

Small Store Success Strategies



Benton County, MN

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Today's Presentation

- Retail Trends
- Strategies to compete in a Big Box world
 - Marketing
 - Merchandising
 - Customer Service
 - Business Operations
- Peer-learning, the Minnesota survey

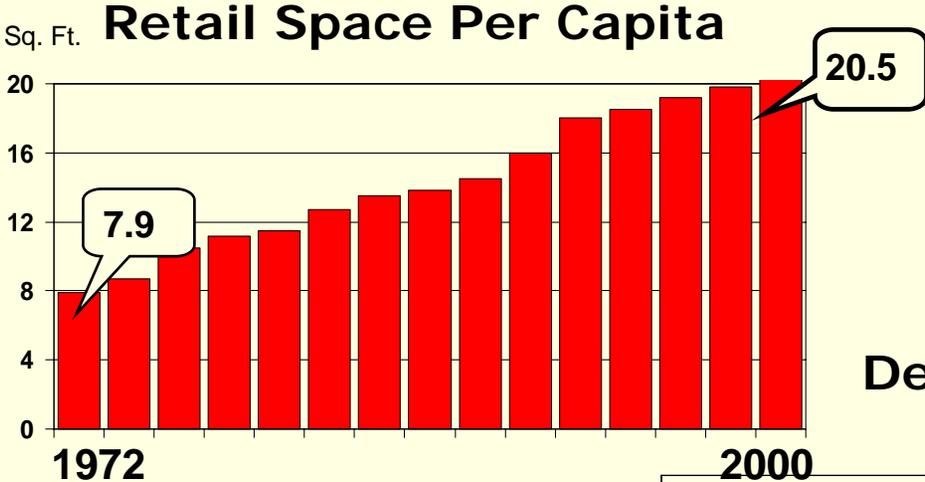
Let's start thinking

- What changes in retail trade and consumer shopping patterns are you seeing in your community?
- What is one “trick of the trade” you have found helpful in your business?

Trends in Retail Trade

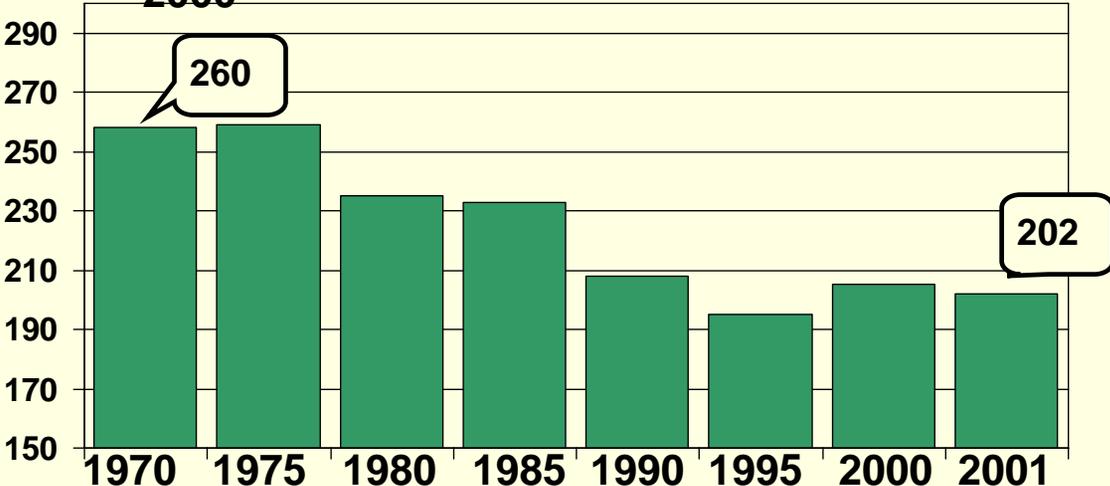
- Personalization
- Value Equation= (price + speed + convenience + service + product knowledge)
- Increased competition (Big box, Internet)
- Changing demographics (i.e. 55+, Hispanic population, Generation Y)
- Local resistance to unrestrained retail dev.
- Changing consumer attitudes & behavior
- Increase in new lifestyle retail centers

Retail is Getting Tougher



Source: International Council of Shopping Centers

Declining Retail Sales per Square Foot



Source: ICSC/U.S. Census (Sales excl. Auto and Food Service)

Presentation at NRF, 2005-06; Seung-Eun Lee, University of Minnesota

Demographics trends will cause profound changes in retail

- Americans age 55 & older will almost double between now and 2030 & they have money to spend!
- The U.S. Hispanic population became the largest minority in the U.S. in 2002 and will continue in this position through 2050.
- Generation Y – born between 1981 and 1995 is now the largest consumer group in history

