AUTHORS OF THE BESTSELLING GUERRILLA MARKETING SERIES

GUERRILLA RETAILING

Unconventional Ways to Make Big Profits from Your Retail Business

Jay Conrad Levinson
Elly Valas
Orvel Ray Wilson, CSP

GUERRILLA RETAILING™

Unconventional Ways to Make Big Profits from Your Retail Business

By Jay Conrad Levinson,
Elly Valas
and Orvel Ray Wilson, CSP

THE GUERRILLA GROUP PRESS

This book is printed on acid-free paper.

Library of Congress Control Number: 2004103109

Pre-publication limited edition by The Guerrilla Group Press, Boulder, Colorado.

Printed in the United States of America.

10 9 8 7 6 5 4

We dedicate this book to that small band of entrepreneurs who bravely fight the retail wars, proving beyond doubt that Guerrilla Marketing really works.

Acknowledgements

I owe countless thanks to Orvel Ray Wilson, who has been my writing partner for many books, each one superb, and to Elly Valas, my newest writing partner. They did the heavy lifting on this book and I know that retailers around the world will be as grateful to my co-authors as I am.

—Jay Conrad Levinson

With special thanks to Bob Goldberg, Rosemary Jacobshagen and the North American Retail Dealer's Association (NARDA) and its members for opening their stores, lives and hearts, and for the opportunity to learn and teach, and to grow with them. In memory of my retail mentors: Jerry Gart, Zeke Landres and Harry Valas. With appreciation to Orvel Ray Wilson, for his support in making this book possible.

— Elly Valas

Deepest appreciation to Elly and Jay, as well as to Aaron Wilson, Chris Boyer, Ryan Brady, Pat McNamara and all of the team at The Guerrilla Group who worked so hard to help make this book a reality. Special thanks to Denise, the love of my life, for putting up with our late nights and long hours while we were writing this book, and for her expert proofreading, as well as our readers who made so many helpful suggestions and corrections. Thanks as well to all our clients and friends, customers and suppliers who have shown us how wonderfully rewarding the world of small business can be.

— Orvel Ray Wilson

Contents

Introduction

So, You Want to Be a Retailer?

Whether you're trying to beat back Best Buy, ward off Wal-Mart, or open your own hometown hardware store, this book will show you how to survive, and *thrive* in today's hyper-competitive world of retail. After working with thousands of retailers all around the world, we've watched the losers come and go, while the winners grow and grow. We've catalogued their best practices, and organized them here for you step-by-step. Whether you're just developing your concept, or opening your tenth location, you'll find new ideas and tactics that can ensure your success.

It's a jungle out there. There's never been a tougher time for retailers. You'll need all the help you can get just to survive. Luckily, you hold in your hands the world's most powerful arsenal for winning the retail wars.

You'll learn what to consider when choosing a name and identity for your business, and how to identify your best potential customers. You'll discover how to pick the right location, hire the right people and display the right merchandise. You'll learn how to retaliate against predatory pricing, while getting the maximum impact from your advertising. You'll learn about low-cost, high-payoff promotions that have been tested by award-winning retailers in dozens of industries. You'll learn how to build traffic, maintain margins, motivate salespeople and develop a following of loyal, repeat customers. We've even armed you with powerful analytical tools so you can diagnose and cure the most common business ailments without advice from an MBA.

No one is eagerly waiting for the next retail store to open and no one is going to throw a big party to celebrate your grand opening unless you do. In the 1980s, developers threw up more than 1600 regional malls, so many in fact, that today they're having trouble finding sites for new ones. In the U.S. today, we already have nearly twenty square feet of retail space for every man, woman and child in the country. Compare that to only thirteen feet per person in 1980 and even today, only *two* feet of retail space per person in the United Kingdom. We are malled out, stored out and shopped out.

You've seen the hand painted signs in the windows, "Going Out of Business," and "Everything Must Go," or, more often, you make the trip to a favorite shop on a side street only to find the building empty and the windows papered over. These are tough times for retailers. The long-standing family businesses have been out-priced by the megastores and crowded out by urban renewal. Competition is fierce and margins are thin. Survival is difficult and profitability is ellusive.

