compare it to the needs you outlined in the stock-schedule that you drafted during the last steps ([steps 2-5](#)). We recommend you to put both your stock-up needs and supplier schedules in a calendar. That way you have the best overview of where the best prices are at what time and when deliveries will come in.

See the example below for how to organise such a calendar. Please note, that the information it contains is information you have already gathered following the last steps ([steps 2-5](#)).

	Day 1	Day 2	Day 3	Day 4	Day 5
Schedule					
Soy sauce	20 bottles				20 bottles
Water		30 gallons			
Cigarettes	12 packs	12 packs	12 packs	12 packs	12 packs
Condensed milk		25 cans			25 cans
Shampoo	100 sachets				
Supplier's schedule					
Soy sauce 1. Deliver 2. Max/min amount?	Toko Akbar - No delivery - Min 10. bottles				Toko Indra - No delivery - Min 10 bottles
Water 1. Delivery 2. Max/min amount?		Aqua Water - Delivery - Min 30 gallons			
Cigarette 1 Delivery. 2. Max/min amount?	Gudang GG - Delivery - Max 30 packs	Gudang AA - Delivery - Max 30 packs	Sampoerna - Delivery - Max 30 packs	Djarum - Delivery - Max 30 packs	
Condensed milk 1. Delivery 2. Max/min amount?		Pak Joni - No delivery - Min 20 cans			Toko Indra - No delivery - Min 20 cans
Shampoo 1. Delivery 2. Max/min amount?	P&G Supplier - Delivery - No limit				



Step 7: Come up with a stock-up schedule

With information regarding your most important products ([step 2](#)) about your own stock-outs ([step 3](#)) an approximation of your inventory and how quickly you will likely run out of stocks ([step 4](#)), and knowledge both about your own constraints ([step 5](#)) and those of your suppliers ([step 6](#)), you are now ready to see how best to stock up.

For that, all you need to do is **have a look at your last table** in which you combined your own stock-up needs and the delivery schedules concerning your most important products as well as their availabilities at your suppliers ([step 6](#)). If you managed to be reasonably precise in all the steps, you can now see very clearly where you can stock up for the cheapest price, when you can do so and how much the limit in terms of quantity is – well done!

Tips & tricks

Reacting to price fluctuations, discounts, and product availability

If you followed the above steps carefully, you will have understood that staying up to date is key.

Not only for your business records ([record-keeping, steps 1-9](#)), but also when coming up and updating your stock-out needs and suppliers' offers, **things change constantly and keeping track is both very important and way easier than may appear at first blush**.

This is especially true with respect to supplier prices. **Since price fluctuations are common, staying informed about your suppliers' prices will help you come up with the best stock-up schedule and make you save ready cash!**

Therefore, if price changes are not communicated to you directly by your supplier, **why do not you set a day in the week on which you update those prices?** For delivered goods, this could be the day of delivery when you ask the delivery person whether prices stayed the same or changed in the meantime. By that we mean all prices. Even though you may not stock up rice this week and did not need any more detergent, **do ask for price changes for all your main products.** So your prices are more precise when you consider stocking up next week.



Also, **keep an open eye on discounts.** In our talks with small and mid-sized shop owners, everyone of them emphasised this as key for success. Sometimes it is your local supermarket which runs a discount offer for cooking oil or a local supplier who needs to get rid of his stock in eggs (and so decreases prices). Below, we talk about one of these opportunities ([Minding suppliers' discounts for larger purchases](#)).

Regarding the availability of products, do keep an eye on your suppliers' delivery times and stock-outs too. Have you ever experienced that a promised

delivery did not arrive? Or that it came late? Or that the cheapest local supplier had run out of supplies of a product? Does this happen often? Your schedule can be as good as perfect, if your suppliers cannot keep their promises, it will not help you regardless.

Thus, even if their prices may be great, **if you experience said situations too often, do not hesitate to change to a more reliable partner.** The better your suppliers deliver upon their promises, the better your plan will work out.

