The Old Pillars *of* New Retailing

Looking for the silver bullet that will solve your retailing woes? It doesn't exist. The best retailers lay a foundation for success by creating customer value in a handful of fundamental ways.

by Leonard L. Berry

Everyone who glances at a newspaper knows that the retailing world is brutally competitive. The demise of Montgomery Ward in the realm of bricks and mortar as well as the struggles of eToys on-line—to choose only two recent examples—make it clear that no retailer can afford to be complacent because of previous successes or rosy predictions about the future of commerce.

Despite the harsh realities of retailing, the illusion persists that magical tools, like Harry Potter's wand, can help companies overcome the problems of fickle consumers, price-slashing competitors, and mood swings in the economy. The wishful thinking holds that retailers will thrive if only they communicate better with customers through e-mail, employ hidden cameras to learn how customers make purchase decisions, and analyze scanner data to tailor special offers and manage inventory.

But the truth of the matter is, there are no quick fixes. Yes, technology can help any business operate more effectively, but many new advances are still poorly understood—and in any case, retailing can't be reduced to tools and techniques. Over the past eight years, I've analyzed dozens of retail companies to understand the underlying differences between outstanding and mediocre performers. My research includes interviews with senior and middle managers and frontline employees, observations of store operations, and extensive reviews of published and internal company materials. I've found that the best retailers create value for their customers in five interlocking ways. Doing a good job in just three or four of the ways won't cut it; competitors will rush to exploit weakness in any of the five areas. If one of the pillars of a successful retailing operation is missing, the whole edifice is weakened.

The key is focusing on the total customer experience. Whether you're running physical stores, a catalog business, an e-commerce site, or a combination of the three, you have to offer customers superior solutions to their needs, treat them with real respect, and connect with them on an emotional level. You also have to set prices fairly and make it easy for people to find what they need, pay for it, and move on. These pillars sound simple on paper, but they are difficult to implement in the real world. Taking each one in turn, we'll see how some retailers have built successful operations by attending to these commonsense ways of dealing with customers, and how others have failed to pay them the attention they require.

Pillar 1: Solve Your Customers' Problems

It has become commonplace for companies to talk about selling solutions rather than products or services. But what does this really mean for retailers? Put simply, it means that customers usually shop for a reason: they have a problem—a need—and the retailer hopes to provide the solution. It's not enough, for example, just to sell high-quality apparel—many retailers do that. Focusing on solutions means employing salespeople who know how to help customers find clothing that fits and flatters, having tailors on staff and at the ready, offering home delivery, and happily placing special orders. Every retailer hopes to meet its customers' pressing needs; some do it much better than others.

The Container Store provides its customers with superior solutions. The 22-store chain, based in Dallas, averages double-digit annual sales growth by selling something that absolutely everyone needs: storage and organization products. From boxes and trunks to hangers, trays, and shelving systems, each store carries up to 12,000 different products.

The Container Store's core strategy is the same today as it was in 1978, when the company was founded: to improve customers' lives by giving them more time and space. The company accomplishes this mission well. It starts with the selection of merchandise, which must meet criteria for visibility, accessibility, and versatility. The company's philosophy is that its products should allow people to see what they've stored and get at it easily. The merchandise must also be versatile enough to accommodate customers' particular requirements.

Store organization is another key ingredient of superior solutions at the Container Store. The merchandise is organized in sections such as kitchen, closet, laundry, office, and so on. Many products are displayed in several sections because they can solve a variety of problems. A sweater box, for example, can also store office supplies. Plastic trash cans can also be used for dog food and recyclables. Individual products are often combined and sold as a system—thus, parents in the store who want to equip their children for summer camp may find a trunk filled with a laundry bag, a toothbrush case, a first-aid pouch, leakproof bottles, a "critter catcher," and other items.

Great service is another component of the Container Store's ability to solve its customers' storage problems. The company is very careful about hiring; it patiently waits until it finds just the right person for a position. Container Store employees are well trained to demonstrate how products work and to propose solutions to complex home organizational problems. They are also treated very well, both in terms of pay and in less tangible ways. In fact, the Container Store was ranked the best place to work in the country in 1999 and 2000 by *Fortune* magazine.

