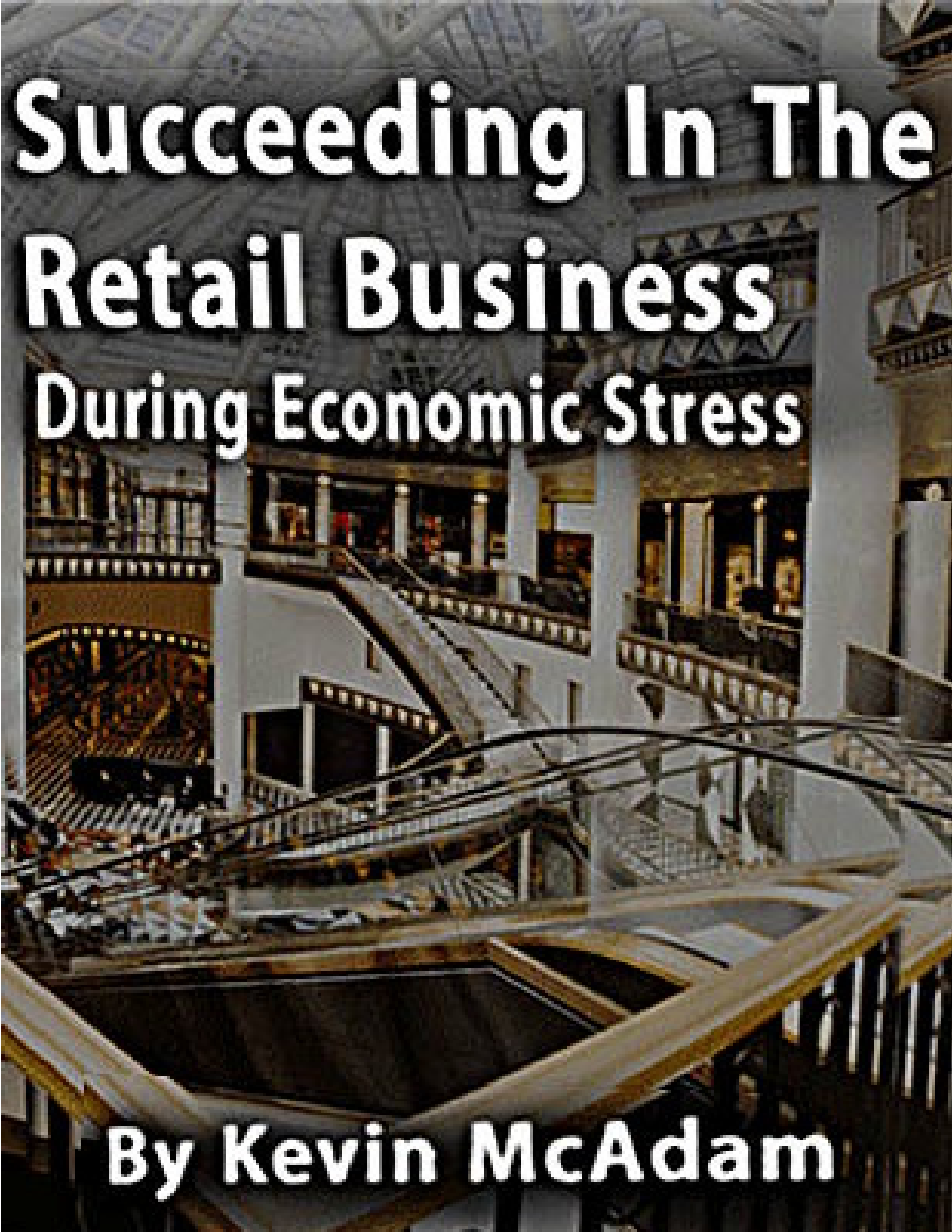
Succeeding In The Retail Business

During Economic Stress



By Kevin McAdam

Succeeding In the Retail Business during Economic Stress

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Compilation of
Tips from the Field Column

One Step Retail Solutions
22520 N. 18th Drive
Phoenix, AZ 85027
(623) 580-8181

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Chapter 1

Weathering a Storm in the Retail Business

The economic front in 2008 wasn't good and we heralded in some pretty poor news that affected many retailers. The question is what can you do to make sure you fare well through this kind of turmoil, whether it's now or in the future?

Did you know that you probably have a tool at your fingertips that could very well make the difference between boom and bust for your business? I'll explain what I mean shortly, but first let's take a look at some of what is going on in the broad economy today.

We've heard that consumer confidence is dropping like a stone, way past estimates. In fact, one article I read from the Associated Press stated that the February 2008 figure for the expectations index of consumer confidence was a 17-year low. Add to that the steepest drop in home prices in the 20 years an index has been kept and you have a rough outlook on consumers blowing a bunch of extra cash in your stores!

Now bring in the news that inflation rates are as high as they have been in the last quarter century and it's almost enough to want to go hide in your closet for the next 6 months and come out when business picks up.

But alas, that isn't an option, is it? So what can we do about it, you may ask?

The short of it is that a robust point of sale software system represents one of the best tools that you have to help weather a storm like this successfully in your retail business. In fact, I was meeting with the CFO of a mid-sized apparel chain recently and, when I told him that, he corrected me and said, "No, it's really the only tool we have".

When the economy is booming, a retailer can have a greater margin of error than when it's not, like now. This margin of error could be defined as poor or untimely inventory. Poor buying decisions are often written off as "just the way the business goes." This is because people are confident in the economy. They are not worrying about their job security and are willing to spend much more freely.

However, when the economy slows down for a while, the exact opposite occurs. People start to hold onto their money and only spend it on those items they deem absolutely necessary. Think of it as an extended slow season; the best time for investment into the business to reap the rewards of the coming strong season that, rest assured, is coming.

This is when it becomes imperative that a retailer stocks as close to a perfect inventory mix of styles and sizes just to survive. You need to ensure that you have the right inventory in the right place at the right time so that people can purchase it right then and there and not be tempted to go elsewhere or just not make the purchase at all.

