

## Chapter 1

# Retailing: How It Really Works and How It Can Work for You

---

### *In This Chapter*

- ▶ Exploring the dynamic nature of retail
  - ▶ Getting started in the retail business
  - ▶ Assessing your “retail readiness”
  - ▶ Introducing strategies to guide your retail decisions
- 

**F**rom the challenge of finding the right merchandise, to the thrill of buying it, to the excitement of unpacking it and showing everyone (especially the customers) what you bought, *retailing can be one of the most exciting and exhilarating experiences you ever have.*

Nevertheless, between 12 and 17 percent of all new businesses fail within the first two years. Why? Because people don't spend enough time learning about the business to find out whether it's right for them. This doesn't have to happen to you. The retail business is a wonderful business — *if* you're the right person for it. In this chapter, I give you an idea of what the retail business is all about so that you can decide whether retail is right for you.

## *Looking at Some Advantages of Starting a Retail Business Now*

Is this the golden age of retail? You bet it is! Society is more accepting of change and innovation today than ever before — there are no limits to creativity where retailing is concerned. This is the greatest and most lucrative time for independent retailers to succeed than any other period in our history. That is due to the power and potential of e-commerce. The

retailer's marketplace and the way we communicate with that marketplace have changed dramatically in favor of the creative merchant. No more of the "that's-the-way-we-always-do-it" mentality! In fact, this generation is used to change — it accepts it, expects it, and wants it.

Retailing is a way of life with boundless opportunities:

- ✓ Downtown areas are reemerging as viable places to shop.
- ✓ Malls and strip centers that offer competitive leases abound.
- ✓ States are adopting financing packages designed to help businesses get started and stay open.
- ✓ More merchant organizations than ever can help the new retailer compete in the marketplace.
- ✓ And the Internet not only offers valuable retail business information and opportunities, but it also allows you to market to and communicate with your customers at virtually no cost.



The newest retail battle cry is "making money from the front door and back door." That means retailers today are no longer solely dependent on the traditional ways to market their businesses. We can truly create customers for life wherever they might move, so we can become less dependent on people walking through the front door.

Today's retailing world is made up of people with many different talents, skills, and approaches. The new kids on the block don't always have the finest college education, nor do they always come from major cities of the world. (After all, even the now-mighty Wal-Mart originated in Bentonville, Arkansas.) But in the retailing world, ordinary men and women can become extraordinary. The new kids can either push the established and already successful stores to become better, or they can put those old stores out of business. Great stores (big or small) thrive, and there's plenty of room for great stores. The time is ripe for new success stories!

## *Setting Up a Retail Business*

The essence of retailing is buying something and reselling it for a profit. What you sell, where you sell it, how you price and display it, and who you sell it to are all factors that help make retailing an extremely interesting challenge. The old retail business expression "Retail is detail" is as true today (or more so) as it was 50 years ago. And as bright new entrepreneurs enter the retail arena, each one brings a new detail to retail — a new wrinkle in the way to do business. *Retailing is about creativity, and if you like change, you will love the retail business.* In fact, creativity is the giant-slayer of businesses that are too set in their ways to change.

But while retailing can be a lot of fun, if you want your business to succeed, you need to make sure that you've tightened a few serious nuts and bolts. To help you do this, here's a handy to-do list of the basic steps you must take to create a successful retail business:



1. **Plan your business.** First, develop a business plan that forces you to document every aspect of your business. (I show you how to do this in Chapter 9.) Early in the planning stage, define what kind of business you want to open and what's going to make you special (as I discuss in Chapter 2), what kind of merchandise you want to carry (see Chapter 7), and what type of customers you want to attract (see Chapter 4).

You must also decide where to locate your business for optimal success (see Chapter 5) and how to design your store to make it attractive to customers (see Chapter 6). And before you get too far in your planning, make sure that you determine the structure of your business (see Chapter 9) and obtain the necessary permits and registrations (see Chapter 10).

2. **Validate your ideas.** Ask everyone you know what he or she thinks about your idea for a new retail business. Show these people your business plan, but be prepared for negative feedback — even your family members or closest friends will often give you the classic, “It will never work.” (Perhaps they're jealous that you're trying something they wish they could do.) No matter. You must ask their opinions — they may bring up some important points that you've overlooked.



If anyone succeeds in talking you out of your new venture, your conviction wasn't strong enough to make it work in the first place.

Now is the time to talk to as many professionals as possible. Contact your local state retail association and the trade show or association that services your industry. Many of these groups can refer you to people who will give you an honest opinion. Obviously, now is also the time to share your business plans with your friendly banker. Even if you don't need to borrow money, showing her your plans won't hurt. After your plans have been validated by the appropriate authorities, it's time to execute them (the plans, not the authorities!).