A relentless focus on solutions may sound simple, but it's not. The Container Store has many imitators, but none have matched it. Many businesses have only the fuzziest concept of selling solutions. Department store chains, for example, have stumbled in recent years. They lost their one-stop shopping advantage by eliminating many merchandise categories outside of apparel and housewares. And even as they focused on apparel, they lost ground both to specialty retailers that have larger category selections and to discounters that have lower prices. Finally, they lost their customer service advantage by employing salespeople who often are little more than poorly trained order takers. As a result, these stores do a relatively poor job of solving customers' problems. That's probably why only 72% of consumers shopped in department stores in 2000 compared with 85% in 1996.

Clearly, the lesson here is that you must understand what people need and how you're going to fill that need better than your competitors. The Container Store has figured this out; many department stores and other struggling retailers must go back to the beginning and answer these basic questions.

Pillar 2: Treat Customers with R-e-s-p-e-c-t

The best retailers show their customers what Aretha Franklin sang about: respect. Again, this is absolutely basic, and most retail executives would say that of course they treat customers with respect. But it just isn't so.

Everyone has stories to tell about disrespectful retailing. You're in an electronics store, looking for assistance to buy a DVD player or a laptop computer. You spot a couple of employees by their uniforms and badges, but they're deep in conversation. They glance in your direction but continue to ignore you. After awhile, you walk out, never to return.

Or you're in a discount store, looking for planters that have been advertised at a low price. You go to the store's garden center but cannot find the planters. This time, you succeed in flagging down an employee. You ask about the planters, but she just mumbles "I dunno" and walks away. Frustrated, you go to the customer service desk and ask the clerk where you might find the advertised planters. He suggests that you try the garden center. Once again, you head for the exit.

It's easy to go on. Stories about women trying to buy cars, as everyone knows, are enough to make your hair curl. The fact is, disrespectful retailing is pervasive. In the 2000 Yankelovich Monitor study of 2,500 consumers, 68% of those surveyed agreed with the statement that "Most of the time, the service people that I deal with for the products and services that I buy don't care much about me or my needs."

Disrespectful retailing isn't just about bored, rude, and unmotivated service workers. Cluttered, poorly organized stores, lack of signage, and confusing prices all show lack of respect for customers.

The best retailers translate the basic concept of respect into a set of practices built around people, policies, and place:

- They select, prepare, and manage their people to exhibit competence, courtesy, and energy when dealing with customers.
- They institute policies that emphasize fair treatment of customers—regardless of their age, gender, race, appearance, or size

of purchase or account. Likewise, their prices, returns policy, and advertising are transparent.

- They create a physical space, both inside and outside the store, that is carefully designed to value customers' time.

In 1971, a 30-year-old entrepreneur named Len Riggio bought a floundering Manhattan bookshop called Barnes & Noble. Today, Barnes & Noble is the nation's largest bookseller, with fiscal 1999 sales of $3.3 billion. Respect for the customer has been at the heart of the company's rise.

Riggio's biggest idea was that books appeal to most everyone, not just to intellectuals, writers, and students in cosmopolitan cities. Riggio listened to prospective customers who wanted bigger selections of books, more convenient locations, and less intimidating environments. He put superstores in all types of communities, from big cities like Atlanta and Chicago, to smaller cities like Midland, Texas, and Reno, Nevada. His respect for the customer led him to create stores with spacious and comfortable interiors, easy chairs for relaxing with a book, and Starbucks coffee bars. To this day, he considers his best decision the installation of easy-to-find public restrooms in the stores. As he said in a recent speech, "You work so hard and invest so much to get people to visit your store, why would you want them to have to leave?"

Besides the large selection of books, the stores also have an active calendar of author signings, poetry readings, children's events, and book discussion groups. Many Barnes & Noble superstores have become a social arena in which busy consumers—who normally rush in and out of other stores—linger.

Riggio sees the Internet as much more than a way to deliver books to customers; it's another opportunity to listen to them and thus show respect for them. He views the store network and Barnesandnoble.com as portals to each other. Customers can ask salespeople at Internet service counters to search Barnesandnoble.com for out-of-stock books, for customer reviews of titles that interest them, and for information about authors, such as other books they've published. Customers in a superstore can order the books they want on-line and have them shipped either to that store or to any other address. If a return is necessary, customers can bring their on-line purchase back to the store.