That is, unless you're a Guerrilla Retailer.

You've seen them, too, haven't you? They're the busy, exciting shops and stores where there's always a crowd and always something new and interesting to be found. You'll find them in downtown storefronts, backstreet shops and even (occasionally) in the regional mega-malls. They're at the swap meet, the flea market, or simply spread out on a blanket on the sidewalk. They break the conventional rules of merchandising. They may remain closed on Sunday, Labor Day and other big holidays. Or they might only open on Thursday evening and Saturday. Even so, they shatter the norms for sales per square foot and they make their owners delightful profits day-after-day, year-in and year-out.

No matter how the economy may swing, a never-ending stream of loyal, repeat customers adore these irregulars. Guerrillas not only love the musical ring of the cash register, but they enjoy the esteem of the community, the support of their vendors and the respect of their bankers.

How can this be? You hold the answer in your hand.

■ KNOW THE ENEMY

You are not paranoid. They really *are* out to get you. It's no secret that big box stores are capturing retail market share by storm. Since 1990, more than 13,000 locally-owned pharmacies have closed. The market share of independent bookstores has fallen from 58% in 1972 to just 15% today. Local hardware dealers are disappearing too; Home Depot and Lowe's have captured one-third of that market. Five companies account for 42% of all grocery sales. Blockbuster rents one of every three videos nationwide. A single corporation, Wal-Mart, now captures seven percent of all consumer spending, and is the world's largest employer.

More than 160 million consumers shop in discount stores each week, so if you're going to be a guerrilla retailer, it's best to know the enemy.

The terms "value retailers," "superstore," "big box retailer," and "category killer" are all used interchangeably. For these retailers, size *does* matter. Their retail model depends on big volume rather than big markups. To do a profitable volume, they must occupy a big space. Typically, they range in size from 90,000 to 200,000 square feet and are located as often as possible near highway interchanges. They all use the same windowless box store design, with several acres of single-floor layout and vast surface parking.

We have to give them credit. At Wal-Mart, "Everyday Low Prices" is more than just a slogan. Over the years, Wal-Mart has relentlessly wrung tens of billions of dollars in cost efficiencies out of the retail supply chain, then passed the larger part of those savings along to customers. The New England Consulting Group, in Westport, CT, estimates that Wal-Mart saved its U.S. customers $20 billion in 2003 alone. Factor in the price cuts that other retailers must make to compete and the total annual savings approaches $100 billion. It's no wonder that economists refer to a broad "Wal-Mart effect" that has suppressed inflation and set productivity gains rippling through the economy year after year.

However, Wal-Mart's seemingly virtuous business model is fraught with complications and perverse consequences, decimating whole communities of small town downtown merchants and driving down retail wages. The discounters' entrée into the community is often greeted with great fanfare from the Chamber of Commerce, blinded by the glitter of sales tax revenue and the promise of new jobs. Gifts from the city fathers include tax breaks, roads and infrastructure and environmental waivers.

Certainly the superstores are not the only culprits. The definition of "big" is relative, and has to be related to the product category. A superstore of diamonds needs only 5,000 square feet or so to be called a superstore, while a superstore of cars would cover acres and acres and acres. For the supermarket and grocery sector, a big-box superstore will typically be in the 50,000 to 100,000 square foot range. For warehouse operations such as Costco normally contain 120,000 square feet. In contrast, for book retailers, 25,000 to 50,000 square feet would qualify as a big-box. For other specialty retail categories like eyeglasses, a 5,000 square-foot store would qualify. The key point is that "big-box category-killer" stores are several times the size of the traditional outlets in their categories.

We can categorize these "superstores" into three subgroups: discount department stores, category killers and warehouse clubs.

Discount department stores include Wal-Mart, Kmart, Target and others who sell department store merchandise at lower prices.

Category killers are large niche retailers like Ikea, Toys R Us, Circuit City, Barnes & Noble Books, Home Depot, Lowe's and Sports Authority that buy and sell in huge volumes at low prices. They create additional pressure on prices by eliminating the middleman and dealing directly with manufacturers.