In slow times the loss of revenue and margins that come from not having the right system in place to provide information to make decisions like this on inventory can be the factor determining whether the business survives or not.

That is where your point of sale system comes in. We are in the business of increasing operational efficiencies (purchasing and receiving methods, tagging and physical counting methods and customer relationship programs are just a few); as well as improving merchandising efficiencies with regards to inventory knowledge (identifying those items that are not moving and liquidating them rapidly and investing those dollars into styles that are moving).

Planned pricing gives a retailer a method to unload stock through scheduled markdowns. You don't have to personally be watching and figuring out how long something has been sitting in inventory until it's too late to recoup any margin at all. You can also know and show what merchandise from what vendors is earning you what margin and so involve the vendor in shouldering some of the burden of the need to discount.

Another area that is vital when the economy slows down is customer loyalty. A retailer must take a much greater interest in who his clientele is and how to improve the odds of getting repeat sales. If people are not buying based on price, they are buying based on service.

Attracting a new customer costs five times more than keeping an existing one. Without a comprehensive point of sale system, it is virtually impossible for the retailer to keep track of who and what is walking in and out of his/her store. Of course, having multiple channels for sales and promotion like ecommerce and email marketing sure don't hurt.

When times are tough, even something as simple as employee productivity can have a tremendous net effect on the business. Do you know who is getting the most units per sale for you? What if you could find that and model that person's behavior throughout your business?

Loss Prevention is another tremendous area of potential cost savings during a time like this. The net impact of preventing loss is one that goes right to the bottom line. Depending on your margins, reducing shrink from 2% to 1% of sales could have the same net affect on profit as a 40% increase in sales!

Knowing what point of sale transactions are suspect to theft and then acting on it could, of course, catch someone, but the effect that contacting a clerk and asking about a specific receipt that you flagged because it was suspect has a huge deterrent effect too. They won't even be tempted if they know you are watching.

The bottom line is that while there is plenty to get nervous about in the economy right now, there is also something that you can do about it.

Chapter 2

Increase Sales through Channels of Retailing

Did you ever hear the story about the two lumberjacks?

Both lumberjacks were working on a pile of lumber, but one just kept on-task cutting away at his pile while the other kept stopping throughout the day. At the end of the day the second lumberjack had three times as much wood cut. The first lumberjack, shocked, asked "How did you cut so much more wood, you kept resting all day"? The second lumberjack replied, "I wasn't resting, I was sharpening my saw."

You see, many people mistakenly see training as an "interruption" to their business and they suffer as a result. Working hard is not necessarily the answer; instead, use the tools that are available to find a way to win despite circumstances around you.

Take the fear in a plunging economy. It can have some devastating effects, or not. I read an article about how many retailers were actually expanding during all the economic woes. They were focusing in on their core strengths, taking advantage of the lower real estate prices to open more stores, and using technology to improve their reach to their core customer segments.

It requires taking the time to understand how to have the right inventory based on your sales trends, to understand how your employees are doing and work to improve that, and then investing in the infrastructure of your business to capitalize on the coming up-swing in the economy.

Look at the internet as an example of how other successful companies have done this. The cool video and other streaming content on the internet today is a result of the infrastructure investment that was made by companies several years ago after the dot com bust. Now those companies and others are profiting from the new content available on the internet, but only available because of that earlier infrastructure investment.

Along those lines I want to share with you some interesting information that I recently read about in Chain Store Age magazine. This issue was full of information on how different retailers were using the internet to broaden their reach to customers, enhance the shopping experience through content, and ultimately increase their sales through this explosive channel of retailing.

Electronic retailing was one of the topics when looking at the lessons learned from the 2007 holiday season and one article dubbed 2008 "The Year of the Shopping Experience." The article went on to describe how successful retailers are looking at technology investments in 2008 that will "support an innovative shopping experience, regardless of the retail channel shoppers utilize".

So how can your point of sale software help with all this? Well, when I see what other retailers are doing on the internet to "support an innovative shopping experience" I think of the intense need to know your customers first. If you don't know who your customers are, what they are buying, who the best margin customers are that you want to cater to, etc. then your marketing on the internet could be off and fall flat.

Alternately, if you really know those things and market the right content to the right customers who bring you margin and revenue then you have a hit.

Of course, in addition to this great information in the issue on the internet was an oh-so-slight piece of data from the 2007 National Shopping Behavior Study, designed and managed by The Gordman Group. The study once again confirms that the retailers who are gaining share-of-wallet are winning by being in-stock with the right merchandise for their customers.

You just can't beat the right inventory at the right place and the right price, can you?

Chapter 3

Having the right product at the right price at the right location at the right time

The economy has continued to be a hot topic in retail, especially in the related area of technology for retail. But it is the oldest adage in retail that topped a recent survey of consumer trends and buying patterns.

I am happy to see how many retailers are actually taking advantage of the economic slowdown as a time to assess their current technology and look for ways to improve upon it.

Forward-thinking companies see this as an opportunity to not only help weather the current season in the economy, but to then be poised to maximize their profits when the season once again changes and the economy swings back up.

I want to discuss something else though, something that is probably so near and dear to many retailers that its impact is sometimes lessened. It's actually a topic that led the results of the recently released 2007 National Shopping Behavior Study, designed and managed by The Gordman Group. This is an annual study that gauges retail performance from the customer perspective. It was conducted over the 2007 holiday season.

Though the study highlighted the then-coming economic downturn through the findings that 68% of consumers bought the same or less that holiday season than they did the prior one, it also showed some strong points in the market. Although perhaps a bit downplayed, the study "again confirms that the retailers who are gaining share-of-wallet are winning by being in-stock with the right merchandise for their customers. Price continues to be a very weak second to selection."

