1 Small Store Success Strategies

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2 Trends in Retail Trade

- Decline in retail sales growth
- Know your customers (women, youth, 55+)
- The American Mall in decline
- Category Killers
- Precision Shopping format
- "Entertainmentization" of retailing
- Technology (E-commerce, Smart Cards)
- New Lifestyle Retail Centers

3 New Lifestyle Retail Centers

2 Open air, main street-like developments that focus on certain retail sectors & mixed uses typical of traditional main street such as housing, theaters, restaurants, office space, libraries, hotels, etc.

4 Largest Threat to Small Town Survival Today

- Ken Stone, author of *Competing with the Retail Giants,* identified big box retailers as the single largest threat to the survival of small-town retailers.

("Steve Reis says big-box stores and changing shopping habits are behind the closing of his down town Hastings hardware store, which dates to 1863", Kimball, 2004)

5 **U.S.** Stores Impacted by Discount Department Stores, 1980-2000

6 The Age of Wal-Mart

- Largest retailer w/ $256 billion in sales in 2004
- Sells more DVD's, groceries, toys, bicycles, dog food, engine oil, detergent, CD's, socks, sporting goods, and toothpaste than anyone
- They target median household incomes of $40,000 & under
- 85% of U.S. households shop at least 1 x per year at Wal-Mart

7 Take Advantage of Positive Effects of Big Box Retailers

- Increases in trade area size
- Keeps consumers from out-shopping
- Generates increased traffic
- Local stores who sell different products than "big box" will usually see an increase in sales

8 ## Success Strategies to Co-exist with Big Box Retailers

- In order for small stores to be successful, Stone recommended specific strategies on
  - Merchandising
  - Marketing
  - Customer Service
  - Business Operations

9 ## U of M Research Focus

- Our focus:
  - To determine whether successful retailers are implementing any of the recommendations and strategies proposed by Stone.
  - Are these strategies contributing to their success?

10 ## Data Collection/Procedures

- Interviewed 27 owners of successful small stores in Cambridge, Grand Rapids, and Montevideo on their practices related to marketing, merchandising, business operations, and customer service
- Also surveyed customers of these stores

11 ## Improving Your Marketing Practices

"Marketing is the area of retailing where most merchants are weakest"

Ken Stone, ISU, Ames, IA

12 ## Retail Marketing Practices

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- Identify demand
- Price competitively
- Display attractively
- Advertise
- Satisfy Customers

13 ## Know & Evaluate Your Market

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- Know your trade area & specifics of people living there such as:
  -- Income
  -- Age
  -- Home Ownership
  -- Lifestyle
- Examine all factors in relationship to your merchandise

14 ## Our research findings

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- Do retailer's know their market?
  - All retailers knew some information about their customers.
  - Demographic information (age, gender, income)

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- They also thought they knew...
  - What type of service customers wanted
  - The level of loyalty of their customers

- What merchandise their customers wanted
- Their customers by name

15 Did retailers know what customers thought of their store?

- Retailers believed customers thought their store was:
  - Clean
  - Safe
  - Liked the customer service
    - Place to get customer's questions answered

16 Average Adjusted Gross Income Reported to IRS

17 Other Sources of Customer Information

- Retail Trade Analysis Program
- U.S. Census Information (demographics for your market area)
- Focus group interviews to find out what customers think of your store
- Trade Journals, Trade Shows
- American Demographics Magazine

18 The Changing Consumer Culture

- They're looking for value, speed & convenience
- They're very selective—less interested in lowest price & biggest selection
- Consumers are more interested in buying "good feelings" and "solutions to their problems"
- More consumers shopping online or by mail order
- They spend 40-50% of total personal income on retail

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20 Walgreen's Focused on Customer Convenience

21 Examine Your Store Operating Hours

- Review store operation hours
  - Do your store hours fit with your customer's lifestyle?
  - Are your hours similar to your major competitors?
  - If not, you may want to consider joining other merchants in extending hours
- Of 27 retailers interviewed: 3 shortened hours, 2 lengthened hours, 16 made no changes in store hour operations

22 Retail Traffic Study by University of Wisconsin

- If shoppers are given a 7 day shopping option & have access to stores during extended hours, they will follow these general patterns:
  - Some 30% will shop from 8 A.M. to 5 P.M. Monday – Friday
  - Another 30% will shop from 5 P.M. to closing Monday – Friday
  - The remaining 40% will shop on Saturdays and Sundays

23 What Our Retailers Said....

- "It wasn't because of the mass merchandisers-- it was because of the decline of the downtown."
- "We used to be in another location. Then we came up here and I opened 7 days a week because everyone else does it."