Minding suppliers' discounts for bulk purchases



It is common for suppliers to give discounts of different sorts. Oftentimes, **those discounts are given for bulk purchases for which “minimum amounts” will have to be bought.**

When we speak to small and mid-sized shop owners, who themselves constantly try to get the best prices, being attentive to those bulk discounts of their suppliers is frequently emphasised as a key strategy. For a “minimum amount” the supplier offers a better price, since that way they can get rid of a lot of products in short time.

Since you want to get the best deal, this is a great opportunity! However, **only if you plan ahead will you know whether it makes sense for you to buy this** much or whether you will

likely end up not selling the stocks which will then clog your storage or occupy all shelves in vain. Crucially, if you keep business-records ([keeping records, step 1-9](#)) and make stock-up decisions like we showed you above ([step 1-7](#)), you are set to reap all these profits! You will be able to track your stock-outs and sales, predict your demands and be sure about whether a discount is beneficial to your very business..

ATTRACTING CUSTOMERS RETAIN THE LOYAL, WIN SOME NEW



What this section is about

- First, some common misunderstandings about **attracting and retaining customers** are addressed such as that it is not worth it to introduce new products, that discounts only work if you do not already give your best prices, and that customers once they decided to quit buying at your shop cannot be attracted back.
- We emphasise the importance of product innovation and the benefits of doing what you

can to attract and retain customers. Further, we prove with evidence that whether to do this or not is a decision about a good amount of money!

- Finally, in three steps, we suggest a way to think about whether to extend special offers as well as about innovation in products in order to retain your loyal and attract new customers.

False beliefs about retaining customers and special offers



I have sold the same products for a long time now, there is no need to change my assortment

In our survey that we ran in February and March 2016 with 1300 retailers from Jakarta we found that between those who introduced at **least one new product in the last three months** and those who did not, the difference in sales and profits was significant. Beyond that, the difference was even more pronounced for those who introduced at **least five new products** in the same time.

Some big companies will give you good conditions when they sell the products to you for the first time. So, consider yourself **giving a better price than you are** willing to give later on in order to make the product known to people. Besides, they may just discover that they like the product!

Below, we talk more about the introduction of new products (**step 1**) and other ways to attract and retain customers below (**step 2-3**).

If a customer decides to quit buying, I cannot do anything

From our conversations with small and midsized

shop owners, it became apparent that many do not simply give up an absent customer for lost.

Surely, there are customers who have moved away and those who have other well-founded reasons to abstain from buying at your shop. For many, however, getting the products they need is less of a fully deliberate and more of a habitual matter. Others may still be thinking whether to come back to your shop while they are trying other shop's offers.

This is precisely your time to politely **get back and ask for the reason of their quitting**. This can be in the oft-heard form of "**I was just going to see whether I can improve on my service or shop in any way.**" Based on experiences, customers generally do not mind being asked for their reasons to buy or not to.

For some, the simple fact of you caring about your customers may be enough to make them return to your shop. For others it makes sense to think about temporary discounts. Since, losing a loyal customer is worse than once making a small loss by offering a price you cannot deny! We will say more about discounts later (**step 3**).



I already make the best possible prices, discounts do not make sense for me

We do believe you do and would not ask you to change your prices for good without knowing your shop in detail. **What a discount really does**, however, is changing the price temporarily if there is a good enough reason to do so.

Such a reason can be a good customer who quit buying at your shop and whom you would like to see return. Another can be a new product which you feel could be well liked, but is not at this point simply because people do not know it yet. Especially if your supplier offers you good conditions to display a small amount of the new product in your shop.

Then again, you may want to give discounts **for products which may be on the verge of spoiling** and so not selling it within the next days would mean not selling it at all.

Lastly, in order to retain loyal customers and so as to make your stock-up schedule easier to handle (**making stock-up decisions, step 1-7**), **consider discounts for goods bought in bulk**. Firstly, you may sell more. Secondly, if the customer keeps buying in bulk, what you sell may become easier to predict and document. Thirdly, the message may spread and other customers buying in bulk may be attracted to buy at your shop. What exactly is the definition of "in bulk", meaning how much is enough for you to give the discount, is of course entirely up to you.

