

Consumers are growing more cynical and skeptical. Trust, therefore, becomes a defining issue. Small independent retailers need to develop trust through clear and consistent demonstrations of their differentiated value propositions. These demonstrations must be carried through all dimensions of store activities, from marketing and communication to personnel and operations.

Given the increasing overload of information and proliferation of choices, consumers long for simplicity and control. Retailers need to make the shopping experience easy for the customer by eliminating confusing or inefficient elements that frustrate customers and complicate their choices. Consumers want a transparent buying process devoid of hassles. A retail experience that fulfills these dual emotional needs will be highly valued.

TREND: Urban sprawl and real estate development

A recent trend in new retail development is to create community spaces of mixed use that exhibit a strong sense of place. Many of these developments, called “the new urbanism,” incorporate features more in keeping with feelings of towns and neighborhoods vs. traditional large retail centers. They are designed to promote social interaction and leisure time activities. These mixed-use, smaller scale, more friendly environments hearken back to the tradition of Main Street, providing a social hub where people, live, shop, work and play. These new lifestyle centers include more upscale specialty stores than traditional malls.

According to America’s Research Group, consumers are spending 20 percent less time in shopping centers since 2001 and 20 percent less time driving. People are shopping closer to home.

David Szymanski of the Center for Retail Studies at Texas A&M said, “Americans are seeking more of a sense of community. Lifestyle centers, you look at them and go, ‘I like these places, I feel comfortable here. These are the kinds of things I like and these people understand me as a customer.’ And the other part of it is they are located where these customers live.”

The Challenges of the Future

Small independent retail fits this model more logically and more naturally than many larger format competitors.

While running a successful small independent business is, in and of itself, a daily challenge, our panel identified a number of specific emerging issues that are becoming increasingly important and are changing the small retailer's landscape. The major consensus challenge areas identified were:

- The changing nature and effectiveness of marketing and advertising
- Difficulties in product sourcing and merchandise acquisition
- Speed and overwhelming nature of technological change
- Need for delivery of higher levels of service
- Transparency of price and product information
- Limitation of management skills and capabilities

CHALLENGE #1

The changing nature and effectiveness of marketing and advertising

Considering the trends that have been identified, the need for marketing and advertising effectiveness has never been greater. However, many small independents find that the traditional means of advertising are no longer cost effective. It is not just the traditional media, but also the traditional message that appears to be increasing ineffective. To be blunt, many traditional marketing efforts don't work.

Is the problem the message or the media? Has the small independent simply been lost in the sheer volume of advertising messages or is it that they are not on the radar screen of their customers?

Has the fundamental role and purpose of marketing changed? No, but the various strategies and tactics have evolved and many of these new approaches can provide significant benefits to small independent retailers seeking to differentiate themselves from the competition.

What is fundamental marketing strategy? Marketing strategy begins with an exploration of the questions: Who are the customers and what do they value? In the past, some retail businesses could get away with being “all things to all people.” Today, especially for small independents, trying to be all things to all people represents the absence of strategy.

The management consultant Peter Drucker said, “The competitive advantages of tomorrow lie in the application of knowledge.” The fundamental marketing knowledge principles—know your customer, know your competition and know your environment—have not changed. They need to be continually applied. The key is to apply this knowledge to the primary objective of achieving differentiation.

It is true that successful marketing begins by listening and understanding. Stores are increasingly moving from just being about a category of merchandise to being specific to a category of customers. And this requires making choices about not only which merchandise to sell, but to which customers. Obtaining customer knowledge, therefore, becomes extremely important.

Armed with this knowledge, the goal is to create a compelling value proposition that will connect emotionally with targeted customers. Successful businesses are those that execute consistently on their differentiated value propositions. They have a point of view. They stand for something. They build strong brands through consistency. They rise above the noise and the clutter. They execute on their value propositions in everything that they do. This is a thread you will find in the retailer profiles that follow.