3. **Execute your plan.** Being successful requires more than just having a great idea. Lots of people have great ideas, but not many of them know how to market and execute their plans. As the ad copy said, “It's NOT how many ideas you have, it's how many ideas you can make happen.”
4. **Orchestrate your grand opening.** Your next goal is to open the store. You must set two dates: one for the “soft” opening and the other for the big splash. For the soft opening, simply open the doors to your business, and whoever comes in, comes in. Taking this step gives you a chance to work out the bugs before your grand opening event that includes the

ribbon-cutting, the opening party, and the grand opening sale. No matter how hard you try, preparations usually aren't complete by opening day, and opening a store that is so unready that it looks unprofessional is the kiss of death for any new business. Your grand opening may be short term in duration, but its effect can last forever. (For information on managing grand openings, promotions, and sales, see Part V.)

5. **Create your routine.** During your first year, you will establish the way your business does things — your policies and procedures. Are they working in practice? Keep a pad of paper by your cash register, and every time you think about a better way to do something, document it. As your business grows, this habit (which requires little effort to create but years to duplicate if you don't start early) will become an invaluable tool. (For tips on how to run your business from day to day, see Part III.)
6. **Grow your business.** When the newness of the experience starts to wear off and the startup phase is complete, it's time to focus on growing your business. You must now concentrate on advertising (see Chapters 14 and 15), building your brand (see Chapter 3), buying the right merchandise (see Chapters 7 and 8), and attracting the right personnel (see Chapter 12). To maintain your success, you must master the art of selling (see Part V). And in order for your business to stay afloat, you must keep on top of its finances (see Chapter 13). As you've probably already figured out, this is the step that never ends!

## *Deciding If Retail Is Right for You*

So, is the retail business right for you? Or should I say, are excitement, change, and constant improvement right for you? If the answer is “yes,” retail is right up your alley. The following questions can help you think more deeply about whether or not retail is for you:

- ✓ **Do I like to sell?** Retailing is selling! But don't worry, the days of turning the customer upside down and shaking him till the money comes out are over. Your advertising, your displays, and the contact you have with your customers are all part of the selling process. (The customers think it's good service, but you're really trying to sell them your product.) If the idea of selling scares you, beware. Retailing is selling — no matter how you disguise it.
- ✓ **Do I like to buy?** Part of retailing is shopping. If you find shopping to be a pain, you better find yourself a good buyer — or you better not go into the retail business. You have to know what your competition is doing. You're not looking to steal their ideas, but their ideas can certainly inspire some great ones of your own.

- ✔ **Do I like dealing with and serving people?** Retailing is a people business. As a retailer, you must deal with emotions both high and low. Many times, you must deal with irrational people, rationally. If you welcome this challenge, you may be right for retail.
- ✔ **Do I like to network?** Retailing is establishing contacts. When I ask myself what made me successful, I realize that I couldn't have made it without all my business contacts who've helped me over the years. Through them, I can find out which merchandise is selling and which has "slowed up," who has the best buys, and where the best seminars are. My contacts are also there for me when I get a little down in the dumps. Sometimes it's nice to have a friend around.
- ✔ **Can I motivate people?** Retailing is motivating your staff. Can you inspire your employees to man the ship and get things done when you're not around? If so, not only can you be a successful retailer, but you may also have the ability to own multiple stores — perhaps even an entire chain! The ability to motivate others is a skill that winners have.
- ✔ **Do I mind sacrificing my schedule to accommodate my customers?** Retailing isn't a Monday through Friday, 9-to-5 job. You must be in the store when your customers are there — you have to be present when and where the action is. Don't worry, you can still have a normal life and schedule — it's just that your normal will be a little different. (You get used to it.)
- ✔ **Do I like to plan?** Retailing is planning. You must plan your buying trips and what you will buy on these trips. You must plan your budget. Plan your staff. Plan when to change your displays. Plan your time on the selling floor. Get the picture? Planning is just part of the business.
- ✔ **Do I like to master new things?** Retailing is constant learning. It doesn't take place in the classroom, but when attending trade shows, looking at merchandise, listening to salespeople, going to seminars and workshops, and reading trade publications. You must keep up with what's happening in your industry. There is nothing worse than a stale retailer.
- ✔ **Do I like displaying, arranging, and changing merchandise to make it look appealing enough to buy?** Retailing is displaying your merchandise in the most attractive way possible. The ability to arrange a selling floor to make the merchandise say "Buy me!" is one of the most valuable talents a retailer can have. If you don't possess this ability, find someone to do it for you.
- ✔ **Do I know (or can I master) some basic accounting to understand how I'm doing financially?** I know what you're thinking: "I'll have my accountant handle that." Sorry to tell you this, but there are a few basics that you yourself must commit to do weekly and monthly. It's not that bad, so don't get nervous — just accept the fact that you must master a few basic accounting skills.