Changing Consumer Attitudes & Behavior

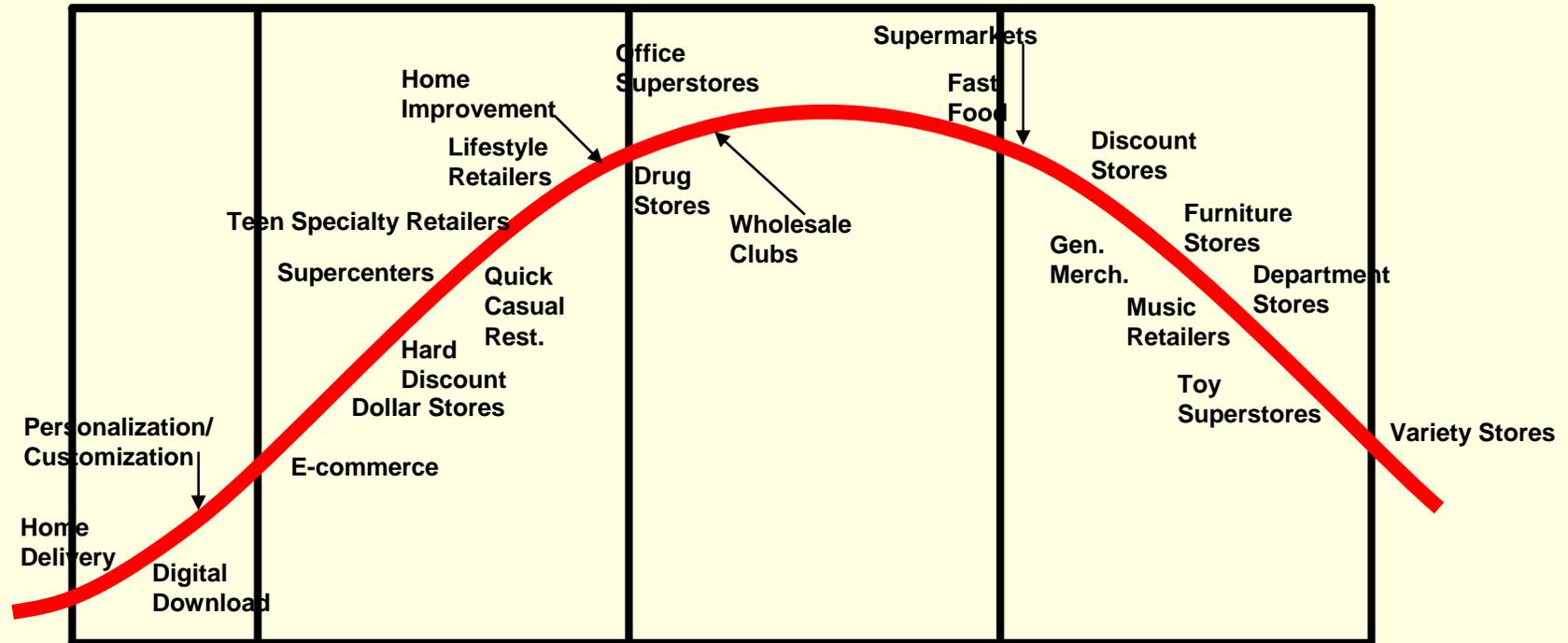
- Americans value time & convenience most
- Consumers are more fluid in their shopping behavior, everyone is everybody's customer
- Consumers are less loyal, less tolerant, & willing to explore in search of satisfaction
- Consumers are growing more cynical & skeptical (thus, trust is a defining issue)
- Consumers long for simplicity and control (easy shopping experience without hassle)

New Lifestyle Retail Centers



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.

The Retail Lifecycle (Current Trends)



Source: Mcmillan/Doolittle (2005)

Emerging

Growth

Maturity

Decline

Retail is Clearly Consolidating

(Top 3 Retailers' Market Share)

Category	1986	1996	2004
Department Stores	39%	60%	83%
Discount Stores	61%	77%	91%
Building Materials	11%	31%	36%
Consumer Electronics	15%	34%	42%
Drug Stores	18%	33%	49%
Supermarkets	18%	14%	29%

Trends Summary: Demanding & Complex Retail Environment

- Demanding customers have more choices
- Increased diversity of consumer market
- More retailers competing for the same customers & the same dollars
- Overall, shorter product lifecycles means more floor displays, more seasons, & higher financial risk

Let's start thinking

- What products or services are not sold by Big box and consolidated retailers? (hint: identify a product niche)

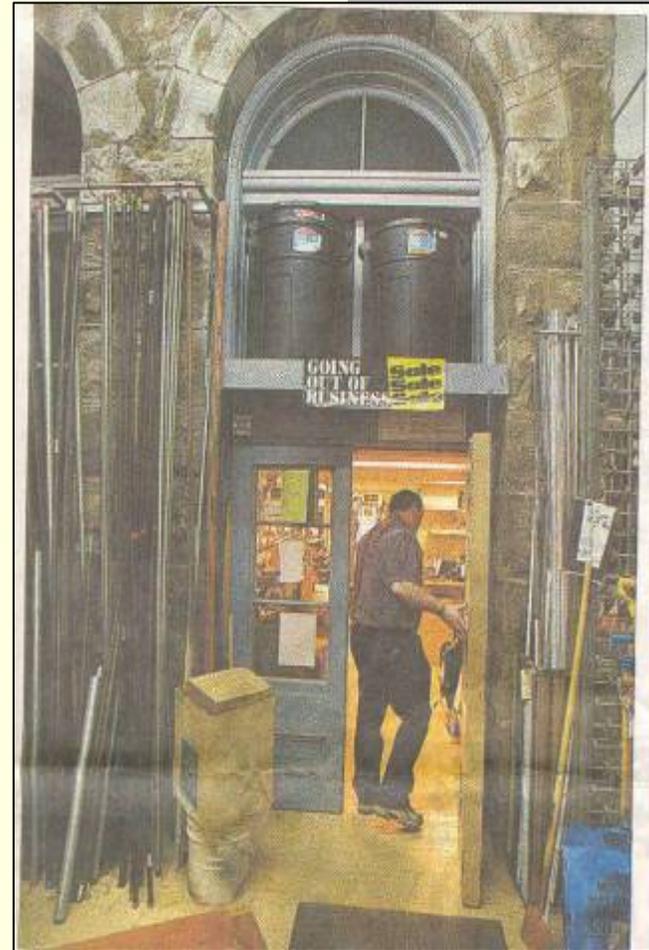
Or

- What consumer needs/demands are not being served by Big box and consolidated retailers? (hint: identify a market niche)