Because customer needs and wants are constantly changing, marketing programs must keep up as well. Testing, monitoring results and continually evaluating new programs is an everyday task. Customer data and resulting knowledge will be as critical tomorrow as operating data is today.

Traditional marketing and its attendant communications and promotion programs are giving way to new powerful, less costly and more effective alternatives, many of which can help small independents be more successful. The following outlines a number of challenges and possible opportunities:

The challenge of obtaining customer information is now more easily overcome.

Large retailers are creating a revolution in capturing customer data at POS for the purpose of creating more effective marketing. New customer relationship management systems can be leveraged by small independents, providing the same kind of benefits that accrue to larger entities. These systems are less costly and easier to implement and use, creating new opportunities for small business use.

A number of the experts we spoke with cited the benefits of investing in Customer Relationship Management (CRM) technology solutions for many small independents. One said, “What really good CRM allows a small store to do is go back to the future, to the time when retailers knew the names of their customers, knew what they wanted. The ability to proactively micro-market, to mail merge a postcard or letter that says, ‘I’m certain that because you bought X you’ll like to know we just got Y,’ is very powerful stuff.”

Many of the profiled retailers we spoke with are making use of this new technology to help identify, segment and understand their best customers better with the goal of getting and acting on the kind of information that will facilitate better marketing decision-making and instigating more sales. For examples, see many of the profiles that follow.

Traditional media advertising is giving way to new forms that are more efficient and effective. It is becoming more difficult for small independents to compete against larger entity advertising clutter in traditional media vehicles. There has been a steady decline in consumer usage of traditional media brought about by the rise of the Internet and loss of leisure time. This decline has been particularly dramatic among young people. But usage of TV, radio and newspaper has declined across all age groups since the end of the 1990s. The irony is that while this erosion has occurred, media costs continue to rise.

The concept of a “mass communications market” is fading fast. The trend of “personalization” discussed earlier points to this conclusion. The big national consumer product advertisers were the first to recognize this trend. They are redeploying their large network TV budgets into other, newer forms of advertising and promotion like sponsorships, cable TV, custom publishing and Internet search advertising in an effort to extend their brands and make them more relevant to changing consumer lifestyles.

While many of our profiled retailers continue to use mixes of traditional media, most are experimenting with more targeted forms like direct mail, newsletters and email messaging. Many more are changing their advertising messages, moving away from traditional price/item to more communication about what benefits actually differentiate them.

A good deal of this experimentation has been brought about by the ability to gain increased customer knowledge. Why allocate large media budgets to reach large numbers of potential customers when you can target your customers more accurately for less spending? It’s the rifle shot vs. shotgun approach.

Still other retailers take a targeted dual approach. They use traditional media to help brand themselves, create new awareness and bring in new customers; but they also spend more on their current best customers to solidify loyalty and increase word of mouth. A good example of this thinking can be found in the profile *Nan’s Necessity*.

One consultant we interviewed put it this way: “When I speak to groups of small independents, I

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ask two questions. The first, can you give me the name and contact information for your 100 most profitable customers last year? Usually about 10 percent raise their hand. And then I ask of the 10 percent, what did you do for those customers? Have you thanked them? Those are the people who love you. And they don't want discounts. They already love you. They want recognition.”

Given the overarching trend to personalization, new marketing technologies have facilitated the ability to reach people on a more customized and personalized basis. An additional benefit is that these new approaches allow for faster testing and measurement, giving a marketer a quicker read on what's working or not.

“Bulls' eye” targeting, a very recent advertising innovation, is the localization of the Internet through “geolocation” technology, allowing businesses to target ads by city, zip code or even distance from a given address.

Other successful small independents are investing more in sponsorships and events, bringing people into their stores to experience what makes them special and to create stronger relationships. John Wohlwend of Jack Lewis Fine Jewelry (*John's Gems*) creates many in-store events as part of a sponsorship strategy and a community activity strategy. He believes “...this activity as a whole is a lot more effective than traditional media advertising.”