The value of respect often gets little more than lip service from retailers. Some companies wait until it's too late to put words into action.

Pillar 3: Connect with Your Customers' Emotions

Most retailers understand in principle that they need to connect emotionally with consumers; a good many don't know how to (or don't try to) put the principle into practice. Instead, they neglect the opportunity to make emotional connections and put too much emphasis on prices. The promise of low prices may appeal to customers' sense of reason, but it does not speak to their passions.

Many U.S. furniture retailers are guilty of ignoring consumers' emotions. Although the average size of new homes in the country has grown by 25% since 1980, furniture accounts for a lower percentage of total U.S. consumer spending today (1%) than it did in 1980 (1.2%). Making consumers wait up to two months to receive their furniture contributes to these poor results. How can consumers get emotionally involved in products they know they won't see for weeks?

Poor marketing also hurts the industry. Most furniture stores focus strictly on price appeals, emphasizing cost savings rather than the emotional lift that can come from a new look in the home. "We don't talk about how easy it can be to make your home more attractive," says Jerry Epperson, an investment banker who specializes in the furniture industry. "All we talk about is 'sale, sale, sale' and credit terms."

Great retailers reach beyond the model of the rational consumer and strive to establish feelings of closeness, affection, and trust. The opportunity to establish such feelings is open to any retailer, regardless of the type of business or the merchandise being sold. Everyone is emotionally connected to some retailers—from local businesses such as the wine merchant who always remembers what you like; to national companies like Harley-Davidson, which connects people through its Harley Owners Group; to catalog retailer Coldwater Creek, which ships a substitute item to customers who need to make returns before the original item is sent back.

One retailer that has connected especially well with its target market in recent years is Journeys, a Nashville, Tennessee-based chain of shoe stores located primarily in shopping malls. The chain focuses on selling footwear to young men and women between the ages of 15 and 25. Started in 1987, Journeys didn't take off until 1995 when new management took over. The chain has achieved double-digit comparable-store sales increases in five of the six years since then and is now expanding by as many as 100 new stores per year.

Journeys has penetrated the skepticism and fickleness that are characteristic of many teens. By keeping a finger on the pulse of its target market, the company consistently has the right brands available for this especially brand-conscious group of consumers. Equally important, it creates the right store atmosphere—the stores pulsate with music, video, color, and brand merchandising.

A Journeys store is both welcoming and authentic to young people; it is simultaneously energetic and laid-back. Journeys' employees are typically young—the average age of a store manager is about 25—and they dress as they please. Customers frequently visit a store in groups just to hang out; salespeople exert no pressure to buy. And everyone, whether they've made a purchase or not, usually leaves with a giveaway—for instance, a key chain, a compact-disc case, a promotional T-shirt, or one of the 10 million or so stickers the stores give out over the course of a year. The stickers, which usually feature one of the brands Journeys sells, often end up on backpacks, skateboards, school lockers, or bathroom mirrors. Journeys also publishes a bimonthly magazine, *Dig*, that is available in the stores, and it runs a Web site that seeks to replicate the atmosphere of its stores. The number of site visits explodes whenever the company's commercials appear on MTV.

Journeys works in large part because it has created an atmosphere that connects emotionally with the young people it serves. Other retailers should bear in mind that it takes more than a room full of products with price tags on them to draw people in.

Pillar 4: Set the Fairest (Not the Lowest) Prices

Prices are about more than the actual dollars involved. If customers suspect that the retailer isn't playing fair, prices can also carry a psychological cost. Potential buyers will not feel comfortable making purchases if they fear that prices might be 30% lower next week, or if certain charges have only been estimated, or if they are unsure whether an advertised sale price represents a genuine markdown.

Consider some of the pricing tactics commonly used by certain home improvement retailers. One well-known company advertises products as "special buys" even though it has not lowered the regular prices. Another purposely misrepresents a competitor's prices on price-comparison signs within its stores. Still another company promotes lower-grade merchandise implying that it is top quality. One retailer puts a disclaimer in its ads that reads: "Prices in this ad may be different from the actual price at time of purchase. We adjust our prices daily to the lumber commodity market." The disclaimer paves the way for the retailer to raise its prices regardless of the advertised price.