The right product at the right price at the right location at the right time; it's almost cliché, but yet it is the foundation of any successful retailer. Those that do it well thrive and those that don't succumb to the tides of consumer confidence, competition, or even something as nebulous as "the economy".

It's clear that many retailers are doing this well, and the study highlights some segments of the market that are doing so, like specialty retail. But it's also amazing to me, when I am speaking with retailers every day, how many are just shooting from the hip when it comes to this.

Understand that technology is not an option in this day and age when it comes to inventory control. And it's not just having the technology that is important; you have to be able to use it properly to get the information about your merchandise, sales, and trends, so that you can make the decisions that will be winners.

We work with very comprehensive point of sale software with which independent specialty retailers can manage their business. When it comes down to it though, that is what we want for inventory control, right?

The issue that comes into play, however, is how well the information about your business, from sales to customers and PO's to transfers and everything in between, is entered into and captured by the system, so that it can do that adding and subtracting to give you the accurate information to make decisions. That comes down to the users and their level of proficiency with a system.

But that's enough on that. Let me share a few more interesting tidbits that came out of this great study.

- 88% of consumers are very concerned about the environment and are willing to pay for environmentally friendly products.
- 52% of consumers checked the country of origin before making a purchase and 31% did not buy based on it.
- Retailers' advertising had little influence on shopping behavior or timing of purchase.
- The group of consumers that are spending more money now than in years past are the 18 – 24 year old age group, with 50% spending more this last holiday season than the one prior.
- The two categories in retail that had the highest growth in spending were specialty and "power" retailers. I interpret these as small to mid-sized chains that specialize in specific merchandise to a specific customer.

This should trigger some thought into how to maximize sales and profits from your merchandise.

Chapter 4

Outsourcing Specialized Needs So You Can Focus On Your Core Strengths

One of our veteran sales reps called me last week, all excited. He was going on about how while everyone is talking about the economy and how many retailers are being affected, he can't help but notice the amount of expansion we are seeing with our own clients!

It's true, many retailers that we work with every day are not just slightly expanding but massively; opening stores left and right, taking advantage of new markets opening up, and experiencing some of their highest levels of growth ever.

Why is this, when others are in the doldrums of the "bad economy" and "battening down the hatches"?

I, for one, am sure that some of it has to do with their viewpoint (opportunity always exists during times of adversity). I also can't help but notice that those growth companies have a good technology system and a good technology strategy.

But something that I want to address here is the idea that these companies are focused on their core strengths internally and are leveraging others for areas that are not specialized to their business.

For example, merchandising, brand development, marketing, store selection and development, supply chain; these are core retailing strengths. Technology support on the other hand is not as core to retailing.

Now, I do have a bias for this in that One Step Retail Solutions has developed a business around servicing the technology needs of retailers for the last 23+ years. It's our core strength. With the products we support, we are the largest and best in the world at it. But it pains me when I see good retailers start to devote internal resources to this challenging area that is not a part of the core strengths that made them successful retailers.

Something like end-user technology support is done more efficiently, of higher quality, with less risk, and less expensively through a professional organization that specializes in that, than it is when attempted as an offshoot of a successful retailing organization. I have seen it too many times over the years that I know it to be true.

But again, I do have a biased opinion on the matter so I want to devote the rest of this article to an excerpt from a different article, written by a third party, that provides some great research on outsourcing a function like this; when it makes sense, how to judge if it makes sense, and what to look for to ensure it's successful.

A recent Outsourcing Institute study found that while most enterprises try to survive, the outsourcing industry continues to thrive.

A decade ago, cost reduction took center stage as companies sought short-term, "band-aid" solutions from outsourcing and received equivalent tactical benefits. But, the market has turned. It's "do or die" and outsourcing is no longer about cost savings. Now it's an essential revenue and growth strategy for every corporation.

In this unpredictable—and mostly down—economy where most companies struggle to "do more with less", outsourcing is not only a clever alternative to hiring, but also a means to turn "big picture" goals into reality faster and more effectively than ever—with measurable returns. Now everybody wants to plug into "OPR"—other people's resources—and strategically focus internal resources towards doing what they do best. No more, no less.

Top 10 Reasons Companies Outsource

1. Reduce and control operating costs
2. Improve company focus
3. Gain access to world-class capabilities
4. Free internal resources for other purposes
5. Resources are not available internally
6. Accelerate reengineering benefits
7. Function difficult to manage/out of control
8. Make capital funds available
9. Share risks
10. Cash infusion

Source: Survey of Current and Potential Outsourcing End-Users
The Outsourcing Institute Membership, 1998

Top 10 Factors for Successful Outsourcing

1. Understanding company goals and objectives
2. A strategic vision and plan
3. Selecting the right vendor
4. Ongoing management of the relationships
5. A properly structured contract
6. Open communication with affected individual/groups
7. Senior executive support and involvement
8. Careful attention to personnel issues
9. Near term financial justification
10. Use of outside expertise

(cont.)

Top 10 Factors in Vendor Selection

1. Commitment to quality
2. Price
3. References/reputation
4. Flexible contract terms
5. Scope of resources
6. Additional value-added capability
7. Cultural match
8. Existing relationship
9. Location
10. Other

Excerpt from article originally published by Tris Brown Brown on Free Article

Chapter 5

Bankruptcy or Boosting Profits

How Your Inventory Control Can Make the Difference

In a volatile economic landscape it's harder than ever to create and maintain success. That is especially true in the consumer-trend driven specialty retail industry where trends, and therefore dollars, can shift sometimes overnight.

News headlines certainly reinforce this. Everything from major retailers filing for bankruptcy, like Mervyn's, Shoe Pavillion Inc., Sharper Image Inc., Steve & Barry's and Linens 'n Things Inc., to decreasing retail sales numbers overall (Associated Press Aug. 13, 2008) and a bleak outlook for holiday spending from America's Research Group, predicting that the industry is in for a miserable Christmas that will be followed by more bankruptcy fillings in the first quarter of 2009.