Largest Threat to Small Town Survival Today

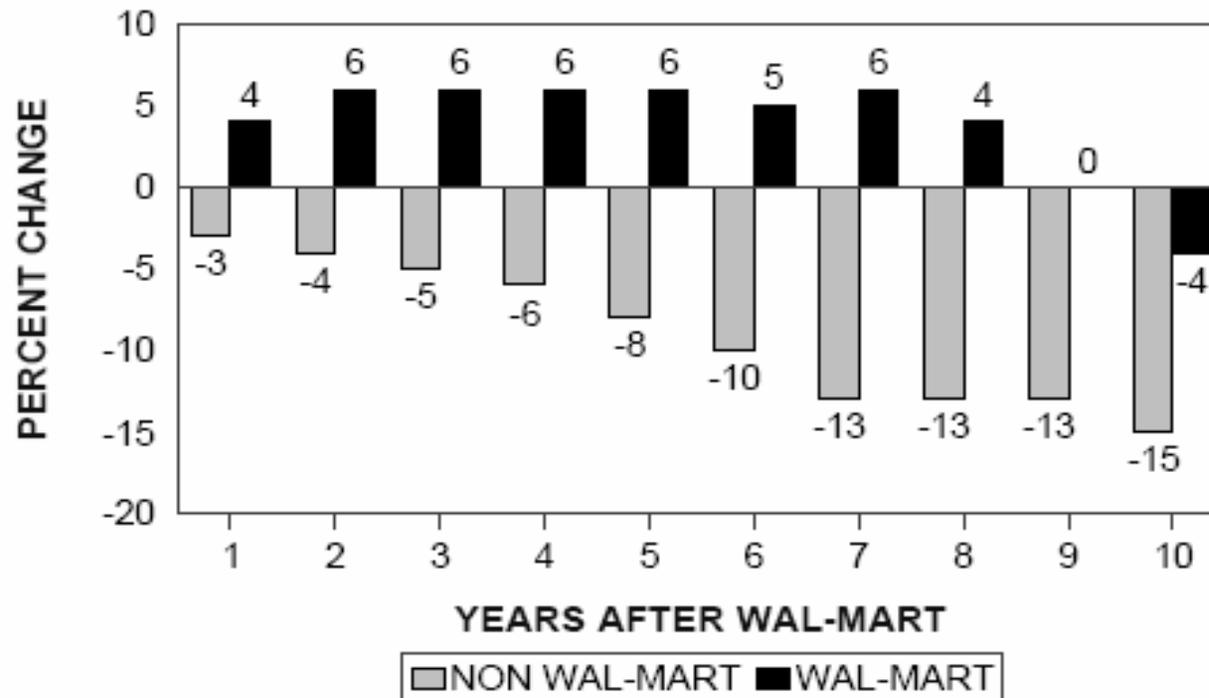
- Ken Stone, author of *Competing with the Retail Giants*, identified big box retailers as the single largest threat to the survival of small-town retailers.

