Retailers who have constant 365 days per year sales and wonder why they have no gross margin.

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Don't you just love those retailers who have a "once in a lifetime" sale <u>every</u> day? It just beggars belief. Just how naive do they think that consumers are? And of course, what is even more ridiculous, is that these retailers then complain that they have no gross margin left at the end of the year's trading!
Really, I wonder where that margin has gone …

It has gone, quite simply, by the wayside, through the actions of management that knows no other way of selling goods to customers other than through luring them with a sale. Oh, dear! I think I have just offended 95% of the world's retailers. Too bad. I don't expect to receive Christmas cards from them …

Seriously, there has to be a better way. And there is. I call it, "Optimising the customer's in-store experience". Remarkably simple to define and remarkably difficult to execute.

My local regional shopping centre is in the bayside suburbs of Melbourne and is called Westfield Southland. I have a regular weekly mission that involves visiting this esteemed shopping centre for a bit of research into the wonders of retailing.

Over the last few years, I have noticed more and more, the continuing love affair that retailers have with sales. 15% Off, 20% Off, 25% Off - is there no end to it? Seemingly not. But is this really necessary? Is this the only way to entice shoppers through the doors? Most definitely not.

Now, I am not saying that there is no place for retail sales. On the contrary, they can be a very effective way of boosting short-term turnover. Notice, I used two keywords in that sentence, "short term" and "turnover". A sale is essentially meant to encourage short-term spending patterns, at the expense of margin, as part of an annual series of promotional activities. A sale is not meant to be THE ONLY form of promotional activity to be used throughout a year.

If sales are constantly used this way, a number of highly undesirable outcomes occur:

The public becomes jaded with these continual sales and is no longer "turned on" by them. Worst still, they desist from making a purchase until the next sale begins. Their thinking is that as there are so many sales, they may as well wait a very short time for the next one to begin before making the purchase.

This results in the retailer making most of their turnover during low margin sales periods only. Do that for the whole year and guess where the annual gross margin goes? Nowhere, except to oblivion.

The second undesirable outcome is the potential to destroy that retailer's brand image. When I was a teenager, Myer, for example, was seen as an iconic retailing brand. A trip to the city and later to regional shopping centres to visit Myer was seen as not just an outing, but an experience to be savoured. Then, along came the Coles organisation and Myer became Coles Myer and frankly what followed was the best example of Brand Dilution in retailing in Australia that I can think of. For the last fifteen years, Myer has gone from a shopping experience to be savoured, to a perpetuator of constant sales, discounts and short-termism.

And the winner of this strategy has been, of course, David Jones, who have literally "cleaned up" by walking right into the market previously occupied by Myer who seemingly just handed over that market to them.

John Fletcher and Dawn Robertson from the Coles Myer organisation have, of course, worked tirelessly over the last five years to improve the performance of Myer, to the extent that they have reduced the scale of red ink. They have been successful - at least successful enough to have them offload the store to a consortium that believes they have bought something worth buying.

David Jones is successful now because it does what Myer used to do - and that is provide exemplary service in beautifully designed stores with lovely ambience, quality staff, quality products and unashamedly mid-high prices. To a select demographic group, this represents an ideal retailing experience.

Now, I do not want readers to interpret this example above as only relating to up-market retailers selling up-market products. That is certainly not the case.

One only needs to think of the success that Roger Corbett has had with the Big W department store to see that this formula does not depend on expensive products. In the early nineties, the Big W department stores were dowdy, unkempt, uninspiring, poorly stocked with very ordinary merchandising and an even more ordinary bottom line.

Big W is now arguably the most successful retailer in Australia despite the fact that on the whole, the products that they sell are inexpensive. How has this been achieved?

You guessed it - by maximising the customer experience. For example, the stores were substantially revamped in the early nineties with better lighting, better shelving, better merchandising and a strategy of "everyday low prices" instead of bombarding the public with constant sales that nobody believes anyway.

But Roger Corbett did not stop there. He totally revamped his Supply Chain Economics through working with his suppliers - a move that Coles is still trying to catch up with, freeing up literally billions of dollars of savings that went into both his bottom line and through lowered prices to consumers. The difference this time is that these lower prices were not at the expense of margin.

Another fine example is The Westfarmers Group's, Bunnings stores. They have gone from strength to strength over the last ten years, not through constant sales but through exemplary customer service. Whilst they openly will match prices with competitors, their main point of difference is the professional nature of their retail staff who, on the whole, have trade backgrounds and are trained to help weekend warriors with "just how that door hinge can be made to work."

They also provide a series of Information Seminars on tiling, plastering, carpentry and the like, designed to reduce the "stressors" of these weekend warriors who are often more than nervous about embarking on their next weekend project.

In addition, they also provide plenty of parking, have excellent hours of operation and a remarkably wide range of products - in essence making up an ideal hardware retailing experience for enough consumers to bring their share price closer and closer to the heavens.

Borders is another fine example of a retailer who succeeds not because it sells books but because it provides a Retailing Destination Experience. That is, when people go to Borders, it is not seen by them as purely a shop from which to buy books but as a "destination" in which they can graze, have light meals, listen to music and otherwise forget the rest of the world for some precious "me-time" that is lacking in most people's lives today.

Retailers that are able to produce this kind of "destination experience" and execute it well with cost structures that can fund this strategy, will find themselves competing in a rarified atmosphere in which retail sales can be relegated back to the sparseness levels that they should never have escaped from, before retail management world-wide panicked, over the last ten years. Perhaps it's time to replace panic with performance.