However, in the midst of this you have retailers like New York & Co. who reported better-than-expected earnings and raised its year-end outlook. This isn't a unique bright spot either. Many U.S. retailers reported July 2008 sales at stores open at least a year that were weaker than expected; yet some of these companies, including Kohl's Corp and Gap Inc stood by or even raised their earnings forecasts.

So what is the difference that is leading some to bankruptcy and others to increased earnings?

When you look across many of these headlines and dig into the information behind them you find common themes in both on the economy. I don't think that anyone can argue that consumers have been pinched by the housing downturn, job losses, and higher costs for food and fuel. The difference is what different retailers are doing in response to that downturn.

Take a deeper look at the headline about New York & Co. which reported better-than-expected earnings and raised its year-end outlook as it kept a tight control on inventory in response to the expected consumer slowdown.

Then there is the headline about Kohl's and Gap that, upon a deeper investigation, reveals a very similar theme in those companies that are increasing profits:

> *Retailers have taken steps in the past year to slash inventory levels. Although they risk limiting their overall sales potential by stocking fewer goods, the effort is aimed at boosting margins and protecting profits.*
>
> *Since last year's back-to-school season, retailers have peppered their conference calls with talk of inventory — how they are taking a "cautious approach to planning" and "managing inventory carefully."*

> *The result of their actions was apparent on Thursday, when many U.S. retailers reported July sales at stores open at least a year, or same-store sales, that were weaker than analysts expected. Yet some of these companies, including Kohl's Corp (KSS.N: Quote, Profile, Research, Stock Buzz) and Gap Inc (GPS.N: Quote, Profile, Research, Stock Buzz), stood by or even raised their earnings forecasts.*
>
> *The decision to cut inventory and have fewer goods on hand hindered July sales results, but it also helped retailers avoid being stuck with excess merchandise that would have required profit-crunching clearance sales.*
>
> *"Our inventory levels in ... clearance and transitional categories were significantly lower than last year, affecting sales results, but leading to improved gross margins," Kohl's Chief Executive Larry Montgomery said in a statement.*

When the economy that fuels retail sales drops (consumer confidence, spending, home values), it will often follow that retail sales will be declining. Knowing this, why not focus inventory levels on those items that will ensure good margins and work to maintain the bottom line, even in the face of a declining top line of sales?

Here is a similar perspective from a prominent independent retailer: "Now is not a time to push volume," said Andrew Rosen, Theory co-founder and president. "If we do a few dollars less than we could have, that's OK. It's safer to miss a sale than have too much inventory. When the economy is really rolling, you can take chances that wouldn't be prudent to take today."

We have talked about the vital necessity of effective inventory control during economic downturns previously, but it's always better to have it straight from other retailers who are succeeding.

Luxury retailers who have traditionally been thought to be immune from this are seeing the same thing. Burt Tansky, Neiman Marcus Inc. chairman and CEO had this to say: "This battle on price is just not our game but we got into more promotions than we liked because of our inventory levels, promotional activity [markdowns] will continue as long as the inventories are high. We are driving our inventories to our year-end plan and once we get there we intend to stay there. From our perspective, we hope the promotional activity will normalize. We would like to avoid them in the future."

Even deeper than the general need for lower inventory levels to maintain margin is the understanding of what categories are actually expanding and focusing in on those. For example a headline from the Associated Press: Menswear Sales Outpace Women's Business:

> *"In tough economic times, men are traditionally the first to cut back [but] over the past year, men have been on a clothes-buying spree, while women have pulled back even more.*

> *Over the past year, the fashions, from body-conscious suits to leaner khakis, have been heavily promoted by an array of stores from conservative haberdashery Brooks Brothers to department stores like Macy's and Bloomingdale's.*
>
> *Executives from those stores said menswear sales began outpacing women's wear last year. They wouldn't give exact figures because of competitive reasons. But the disparity has been widening, said Marshal Cohen, chief industry analyst for research company NPD Group Inc. According to NPD's most recent data, menswear sales rose 0.8 percent in the year ended in May, while women's wear sales fell 3.5 percent. In the three months ended in May, women's wear sales dropped 3 percent, while menswear sales rose 2.3 percent.*
>
> *"You can throw out all the rules," said Cohen. Even in tough economic times, "this is a trend that you have to buy, otherwise you look outdated."*
>
> *"Suddenly, a pair of cargo pants and a polo shirt doesn't look good anymore," said Wolfe, who sees the change being embraced by men in their 20s to men over 50 who don't want to look past their prime.*
>
> *"Women's wear has painted themselves in a corner. By offering too many options and with everything a trend, it is very easy not to buy anything," Wolfe said.*
>
> *The sluggish economy is playing a role too. Higher gas and food costs and fiscal uncertainties have clearly made both men and women cut back on in-today, out-tomorrow trends like wild printed tops. But the threat of layoffs has also forced many employees to dress more formally as a way to hold on to their jobs and look more serious, Cohen said. Women can go back to their closets to find dressier and classic alternatives, but men now have a reason to buy.*

So while this is very interesting from a merchandising perspective and certainly points to a clear call to action for any retailer experiencing the pressures of our tough economic times, what, if anything, does this have to do with technology and why am I writing about it?

Inventory Control Is Utterly Dependent On Accurate Data from Your Point of Sale System

Whether you are a new retailer looking at getting a POS system because you know it looks better than a cash register or you are a seasoned chain who has been on a system for the last decade, understand this: How well you track your sales and your inventory and take action as a result of accurate data will determine how close you are to the bankruptcy side or the increased profits side of the equation.

It’s the same economic downturn, it’s just that some companies understand their sales and their inventory well and are making adjustments that are actually increasing their profits and some are not and are just blaming the economy while they seek bankruptcy protection. That may sound harsh, but I truly believe that it is the black and white of the issue.