“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

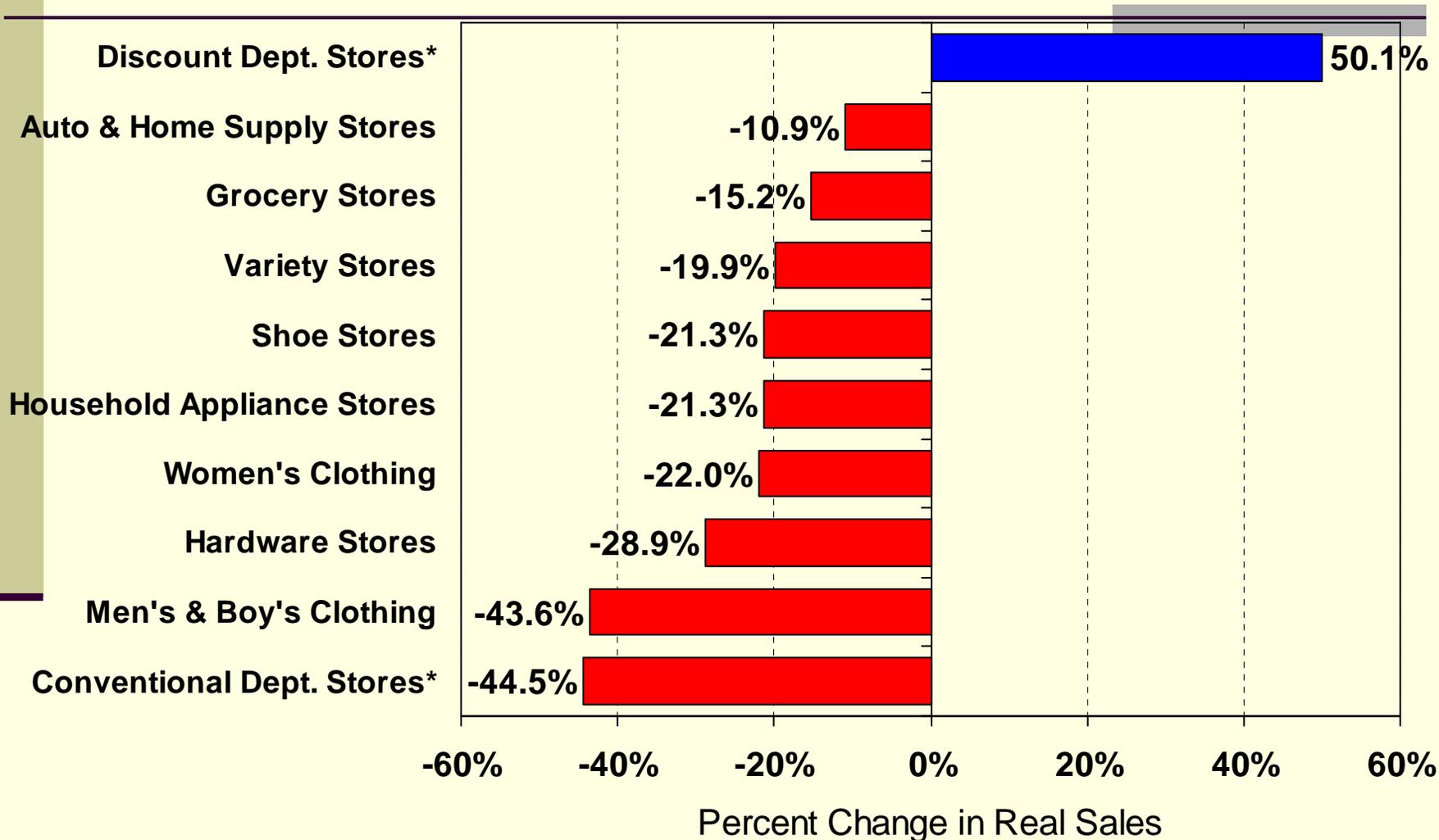


The Big Picture

IOWA NON WAL-MART TOWNS vs. WAL-MART TOWNS TOTAL SALES - AFTER 10 YEARS



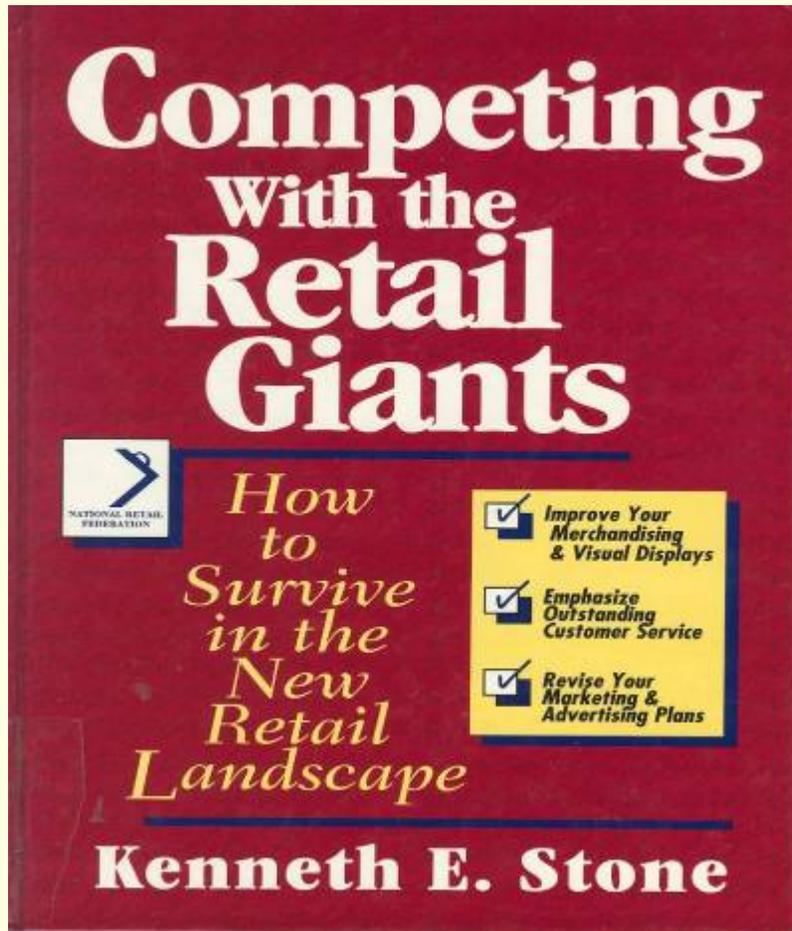
U.S. Stores Impacted by Discount Department Stores, 1980-2000



Kenneth Stone, ISU, Ames, IA

* Percent Change from 1987-2000

Success Strategies to Co-exist with Big Box Retailers



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

University of Minnesota research

- 2004 interview of 27 successful small store owners in Cambridge, Grand Rapids, and Montevideo
- Also customer survey of same stores

Success Strategies

- Marketing
- Merchandising
- Customer Service
- Business Operations

“Marketing is the area of retailing where most merchants are weakest”