If most of these questions excited you, you will make a great retailer. If, as you read them, you thought, “I can do that,” you have retail in your blood.

But if you’re thinking, “I just want to open a small gift shop and sell souvenirs — all of this can’t apply to me,” you need this book more than you think you do. If you think that having some old fixtures from a store that closed and knowing a company that can supply you with some merchandise are good enough reasons to go into the retail business, think again.



**Rick’s Random Rule #691:** Good enough isn’t good enough!

## *Reviewing some reasons for opening a store*

Often, people open stores for the wrong reasons. What are your reasons? Are they valid? And just what is a valid reason, anyway? After all, what’s right for one person may not be right for another. The following list gives some common reasons for opening a store:

- ✓ **Tapping into your creativity:** A store can provide an outlet for artistic expression. Every display tells a story, and the owners take painstaking efforts to make sure that it’s perfect in every way. These retailers don’t necessarily like dealing with the finicky nature of a customer — but their displays act as silent salespeople that consistently make the registers ring. Those who love what they do and who work hard (but never think of it as hard work) almost always succeed.
- ✓ **Interacting with people:** Opening a store can give you the opportunity to interact with customers and meet plenty of new people. People who open stores for this reason thrill to the challenge of developing new customers. Many don’t even work for the money — some are even semi-retired, but the prospect of turning a “looker” into a “buyer” is enough incentive for them to open a store.
- ✓ **Relishing the excitement:** Having a store can provide you with the excitement of buying the merchandise for it. Wielding the buying power and having access to the latest merchandise is a thrill. Wouldn’t everyone love to attend the electronics or toy show in Las Vegas? Of course they would — it’s fun! There’s nothing more exciting than the rush of a successful grand opening or a great promotion. *And it’s fun to run a store.*
- ✓ **Creating a job for yourself:** If you are a manufacturer or a designer, opening a store can enable you to sell your merchandise directly to the public. In this way, you can create a visibility for your product that may not have been possible through the traditional channels. Or if, like

the Jewish immigrants during the early part of the 20th century, you're finding it difficult to get a job, opening a store can be a way around this obstacle. Many Jewish immigrants who opened their own small retail shops went on to become the giants of the retail industry.

- ✓ **Taking the reins:** For those who have worked in retail their entire lives, opening a store can fulfill their dreams of owning their own business. These people already know the ins and outs of retailing and only need to master the backroom functions. In my opinion, this is one of the best reasons to open a store.
- ✓ **Making money:** Running a store can and should make you money — in many cases lots of it — while keeping you close to home. Many people who started with very little have gone on to make millions in the retail business. That statement is even truer today because of the effects of the Internet on retailing.



**Rick's Random Rule #52:** Successful retailing is just creativity and practicality stuffed into one shopping bag.

The reasons to open a store are many, but the key is to know and recognize your own reasons. Be aware, however, that your reasons for owning a store will probably change as you are exposed to more aspects of the retail business. And they will probably change as your life situation evolves. For example, my mother originally opened a store because she needed to support a family but had a problem finding a job. Mom ended up staying in the retail business until she was 82 — not because she still couldn't find a job, but because she loved the excitement of the buy and the thrill of the sale.

## *Understanding how retailing will affect your lifestyle*

When you think of retail, do you think about all the hours that stores are open? "For Pete's sake," you may ask yourself, "how much can a fellow work?" Well, I have good news and bad news.

First, the good news: You *can't* work all the hours that the store is open. If you think that you're going to in order to "sacrifice" at the beginning, you're crazy. I'm all for sacrifice, but I'm definitely not for torture!

The fastest way to an unhappy life and career is to work seven days a week. It hurts the business. You aren't fresh, you become short tempered, and you start to feel like a rat on a treadmill. I recommend that retailers work five days a week and take the other two off. The businesses whose managers

do this are much healthier, and their staffs are happier and more creative. Getting out of the store helps your business by getting your mind moving and inspiring new ideas.

A major advantage of retail is that your business is usually local; thus, you don't have to travel. Sure, there's the occasional buying trip — but at least it's not every week. You'll probably have only between two and six of these trips per year.

And the best part about the retailing lifestyle is that you won't ever have to stand in line on your days off. Nothing is ever crowded — when you're running your errands and doing your shopping, almost everyone else is at work! It's great: When the whole world is shopping, you are working. And when the whole world is working, you can go shopping!

Now, here's the bad news: You will not work the normal Monday through Friday, 9-to-5 schedule because that's not when people shop. Working on Saturday is a must — in most retail businesses, it's the busiest day of the week. The same could be said for Sunday (but with fewer hours). The bottom line is simple: You must be in the store when you're doing the most business. Here's why:

- ✔ You need to meet, greet, and get to know the customers.
- ✔ You need to know why certain items sell or don't sell.