For 25 years, One Step Retail Solutions has been working with retailers on this very subject. I see it everyday. I see new retailers who know they need some "computer system" but don't take the time to understand that this is one of the most important decisions in their business and settle for a cheap system that no one will show them how to use and one which is just a step above a cash register. I also see old school retailers that have been around for ages with the same system but don't know how to use it effectively or don't have one that provides the right tools to them and therefore are struggling with these issues.

I even know a menswear retailer that is struggling right now (see note above on menswear!) because of a stale inventory and a stale use of their inventory control system. I know the product they are on and it can give them all the information they need but they, for some reason, haven't invested in working with a partner to show them how to use it properly. Therefore, they continue to make merchandising decisions based on hunches, have no idea how much inventory or excess inventory they have, and now have markdown tags on virtually every piece in the store.

So what does this have to do with technology? Everything! Not just technology, but the effective use of that technology to achieve the results you desire.

Whole companies are built just on the professional services required to effectively understand these complex and powerful technology tools, so that they can provide the competitive edge to be on the boosting profits side of the equation and not the bankruptcy side when times get tough, like they are now.

It doesn't make sense to me why someone would not get the technology they need, but it makes even less sense to get it and then not work with the experts who can make it pay off in spades.

So to sum up, there may be a grim outlook in the economy and, while some retailers are looking at bankruptcy, others are increasing their earnings and profit outlooks. Technology and its proper use is the key to that and the time to get these two points working for you is right now.

Make sure you are on the side that is boosting profits.

Chapter 6

Using What You Have

We hosted an event in Los Angeles focusing on how to meet the challenges of the current economy. Of course we focused mainly on how to use technology systems to overcome those challenges, but we also were able to hear from retailers on what they are doing in their businesses to succeed, as well as where they could use some help.

What struck me is how important it is to use what you have today to succeed. Now that's a pretty nebulous and vague statement; let me tell you about some examples.

There is an adage about how to grow sales -- the three ways to grow sales actually. First is to get more clients buying from you. Second is to increase the frequency with which your clients buy from you. Third is to increase the average ticket size of your client's purchases.

These three things all revolve around one thing: your clients!

But let's keep it really simple to start. How many of you know how many new clients you are getting in a month? How about in a week? How about each day? Which days are best? What about which hours are best? Are you looking at that information and staffing accordingly? Start off by knowing this information.

If you don't know how to get that out of your retail POS system, then contact your retail service provider to get the training on how to.

Even more basic, how many of you are collecting customer data at the POS at all? The most recent study I saw showed that 44% of retailers collect customer information but don't do anything with it and 25% don't collect it at all. Specialty retailers live and die with their customers. After all, it costs five times more to get a new customer than to keep an existing one. For a specialty retailer it shouldn't be "know thyself", it should be "know thy customers!"

I often have people ask me how to get more customer information at the POS. At a basic level it's all about making it valuable for them to do so. Now this could involve everything from the theme or culture of your store, to your offering and merchandise, to the training that you give the staff who are ultimately asking for the information.

I spoke to one successful retailer this week that has an amazing culture that has been created around her store. The store and merchandise is almost a lifestyle and creates an emotional following with their clients; it's really amazing! Yet still she was asking how to do better at collecting customer data.

You see, if the process consists of a clerk saying "are you on our mailing list, no? Ah, do you want to be?" well then, you won't be too successful. But instead if you have a patter created at the register for the staff to say, "What's your name so I can look up your account? Oh you're not in the system? Well, we offer invite-only events, special pricing to members, and special notice on shipments that you might be interested in before general release to our preferred clientele. What's your name so I can make sure you have access to that?"

Then have them fill out their information on a clipboard while the sale is ringing up so that you don't waste their time at the register but can still capture the information and update it after the sale.

OK, let's say you know how many customers you are getting and you are capturing information on them. Now, are you looking at how often they are coming into the store to buy and thinking about ways to increase that frequency?

How about who are your most frequent visitors? Do you know them? Do you treat them special? Do you call them or send them thank-you cards or offer special promotions to their friends if they want to refer them to you? These are just some quick ideas, but the point is to know this information and use that asset!

Lastly, how do you increase your average ticket? Do you know what your average ticket is? How about which staff has the highest average ticket? Why not look at that information and then find out what he or she is doing differently than the other staff and then duplicate that? Shoot, make it even easier than that and offer them a little something special to have a little training for the other store staff on what they do.

Now take this concept into a chain environment. What stores have the highest average ticket? What are they doing that others aren't? How can you use that store manager's successes to increase the success of the other stores? How about getting them all driving together in a fun competitive environment to meet some sales targets?

All of these ideas revolve just around the assets you have now. Customers are the biggest one. Simple reports and charts in your POS software is another. I see people all the time looking for the new thing that is going to save the day when challenges arise. In fact, it's often the old thing that is proven to work that just needs to be reinforced.

One Step Retail Solutions has a perspective on this that comes from navigating through three economic downturns. We have actually helped retailers through those same downturns. Today we see some clients that are rapidly expanding right now and others that are shutting down.

Take a look at what you have today and how you can use it to succeed.

So, to summarize for you some action steps to use what you have to succeed:

1. Make sure you are looking at the three ways to increase your sales:
    - Getting new customers

- Getting current customers in the store buying more often
- Getting customers to increase their average purchase size

2. Make sure you know how to use the system that you have today to do that and more.

3. Keep up on the changes in your current technology.

Chapter 7

Adjusting Your Retail Business to Changing Economic Times

Why are some retailers expanding and others are going out of business?

You ever heard the old saying that "Opportunity Knocks"? Well, sometimes it knocks you down too. It's often in how you react to the opportunity that determines the difference.

Unless you really haven't been paying attention then you probably know that there are some big challenges in the economy right now. In fact, you would be pretty hard pressed to miss the fact if you are in business today. If you aren't actually seeing it in your business then certainly the fact that every trade publication, business website, industry association, or media outlet in the country has something going on right now about the economy would call your attention to it.