Ken Stone, ISU

If only
Customer Identification
was this easy

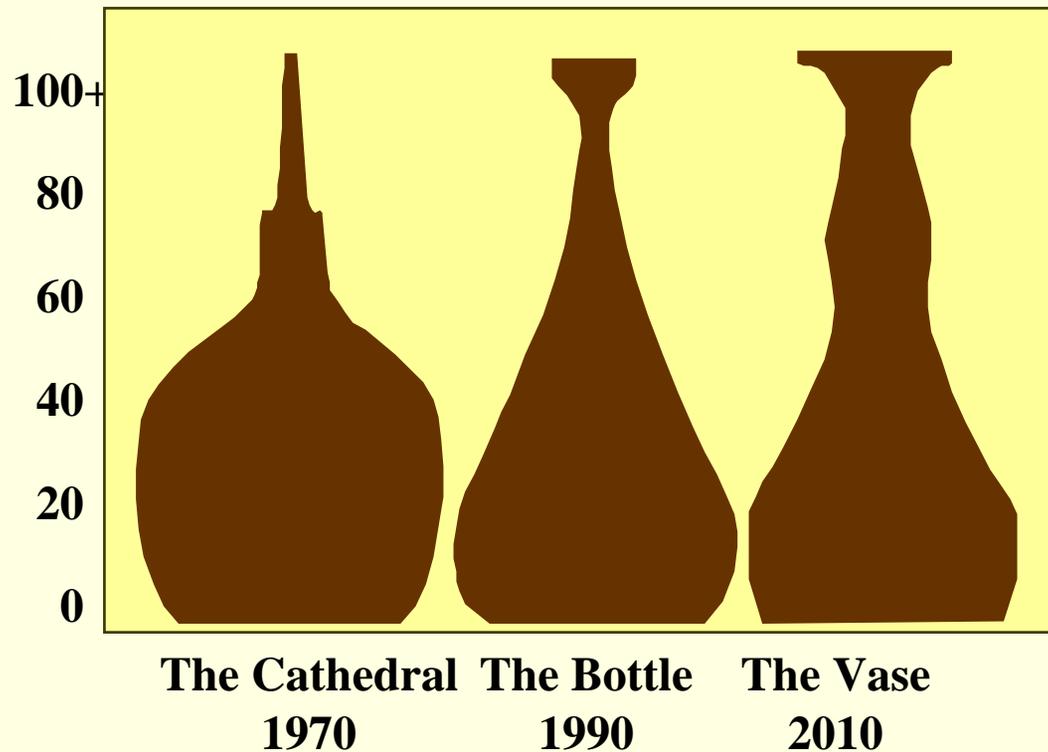


Know & Evaluate Your Market

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



Redistribution of Household Income in the US



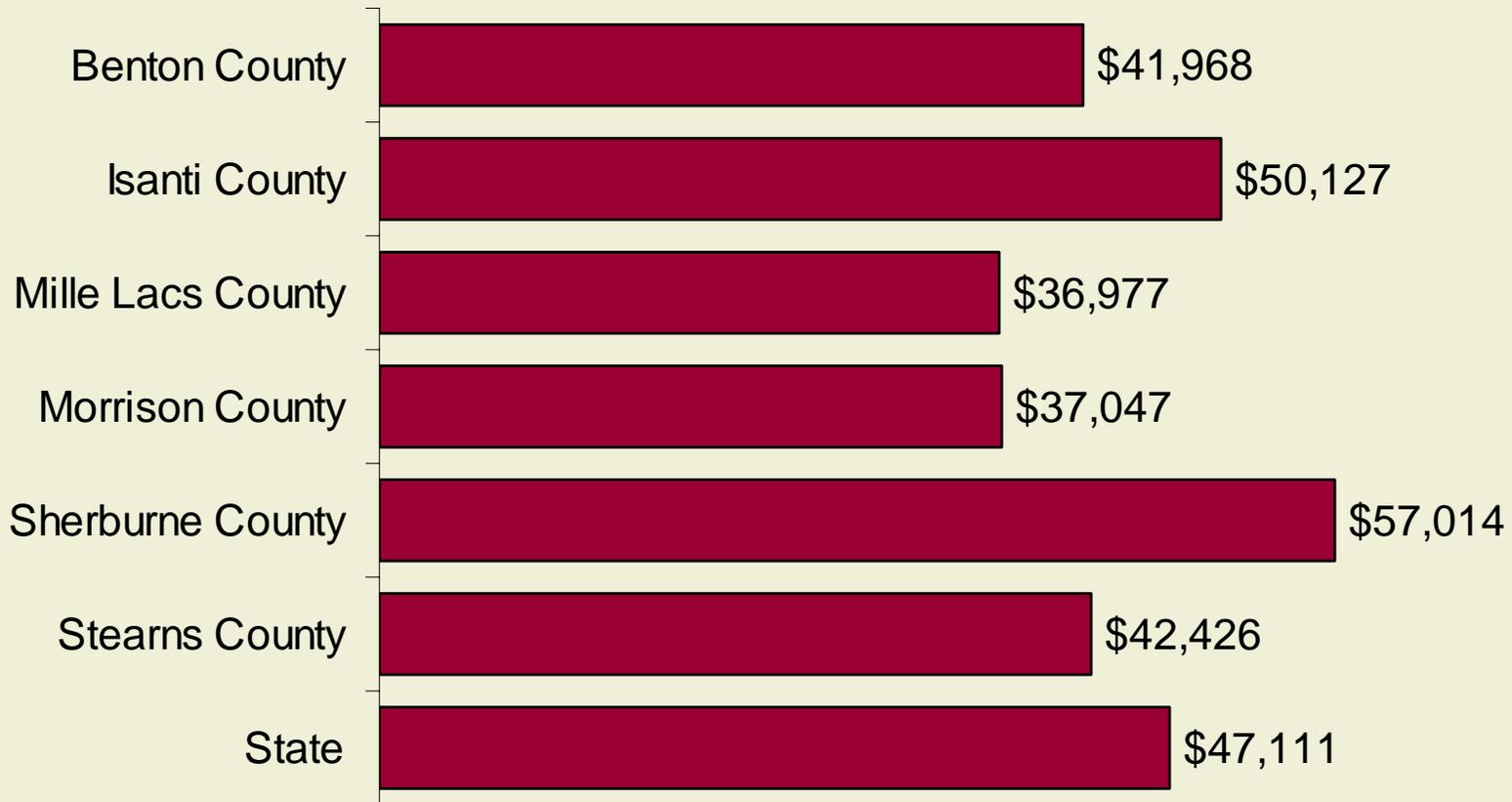
Share of All Households by Income in Thousands of 1991 Dollars

County Characteristics: Income

County	Household Income Group			
	Less than \$20,000	\$20,000 to \$39,999	\$40,000 to \$59,999	\$60,000 and over
Benton County	19.6%	27.3%	25.5%	27.6%
Isanti County	14.6%	23.5%	24.1%	37.9%
Mille Lacs County	25.0%	28.6%	23.7%	22.7%
Morrison County	25.8%	28.5%	22.8%	22.9%
Sherburne County	10.4%	18.7%	24.4%	46.4%
Stearns County	19.6%	26.9%	22.7%	30.9%
State	17.6%	24.2%	21.3%	36.8%