Excellent retailers seek to minimize or eliminate the psychological costs associated with manipulative pricing. Most of these retailers follow the principles of "everyday fair pricing" instead of "everyday low pricing." A fact of retail life is that no retailer, not even Wal-Mart, can truthfully promise customers that it will always have the lowest prices. An uncomfortable truth for many retailers is that their "lowest price anywhere" positioning is a crutch for the lack of value-adding innovation. Price is the only reason they give customers to care.

Retailers can implement a fair-pricing strategy by clearing two hurdles. First, they must make the cultural and strategic transition from thinking value equals price to realizing that value is the total customer experience. Second, they must understand the principles of fair pricing and muster the courage needed to put them into practice. Retailers who price fairly sell most goods at regular but competitive prices and hold legitimate sales promotions. They make it easy to compare their prices with those of competitors, and they avoid hidden charges. They don't raise prices to take advantage of temporary blips in demand, and they stand behind the products they sell.

Zane's Cycles in Branford, Connecticut, is one of the most successful independent bicycle retailers in the United States. Zane's has grown its one-store business at least 20% every year since it was founded in 1981, selling 4,250 bicycles in 2000 along with a full array of accessories. The company's success illustrates the appeal of fair pricing.

Zane's sells better bike brands with prices starting at $250. It stands behind what it sells with a 30-day test-drive offer (customers can return a bike within 30 days and exchange it for another) and a 90-day price protection guarantee (if a buyer finds the same bike in Connecticut at a lower price within 90 days, Zane's will refund the difference plus 10%). Zane's also offers free lifetime service on all new bicycles it sells; it was likely the first bicycle retailer in the United States to take this step. The promise of lifetime service includes annual tune-ups, brake and gear adjustments, wheel straightening and more.

Zane's holds only one promotional sale a year, a three-day spring weekend event featuring discounts on all products. Vendors and former employees come to work at the huge event—some even fly in to participate. Customers who purchase a bicycle at Zane's within 90 days before the sale are encouraged to return during the event for a refund based on the discounted price of their bike. The company refunded about $3,000 during the 2000 sale, but most of that money remained in the store because customers bought more gear. Zane's sold 560 bicycles during the 2000 sale—that's more than the typical one-store U.S. bicycle retailer sells in an entire year. And yet the limited duration of the sale means that Zane's sells about 85% of its bicycles at the regular price.

When Connecticut passed a bike-helmet law in 1992, Zane's sold helmets to kids at cost rather than take advantage of legislated demand. Owner Chris Zane convinced area school administrators to distribute flyers to students under 12 announcing that policy. "We sold a ton of helmets and made a lot of new friends for the store," Zane says. "Our customers trust us. They come in and say, 'I am here to get a bike. What do I need?' They have confidence in our ability to find them just the right bike at a fair price and to stand behind what we sell."

Constant sales, markdowns on over-inflated prices, and other forms of pressure pricing may boost sales in the short term. Winning customers' trust through fair pricing will pay off in the long term.

Are Your Retailing Pillars Solid—or Crumbling?

	Inferior Retailers...	Superior Retailers...
Solutions	gather products, stack them on shelves, put price tags on them, and wonder where their customers are.	consider what people really need and how they can meet that particular need better than competitors can.
Respect	are staffed by people who don't know what customers want and aren't about to interrupt their conversations to find out.	actually train and manage the salespeople they hire so that they are courteous, energetic, and helpful to customers.
Emotions	act as if their customers are Spock-like Vulcans who make purchases solely according to cold logic.	recognize that everything about a retail experience sends a message to customers that goes to the heart, not just the brain.
Pricing	focus exclusively on their supposed low prices, often because they have nothing else of value to offer customers.	focus on having fair prices instead of playing mind games with "special offers," fine print, and bogus sales.
Convenience	are open for business when it's convenient for them, close checkout lanes when it's convenient for them, deliver products when it's convenient for them, and so on.	understand that people's most precious commodity in the modern world is time and do everything they can to save as much of it as possible for their customers.