So you may be thinking that I am going to start sharing all sorts of statistics with you right now about how the economy is crashing and how badly that is going to affect your business. I am not. I don't have to, everyone else is doing that. I am going to do something very different.

I have heard it said in various forms by many successful people that part of the key to success is to find out what everyone else is doing and do the exact opposite. So instead, I am going to share with you how many retailers I know, or know of, who are expanding and succeeding today and what you can learn from them to adapt your business to the changing times.

The problems that we have in the economy didn't start last month, of course. In fact, in the beginning part of this year I wrote an article and did a Webinar about how to survive the coming downturn in the economy as a retailer. Today it's on every business magazine on the shelves.

Over the last few months, in fact, I wrote several articles dealing with things from how to survive the economic downturn to why some retailers were boosting profit outlooks while others were going bankrupt. If you want to read some more about that please do, it's all archived on our website in the Library section (www.onestepretail.com) and the Webinar is available on demand, as well in the Retail Resources section.

It's probably worthwhile to mention why we at One Step Retail Solutions feel we have something valuable to share on this topic. You see, its founder, Scott Kreisberg, has been in the retail industry for 30 years and a leader in the retail technology industry for 25 years. In that time his company has not only survived three economic downturns but worked with retailers through those to help them use technology to survive. He saw which retailers not only survived but grew in those periods and how. So, the article and webinars were backed up by his successful track record in the area.

The problem now, however, is that those were great strategies on how to prepare for the coming downturn in the economy as a retailer and studies of what retailers were actually doing that was succeeding.

Today, unfortunately, it's a bit late to really make sweeping changes to avoid the storm. I was talking to a retailer this week who made the comment that if your Q4 merchandise is on a ship on its way across the Pacific, you can't exactly turn it around because you have changed your forecast. Now it's more about how to survive the downturn and come out stronger.

If your inventory is already on a ship in the middle of the Pacific it's going to be hard to adjust your merchandising strategies now!

So that is what I want to talk to you about now; how to adapt to changing, challenging, and complicated times like we have on our hands now. Equally important, let's talk about how to be ahead of the curve and profit from the upswing that is also coming in the economy, instead of looking at it when you are in the middle of it and trying to play catch-up like many retailers are doing right now to handle the downturn.

So let me cut right to the chase. If you haven't been building a cash reserve, adjusting your merchandising strategies, your pricing and promotions plans, and analyzing your business to trim out inefficiencies everywhere over the last several months, then it's too late to completely dodge this bullet now.

Most likely you have already made your buys for the holidays and now you have to figure out how to get rid of the merchandise with lower sales numbers and that probably means more markdowns and less profits.

Unless you started looking at your vendors and merchandise months ago to start analyzing what merchandise was slowing or what was not as profitable and made adjustments, then you probably still have those underperformers on your shelves and on your orders.

Or maybe you thought about getting a technology system in place to help you make these analytical decisions. Maybe you don't have one at all or, more likely, you have one but it's not doing the job you need it to and is just taking up space on your counters. But either way, having that information is the only way to efficiently make the types of decisions that I am talking about.

OK, enough of the doom and gloom.

Woes at the big chains and department stores could spell success for the smaller independent retailer

The good news is that smaller independent retailers have such a better opportunity now than the big chains or department stores because even if you didn't do all these things I've mentioned, you can be agile enough to adapt and succeed, whereas a large chain, big box, or department store really can't. Just because they are seeing double digit sales drop's and are cutting expenses by ten and twenty percent doesn't mean you have to.

However, don't be fooled, even those large chains that were unfortunate enough to go into bankruptcy protection in these tough times will come roaring back and be primed to capture those sales that will come with the turn on the economy.

But let's get to the heart of the issue here.

We can talk all day about how bad things are and how many retailers are suffering, but that's not going to help any of us. You may have even heard it said recently that a recession is a self-fulfilling prophecy. If enough people say it's going to happen then eventually people stop spending money and that causes the recession, whether it was there or not. Just take a look at the recent consumer confidence in October (it was an all-time low since it was created in 1967) and you see that it just happened.

Instead, how can we focus on, dare I say, *expansion* in these times? Sure! Why not! But how can we focus on that, you say? Well, it starts with getting back to the basics.

Here is some sage advice on how to do that from expert retail consultant Rick Segal (www.ricksegel.com) from a recent newsletter:

> *OK, so what do we do? It's back to the basics. It's really pretty simple. We need to have merchandise that will make a customer want to buy. That generally falls into two categories: merchandise that wows the customer with that feeling I have to have it! Yes! the buyer did their job. Great merchandise and the HOT item are the trump card to any recession. Don't ever forget it.*
>
> *The other type of merchandise also creates a buying frenzy and that's the merchandise that is such a great buy. You know, that great buy we just can't live without. I was at the airport in Louisville and I walked past the PGA store. Right in front they had a table with some terrific buys. I was shocked when I saw the price of the sweater of only $9.99. I quickly tried it on and it was mine. Of course the only employee that was there suggested another sweater that was $39.99. I bought it.*
>
> *Look at it like the classic bell shaped curve. It's the merchandise at the ends of the curve that people talk about. There are some great buys available today because vendors are more willing to negotiate due to the fear factor. Trust me, there will be some very shrewd vendors as well who aren't panicking.*

> *We need to have promotions, do window displays, have contests, and present our merchandise that people TALK ABOUT! Businesses are built on word of mouth advertising, but if you want word of mouth advertising, give people something to talk about. People talk about what's different--what makes your business special, unusual, or a skill that you do that no one else does? Are you the first, the only, the best at something? People talk about that. You don't have to give the store away to bring people into the store. The key to having your existing customer come back rests with the Art of The Friendly Reminder. I have seen stores have huge increases just by requiring their employees to call customers on the phone. The key is to just leave a message on their answering machine. That is putting a different twist to marketing.*
>
> *The last basic point I want to share is that it is our job to maximize every customer who walks through the front door. That means we work as hard as possible to sell every customer. That's impossible I know but if we change our attitude that everyone who walks through your front door has the potential to buy, it makes it easier to sell more. However, just selling one item to one customer is NOT good enough. We make money when we are selling multiple items to the same customer. That only occurs when someone suggests another item. It does not take place when someone says to a customer, "Is that it for today?" or "Did you find everything you were looking for?" or "Is there anything else you need" Those terms have never sold a thing.*