24 Sharpen Your Pricing Skills

Adopt variable pricing:

- Make list of price-sensitive items in your store
- Check (regularly) to see what the mass merchandisers are selling these items for and adjust your prices accordingly.
- Decrease margins on price-sensitive items that your competitors carry
- Do not try to compete on the basis of price
- Display prices so they are easily seen by customers.

25 Price sensitive item

CUB	**$0.99**
WM SC	**$1.10**
Super T	**$1.14**
Fareway	**$1.48**
Hy-Vee	**$1.48**
Dahl's	**$1.99**

(Price Check, Ames & Ankeny, IA, Late July, 02)

26 Our research findings

- How did retailers determine their prices?
  - Double wholesale cost- (8)
  - 33% markup (4)
  - Followed recommended prices of manufacturer (4)
  - Match competitors' pricing (3)
  - Looked at what they thought they could get (3)
  - Three times cost (1)
  - Less than recommended prices of manufacturer (1)
  - Determined what their gross margin had to be and priced merchandise accordingly (1)

27 Adopt Variable Pricing for Non-Price Sensitive Items

- Increase margins on items that are not price sensitive & are not carried by your competitors
- Look at what you think you could get for the item in your market
- Use computer tracking of sales based on different prices

28 ☐ ## Wal-Mart Pricing Strategy

"Wal-Mart will not be undersold by any competitor. If a competitor has a lower price on any item, we will meet that price. Store Managers have the authority to lower our prices to meet or beat our competitors. We must regularly check our competitors and react to any changes."

29 ☐ Examine the Visual Presentation on Inside and Outside of Your Store

- Is your store clean, neat, well-lighted?
- Does it have inviting atmosphere including smell & calming sounds?
- Is signage neat & does it help to direct customers to products?
- Is merchandise displayed attractively?
- Does store layout help customers to find products easily (grid vs. loop vs. free form)?

30 ☐ ## More about our retailers...

- They paid attention to the overall visual presentation of their stores outside & inside
- Created interesting displays to show how merchandise can be used

31 ☐ ## Improve End Caps & Power Aisles

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- Use to advertise sensitive & promotional items
- Change at least every month
- Over half of our retailers had end caps or power aisles

32 ☐ ## Improve Your Advertising

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- Feature price sensitive, seasonal, & new items in ads
- Identify & advertise top two advantages
- Consider cooperative advertising with other retailers

33 ☐ ## Improve Your Signage

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- Highlight benefits & product features
- Place prices on all items
- Announce markdowns
- Announce new items

34 ☐ ## Develop a "No Hassle" Return Policy

- Successful retailers in our study had liberal " no hassle" return policies
- Other variations:

- If it is defective, replace or fix item
- Accept returns within 30 days
- Exchange (no cash refund)

35 Retailers' Comments about Return Policies

- "we have to establish a return policy that is reasonable to customers and to ourselves. We cannot have somebody coming back after 8 months…
- "we have an open return policy, if they don't like it, I don't want them to have it, so if you buy anything here, we take it back."

36 Improving Your Merchandising

" Today's merchants must reposition their stores and become more specialized in the face of the new "big box" competition."

Ken Stone, ISU, Ames, IA

37 Shop Your Competition Regularly

- Examine "big box" stores strengths & weaknesses:
  - Inventory mix such as brands, models, sizes
  - Prices on price sensitive items
  - Check out end cap & power aisle displays
  - Observe signage for benefits & features, price
  - Customer service & customer behavior
  - Methods of displaying prices
  - How are returns handled
  - Policies on matching competitor's prices

38 Our Retailers Shopped Their Competition

- 19 retailers shopped competition regularly (of those, 15 did so on monthly basis)
- They observed:
  - Assortment & prices of merchandise
  - Merchandise displays
  - Knowledge of sales people
  - Customer service & customer behavior

39 Shopping the Competition Impacted Retailer's Business

- "We bring information back and share it, share ideas on how we can improve…we gain from it because we are able to provide something that others are not."

