Back To The Future Technology Meets Retail

What if the real measure of success in the next 10 to 20 years is operating your business not the way that your parents would have, but the way that your great grandparents would have? Imagine how it was operating a store at the turn of the last century. The year is 1909, you own a small specialty store (every store then was a small specialty store!). Two questions: “Would you have known every customer who came into your store?”, and “Would you have had just about whatever your customer wanted?”

The answer to the first question is "of course!" The reason you would have known every customer is because we lived in small communities and did not have automobiles so just about everyone who came into your store was a neighbor of yours. You saw them at church on Sundays and in and around "town" the rest of the week. In all likelihood you probably had fewer than 300 customers and those 300 supported your business very well. As to the second question, again, the answer is "of course!" You would have had almost everything that your customer wanted because of the very simple fact that there was not that much to want! Remember, it was 1902, pots and pans came in one color, shoes in three or four styles, most clothing was custom made, so you only carried fabric and even fabric was limited to woolens, cottons and maybe silk. Life was very simple and not very difficult to carry most of the inventory that was available from suppliers.

So, in 1909 it was easy for me to know my customer and have almost everything that they wanted. And the word mark down was not invented yet, nor was the 50% off sale.

Why is this vision of the past so important for the future and what does it mean to retailers today? There is no doubt that the big mass merchandise retailers are getting larger and capturing more sales every day. Customers seem to flock to their offers of low prices and massive assortments. I refer to these huge retailers as vending machines. They are really no different from a mechanical vending machine in so far as the customer is concerned. In a vending machine retailer you put your money in and out comes product; there is no real human interaction. Some of these vending machine retailers are even experimenting with self scanning technology which would completely remove the last human contact in their stores, the cashier. The only value that these massive retailers offer is price and assortment and often their prices are only lower on the highly visible items and even then they are sometimes out of stock. It is also not unusual that their assortments only contain the bottom and middle of a classification and not the better and best goods as the price of these better goods are often assumed to be out of reach of the customer. Many independent retailers ask themselves how they can possibly compete in the face of this kind of competition. The answer is, go back to the future.

The challenge is to be able to replicate what made our great grandparents successful one hundred years ago. To be able to know my customer and to have what they want. What was easy with less than 300 customers becomes not so easy with the thousands of customers that visit our stores today. I can no longer rely on just my memory to keep the wishes, hopes, likes, dislikes, needs and dreams of each of my customers uppermost in my mind. And it will be in fulfilling these wishes, hopes, likes, dislikes, needs and dreams that will make for success.

Not all purchases by customers are commodity purchases. The definition of a commodity is a good or service that the customer finds indistinguishable from another. For many customers items like gasoline, laundry detergent, sugar, milk etc. are commodities because one brand is viewed to be as good or the same as another. Once a customer has identified something that they use as a commodity, then the two main purchasing influences are price and convenience. Sometimes convenience will overrule price, as in the case of a person who needs toilet paper at 2 a.m., they are not likely to drive around to find the best price. Not all purchases that customers make are commodity purchases, and indeed, the great marketers have proven that you can take a "commodity" and make it completely unique. All you have to do to understand this is to try to tell your 4 year old that having a Joe's burger is just as good as going to McDonald's. Or, even better, all you have to do is think of what the Starbucks powerful marketing machine was able to do when it turned a $1.00 cup of 'commodity' coffee into a cup of premium coffee customers wouldn't bat an eyelash to splurge on to the tune of $4 a cup!!

The value that we add to the transaction is how we differentiate our stores from the vending machines. This value is often vaguely referred to as service, but it must be much more specific and defined. Let me tell you a true story. Over a year ago, I was working out West, with a building supply company. The store manager told me this story.

"About eight weeks ago a contractor roared into our parking lot, jammed the pickup truck into park, and ran into the store. "Do you have 50 sheets of quarter inch plywood?" he asked. "Sure do" I replied, "Just bring your truck around back and we will have you loaded in five minutes." The contractor then asked, "How much is it a sheet?"