Have a look at the following sections for more in-

"It makes sense to think about temporary discounts. Since, losing a loyal customer is worse than once making a small loss by offering a price you cannot deny!"

put on how to attract and regain customers ([step 1-3](#)) and specifically about discounts ([step 3](#)).





Why special offers are important?



Basic practices to attract customers are what distinguishes successful firms in Jakarta!

From our survey of small retail firms in Jakarta in February and March 2016, we gathered that some simple practices, which help a business retain and bind their loyal customers and win over new, are largely used by very profitable firms.

In that vein, **businesses whose owners introduced at least five new products within the last three months before the survey have monthly sales that are 35% higher** and monthly profits that are 28% higher compared to businesses which introduce less products.

For a typical shop in our survey that would mean monthly sales of more than IDR 20 million instead of IDR 15 million! For a bigger shop with IDR 30 million in sales it would mean over IDR 40 million sales per month!

At the beginning ([False beliefs about retaining customers and special offers](#)), we already talked about how every shop sooner or later will experience the (temporary) loss of a customer. As we mentioned, here, it is up to you to react.





Now, shop owners who decide to get back to former customers to see the reasons why they quit buying at their shop have monthly sales 24% higher than the sales of businesses whose owners just let it go. What is more, their monthly profits are 23% higher.

Hence a typical shop with IDR 15 million in monthly sales would experience sales of IDR 18.6 million whereas a bigger shop with IDR 30 million per month would see sales of more than IDR 37 million!

Likewise, we mentioned that you may want to entertain the thought of using discounts either to convince newly disloyal customers or just to attract customers in general.

From the survey we know that **businesses which use discounts to attract new and retain loyal customers have monthly sales that are 40% higher** than the sales of businesses which do not give discounts. **Also, their monthly profits are 29% higher.**

For a typical shop this equals to monthly sales of IDR 21 million instead of IDR 15 million whereas for a bigger one with sales of IDR 30 million per month it would mean IDR 42 million!

In what follows, we will get back to the introduction of new products ([step 1](#)), ways to win back disloyal customers ([step 2](#)), and discount strategies ([step 3](#)).



How to think about retaining customers and special offers



Step I: Introduce new products

The easiest way to get started on how to attract customers is to innovate with new products.

Though not every customer may be interested in a new product, **the mere fact of a shop innovating may be enough to make your shop more interesting to some casual customers.** Since, who knows, maybe they have something new in store!

Furthermore, from our retailer survey from the beginning of 2016 in Jakarta **we know that shops which had introduced at least one new product in the three months prior to the survey had clearly better sales and profits than shops which did not.** Moreover, those shops which decided to introduce 5 or more were better still!

As mentioned above ([False beliefs about retaining customers and special offers](#)), oftentimes big companies will make special conditions **for a small quantity of a new product for the first weeks.** This is because they are interested in testing the product's viability on the market just as you are interested in testing it in your shop. Hence, do take advantage of that situation and place a small quantity well-visible in your shop!

Should you moreover get a better price, **it is a good idea not to pocket the difference as your mark-up but to give it back to the customer in order to make the product known in its first weeks.** If the price does not differ, you may still think about a discount for this small quantity, simply to see whether there is any chance this product will be successful. If after weeks it is not, it is completely fine to directly discontinue it.

Even if you might not get a discount from the company, they frequently have different offers. It happens that, for the first few days or weeks, they will let you have a limited quantity of the product first, but ask you to pay only once you have sold it. **Do not be shy about getting in touch with your supplier to ask for better conditions.** Always remember, they want to test the product just as much as you do, or even more!

Step 2: Ask back customers who quit buying at your shop

Every shop experiences customers who decide, from one day to the next, to buy elsewhere.

