

Understanding Why Companies Operate at the Head of the Pack

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Several years ago I was invited to participate in a retailing conference put on by Management Horizons the retail consulting arm of Price Waterhouse. While the phrase Best Practices had not yet been coined, the impact of the concept was astounding.

All of us in retailing had grown up with the understanding that the secret to success was great customer service. Yet we had all known of companies that smiled broadly to their customers, while their bankruptcy attorneys had smiled broadly at the judge. Success therefore could not simply have been defined as customer services and required a new definition - Best Practices.

Tom Peters had part of it right when he discussed "Management by walking around". Michael Gerber who we heard from this week had part of it right when he discussed "having the plan". But both strategies in the 90's rest on the de-cocooning of the business. That is the need to look elsewhere and everywhere - be it inside your business - at your direct competition - outside of your industry and for franchisors - outside of franchising to truly understand and implement a "Best Practices" strategy.

There are reasons that certain companies have become what we call "Category Killers" in their market segment. And, I can assure you that it is more than a broad smile and good product that have allowed Home Depot, Staples, Crate and Barrel and Nordstrom's and others to dominate their market segment.

Customer Satisfaction is not the same concept as Customer Service and it is a mistake for any retailer to fail to make the distinction.

For the truly successful retailer in the 90's, each transaction must build on creating the aura of satisfaction or the customer will not return. Years ago when I officed out of Neiman Marcus headquarters in Dallas, I fell in love with a retailer in San Antonio Texas called Frost Brothers. Frost Brothers was an old line family operated specialty store that had the most skilled sales associates I have ever witnessed in retailing.

I would often visit their stores and would send my staff to San Antonio to watch how Frost Brothers addressed the issue of pleasing their customers. The associates at Frost Brothers would remember their customers by name, greet them at the door as if they were the most important person that had ever arrived at the location. They would walk with them, often hand in hand while they shopped, and ensure that they were served in the tradition of the store. But, Frost Brothers is now gone. While their customer service was spectacular, they failed to anticipate the changing needs of their customers in selection and value, which was served better by other specialty merchants.

Frost Brothers had failed to realize that they were competing with other merchants for the same customer. While they had the ambiance of greatness, their customer wanted more - that is value, selection, speed and ease of purchase.

Any of us who have ever visited a Nordstrom's will recognize the difference. Tom Peters relates several stories about Nordstrom, one which is my favorite. A customer came to Nordstrom's to pick up several suits he had purchased which were being altered. As occasionally happens, the suits where not ready and the customer left to go on an overseas business trip that afternoon.

Upon arriving at his hotel in London, he found a Federal Express package waiting for him. Inside, was a letter of apology from the salesman at Nordstroms.

In addition, he found the suits he had purchased and a selection of shirts and ties which were a gift from the manager together with a leather suitcase to carry his suits. The salesman had called the mans home, spoken to his wife, found out the size and style of the shirts the customer liked and the hotel he would be staying at. While this was not a very profitable sale, it bought forever the customers loyalty. Tom Peters defines this as staff empowerment, and while many retailers talk the talk - few walk the walk like Nordstrom's can.

There is an electronics store on the West Coast called Frye. Frye sells the same electronics products as is sold at most electronics shops throughout their market. They provide their customers with the same great value as many of their competitors, and yet, they own their customers loyalty. When you enter a Frye's location it is decorated in different motifs. They have a jungle motif and a dessert motif and shopping their is a memorable and fun experience. They have created value and distinguished themselves from the competition.

Similarly, Home Depot owns the market. Some may point to the extraordinary number of SKU's that they carry, or their discount prices, but their real success is their low out of stock percentage - they have what you want - when you want it in the quantity that you want it in.

Their staff is the best trained in their category. Not only do they know they product, and provide lectures for the do it your selfer, but try this at a Home Depot and at one of their competitors. Go to the paint department and ask one of the stock personnel about a screw that you need for a project. Typically they won't simply point you to isle five, they will escort you there, find a sales associate in that department and explain to that sales associate what you need.

Home Depot out-service the competition in a warehouse concept where other merchants simply point to isle five and cut back on their staff.