I mentioned above some of the "basics" that are going to be a pre-requisite to any expansion. I would love to write whole articles on each of these (and probably will) but in the interest of time and space I will just list some of them here and encourage you to get in touch with us to discuss them in more detail for your business. A few of the most important of these are:

- Managing vendors for profit
- Handling lower sales numbers while focusing on profits
- Getting rid of merchandise that isn't selling to make room for merchandise that is
- Strategic Markdowns to sell through all your merchandise at the highest margin possible vs. forced markdowns to clear it out at any price so you don't take a bath on it
- Managing your customers to ensure profitability and high margin sales
- Preventing loss
- The technology systems required to enable you to make these analytical decisions

I want to share with you a story about one of our customers that is not only doing these, but what's even more important is that he is doing them so naturally that he then has the time to focus on the core aspects of his business that insure him against the economic waves hitting us today. He is even in the heart of New York

City where the economic impact is apparently magnified and often carries a stronger effect.

And not a sales sign in the store…

First off, you walk by and walk in to this store and there isn't a sales sign in the store. Instead, it's full of customers. And this isn't a huge store; it's a 1200 square foot store, single independent retailer in New York City. But you can tell that the store is well merchandised and that the customers are not first time buyers, but rather that this is ***their*** store. They sell sports shoes and the staff and ownership know their product and they know their customers.

And how do they know all this? That was the most inspiring part for me. It was that the owner of the establishment wasn't in the back room pouring over invoices trying to figure out what was going on in his business. No, he was on the floor working with a customer for 45 minutes which is what he should be doing. He knows his merchandise, he knows he has the product mix for his customers at the price that they will buy it at, and he knows what is going on in his business. He knows this because he has a good technology system in place and he knows how to use it and he **is** using it. And because he knows this, he can take the time to focus on the core of his business, his customers.

Another great example of someone focusing on the basics, and because of that is still expanding, is a fast growing discount chain in the Midwest that has been a client of ours for the last year. They have opened over 10 stores in the last year and are projecting to double that in the coming year. They are beating their sales expectations. The owner and I were talking the other day and he shared with me something that is such a great example of why he is successful.

Managing loss is something that I constantly talk about as a key to success, but especially so in leaner times. In good economic times your business can weather some loss because the customers keep coming in and buying. But when the customer traffic dries up that same loss could be devastating.

His business had an ineffective manager at one of their stores. The store was off its numbers among other things. So, first off they saw this and took action. They brought in one of the better store's managers to turn it around. One of the first things they did was look at the reports on the store's sales, performance, merchandise, returns, etc. That manager saw an anomaly in their cash returns. This is something that is very easy to catch if you: 1) have the reports and 2) regularly look at them. Long story short is that they found and caught someone who had in effect stolen over $8,000 from them and they recovered that money.

Preventing Loss has exponentially more impact to the bottom line than just increasing sales

Now, that's $8,000 to the bottom line for a struggling store, do you think that made a difference? You bet! The more important thing is that the owner told me that if they didn't have a system to capture this information and that was easy to use and that gave the regular reporting that it did, they never would have caught this person and been able to recover the money and probably would have lost ten's or hundred's of thousands of dollars over time.

Both of these stories show not only the focus on the basics to ensure the business is running the way it is supposed to be, but also an ability, because of that, to work on the business and find ways to impact the business in a more meaningful way.

Of course, when times get tough like they are now, some businesses just plain have to adjust to survive. The basics still have to be there, but the spirit of the independent retailer has to come out and make those changes that not only mean survival but mean expansion. That is why I mentioned earlier that the independent has such a better opportunity right now. Those double digit losses by the big names in retail could be good news for the independents.

To expand on this a bit more, the fear that gripped us all over the past month on the economy was just that. Yes, we took hits in our retirement accounts, but for the vast majority of American's that doesn't mean much to their daily lifestyle. Yes, there is a record number of foreclosures right now, but the last time I looked at the numbers that meant that 6% of homes were being foreclosed on instead of 5%. And, yes, unemployment is up around 6% also. But do you realize that means 94% of Americans are both employed and paying their mortgages?

Sure, I could spin those stat's the other way and say we have a 20% increase in home foreclosure and create some great headlines in the media and get people scared; and that is much of what happened last month and consumer confidence plummeted.

But try this experiment this weekend: go to the mall. I was talking to one of our consultants in Seattle this week who has been in retail for over 40 years, both as a chain store owner and in the technology side of retail. He told me how he went to the mall this weekend and could barely find a parking place. He attested to the fear that gripped everyone with the market drops last month, but that eventually people came to and realized "shoot, nothing much has changed for me right now" and "wow, there are some good bargains out there" and "let's go shopping!" Yes, the vast majority of American's have jobs and pay their mortgages and can come shop in your stores!

So, back to some retailers that are adjusting to these changing times and expanding because of it.

One of these is another shoe retailer that has been a client of ours for years. For those years he has been an in-store retailer. However, with the changing economy he has made some changes and is now expanding into other channels of distribution.

A good retail technology system allows you to really track your customers and he **knows** his customers. So instead of just waiting for those customers to come in, or even spending marketing money to try and get them to come in, he took his business to his customers. He is making sales remotely at schools, sporting events, and other events. He is now talking about expanding into catalog and web sales. The point is that first he had the basics down of knowing his customers, but because he is a smaller independent he can make these types of moves in this economy to adjust and expand.