However, from our retailers survey in Jakarta we know that **those shops which do not give up on former customers and get back in touch have significant higher sales and profits**. The concept is simple. Almost no customer will mind to be asked for their reasons. So, by all means do not be shy to ask!



Those reasons can be either well-founded and hard to overcome (e.g., customer has moved, closed his own shop, etc.) or more easily accommodated. In the first case, you have received valuable feedback, which in the second case you have obtained as well, but above and beyond you may have the chance to easily win back the customer.

Those latter reasons can be of the sort that someone is simply trying out different shops, that he or she has changed her daily routine slightly and so passes by a different shop first, or perhaps that the prices are better elsewhere by a tiny margin. Now it is up to you to react. It may suffice for your customer to see that you regard him or her as so valuable to get back in touch. In which case you have won back a customer simply by asking politely for their reasoning. If this is not the case and the customer has been loyal to your shop, **you may well want to entertain the thought of giving a temporary discount (more on discounts in step 3)**.

At any rate, **it will be necessary to identify customers who quit buying in the first place**. This brings home the notion of good service and closeness to your customers. If you are already in good contact with your loyal customers or if all your former customers still pass your shop because they make their purchases elsewhere in the market, that's great! If you entertain only a loose contact, however, maybe you can start chatting to them outside of business matters. **Try to intensify the contact**. This may lead to you having their phone number, so that it will be harder to quit buying from one day to the next and in case they still do so you can easily get in touch.

In fact, when we spoke to small and mid-sized shop owners, good customer care and closeness were emphasised just as much as a willingness to go the extra mile to win back a customer.



Step 3: Devise a discount strategy

It makes sense to think about both when and what for you want to give discounts as well as how to communicate it.

Firstly, as we have seen earlier ([step 1](#)), discounts may work for the introduction of new products and so as to attract customers who may otherwise not take note of those new products. Especially if your supplier offers you good conditions to display a small amount of the new product in your shop, **think about not pocketing the difference as a higher mark-up, but to lower prices so as to make the product popular first of all.** This may make

you see whether a product is viable at all. So, in case it does not sell well even if you display it right in front and offer a discount, you can be confident in your decision to discontinue it.

Secondly, as described above ([step 2](#)), discounts make sense to win back customers whom you do not see around anymore. There may be many reasons for your customer to quit buying. However, **if it is true that your customer is simply trying out different shops, changed their daily routine, or finds the prices slightly better elsewhere – a decent, but temporary, discount may just about be enough.**

Thirdly, **if produce needs to be sold urgently, since otherwise spoilage looms, you may want to give discounts a few days in advance and make them known clearly.** After all, spoiled eggs are not worth a penny!

Finally, in order to retain loyal customers, think about discounts for goods bought in bulk. By that we mean a purchase by a customer that largely exceeds a normal purchase in volume (e.g., two packs à 20 bags of ketchup manis instead of single bags). The exact definition of “in bulk”, meaning how much is enough for you to give the discount, is of course up to you. **We do, however, recommend thinking about the concept as well as defining suchlike price reduction for bigger volumes and start spreading the news.**

Once you have gone through all these sorts of discounts, ask yourself which make sense for your business right now. Do you sell produce that may run off? If so, when can you approximately expect that to happen? On a different note, do you have loyal customers who buy in bulk, maybe those who run their own little business? If so, consider not only the fact that you are selling more each time they buy, but that stocking up gets easier to manage if you can count on them routinely coming back.

Identify your good customers and do consider giving temporary discounts in case you have the feeling they have stayed away for so long, they may in fact not come back. For that matter, you may want to think about giving temporary discounts even if your prices are about as low as you can go. First, the discount will not last forever. And second, not giving the discount does indeed mean not having to forfeit our margin – but also losing a good customer and all their future purchases which may follow if they stay!





MAKING DECISIONS TOGETHER: TWO MINDS KNOW MORE THAN ONE

What this section is about?

