HERBY KAY ADVISORY

Business Diagnostic Report — SAMPLE

This is a sample report. The business is fictional and all figures are illustrative. It is provided so a prospective client can see what a Herby Kay Advisory diagnostic contains before engaging us.

Business	Eleanor's — women's clothing, specializing in women 55+
Location	Scottsdale, Arizona
Prepared for	The owner
Date	November 21, 2026
Engagement	Business diagnostic

1. Engagement Summary

You asked us to answer one question: why is a store that made money for twenty-four years now losing it, and can it be fixed? Sales have fallen four years in a row. You wanted to know whether the problem is the store, the market, or the economy before deciding whether to sign a new lease, borrow more money, or close.

This report is our answer. It is based on your records, your point-of-sale data, two days in the store, and interviews with you and three members of your staff. It separates what is happening to the business from why it is happening, and it puts a dollar figure on every recommendation we make. Where we could not verify something, we say so.

2. What We Asked For

To do this work we requested the following:

- Federal tax returns for the business, 2022–2025
- Year-to-date profit and loss statement and balance sheet, monthly, 2024–present
- Point-of-sale export: every transaction for 36 months, with date, items, sizes, prices, discounts, and salesperson
- Inventory report at cost, by category, size, and age of stock
- Purchase orders and open-to-buy records for the last four seasons

- The lease, including all amendments and scheduled rent increases
- Bank statements and the line-of-credit agreement, 24 months
- Payroll register by employee, 24 months
- The customer loyalty/mailing list, with whatever age or birth-year data exists
- Website analytics and any online sales records
- Vendor terms list: discounts, dating, return privileges, co-op advertising

3. What We Received and How We Used It

You provided nearly everything within a week, which is not typical and which made the work faster. Specifically:

- **Tax returns and financial statements** — used to build the four-year revenue, margin, and expense trend in Section 4, and to confirm that the losses are operating losses, not accounting artifacts.
- **The 36-month POS export (41,208 transactions)** — the most valuable document in the engagement. It fed the customer cohort analysis (who is buying, how old, how often), the average-ticket trend, sales by category and size, and the markdown analysis.
- **Inventory at cost by age** — used to calculate inventory turns and to identify the dollars sitting in stock that has not moved in two or more seasons.
- **Payroll register** — used to measure sales by salesperson before and after your top associate retired.
- **The lease** — used to model occupancy cost against the sales trend, including the step-up that took effect in January 2025.
- **The loyalty list (4,812 names)** — cross-matched against POS activity to count how many of those customers bought anything in the last 12 months.

We did not receive vendor co-op records; your vendors confirm none has been claimed in at least three years. That is noted as a finding, not a criticism — nobody ever told the store the money existed.

4. The Business as It Stands

Eleanor's was founded in 1998 and built a loyal clientele of women who wanted well-made clothing, honest advice, and alterations done right. The founder's daughter took over in 2016 and ran it profitably through 2022. The store is not badly run. It is, however, shrinking in a specific and measurable way.

	2022	2023	2024	2025
Revenue	$1,920,000	$1,781,000	$1,608,000	$1,447,000

	2022	2023	2024	2025
Gross margin	54.1%	51.3%	48.6%	46.2%
Net income	+$118,000	+$61,000	+$9,000	−$34,000
Transactions	12,980	12,110	11,240	10,030
Average ticket	$148	$147	$143	$144 → see note

Average ticket held near $144 last year only because clearance volume rose; ticket on full-price goods fell from $148 to $131. Current position: $61,000 in the bank, $96,000 drawn on a $150,000 line of credit, inventory of $412,000 at cost. Rent stepped up from $8,900 to $11,400 per month in January 2025 and now consumes 9.5% of sales, against 5.6% in 2022 — the rate nearly doubled because the rent rose while the sales it is charged against fell. The lease has three years to run, with a further step-up in 2028.

The store is not in immediate danger. It is on a path: at the current rate of decline, revenue reaches roughly $1.25 million in 2027 and the line of credit is fully drawn by the following spring.

5. Findings

Finding 1 — The customer base is aging out and is not being replaced. This is the cause; most of the rest are symptoms. Active buyers (at least one purchase in 12 months) fell from 1,940 in 2022 to 1,410 in 2025, a loss of 27%. Median customer age rose from 71 to 74. Customers under 60 produced 22% of sales in 2022 and 11% in 2025. The store adds roughly 90 new loyalty members a year and loses about 380 active customers a year to age, relocation, and death. A business cannot shrink its way out of arithmetic like that. Nothing else in this report matters as much as this finding.

Finding 2 — The buying is still being done for the customer of 2010. Purchases are made from memory and vendor relationships rather than from the POS data the store already owns. The size curve is the clearest example: demand in sizes 16–22 and petites has grown every year, but the buy remains concentrated in the sizes and silhouettes the 2010 customer wore. Result: chronic stock-outs in the sizes that sell and depth in the sizes that don't. Sell-through on the spring buy was 61% at full price; the balance fed the clearance rack.

Finding 3 — The store has trained its customers to wait for sales. Markdowns were 18% of gross sales in 2022 and 31% in 2025. Gross margin fell eight points in four years — on last year's volume, that is roughly $116,000 of margin given away. Full-price selling weeks now produce visibly lower traffic than event weeks, which is the signature of a customer base that has learned the real price is the sale price. The markdowns are a symptom of Findings 1 and 2 — too much of the wrong inventory — but they have become a cause in their own right.