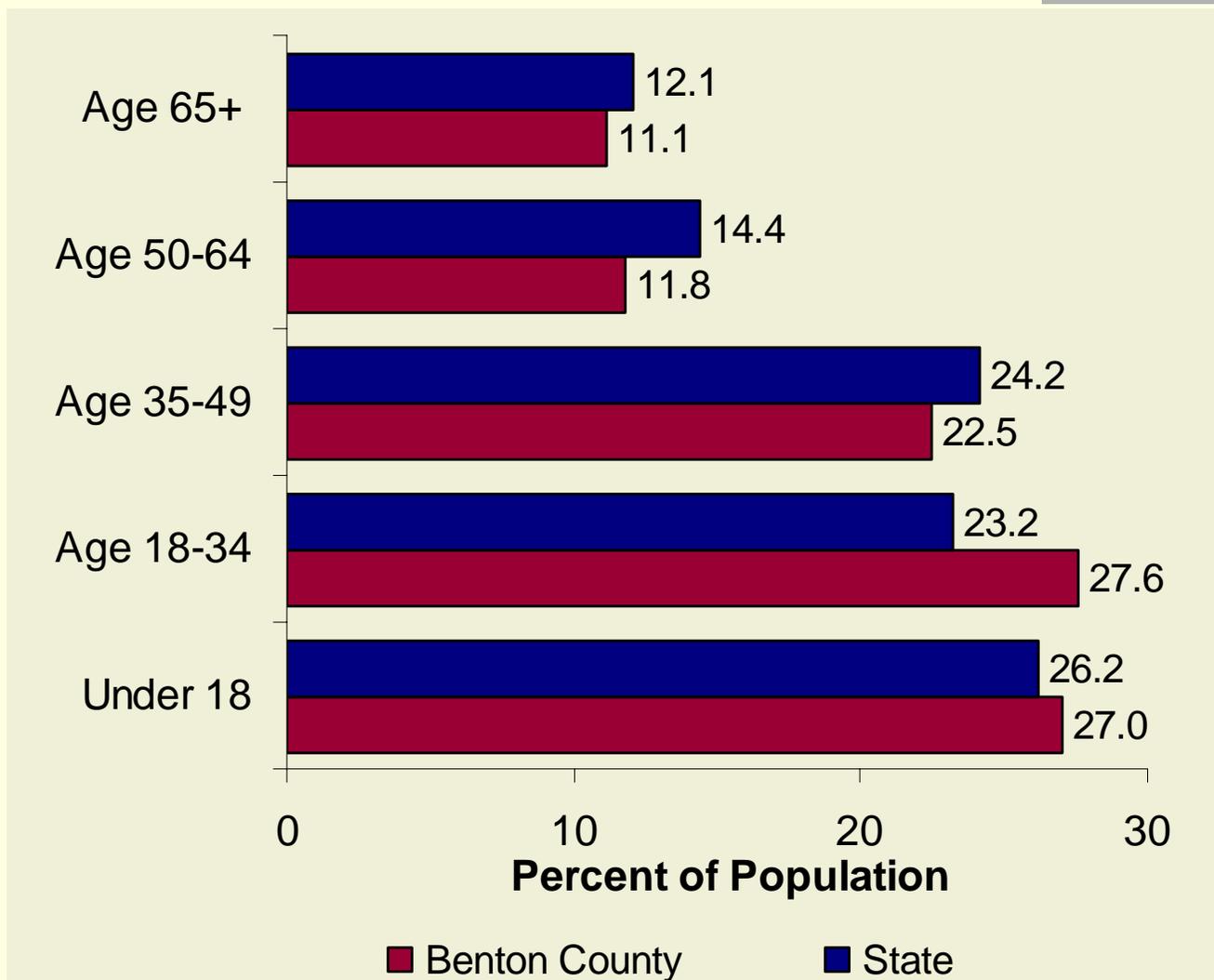
County Characteristics: Income

Median Household Income



County Characteristics: Age

Age Distribution



Other Sources of Customer Information

- Focus groups of customers
- Trade journals, trade shows
- Retail Trade Analysis for community from U of M Extension Service
- Census: www.census.gov
- Demographic market segmentation: www.esribis.com
 - Market Profile at ESRI Business Analyst Online
- Tourist niche markets:
<http://www.tourism.umn.edu/research/niche/index.html>

Pricing Trends

- American retailers forfeit \$200+ bill. a year due to markdowns or dynamic price cuts over time.
- One national chain: 78% of all apparel sold is mark-downed.
- Significant price sensitivity in women's apparel purchases, almost 80% of dollars in 2003 were spent on items below the \$40 price point.
- The average price of apparel was \$10.90 in 2001, and has fallen to \$9.81 in 2003.

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.”

Sharpen Your Pricing Skills

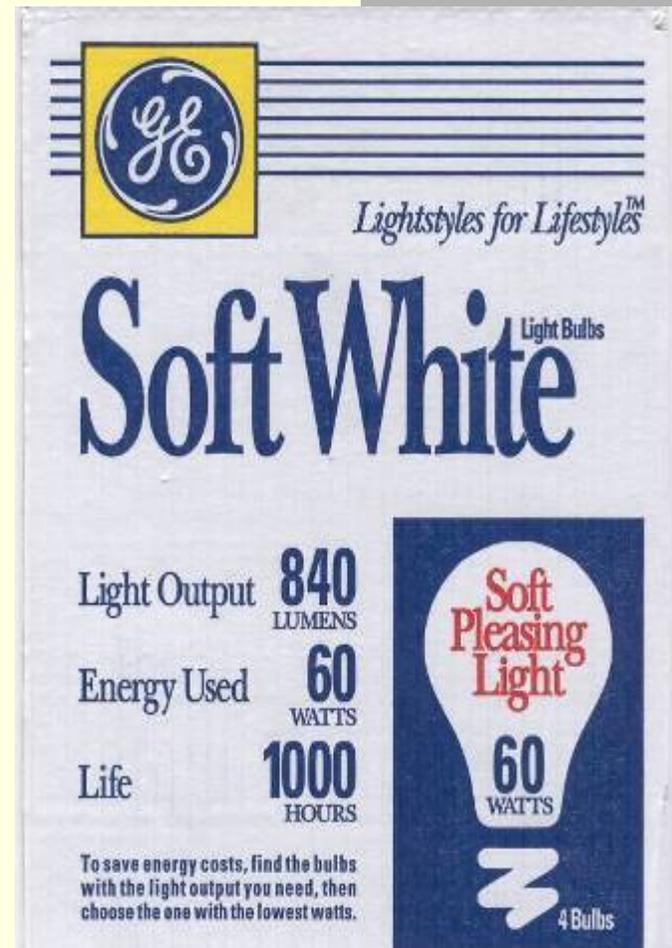
Adopt variable pricing:

- Make list of price-sensitive items in your store
- Check (regularly) on competitors' prices and adjust your prices accordingly
- Do not try to compete on the basis of price, but remain competitive (within 10% of competitor)
- Increase margins on items that are not price sensitive & are not carried by your competitors