The contractor and I responded, "$10.88." To which the contractor said "But (name of large vending machine store) has it for $8.88 a sheet!" To which I responded, "Why didn't you buy it there?" To which the contractor responded, "They were out of stock." To which I replied, "When we're out of stock, ours are $6.88." I then immediately said to the contractor, "Look, I don't mean to be funny, what I am trying to point out to you is that right now I have over 700 sheets of the plywood that you need out back. There is

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a cost to carry that much inventory. Other stores often advertise low prices and do not have the inventory investment to back up the prices. Right now I would guess that you have two or three carpenters on your job site with no plywood to put nails into. I don't know what that down time is costing you, but I would guess that it is more than the difference between $10.88 and $8.88. When you come here first, we always have what you need, whether it would be plywood, two by four, nails or anything else that you need to do your job. Sometimes we are a little higher than (name of large vending machine store), and sometimes we are at the same price, and occasionally we are a little less in price, but we always have the inventory. And we want you to know that there is a cost of carrying that inventory to have it when you need it." At that point the contractor's eyes told the story; he was educated as to why a price is a fair price and has been back five times in the past two weeks.

Now, some customers will not respond to this logic. I would guess that about 25% of the shopping public today is what I would call "bottom feeders."(AKA Carp) Bottom feeders are only interested in price and could care less what value you add. The trick is to recognize that not all customers are created equal, and that if you listen to the bottom feeders and adjust your prices or policies to satisfy them, you are making one of the biggest mistakes you can make in retail today. Bottom feeders are not loyal. They will go up the street for a dime difference in price. You cannot build a business with bottom feeders unless you are prepared to match the price of a competitor who buys hundreds times the quantities you do, offers no product knowledge or staff, offers rigid return policies and does not provide the personal service that you do. Do not let your customers compare apples to oranges. When your customer buys from you they are buying not just a product but your entire store and concept. Never sell yourself cheap. 75% of the customers will pay more if you can provide a real reason for them doing so. While no customer likes to feel that they have been taken advantage of, most customers (75%) will pay for added value.

The two key values that great retailers add are having what their customer wants and providing custom solutions to their problems and needs. Both of these added values are only possible today through the use of technology.

Technology touches us in retail in these two areas by providing inventory management software that helps us to tailor our inventory to what our customer has "voted" for in the past. I contend that customers vote with their wallets. Every time they make a purchase in our store they are giving us a vote of confidence on that item, at that time, in that quantity and at that price. We need to count those votes and respond to what the customer is telling us. A good computer driven inventory system will track and report what our best selling items are, at what prices our customer likes to spend and in what sizes, colors and qualities they like. This information then feeds replenishment software that helps us to quickly get back in stock on what our customer has voted for. This even works in fashion stores. The old days of a retailer behaving like the snake that ate the pig and taking six months to digest the meal are quickly ending. We can no longer bring in six months supply of anything and expect to guess right about what our customer wants four months into the season. The Japanese taught us the ancient proverb "be like the water beetle, carry small amounts and make many trips." This is only possible with a computer driven inventory and point of sale program.

The second way that technology helps us go back to the future is in data base marketing, micro marketing and relationship marketing. Technology allows us to talk one-to-one with our customers just as our great grandparents did.

What is a customer worth to your store? You have to answer that question to really buy into the concept of relationship marketing. It is not just the $10 or $100 they spend today that matters. In fact, if a store looks at the customer only in terms of their purchase today, this approach is what is called "transaction driven" retail. Transaction driven retail assesses the customer only in terms of today's sale and not as a part of a life long relationship.

Take, for example, a grocery store. Everyone shops for groceries, the average family is spending about $200 a week on food and household consumables. Most people have been shopping at the same grocery store for five years, and will likely continue to shop at that store for another 15. The reasons people choose a certain store are obvious: location (close to home or work) and convenience.