- While we point to some existing **misunderstandings about making decisions together with others and discussing about business matters**, we show that these are unfounded and joint decision-making in fact a very worthwhile and cheap way to improve your business.
- We emphasise **the importance of joint decision-making** and, crucially, how much the decision to decide alone or with others is worth in money for your business!
- In four steps, we offer general advice on how to get started with something so intuitive as **joint discussions and decisions**. We moreover encourage you to look beyond your shop to friends and suppliers, since this too is crucial for business success or failure.

False beliefs about joint decision-making

Regarding my shop I know best, so I do not have to discuss it with others

Nobody doubts that you know best. In fact, that almost certainly must be true. After all you spend most time in it and make all the important decisions.

Do notice, though, that **we do not advise you to give away decision-making power, but to gain other people's inputs, their ideas and intuitions.** This is not about letting others decide, but making an informed decision based not only on your knowledge, but someone else's in addition to that.

Take stocking up. The situation may be that, while you are busy coming up with a list of supplies for the week, your spouse is working in the shop dealing with customers. You shall still make those decisions, **but would not it be helpful to hear what your spouse thinks is going especially well at the moment or not at all so? Maybe even what people often buy together, so you know if one thing is selling well, the other will probably be too?** Or simply what customers demanded on top of what you are offering already?

The wisest is the one who asks the most. **So asking others, discussing issues and possibly making decisions together will only benefit you.** After all, you can still decide whether to heed the advice or not!

Those are only words, it will not help me in my business



Even though you might think discussions and joint decision-making will not get your stock-ups done or your records written, we have solid evidence that it does help.

When we ran our survey in February and March 2016 with 1300 retailers all over Jakarta, **we found that there was a pronounced difference in sales and profits between those who discussed business topics with others and those who did not** – even if their businesses were just the same size! Moreover, the same is true for decisions which people made together rather than **alone**. **There too was a significant difference in sales as well as in profits between businesses in which owners cooperated on important or everyday decisions regarding their shops and those who did not!**

Consider this a very cheap alternative in order to make the best of your shop





“Kebanyakan praktik bisnis melibatkan biaya di dalamnya. Namun berkonsultasi, berdiskusi, dan membuat keputusan bersama dengan orang lain tidak memerlukan biaya, atau gratis!”

If I discuss my issues with people outside of my family, they will use it against me

Many people either do not jointly decide on business matters at all or consult only close members of their family, like their siblings and spouses.

There is nothing wrong to start by consulting your siblings and spouses. In fact, this is the first step in what you can do to improve your business. However, do consider seeking out other people to discuss business matters.

We understand that not everyone can be trusted, but you can still ask for people's opinions without giving away sensitive information. **At first, try to explain in general your situation and the decision that you face without being very precise.** The gist may convey most of the predicament.

Also, **how about you start with friends?** It does not have to be a perfect stranger. Ideally, business friends, but close personal friends are not wrong either. The idea is that people within your family are more likely to share the same view as you. Also, you do not want to upset people from your family by disagreeing about business. So, it will be a good idea to ask a friend what they would do if put into your shoes.

Another great idea, especially for more precise questions and business related advice, is to **talk to some of your suppliers.** If the owner of a bigger shop or the delivery services from the big companies, suppliers usually have a better overview about what is going on in the market. Surely, you do not want to ask the delivery service whether their products are worth buying – they want to sell them, so it will always be a yes! However, you can ask about other products or new offers. Or simply ask for advice on more general questions such as whether or not your prices are in line with those they see elsewhere.

A solution for the case when you do not trust somebody quite yet, but generally assume your counterpart to be a good human being, may be a **formal agreement.** This is a commitment signed by both you and your counterpart to not use the information in any way detrimental to the other. **The point is not to have a legal contract, but for both to come together and document each other good intentions.** Research shows it is much harder psychologically to disappoint somebody you agreed with formally and by signature. If the other has good intentions, they should not hesitate to sign it.

Why making decisions together is important?



It pays off for successful shops in Jakarta to discuss and decide together!