Will you have to work long hours? Probably so, but so will anyone who's starting a new business. Can you be in the retail business *and* lead a normal life? Absolutely! Yes, there'll be times when you'll have to put in your hours, but for the most part you'll be able to live a very normal life. So how many hours a week should you work? Up to 50 hours — and that's enough! Make an exception only if you're planning something out of the ordinary, such as a promotional event or a sale.



Retailing is a marathon, not a sprint. You must pace yourself.

So why retail? Why not? Retailing is fun, exciting, and ever changing. It's also collegial — as a retailer, you are part of a group. The group may include neighboring stores, your state association of retailers, or the state and national associations of retailers in your industry (such as the Jewelry Retailers, Convenience Store Retailers, Appliance Retailers, and so on). These groups all offer trade shows, educational seminars, and member benefit programs. Best of all, being in these groups allows you to network with others who do exactly what you do.



The retail business can be the most exciting business in the world. The income potential, the lifestyle advantages, the thrill of the buying process, the challenges, the contact with people, and the sheer pride of owning your own store are what make retail a wonderful career option.

Sure, you'll get frustrated and question why you entered the retail industry — but you'd feel this way starting any new venture. New things are always difficult in the beginning. Change is difficult, but change is good. So get excited, and enjoy your journey. It's all out there for the taking if you're up to the challenge. Have fun!

## *Using the “8-Point Retail Filter” to Guide Your Decisions*

So, if you've determined that you want to go forward with setting up a retail business, you're going to need some specific success strategies. In various places throughout this book, I refer to what I call the *8-Point Retail Filter*. This filter is a list of the eight basic elements of running a retail business. In every single consulting assignment I've ever undertaken, I have found that any store problem can be traced back to one of these eight elements. Unless every area is running efficiently, your business will have problems. On the other hand, if you address these eight points consistently and thoroughly, your business will succeed.

Retailers use this list to analyze the workings of their businesses; that's why it's important for you to be able to identify the eight points and use them to evaluate your business. The 8-Point Retail Filter helps you understand the retail business, focus on the details of retail, and set goals to bring your business to the next level. Be sure to sift every retail decision through this filter.

In the list that follows, I briefly define each point in the filter and then pose questions for you to ask yourself whenever you make a decision that pertains to your business. In other chapters, I provide additional questions based on the 8-Point Retail Filter that are more specific to the discussion at hand.

- ✓ **Product:** As you probably guessed, this is the stuff that your store sells. What kind of product will your store carry? Are there any special lines of this product that you'd like to carry in the future?
- ✓ **Presentation:** This is what your store looks like, inside and out. Don't fall into the trap of just letting this aspect of your store “happen.” What feeling will your store's atmosphere convey? How will you display your product?

- ✓ **Procedures:** This is how your store is run. Over the years, innovative procedures have produced revolutionary concepts (such as drive-thrus, supermarkets, superstores, and e-tail sites) that have changed the face of retail. How will you do the everyday things you do? How will technology and the Internet affect the way you get things done? What goals will you work toward in this area?
- ✓ **Pricing:** This is how much you sell your product for. Will your store be a discount store, a premium price business (*a la* Tiffany's), or something in between? How often will you have sales?
- ✓ **Promotion:** This is how your store advertises and markets itself to the public. How are you going to tell the world you exist? Will you have non-sale promotions, as well as price promotions?
- ✓ **Profitability:** This is how much money you make from selling your product. Don't leave this item to your accountant — it could put you out of business. When do you plan on turning a profit, and will you be drawing a salary? What system will you use to remain informed of your profitability?
- ✓ **People:** This is the staff you hire to do everything from sweeping the floors to ringing up the cash register to filing your taxes. Your success depends on the team you put together. Who will you hire, and what will their roles be? Who will train your staff?
- ✓ **Brand:** This is how your store distinguishes itself from others like it. Brand often plays a major role in why a customer chooses one store over another. What will customers associate your store with? How will you promote your brand?

## He had high hopes

A couple years ago, Bud, the owner of an expensive home furnishings store, called me for help. He told me that his new 6,000-square-foot store was on track to do \$3 million in sales during its first year. Frankly, I was impressed. "What do you need me for?" I asked.

Bud replied, "My break-even is \$5 million." I asked Bud why he had planned that aggressively and what his alternative plan involved. He answered that he had never *planned* to be that aggressive because he'd always believed that he would be able to break even. But now, because he had spent all his money outfitting his store, Bud was desperate.

Bud's sales goals were so high that they set him up for failure — and fail he did. Although his store was doing \$500 in sales per square foot (which is well above the national average for stores that have already been in business a while), he needed to do much more than that just to break even! He set goals that were just too high. Therefore, any plan to meet these goals would never have worked.

Goals are powerful tools that must be evaluated with a big splash of reality. Many times, goals need to be examined by a fresh set of eyes — just be careful where you get your advice.