While customer satisfaction is the key, customer service is still an important factor. Great retailers do not skimp on staff and payroll. They service their customer by moving their staff onto the floor, instead of building a staff that serves the back office. They recognize that it is the staff that serves the customer that drives the business and make the money, and not the back office staff and management.

Best practices requires you to break the cocoon and Learn by Looking around. See who in your industry is doing "it" well - whatever "it" is, and steal "it" quickly. Look at your competition and learn from their mistakes. Many retailers have blinders on and often if it was a great idea in 1975, it must still be a great idea in 1995. This can't be further from the truth.

Sears and JC Penny's are classic examples. Both chains remodeled their stores, changed their merchandising and price points and declined quickly. Both are now only starting to recover.

What they forgot in their changes was who their customer was. Both Sears and JC Penny's traditional customer was Mr and Mrs Blue collar. Unfortunately, Mr. and Mrs Blue Collar could no longer related to the new stores retail focus on up sale pricing. It is only now, as they have re-targeted their core customer that they have begun to improve same store sales.

Many of you have un-doubtably seen the Sear commercial - the softer side of Sears. This is the re-engineering messages which tell the customer who remembered Sears as a hardware store - that they are still there for them - only they also have a softer side - fashion. It was a hard lesson for both chains.

While both Sears and JC Penny struggled, Dillards grew quickly by never taking their eye off what their customers wanted - value and familiarity.

Also - look for people to emulate and understand their successes and copy them. Look also for their mistakes - and avoid them.

Most retailer today receive thousands of bits of information from their POS, distribution management and merchandising management systems. It is essential that this information be analyzed on a regular basis - and I mean at a minimum, on a daily basis. Don't wait until the end of the year to discover that you have a shrink problem. Don't wait until the third promotion to find out that the promotion is a failure. Review your trend analysis on a real time basis and react to the results. As one of my clients says in his lectures - insanity is doing the same thing over and over again - and expecting different results.

Understand who are your customers by finding out who is coming in and what they are buying. Much of this information can come from a quality POS system.

Several of the category killers have introduced private label credit cards to track the purchasing trends of their customers. Ann Taylor has recently introduced such a private label card and can track the purchases of each of its users. React and use the information.

Ray Zimmermann the President of Service Merchandise has re-vitalized a dying store system in a troubled catalogue store industry which has been bereft of bankruptcies. When you purchase a set of dishes at Service Merchandise, you will soon receive a catalogue which contains silverware and on the anniversary of your purchase, you will receive another catalogue which offers replacement items for the dishes that have broken.

At Lands End, when you purchase maternity clothes, within five months, you will begin to receive catalogues for baby clothing and later for toddler and children's clothing.

And at Eddy Bauer when you purchase a sweater in the winter, you will receive a catalogue with cotton sweaters in the spring. Eddy Bauer believes that if you are a winter sweater person, you likely wear sweaters year round.

They have all identified their customers needs and merchandise into those identified needs.

Monitor your industry. Understand its market trends and do something - anything - but don't stand still. You must anticipate the market and change so that you have what your customer wants, when they want it.

There are six P's of marketing - Price, Product, Place, Promotion, People and Positioning.

As never before, customers are price sensitive. They are looking for value - but not necessarily at the lowest price. We have all seen the Wal-Mart ads with the pricing falling off the sign signifying that Wal-Mart has low prices. Those who price shop Wal-Mart know that on some items they have spectacular bargains - on the most visible items. On others, they are at or even higher than the market. But the perception is still low prices overall.

Monitor your customer. Look at product trends and react. Unless you have a spectacular replenishment system avoid the fads. What do I mean by a replenishment system? Most of the successful retailers in the 90's have established vendor partnerships. This has allowed Wal-Mart to keep most of its merchandise on the selling floor with limited merchandise in the back reducing their inventory carrying costs. Through their vendor partnerships, vendors can monitor sales independently and resupply Wal-Mart on a daily basis as required.

The Limited, through their vendor partnerships can literally re-merchandise an

entire store within 24 hours. As sales information is transmitted by the stores to the manufacturers in Thailand and Bangladesh, they can manufacture the merchandise, place it on a courier flight and within 24 - 48 hours that merchandise is on the selling floor. It takes most retailers often six or more weeks to accomplish the same replenishment requiring them to tie up substantial capital in inventory and also causing them to be overstocked on many items which affects their full price sell through sales and therefore loss of sales through markdown.