In our survey of retailers in Jakarta, we found that to simply make decisions not alone but with others and to have an open attitude to discussing matters with other family members or friends in- or outside of business separated profitable businesses from those which struggled more.

Shop owners who said they jointly made decisions with others on any business matter whatsoever had monthly sales which were 25% higher and monthly profits which were 27% higher than those of shop owners who did not want to consult with others.

This would mean, for a typical shop from our survey with sales per month of IDR 15 million, more than IDR 18.5 million per month! A bigger shop with sales of IDR 30 million per month would see IDR 37.5 million in sales!



Even more striking, if decisions were made together on the topic of which new products to introduce next, monthly sales were by 30% higher and monthly profits by 35%.

Again assuming a typical shop, sales would be IDR 19.5 million rather than the regular IDR 15 million! Likewise, for a bigger the difference would be IDR 39 million instead of IDR 30 million.

Finally, deciding together about business practices, like the ones outlined in this handbook or simple things like comparing purchasing prices of different suppliers or selling prices of yours to other shops nearby, made a difference too.

Those shops whose owner would decide on whether to try out one or another new practice in the shop jointly with others had monthly sales 26% higher than those of businesses whose owner would insist to make decisions alone. Monthly profits were 27% higher.

Seen from the perspective of a typical shop with IDR 15 million in sales per month, this would equal IDR 18.9 million. For shop sales would be as high as IDR 37.8 million rather than IDR 30 million.



It is a win-win to tap into other people's knowledge.

Always remember, **two minds cannot know less than one**. By definition, you can only win since in the end you still get to decide whether to heed the advice or not.

This is especially true if the other person has different ideas from yours, different intuitions or

different ways of thinking. Also, if he or she has different expertise, that is, if her knowledge is focused on different aspects of the business or just in general.

If your co-worker or spouse works alongside you, or if you have a friend who is running their own shop, the things both of you are doing on a daily basis might be somewhat different. While you do the stocking up, make decisions about which products to introduce and which to discontinue with, he or she might be in charge of customer relations and sales in general.

As a consequence, he or she should be knowledgeable about where to place products in the shelves so customers see them best or associate products that go together well. Following the advice, you may place complementary products together in your shop, stock up both of them together or even put up a small discount for buying both together! You can also ask about new products and what your customers think of the shop and its offer in general, or which wishes they may have.

On a related note, **by including your co-worker or spouse into the process of making decisions about the shop, he or she will get involved even more and start to become ever more of a help to you**. At any rate, there is nothing to lose in making decisions together or simply consult others on business matters, all you can do is gain from it

It is the most cost-effective way to improve your business

Think about all the things you can do to improve your business.

Most come with attached costs or at least some more major changes. Consulting others, discussing businesses and making decisions together, however, require none of this! **By deepening the joint decision-making and talks, you can basically benefit for free**.

How to approach joint-decision making?

In advance: Things to discuss or decide together

In our survey of 1300 Jakartian retailers we found that many already talk to their spouses or friends and suppliers they trust.

Most use the opportunity to talk about **sales, selling and purchasing prices, and most profitable and best-selling or possible new products** or to discuss the finances of the business and where best to get cheap enough capital (e.g., bank offers, government programmes, etc.). Moreover, discount policies (which discounts to give to whom, when and how much) were a topic as were suppliers and their prices and quality as well as reliability and service. Other topics to discuss are **marketing and promotional offers or the general market trend**.



Furthermore, we strongly recommend discussing **business practices**. This could entail talking about the introduction of new products, whether you go out to see other **retailers' prices, their service and special offers or the way you stock up, what you stock up**, when and where. Importantly, the very business practices in the earlier paragraphs of this handbook are prime examples for practices not only to be introduced, but possibly to be discussed with others.

Step 1: Observe or discuss expertise and define clear roles

The first step in finding out what would be worth discussing apart from the obvious topics you need to discuss, is to see where you and your co-worker/spouse differ in expertise.