Pillar 5: Save Your Customers' Time

Many consumers are poor in at least one respect: they lack time. Retailers often contribute to the problem by wasting consumers' time and energy in myriad ways, from confusing store layouts to inefficient checkout operations to inconvenient hours of business. When shopping is inconvenient, the value of a retailer's offerings plummets.

Slow checkout is particularly annoying to busy people. Managers usually know how much money they are saving by closing a checkout lane; but they may not realize how many customers they've lost in the process. For a food shopper waiting behind six other customers in the "10 Items or Fewer" lane to buy a carton of milk, the time invested in the purchase may outweigh the value of the milk. The shopper may follow through this time but find another store next time. Studies by America's Research Group, a consumer research company based in Charleston, South Carolina, indicate that 83% of women and 91% of men have ceased shopping at a particular store because of long checkout lines.

To compete most effectively, retailers must offer convenience in four ways. They must offer convenient retail locations and operating hours and be easily available by telephone and the Internet (access convenience). They must make it easy for consumers to identify and select desired products (search convenience). They need to make it possible for people to get the products they want by maintaining a high rate of in-stock items and by delivering store, Internet, or catalog orders swiftly (possession convenience). And they need to let consumers complete or amend transactions quickly and easily (transaction convenience).

ShopKo, a discount chain based in Green Bay, Wisconsin, illustrates how shopping speed and ease can create value. ShopKo's more than 160 large discount stores operate in 19 midwestern, mountain, and northwestern states; 80% of the customer base is working women. With fiscal 1999 sales of $3.9 billion (including its small-market subsidiary, Pamida), ShopKo is much smaller than Wal-Mart, Kmart, or Target, yet it competes successfully against all three. Since 1995, following the arrival of new management a year earlier, ShopKo has more than doubled sales and achieved record earnings growth.

ShopKo takes possession convenience seriously and is in-stock 98% of the time on advertised and basic merchandise. Search convenience is another strength. ShopKo stores are remarkably clean and neat. Major traffic aisles are free of passage-blocking displays. Customers near the front of the store have clear sight lines to the back. Navigational signs handing from the ceiling and on the ends of the aisles help point shoppers in the right direction. Clothing on a hanger has a size tag on the hanger neck; folded apparel has an adhesive strip indicating the size on the front of the garment. Children's garments have "simple sizing"—extra small, small, medium, and large—with posted signs educating shoppers on how to select the proper size.

ShopKo has a "one-plus-one" checkout policy of opening another checkout lane whenever two customers are waiting in any lane. Ready-to-assemble furniture is sold on a pull-tag system. The customer presents a coded tag at checkout and within three minutes the boxed merchandise is ready to be delivered to the customer's car. These ways of operating give ShopKo an edge in transaction convenience.

ShopKo is succeeding in the fiercely competitive discount sector by focusing on the total shopping experience rather than on having the lowest prices. Shopping speed and ease combined with a pleasant store atmosphere, a well-trained staff, and a carefully selected range of merchandise creates a strong mix of customer value.

While ShopKo creates real convenience for its customers, the term is often used carelessly in retailing. Consider that Internet shopping is commonly referred to as convenient. The Internet does indeed offer superior convenience for some stages of the shopping experience; it is inferior for other stages. On-line shoppers who save a trip to a physical store must wait for delivery. Christmas shoppers who receive gifts ordered on-line *after* the holiday learn a lesson about possession inconvenience. This is one reason that the most promising path for most retailers is a strategy that combines physical and virtual stores. Increasingly, the best-managed retailers will enable customers to take advantage of the most effective features of physical and virtual shopping, even for the same transaction.

Retail competition has never been more intense or more diverse than it is today. Yet the companies featured in this article, and hundreds of other excellent retailers, are thriving. They understand that neither technology nor promises of "the lowest prices anywhere" can substitute for a passionate focus on the total customer experience. These retailers enable customers to solve important problems, capitalize on the power of respectfulness, connect with customers' emotions, emphasize fair pricing, and save customers time and energy. In an age that demands instant solutions, it's not possible to combine those ingredients with Redi-Mix, crank out a concrete-block building, and hope the structure will stand. But retailers who thoughtfully and painstakingly erect these pillars will have a solid operation that is capable of earning customers' business, trust, and loyalty.

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