Warehouse clubs, like Sam's Club, Costco and BJ's Wholesale, are membership shopping clubs. They offer a variety of goods, often including groceries, electronics, clothing, hardware and more, at wholesale prices. Unlike discount department stores, which may sell as many as 60,000 distinct items, warehouse clubs limit their range from 3,000 to 5,000 items. Their stores range in size from 104,000 to 170,000 square feet and serve markets up to 250,000 people.

Conglomerations of superstores in 250,000 to 750,000 square-foot centers are called "power centers."

Superstores have acquired their affectionate nickname "category killers" because they don't compete with existing businesses. They kill them off and monopolize the market.

When these behemoths move into a market, they typically overstaff the store with specially-trained teams of friendly, helpful salespeople, at least for the first few months of operation. Expanded staff and predatory pricing means that the first-time shopper has a positive experience and saves money. Customers are won early. Once the competition is demolished, the box store changes the product mix, raises prices and reduces staff. Some local stores just give up, while others try to adapt to fit a new market, but without access to venture capital, zoning variances or tax breaks, many fail.

As the category killer's smaller competition disappears, so do the helpful employees and prices start to rise.

“Predatory pricing” is another weapon wielded by the category killers. These “loss leaders” give the impression of wider savings. Car-bound customers find comparison-shopping inconvenient if not impossible. They’re at the mercy of the bar-code scanner.

➤ The Fall of Department Stores

Troubled department stores are losing share to the mass merchants at one end of the scale, and specialty stores at the other. This reflects the larger economic issues buffeting retail in general, and the apparel business in particular, including deflation resulting from an oversupply of goods. Five years ago, department stores sold men's jeans at an average price of $40. Today, the same jeans sell for an average of only $34. At national chains like Sears, Roebuck & Co. or Kohl's Corp., the price is about $24. When the World Trade Organization further relaxes trade barriers with China in 2005, the U.S. market will be flooded with even more cheap clothing. All of this promises to put greater pressure on everyone to lower prices.

In spite of current economic trends, this is a great time to be in retail.

➤ Twenty Important Trends in Retail

1. Experts are forecasting continued success for Wal-Mart and their ilk, as shoppers become ever more bargain-conscious.

2. We also see continued growth for the super center format. Total super center sales will nearly triple by 2010.

3. Even so, there are opportunities for conventional retailers to survive in a world dominated by the big boxes.

4. No more one-size-fits-all. Guerrilla retailers will have to take more of a portfolio approach to the market in order to appeal to more discriminating shoppers. Even customers who used to shop at sporting goods superstores like Sports Authority are turning to specialty shops that sell only soccer stuff, or only snowmobiles, or the ultimate example: Golf For Her, a retail boutique created by entrepreneur Kris Foy in Broomfield, Colorado.

5. Department stores are in a death spiral. Escalating competition from discounters on one side and specialty stores on the other will continue to squeeze this category, which will face more consolidation and retrenchment.

6. Malls will get mauled. Many will have to change almost beyond recognition in order to survive. The good news for guerrillas is that customers who are tired of hiking through the sameness of mall after mall will be more likely to go to a destination store for just the right product and superior service.

7. Reconcept rather than just remodel. Compressed lifecycles for products, retail concepts and brands mean the end of large, mass-merchandised specialty chains.

   There used to be a restaurant on Highland Avenue in Downers Grove, Illinois, called The Highland Grill. Great food, great service, in the upscale burgers-steaks-and-fries grill-food format, very successful, always jammed. Then suddenly, BAM, they're closed! Two and half months later they re-open as Parker's Ocean Grill with completely new décor, new menu, but the *same* staff. We asked, "What happened?"

The manager explained, “We’re part of an eight-restaurant chain, Select Restaurants, Inc., headquartered in Cleveland, Ohio, and we’ve learned that every four or five years, we have to gut the place and do something completely different *before* we get stale and our customers get bored with us.”

Today they operate 17 restaurants.

8. The Experience Economy excels. *Guerrilla Retailing* concepts will mix content and commerce as never before. The Rainforest Café couldn’t make it on the quality of their food alone. REI and their two-story climbing walls create an atmosphere of high adventure, even before you get your new gear outdoors.