Yet, despite this long-term relationship with a grocery store, few of us can claim that our grocers know our name. Very few of us indeed could say that if we stopped shopping at our local store for a month, our grocer would send us a letter inquiring about our absence.

Yet, a grocery customer is worth thousands of dollars over a lifetime. If a customer spends $200 a week in a grocery store, over a year, their spending will total about $10,400 (52 weeks x $200). If they have shopped there for the past five years, and continue for the next 15, their spending will total $208,000 over this 20-year period.

These figures do not include the "influence factor." Have you ever gone to a store because a friend recommended it? Have you ever avoided a restaurant because a friend told you it was bad? We listen to advice from family and friends all the time about where to get great products and where not to go. This is the influence factor**:** if you really like a store you tell others to shop there too. If you happen to tell five friends, that $208,000 can become $1,248,000. On the other hand, if you really dislike a store and tell five friends, you would deprive that store of more than $1,248,000 in sales over twenty years, since bad news travels much faster and wider than good news. In short, the value of a customer must be measured over time. Just think what could happen if a grocery store spent the time and effort in treating each customer as if they were a million dollar sale! Just think of your customers so impressed with your care that they become "apostles" and preach the gospel of your store!

One of the reasons that a customer database is so important is that it provides a method of tracking your Million Dollar customers. It is a way to identify who they are, what they buy, when they buy and how they buy. If you can track this information then you can add value to your relationship with your customer. A customer data base can also track bottom feeders and track the names of customers who you never make any profit from. These customers may help you "clean the tank" at season end, but they are rarely good for anything else. Wouldn't it be great if you could track the customer who only rents products from you (without even paying the rent) and nicely inform them that you can no longer accommodate them after the second or third questionable return?

Proactively using your database means using it to anticipate your customer's needs. Take, for instance, the customers who like to have the newest items first. Whenever anything new comes in the store that you think they might like, create a query for your data base and find the phone numbers of customers who you have identified as liking new items and pick up the phone and let them know that something has come in that they would love. When an end of season sale is coming up, phone the customers who love a bargain. And for those customers who need to stretch their dollars, call when you get something in that adds value to a product the customer has purchased in the past. For example, if you know that Mr. Smith bought a pair of navy pants and a white shirt from your store last month, call him when you receive a new shipment of light blue shirts that will go well with the pants. Explain that it is a good idea to have two or three shirts to go with a pair of pants, and that this adds value to his original purchase.

Imagine your great grandparents unpacking a new shipment of goods. Wouldn't they have had a picture in mind of each of their customers as they took the items out of the shipping container? "Oh, just look at this! Mrs. Green will just love it. I can't wait to tell her about it!"

A customer database will help you keep track of all of the needs of all of your customers, and today the only way to accomplish this is with a computerized system that will help us do it efficiently.

Here is a list of easy-to-do things to help build better relationships with your customers and keep them coming back.

- In conversing with your customers, use their name every chance you get, especially on the phone (tie your database into caller ID to help you remember names)
- Develop an in-store data base and add customers' likes and dislikes to it regularly

- Keep your regular customers informed of new merchandise, additional items that they would love, sales, etc. through phone calls, post cards, newsletters, letters, faxes, and E-mail. Contact a minimum of ten customers per day. (But don't overdue it, never more than 8 contacts per customer per year.)
- Always phone a customer a few days or a week after they have made a major purchase and inquire about their satisfaction. (Never try to sell them anything else during this call!)
- Always tell customers why they've made a good purchase. This reinforces their decision
- Always tell your customers that you guarantee everything you do for them
- Always keep your promises

The truly amazing fact is that technology today levels the playing field. The smallest retailer can have the same sophisticated technology that the large stores have for a fraction of the cost of five years ago. Today, technology that takes us back to the future can be leased for less than $300 per month. A small investment to make to ensure that your great grandchildren will be minding the store in 2109.

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