Finding 4 — Inventory dollars are parked in stock that no longer moves. Inventory turns fell from 3.0 to 1.9. Of the $412,000 at cost, approximately $148,000 is in categories and sizes with less than one turn per year, and $57,000 of that is more than two years old. That is cash — more than the entire $96,000 drawn on the line of credit — sitting on racks. It also crowds the floor, which makes the store look fuller and older than it is.

Finding 5 — The store has no online channel, while the purchasing has moved there. The website is a brochure: hours, directions, photographs from 2019, no merchandise for sale. Online revenue is zero. Meanwhile the cohort data shows who actually buys for the 70-plus customer increasingly often: her daughter, shopping online, in the evening, from another state. Competitors in this niche — including national catalog and online retailers aimed at exactly this woman — are capturing that transaction. The store's own customers are not lost; in many cases their daughters are buying the same kind of clothing somewhere else.

Finding 6 — The best salesperson retired and the role was never replaced. Your top associate accounted for 28% of store sales and a client book of roughly 300 women who bought from her personally. She retired in March 2024. Her clients were never reassigned; no one called them. POS data shows 190 of those 300 have not purchased since. That is a recoverable asset sitting in a drawer.

Finding 7 — The rent step-up turned a decline into a loss. The January 2025 step-up added $30,000 a year against falling sales. The store can carry this rent at $1.7 million in sales. It cannot carry it at $1.3 million. This is a fixed fact to plan around, not a problem that effort alone removes; it sets the deadline for everything else in this report.

6. Recommendations

Immediate (30 days)

1. **Stop the markdown spiral.** No new promotional events for 90 days. Clearance moves to one defined area at one defined discount. Expected effect: margin recovery of 3–4 points on the season, worth **$45,000–$60,000** over the next twelve months, and it costs nothing.
2. **Liquidate the dead inventory.** The $57,000 (at cost) of stock over two years old goes to a jobber or a single advertised warehouse event — not dribbled out at 70% off. Expected recovery: **$28,000–$34,000 in cash** and floor space back.
3. **Reactivate the retired associate's client book.** A staff member is assigned the 300 names; the 190 lapsed clients get a personal call, not a mailer. At historical conversion, worth **$35,000–$50,000** in recovered annual sales.
4. **Freeze all buying** except replenishment of proven sellers until the open-to-buy in the 90-day plan is in place. This stops the bleeding in Finding 2 immediately.

The 90-day fix

1. **Rebuild the buy on data.** Open-to-buy by category and size, driven by the POS sell-through reports the system already produces. Shift the size curve to match actual demand. Target: full-price sell-through from 61% to 72%, worth roughly **$70,000 a year** in margin at current volume.
2. **Open a real online channel — aimed at the daughters.** A simple storefront with the core lines, gift cards, and a "shop for Mom" framing, plus the email list used monthly instead of four times a year. Modest target: **$8,000–$12,000 a month by month six**, at better margin than in-store clearance ever produced.
3. **Reclaim vendor co-op and review terms.** An estimated **$9,000–$14,000 a year** in co-op advertising funds has gone unclaimed. Dating terms on two major vendors can be renegotiated now that the store has clean data to show.
4. **Build the 13-week cash forecast** and manage to it weekly, so the line of credit is a tool again instead of a worry.

Longer term

1. **Decide the real estate question with numbers in hand.** At the 2028 step-up, this rent requires sales the store will not have unless Findings 1 and 5 are reversed. Begin the landlord conversation in 2027 from a position of improving results — or evaluate the smaller format this concept actually needs. We will model both.
2. **Build the next customer deliberately.** A store for women 55+ must recruit women at 55, not meet them at 70. Trunk shows, alterations services for outside purchases, and partnerships with the communities and clubs where those women are — measured, tracked, and judged by new active buyers per quarter, the number in Finding 1.

Taken together, the realistic expectation is to stabilize revenue in the $1.5–1.6 million range within eighteen months at a restored margin near 52%, returning the store to modest profitability and retiring the line of credit — provided Finding 1 is treated as the main event and not as background.

7. If You Retain Us

The diagnostic you are holding is the map. The 90-day fix is the work of walking it: we work with you in the business, weekly, to execute the recommendations above — the buying rebuild, the markdown discipline, the online launch, the cash forecast — for a flat **$2,000 per month** for three months. After that, if the work is useful, many clients keep us on a retainer of **$500–$1,000 per month** for ongoing counsel; if it is not, the engagement simply ends. There is no contract beyond the month you are in, and we never handle client money. The decision, as it should be, is yours.

Appendix — Key Figures

Measure	2022	2025	Note
Revenue	$1,920,000	$1,447,000	−25% over three years
Gross margin	54.1%	46.2%	Markdowns 18% → 31% of sales
Net income	+$118,000	−$34,000	First loss in store history
Active buyers (12 mo.)	1,940	1,410	New members ~90/yr vs. ~380 lost/yr
Median customer age	71	74	Under-60 share of sales: 22% → 11%
Average ticket, full-price	$148	$131	Total ticket flattered by clearance
Inventory at cost	$298,000	$412,000	Turns 3.0 → 1.9
Inventory 2+ years old	—	$57,000 at cost	Liquidation recommended
Monthly rent	$8,900	$11,400	5.6% → 9.5% of sales
Line of credit	$22,000 drawn	$96,000 drawn	$150,000 limit
Cash on hand	—	$61,000	As of engagement date
Online revenue	$0	$0	Website is brochure-only

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