Another retailer that we work with also changed their viewpoint that even in a down economy they can be successful by focusing on what they know they can sell because they understand their business, their merchandise, and their customers. This is a chain of maternity and baby boutiques. For years their focus was on the newest, cutest, trendiest, boutique-style specialty apparel. This did very well, but also there were risks in it and potential markdowns because it was new. It could be a hit or could be a dud. But they made adjustments to their business, understanding that we are in more uncertain times. It was brilliant and is driving not only their survival but their expansion.

How to ensure you have merchandise with predictable margin

The concept of knowing your customers and your core business strengths, and merchandise that go with both, is central to their adjustments. They made the conscious change to focus on the fact that no matter what the economy, people will always have babies. They focus on the essentials in their merchandise and in their planning. They can have confidence because they know what exactly that is and what their margin will be because they have been tracking it for years. They are expanding and are planning how to do that next year too.

Lastly, another of our long, long time customers who has been through recessions before called us recently. He just wanted to say that he is doing well and that especially now his technology system is why that is. He said "I am not buying into the financial doom and gloom; I am doing quite well despite it.

It's all about proper inventory control. So many retailers freak out and put a freeze on buying. They stop buying what the customers need and then the customers go buy it elsewhere. I wish more people would just use their system to know what merchandise to buy that customers will buy and that will give you margin. It's not rocket science.

What does all this mean for you today and what tangible and practical steps do you need to take to ensure that your business is not only going to survive but will be primed to explode when the economy comes roaring back as it always does?

I mentioned earlier that I knew a very successful man once who had a saying. It was "find out what everyone else is doing and do the exact opposite if you want to be successful".

How successful men and women create success during tough times

If you look through the stories of successful men and women like Henry Ford, Teddy Roosevelt, Thomas Edison, Andrew Carnegie, Estee Lauder, Coco Chanel or more recent names like Bill Gates, Donald Trump, Sam Walton, Martha Stewart (I could go on and on) but the point is that you will see many of the same characteristics that are represented in the simple statement above of going against the crowd and creating success in the face of adversity or even failure.

Right now we have the chance to do just that. To set an example in the face of the economic turmoil that the media wants us to believe is crushing the world economy; an example that success is not only possible but it's there for the taking. Some of the greatest of the above success stories, in fact, came out of an opportunity created when everyone else was worried about a problem but these men and women decided instead to find and offer a solution.

More to the point today is what Warren Buffet, the world's wealthiest man according to the most recent Forbes rankings, is doing. He is buying American equities at a time when everyone else is selling them. He said in a recent op-ed for the NY Times, "my non-Berkshire net worth will soon be 100 percent in United States equities." Take a look at the whole article for an amazing perspective: (http://www.nytimes.com/2008/10/17/opinion/17buffett.html)

Are the next few months going to be challenging? Yes, they are. But how you meet those challenges and find ways to turn them to your advantage makes every difference in the world.

That is not an easy task. Every business will need to be super efficient and focus on what is going to cause success based on what has caused success in the past. Taking the time to work "on" the business instead of just "in" the business is no longer going to be a luxury but a requirement. But the good news is, again, that in times of adversity there are always opportunities.

Now you may be asking yourselves why a retail technology company is so focused on this topic and, you may say, "passionate" about it? I can tell you that it comes from the top down. Scott Kreisberg instilled a culture at One Step Retail Solutions that our success is wholly determined by our clients' success and that it is our business to know what makes success in retail and how we can support that success through technology solutions.

So, yes, we are incredibly passionate about retail and what it takes to achieve success in retail. But make no mistake; success in retail today without technology is virtually impossible. It's just too fast paced a world, with too much competition for too few customers, for you to not know your merchandise, know your customers, and leverage technology to be efficient in business.

Now here is the tricky part though. Buying technology isn't enough. It's constantly changing for one thing, but the other is that, like any tool, it's only as good as you know how to use it. The truly successful retailers from Wal-Mart on down to the local independent chain that is expanding are doing it with technology.

The cold hard truth about technology systems

To wrap it up, if you don't have technology today you must find a way to get it into your business. And not just the cheapest thing that you can find, but something that you can actually use to make an impact in your business.

The key to that is not the technology itself, because there are plenty of options. Rather, it's the partner that works with you that makes all the difference in the world. You have to leverage not just technology but the knowledge of how to use that technology in your business and that is what professional services are all about.

So whether you don't have any technology, or you have some technology that is old or not well utilized, then getting current technology in your business and getting the knowledge to use it and then getting a game plan of how to use it over the next 12 months to maximize your sales, customers, and profits is essential. That might not be easy, what with credit markets tight and sales probably down, but it's essential.

Chapter 8

The Bottom Line

Retailers are succeeding despite what the economy is doing. They are doing this by:

- Running lean on inventory while still having the right item at the right place at the right time, because their technology systems have let them zero in on what those items are.
- Servicing their customers as never before, by knowing who they are and what they want, again by utilizing their technology.
- Becoming super-efficient by letting their technology solutions tell them where the waste is.
- Getting back to basics, back to their core products and going with their strengths as retailers.
- Expanding into multiple channels and different ways of selling their products.
- Investing in technology for the long term, knowing that it will repay itself many times over.
- Being so well-trained on their technology systems that they can do all of the above.
- And, of course, they use the right technology partner, an experienced company who have themselves weathered the changing economic storms over the years and brought their clients through to more prosperity and expansion.

For more information, questions or comments, write to Kevin McAdam at kmcadam@onestepretail.com.

About the author

Kevin McAdam has been in the marketing, sales, and business development field for over 12 years; everything from training seminars for nationwide sales organizations to business plan development and pricing and marketing strategies. For the last 5 years Kevin has focused specifically on the retail industry and the technological tools available to retailers to assist in their businesses. He has written extensively on the subject and been a featured speaker at retailer events, as well as delivering live interactive webinars and in-person training workshops. Kevin is a founding member of the Retail Technology Resources Group and currently serves as Vice President for One Step Retail Solutions.