Stay away from the fads unless you have an effective replenishment system or you may find your stores stocked with the next hoola hoop.

Location, location, location is as important today as it ever was, only now retailers operate with a difference. They have established strategic partnerships with major retailers and property management companies for the best sites as they come on the market. They also make better use of their locations. Norm Brinker is now building his Macaroni Grills next to his Grady's restaurants and Toys R Us builds their stores in close proximity to their Kids R Us chain. Tandem branding in franchising is a Best Practices use of locations and markets.

Become promotion ready. By that I mean - get your message in front of your customer as often as possible. Stay visible. Retailer today are sending out circulars on an average of 12 to 13 times per year. They don't allow their customers the need to discover their competitor.

People are your most important asset, as never before. Don't cut back on your training. Don't cut back on your people. They are your best marketers.

Give your people a clear corporate message. Make it simple and direct. I love the corporate message from the Olive Garden. It simply states - "Hot food hot - cold food cold and hire people who smile" Nothing else, and it works. Simple and direct.

Finally, choose your market positioning and whatever it is stay there. Don't confuse your customer. Remember the lessons from Sears and JC Penny.

Customers perceive value as options. If you sell one product at full price, offer the customer the availability of a similar product at a lesser price. They may not necessarily buy the lower priced items, but they will appreciate the choice and your perceived value.

Be visible on your pricing. Don't hide it from the customer. The biggest problem faced by the supermarket and grocery chains today is the removal of pricing on their products. They may have saved staff time in not pricing the cans, but they have confused the customer.

Many chains are now experimenting again with product pricing or self service wands to assist the customer in determining a products price.

Lots of retailers budget and forecast but never compare their forecasts against actual results on a real time basis. At a minimum, you should be measuring against plan on a weekly basis, and not wait for the end of the month, or the end of the quarter or the end of the year.

Similarly, don't wait for a promotion to be over before you measure its results. Use flash numbers on a daily basis and make changes based upon the flash results.

I can't emphasize enough the control of waste. Control your inventory so that it can be measured and maximized. Shrinkage can be caused by mark downs or product loss. Capture the data on store use items. Recently in examining shrinkage at Revco, it was discovered that store usage was out of control. In examining the back room, it was discovered that Revco staff were using glad bags, hair spray, soap and other items and not recording them out of inventory

causing an inaccurate measure.

Once you begin to control your inventory, you can then begin to control your costs and minimize your inventory carrying costs and risks. The smaller the inventory required to satisfy customers the more profitable you can become.

Take a page from Wal-Mart and their distribution management system which allows them to have small back sore stock and maximize on selling floor merchandise ready for sale. Create strategic vendor partnerships. Share them with the needed information and empower them with the responsibility to service your location on a just in time basis.

Don't be afraid of change. Plan to make one change - no mater how small every day. If you can teach one cashier to recommend an additional purchase to a customer which accounts for a simple ten dollars increase in sales per day - this will amount to over \$3,000 by year end. Multiply than \$3,000 by every cashier in every store and the impact on profit can be dramatic.

Be aware - not afraid of change. Respond to your customers changing needs. Give them what they want - not what you want to give them.

Finally, define your market niche and exploit it.

My favorite example of exploiting a market niche is the Bostonian Shoe chain. Bostonian has 200 stores in malls and competes with other department and specialty stores that sell shoes. But they have defined their niche exquisitely.

Their shoes appear to last for ever. While they only have between 8 to 10 basic styles, because their stores are merchandise well, they appear to have a deep selection.

They have also focused with a passion on customer satisfaction. If Bostonian is

out of your shoe, they will Fed Ex it to you with a guarantee delivery of two days, at their cost. If your shoes wear out, they will refurbish your shoe to as new condition with new soles and interior for \$65 dollars. If you bring your Bostonian Shoe back to the store, they will polish it for you, for free.

They have defined their niche, understand their customer's needs and maximized on their customer satisfaction.

Best Practices for retailers and for service providers is basically outperforming the competition, at every level, every day. Much of what retailers in franchising need to do to become category killers is in our grasp. Franchisors and franchisees need to focus on the details - use modern POS systems and Best Practices approaches which will enable them to better manage their businesses and prosper.