Let's assume there is some difference in roles in your shop. While you largely manage the stock-ups and general financial decisions, your co-worker/spouse works at the front and does the sales. It is likely he or she will know the latest talk from customers, their wishes and typical buys as well as the best-selling or most profitable items at the moment. **Once you know where you differ, you have identified a good discussion topic, you are sure to complement each others knowledge!**



The same goes for shops with only one sole owner. Do you know other shop owners? Do you even have friends who run businesses just like you? **See whether you can find out which of the decisions that are to be made in a shop your friends are knowledgeable about.** Talk about suppliers and products, business practices and stocking up and find topics where you differ in expertise. As we said earlier, if you trust each other, it's a win-win!



For those who are not working alone in their shop, now, that you have identified your respective fields of expertise and where you differ, **you may think about how defining clearer roles based on the respective strengths of you and your co-worker/spouse.**

Since, the more often one does a certain thing, the better one arguably becomes with time! Just keep in mind that when you separate your roles – and this is a good thing! - then it becomes ever more crucial to discuss and make decisions together. Or you will lose control rather than gain it

Step 2: Dedicate time for quick feedback

Once you have thought about topics to discuss, whom to discuss them with and have devised your roles so as to make the exchange most efficient, it is a good idea to create a routine.

Habits are hard to break. And so, setting a specific time in the day, preferably at day's close when you assess the needs for stock-ups and wrap up the day's work, will make it easier to let these consultations sink in.

Just take a few minutes every day to walk over to your friend or to discuss the most important topics in your shop with your co-worker or spouse. Was something special today? Did customers ask for something or had a comment? Which products went well? What needs to be stocked up and how much? Did either of you forget to update the records at some point? If so, can you remember the sales?



Step 3: Keeping records helps

Communication is all about being able to explain something, to prove your point.

It may happen that your co-worker or spouse has the feeling a specific product is going well, but cannot explain. He or she may feel the demand for a product is changing with seasons or before special days, but has no way to back it up.

Keeping records and updating them whenever sales happen is especially useful here. If both of you have an eye on the book, it will naturally both be more complete and help you whenever you talk about a point which is difficult to show. **Just look back at the book and see whether both of you get the same impression when looking at the actual sales.**

That way records do not only facilitate doing business and give you the full control over your shop, they even help you communicate about it and thus reap the benefits of two minds rather than one more fully.

Step 4: Ask someone outside of your own family

Consulting your spouse, siblings, or immediate relatives is a good start for joint decision-making.

However, as we alluded to above ([false beliefs about joint decision-making](#)), **finding people outside the**

family will increase the chance of having more diverse input and different ideas. It is just normal that people close to each other think more alike than people who do not share the same family, background, or provenance. And the more diverse the knowledge, the more there is that is new to you and may help you make decisions.



Have you tried talking to friends about business? Ask for their opinion on specific matters or visit friends in other shops to see the differences to yours. We talked about the possible topics before (in advance), there is a lot to discuss!

Generally speaking, **if the relationship is mutual**, which is to say that both you and your counterpart use the opportunity to ask each other opinion and advice on business matters, **there is no reason to be all too distrustful**. Should a quantum of **distrust remain, however, do consider proposing a formal agreement**. By this we mean a commitment signed by both you and your counterpart to not use the information in any way detrimental to the other. It is fairly common and not primarily intended to be a legal document but rather for both to come together and see each other good intentions. Research shows it is much harder psychologically to disappoint somebody you agreed with formally and by signature. If both you and your counterpart come with good intentions, they should not hesitate to sign.

Finally, **it is always a good idea to keep an open ear for your supplier**. Since they naturally have a wide range of customers from everywhere, suppliers will know a lot about the market and which products perform well at the moment and which do not. Use the opportunity to tap into this knowledge! Ask specific questions about products, try to see whether they have a little time to even think about some other issues you want to hear their opinion on (e.g., stocking up, prices, etc.).

Supplier shops will usually be bigger than yours, so competition with your shop will be limited. If you do not easily trust other shop owners and therefore do not feel comfortable asking for advice, here you can without too much hesitation!