9. Click & Brick. E-tailing’s impact will extend beyond its relatively limited share (currently about 3%) of total retail sales. By 2008, it will be 12%. Forrester Research predicts U.S. online sales will grow to $204 billion by 2007.

10. Smart shopping. Consumers will embrace technologies that give them better information about products and more control over the shopping process. Roughly half of U.S. consumers already shop on the Internet at least occasionally. A larger proportion use the web to research options before going to a brick-and-mortar store to make the purchase. The most successful operators combine information-rich on-line catalogues with storefront offerings. Guerrilla retailers will set up a computer terminal with Internet access and invite their prospect to check out competing products right there in the store instead of leaving to shop elsewhere.

11. Smart stores. Retailers will adopt technologies that enhance the productivity of store space and associates. Some solutions, including kiosks and self-checkout terminals, will im-

prove staff productivity and make shopping more convenient. Guerrilla retailers will provide floorwalkers with wireless handheld computers that can check inventory, schedule installations, or even write invoices from anywhere on the sales floor. Rental-car agencies and even some restaurants already use wireless floorwalkers. Soon you'll see a computer display mounted on your grocery cart that beeps an alarm when you pass an item that's on sale, driving multiple-item, impulse and companion-item purchases.

12. Mobile sales will remain elusive. Starbucks Coffee, in Seattle, Washington, has experimented with micro-marketing. A coupon appears on the screen of your cell-phone when you're in the neighborhood. But the sale of products and services via cell phones and other mobile devices will be limited through the end of the decade.

13. The global land rush continues. Despite growing world tensions, retailers and other businesses will remain committed to international operations.

14. Retailers will act more and more like suppliers. As retailers grow they will seek alternative sources of products, leading many suppliers to find their retail customers becoming their biggest competitors. Wal-Mart is already contracting for apparel directly with factories in China, two years in advance.

15. Retailers will become brand managers. Exclusive brands will be an important differentiation strategy for guerrilla retailers. You'll see more and more one-brand only stores like Victoria's Secret, Talbot's, J. Crew, Eddie Bauer, Abercrombie & Fitch, The Gap and Orvis.

16. Suppliers will start to act more like retailers. Retailers will look to key suppliers to become category consultants, setting

strategy for the category, managing inventory and selling space by location, almost as if they were operating leased departments.

17. Brand sharing. Retailers will plug into each other's shopper data base and leverage location by leasing space for a store-within-a-store. Department stores often feature Ralph Lauren, Calphalon, or Nautica stores-in-a-store. Starbucks is setting up shop in your local Barnes & Noble, as well as in Albertson's, right next to the Krispy Kremes.

18. Über retailers. Some giant retailers will leverage their brand identities, customer relationships and size to fulfill virtually all the needs of certain categories of shoppers. Cabela's has followed this strategy to wildly-profitable success specializing in hunting, fishing and outdoor gear.

19. Suppliers become retailers. Some suppliers will seek to sell directly to the consumer, as in The Nike Store and The Sony Store. BOSE sells their acoustic noise-canceling headphones directly to consumers in airports as well as their own stores.

20. Customers will call the shots. More and more, customer relationships will be *the* key competitive asset for guerrilla retailers.

The battle has begun. You are massively outnumbered, outspent and out-gunned, and unless you fight back with everything you've got, you don't stand a chance. You must become a Guerrilla.

➤ Small is Beautiful

Retailers are learning that when it comes to store size, bigger isn't necessarily better. Grocery chains such as Publix (and you could add Marsh, Harris Teeter and some others) with its 29,000 square foot store in Jacksonville, Florida, are finding that smaller units can create dollar volumes similar to bigger boxes.

Customers in the smaller stores are different. They make more trips to the store, buy more prepared foods and will walk to the store more often than those shopping in a 55,000 square foot unit.

First, there were only small stores. Then someone looked at the economics and said, “Look, I only have to pay one store manager.” With this and all the other economies, large stores were born. This was followed by the concept of one-stop shopping, which was never supported by the consumer. Now, many large format retailers are having difficulty finding available store sites.