Idea: Begin computer tracking of sales, prices, and inventory

Price Sensitive Item

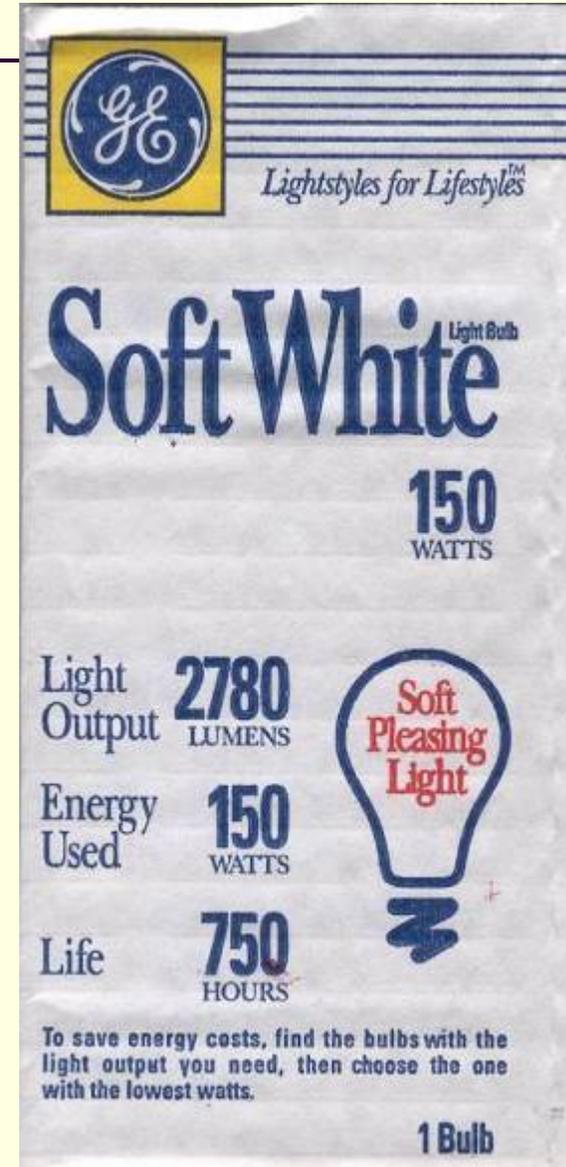
CUB	\$0.99
WM SC	\$1.10
Super T	\$1.14
Fareway	\$1.48
Hy-Vee	\$1.48
Dahl's	<u>\$1.99</u>



Non-Price Sensitive Item

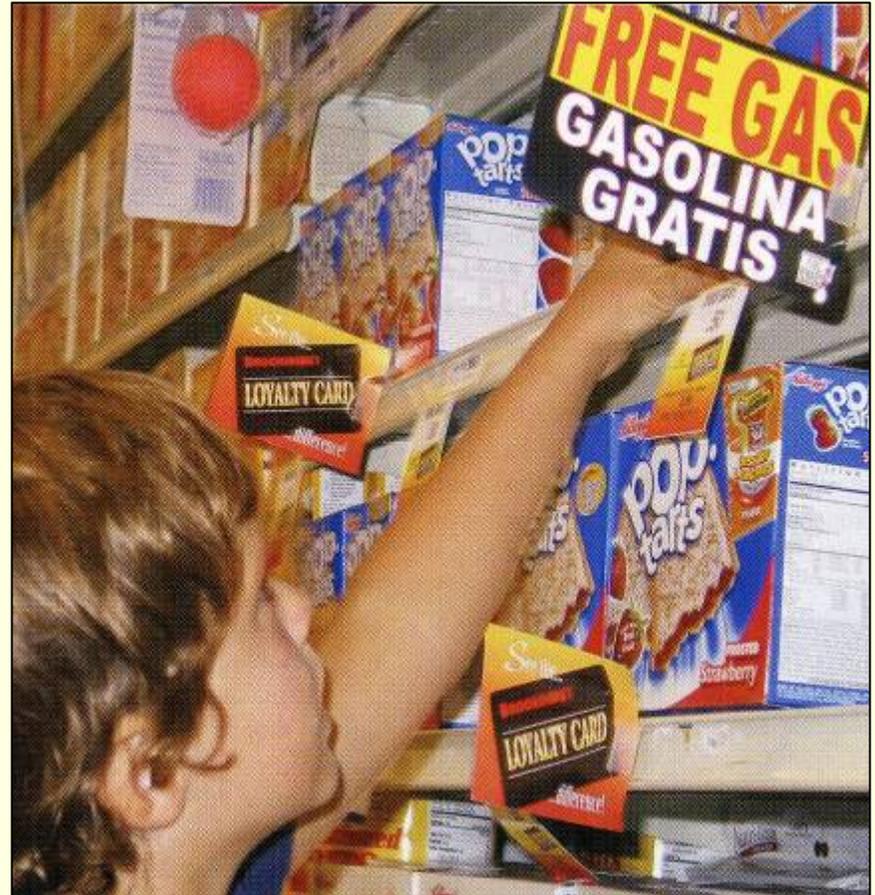
CUB	\$1.46
Fareway	\$1.69
Hy-Vee	\$1.69
Super T	\$1.94
WM SC	\$1.96
Dahl's	<u>\$1.99</u>

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



Improve Your Advertising

- Identify your competitive advantage—why should customers buy from you?
- Advertise your competitive advantage
- Feature price sensitive, seasonal, & new items in ads
- Explore more targeted forms of advertising (i.e. Email, newsletter, direct mail pieces)
- Consider cooperative advertising with other retailers



Idea: Offer E-Newsletters



The image shows a screenshot of the M&M's website's registration page. At the top, there is a navigation bar with the M&M's logo and several colored M&M's characters. Below the navigation bar, there are links for HOME, ABOUT M&M'S®, NEWS & PROMOTIONS, FUN & GAMES, RECIPES & IDEAS, M&M'S® MINIS® ZONE, and M&M'S® STORE. Underneath these links, there are sub-links for News & Promotions Home, Promotions, News, and Newsletters. The main content area features a large yellow banner with the word "Register" in white. Below this, it says "Be an M&M'S® Brand VIP!" and includes a "SIGN UP" button. To the right of the sign-up button is an illustration of two M&M's characters, Red and Yellow, standing together. Below the main banner, there is a section titled "More Newsletters" which includes a link to "Red & Yellow's Bright Ideas™ Newsletter". This newsletter is described as a seasonal newsletter and website chock full of fabulous holiday recipes, gift ideas, arts & crafts projects, tips and more—starring Red & Yellow! It's the perfect way to celebrate any part of the year!

Register

Be an M&M'S® Brand VIP! [SIGN UP ▶](#)

m&m's Keep up with new and exciting things going on at M&M'S® Brand! We're always introducing new promotions, new products—even new recipes. Sign up and stay informed with what's new in our world!