40 Fill Competitor's Voids

- Carry complementary merchandise
- Offer another brand, private label, etc.
- Give up what competition is selling more effectively & exploit their weakness
- Find your niche
- Get rid of slow sellers

41 How Did Retailers Differ from Discount Merchandisers?

- Overall, retailers reported carrying similar products to big box but higher in quality
- Prices for this higher quality merchandise were higher than big box retailers
- One store did cooperative buying

42 How Did Merchandise Differ?

- "More branded & higher quality merchandise…more fashion forward."
- "I think I carry better brands….
- "quality is so far above what the mass merchandiser in general carries…part of the problem is educating the consumer because consumers often can't see the difference between a well made ring and a poorly made ring."

43 "Niche Picking"

- The KEY is: Do your market research & learn what your customers want and what your competitors don't have. Then find a way to communicate to your customers that you are better than anyone else.

44 Provide Outstanding Service to Your Customers

"Smaller stores can gain great competitive advantage in offering more specialized and better service than most big box stores"
Ken Stone, ISU, Ames, IA

45 Offer Great Customer Service

- Develop knowledge of store and products
- Advertise your expertise.
- Add value to the products & services you offer such as free delivery/pick up, repairs, installations, extended service policy, no-hassle return policies..
- Develop a one-stop service center
- Speedy checkout
- Exceed customer expectations!

46 Our Retailers Knew Merchandise Well

- Do retailers know their merchandise well enough to explain it?
  - All sales associates are very knowledgeable about the merchandise (18).
  - Some sales associates are very knowledgeable about the merchandise (7).

47 Knowledge of Merchandise

- "I would say they are close to experts."
- "oh my people are very good. One employee has been here 19 years."
- "the majority of sales people know more than the customer coming in."

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49 Are Retailers Advertising Their Expertise?

- Advertising via billboards, newspapers, TV, radio, or direct mail flyers – (12)
- Word of mouth (3)
- Publicity (2)
- Explaining to the customers (1)
- No advertising (4)????

50 Advertising their Expertise?

- "That is one thing that we are starting to do. Because we realize now that we have people that know what is going on."
- "I guess I have to say no. Maybe that is something I need to work on."
- "we rely on word of mouth and being here."

51 How Are Retailers Attracting Customers?

- Are retailers offering clinics, workshops, classes, or other services that will attract customers?
  - Delivery and pick up (11)
  - Advice (e.g., estimation, consultations, design service) (4)
  - Seminars and classes *in the past* (4)
  - Installation (3)
  - Classes (2)
  - Mailing List (2)

52 Many Retailers had Customer Files

- What types of information did they gather?
  - What customers purchased or owned (8)
  - Customer's address (6)
  - When customers purchased (warranty) (2)
  - Name of sales associate (1)
  - Birthday and anniversaries (1)
  - Wish list (1)
  - Name (1)

53 Have Top Quality Customer Relations

- Greet and acknowledge all customers
- Treat customers in a friendly manner

- Do not prejudge customers
- Do something extra
- Send customers away with a smile
- It costs less to keep existing customers

54 The LEAR Method for Handling Irate Customers

- Listen to what the customer is saying
- Empathize—Put yourself in their shoes
- Ask questions to get all the facts
- Resolve the problem quickly—Ask the customer what he or she sees as a reasonable solution to the problem

55 Handling Customer Complaints

- "Those are golden opportunities. We can always replace and fix, whatever and sometimes people are still mad at you...we always want to take care of the customer."
- "Let them talk. I usually take care of them. And 9 out of 10 times, just let the customer explain their problem and ask them what do you want? They usually tell me what they want and it is not a big deal."