Large stores create an impersonal shopping experience that appeals to a different consumer than the one who is loyal to the local market. Not everyone wants to drive for 20 minutes to shop. Different customers require different types of merchandise. People will adapt as necessary, but some really do like the feeling that they are taking control of their shopping dollar by driving to the big box and surviving alone in the “wilderness of oversized servings.” Others very much prefer personalized service and a special shopping experience.

There is certainly a place for both in this world. A big box must focus intently on the operations, while a smaller store can (and must) focus on the customer. Management of the box stores has pushed far too many administrative tasks down to the store level, causing distraction and lack of focus. This has led to the inability to deliver the type of management required to serve, please and cater to customers, not to mention the amount of time distracted from coaching and inspiring their associates. These are the key vulnerabilities that guerrilla retailers should exploit.

Many retailers are hard at work seeking a niche, creating points of differentiation and creating a value for their customers. Learning, finding out what works and expanding new and different formats can be exciting. These store formats may require a completely different skill set for reasons other than size. Imagine the need for an executive chef as your store's manager, depending on the format. There's a broad, unmet demand out there for different skills and talents for which size and dollar volume may be irrelevant.

These days, retail stores, for the most part, were not designed for the customer. Instead, they were developed to generate maximum *sales* with the least expense. There is nothing wrong with that, but guerrillas know that *profit*, not sales, is the only legitimate measure of small-business success.

Small guerrilla operators need to focus on adding value, and the extra special touches that the box stores can't provide. The talent level of your employees must be at the top of the scale. In a small store, everyone has to carry their own weight. Small stores get no economies of scale, so every mistake is magnified.

The good news is that small stores with talent and creativity can generate profit margins that the big stores only dream about. Plus they're experiencing the rewards of working with customers that can actually make it fun to work in retail.

Despite industry practice, stores should be designed as small as possible, while still meeting their merchandising and customer needs. Whole Foods Market, the world's largest retailer of natural and organic foods with more than 140 stores throughout the country, averages about the same per-store sales as Kroger or Safeway, but their stores are about half the size. This *sales-per-square-foot efficiency* compounds the profitability they earn from higher gross margins.

Successful small stores usually have high customer counts and low sales per transaction. On average, quick shoppers spend nearly as much in five to ten minutes as a “browser” will spend in ten to twenty minutes. The speed of spending is far higher for the shorter trips.

A great majority of customers shop the large-format stores *as if* they were a smaller store. Eighty to 90% of the shopping trips never get beyond the first twenty percent of the floor. By spreading 20,000 feet of shopping over a 60,000 foot box, you have just moved many of the items a shopper might have purchased outside of their ambit.

Soon, these big 130,000 square-foot stores are no longer going to be the big push, because, the population is getting older. People are not going to want to walk through big stores. Guerrilla retailers have to capitalize on this very important trend. These customers want to feel like they are special. In a big box store, they feel like a number. Their parents told them stories about what it was like going to the neighborhood market when they were growing up. They called the butcher by his first name and he knew what cut to give them and how thick they liked it.

A small store also has an advantage over a larger store when it comes to personnel. It can better spend its time on training and cross training. Employees tend to stay longer in a smaller store because they feel they are part of something special. In the future, retailers across the country will give in to their customers, and bring back a smaller store format with a focus on quality instead of variety.

➤ Still Room

There is still plenty of room for remarkable retailers. These guerrillas have a clear vision and a well-defined mission. They constantly strive to provide a unique shopping experience. They have Disney-ized the shopping trip by combining service, technology and theatre into a transcendent experience.

Shopping has become more and more experiential, so that the quality of the *experience* has become more important than the quality of the merchandise. Consumers will pay more for an item that's artfully displayed, beautifully lit and professionally presented in pleasant and exciting surroundings.

Retail has become *shoppertainment*. Successful guerrillas have turned their shops and stores into theaters, where the sales associates are the cast and the fixtures and merchandise provide the set. They tell a story or capture an era, seduce and excite you.

If you don't have a story to tell, a theme, or a well-defined, well-executed niche, if you're not remarkable, your days as a retailer are numbered.

If you isolate your uniqueness, defend your quality, provide expert advice and make shopping fun, you'll do a Snoopy dance on the way to the bank with each day's receipts.