More Newsletters

Red & Yellow's Bright Ideas™ Newsletter

A seasonal newsletter and website chock full of fabulous holiday recipes, gift ideas, arts & crafts projects, tips and more—starring Red & Yellow! It's the perfect way to celebrate any part of the year!

Free Templates: www.sparklist.com/services/htmltemplates.html

How can the Internet help market your business?

- Communicate helpful information: location, hours, promotions, your image, value proposition, & what makes your store unique
- Explore joining retail associations that are establishing new localized shopping destinations on the Internet (Minnesota Retail Association– www.shopminnesota.com)
- Capture customer email addresses as an additional inexpensive communications and marketing channel

BREAK

- 5-10 minutes :
- Merchandizing
- Customer Service
- Operations
- Survey results

Success Strategies

- Marketing
- Merchandising
- Customer Service
- Business Operations

“Today’s merchants must reposition their stores and become more specialized in the face of the new ‘big box’ competition.”

Ken Stone, ISU

Examine Presentation Inside and Outside

- Is your store clean, neat, well-lighted
- Does it have inviting atmosphere including smell and sounds?
- Is signage neat and does it help direct customers to products?
- Is merchandise displayed attractively?
- Does layout help customers find products easily?



*Ideas: visitations, cross
merchandising, using back door*

University of Minnesota- Johnson, Gahring, Lee &
Templin

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

Idea: add value through information provided

Improve Your Signage



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

Idea: How are your competitors using signage?

Improve End Caps & Power Aisles



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

Fill Competitor's Voids

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



Two Choices

- Fill the competitor's void
 - Service
 - Quality
 - Customization
- Fill the consumer's void
 - Organic foods (vegetables, jams jellies)
 - Specialty sports (skate board)
 - Regional needs (western store, ethnic deli)

Shop Your Competition Regularly

- Examine “big box” and other competitors’ 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
 - Customer service & customer behavior
 - Methods of displaying prices
 - How are returns handled
 - Policies on matching competitor’s prices

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

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

Success Strategies

- Marketing
- Merchandising
- Customer Service
- Business Operations

"Great service is not simply smile training or free gift-wrapping. Rather, it is providing the customer with a subtle mix of product knowledge & personalized care."

Jack Stanyon, *The Rebirth of Small Independent Retail in America*

Offer Great Customer Service

- Provide employee training on store & product knowledge
- Advertise your employees' expertise.
- Find new avenues for good sales people. Determine if they have a **passion** for retail sales?
- 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!

Idea: Make a repeat or first-time customer know you appreciate their business and send a thank you postcard

Our Retailers THOUGHT Staff Knew Merchandise Well



- Retailers: Do your associates know their merchandise well enough to explain it?
 - **All** sales associates are very knowledgeable about the merchandise (67%).
- Customers in our study said sales associate knowledge needs improvement!

Idea: weekly product sharing session

Some Stores, Like Hardwares Are Adding a Variety of Services as a Way of Attracting Customers

Kenneth Stone, ISU, Ames, IA

services

- window repair
- screen repair
- window manufacture
- glass cutting
- screen cutting
- key duplicating
- lock rekeying
- window shade cutting
- tool rentals
- handle installation
(rakes, shovels, axes, etc.)
- lawn mower repair
- LP gas service
- kerosene service
- sharpening service
(knives, saws, scissors, mower blades, etc.)
- sprinkler system design
- lumber cutting
- paint mixing
- custom color matching
- chain cutting
- rope cutting
- special order catalog
(over 47,000 items)
- free delivery
(on purchases over \$200)

Many Retailers had Customer Files

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

Idea: use customer files for target marketing of special promotions and sales

Have Top Quality Customer Relations

- It costs less to keep existing customers
- Greet and acknowledge all customers
- Treat customers in a friendly manner
- Do not prejudge customers, but proactively work to meet individual needs
- Send customers away with a smile

*Idea: decide upon telephone service standard
and post by phone*

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

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.”

Develop a “No Hassle” Return Policy

- Our successful retailers had liberal “no hassle” return policies
 - Top ranked consumer expectation
- Other variations:
 - If it is defective, replace or fix item
 - Accept returns within 30 days
 - Exchange (no cash refund)

Develop a Team Concept for Your Store

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

*Idea: “open your books” and post monthly sales
for all employees to see*

Success Strategies

- Merchandising
- Marketing
- Customer Service
- **Business Operations**

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

Ken Stone, ISU

Continually Improve Your Business Operations

- Network with other merchants
- Adopt modern technology
- “Brainstorm” to find better methods
- Persist in reducing operating cost
- Know your financial statements

Resource: Wisconsin Extension’s “Tourism Business Development Toolbox”:

<http://www.uwex.edu/ces/cced/tourism/>

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

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

Shrinkage and Profit

- Wal-Mart aims to keep shrinkage at 1%
 - \$256 billion annual sales x 1% = \$2.5 billion
 - 4% shrinkage = \$10.2 billion

This difference is 84% of their \$9 billion net profit!

- Other retailers settle for 3-5%

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)
 - Merchandise (e.g., inventory checks, checking shipments)
 - Good management oversight

Additional Questions Asked

- Is there anything else you can share that has contributed to the success of your business?
 - Provide personalized shopping experience (6)
 - Provide outstanding service (6)
 - Community involvement (4)
 - Work hard (4)
 - Have good employees (4)
 - Know the market and your competitors (3)
 - Have high quality products and wide selection (3)



Consumer Satisfaction with Small-Town Independent Retailers

Five most important consumer expectations when shopping locally

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

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)

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)

Resources

- University of Minnesota Extension Service:
<http://www.extension.umn.edu/Retail/>
- Challenges of the Future: The Rebirth of Small Independent Retail in America (white paper): <http://www.retail-revival.com/home.htm>
- Store NAICS codes: www.ReferenceUSA.com
- Ken Stone's research: <http://www.seta.iastate.edu/>
- Wisconsin Extension's "Let's Talk Business" newsletter:
<http://www.uwex.edu/ces/cced/publicat/letstalk.html>

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