56 Develop a Team Concept for Your Store

- Train employees well
- Set a good example—(Golden Rule)
- Have regular store meetings
- Empower your employees
- Develop participative management
- Reward employees on total performance

57 Empowering Employees..

- Are retailers empowering their employees to solve customers' problems?
  - Owner and employees (7)
  - Owner and some employees (7)
  - Owner (5)

58 Improving the Efficiency of Your Business

"Companies and businesses of all types are in a race to become more efficient than their competitors to reduce costs".

Ken Stone, ISU, Ames, IA

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Continually Improve Your Business Operations

- Adopt modern technology
- "Brain storm" to find better methods
- Persist in reducing operating costs
- Maintain and repair facilities (carts, etc.)
- Network with other merchants
- Know your financial statements

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Know the Financial Ratios of Your Business

Review such statements as:

- Total sales
- Cost of goods
- Gross margin
- Operating expenses
- Net profit before & after taxes
- Only 12 out of 27 retailers kept track of financial ratios regularly

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How did our Retailers Control Shrinkage?

- What strategies do retailers use to control shrinkage?
  - Watch people (e.g., use security cameras, customer contact, use one way glass) (17)
  - Merchandise (e.g., inventory checks, checking shipments) (11)

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Shrinkage and Profit

- Wal-Mart aims to keep shrinkage at 1%
  $256 billion an. sales x 1% = $2.5 billion
  If allow 4% shrinkage ($256 billion x 4% = $10.2 billion)
  This difference is 84% of their $9 billion net profit!
- Other retailers settle for 3-5%

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Tips for Grocers

- Talk to your supplier or Association & ask where other stores are located with MDM. Go talk with them and ask what strategies they are using.
- Find your niche (meats, full service, deli, catering)
- Price sensitive items within 10% of MDM
- Stress private label items

- Focus on faster and easier shopping
- Feature carry-out and/or drive by service

64 More tips for Grocers

- Develop a loyalty program
- Clean & repair (restrooms, carts, dairy)
- Check big-box prices on blind items
- Post in-store signage when you have lower prices on “blind items”
- Advertise regularly, showing good prices on price sensitive items
- Always state your competitive advantages in your advertising.

65 HAVE AN ATTITUDE CHECK

- In a free-enterprise economy, all firms are free to compete.
- Recognize that big-box stores will enlarge the trade area size.
- It is possible to co-exist in a mass merchandise environment
- You will probably need to change your mode of operation

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Consumer Satisfaction with Small-Town Independent Retailers (Part II)

67 Our Focus

- What do consumers expect from their local independent retailers?
- How do consumers evaluate the performance of local independent retailers?
- How satisfied are consumers with their local independent retailers?

68 Method Used

- Consumer mailing addresses were obtained from independent retailers in Cambridge, Montevideo, and Grand Rapids
- Survey sent to 903 consumers of small retailers in the above towns
- The return rate was 36% with 328 responses

69 Survey Respondents

- Gender
  - Male: 30.1%
  - Female: 69.9%
- Average Age: 51 years old
- Ethnic Background: European American 99&
- Marital Status:
  - Single: 17.9%

70 Survey Respondents

- Education
  - Earned high school or below: 25.3%
  - Earned college degree: 55.7%
  - Some graduate work or above: 19%
- Employment
  - Employed: 66%
  - Retired: 21%
  - No job: 13%

71 Survey Respondents: Income

72 How often do you shop at local small stores?

73 Five **most important** consumer expectations when shopping locally

1. Satisfaction guaranteed / returns (Good)
2. Effective handling of customer complaints (Good)
3. Store cleanliness (Good)
4. Products in stock (Needs improvement)
5. Knowledgeable sales associates (Needs improvement)

74 Five **least important** consumer expectations when shopping locally

1. The local small store's position on local government issues
2. Providing delivery and pick up
3. Promotional events
4. Someone working in the store knows you by name
5. In-store signage (sales advertisements, store policies)

75 Key Factors Affecting Customer Satisfaction

- Assortment and Availability (product in stock, broad selection, high quality)
- Service (e.g., handling customer complaints, extended hours of operation, satisfaction guaranteed)
- Store Environment (e.g., wide aisles, merchandise location)

76 Contact Information

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