The concept of partnering with others (retailers, other businesses, and media outlets) is becoming more and more useful, extending budgets and allowing for combinations of complementary brands and activities that result in added value across the board. Veronica Brockwell of Soak (*Veronica's Victory*) spoke about partnering with a radio station by committing to an annual contract because she had such a minuscule advertising budget. That commitment provided added value given by the radio media partner, extending her advertising effectiveness.

Challenge area: marketing and advertising

New solution thinking:

- Invest in customer knowledge systems to make more efficient and effective marketing decisions. Recognize that some customers are more profitable than others.
- Experiment with more targeted forms of advertising such as email, newsletter and direct mail pieces.
- Explore potential partnerships with others to reduce cost and create potential new value.
- Choose community activities that enhance your differentiation and communicate your activities.
- Create advertising that goes beyond price/item that will enhance your differentiated value proposition.
- Investigate the strategic use of public relations to help tell the broader and more detailed story of your business.
- Create promotional events that will serve to portray the personality of your business.
- Do something special as often as feasible to recognize your best customers.

And, as in the past, many of our profiled retailers continue to be active within their local communities, creating stronger ties between their business and their marketplace. While many believe these community activities are morally necessary, they also recognize that they provide a high multiple return to the success of their business. This common practice of giving something back was cited by many of our profiled retailers.

The explosion of new media vehicles (both traditional and Internet) has also provided new outlets and opportunities for public relations campaigns, providing potential free exposure to independents that have a newsworthy and compelling story to tell.

The conclusion is this: Marketing and communications programs can be made more efficient and effective than ever before. But one has to have the knowledge to do it. One also has to be willing to experiment. If you are doing the same things you did just a few years ago, you are missing some real new opportunities.

CHALLENGE #2

Difficulties in product sourcing and merchandise acquisition

Finding differentiated products in appropriate quantities at competitive prices is an increasing challenge for many small independent retailers.

Three factors have made sourcing an increasing problem: (1) The shrinking vendor structure; (2) vendor minimum orders for single shipments and minimum annual purchases; (3) quantity pricing, which makes some products impossible for the smaller store to sell at adequate margins. The challenge of differentiated product is compounded by the speed of global information. A new idea in Europe or a new product manufactured in Asia is copied and reproduced at an accelerated pace.

Manufacturer and distributor consolidation and the channel crossing of products are causing many problems for small independent retail. The pressure for quarterly volume growth and the competitive need to wring costs out of the manufacturing and distribution process is leading manufacturers to standardize products and then sell through as many channels as possible.

This causes potential brand confusion among consumers and sourcing problems for independents that must rely on distinctive, quality products to compete against larger competitors. Many of these larger suppliers are moving away from selling to small independents in favor of larger and larger volume orders.

Leon Barbachano of Allen and Peterson Cooking and Appliance Center spoke forcefully about this issue in the profile *Leon's List*. He cautioned about the destruction of premium brand names as they are extended to cheaper and lower quality line extension products. He talked about the potential destruction of consumer trust and the problems small retail businesses may have in trying to source the kind of high-quality, innovative products they need because their customers want and expect them. He has sounded a loud wake-up call.

But the other side of the coin is that small independents can take advantage of sourcing new manufacturers and suppliers who are looking to establish themselves with innovative new products. They look to the small independent channel to accomplish this. Many of these smaller suppliers are finding it harder to sell to large, risk-averse national chains. Nan Napier (*Nan's Necessity*) talked about the fact that it is now easier to find vendors for her fashion apparel store because many are now realizing that "the specialty store segment can be highly profitable."

Jay Goltz, in the profile *Jay's Way*, described this scenario by talking about the pitfalls of buying from the conglomerate vendor: "Unfortunately, it's reverse niche. Because now you have the same product everyone else has. It requires sustained energy to go out and source new product somewhere else."

Another important aspect of the product sourcing challenge is often the need to establish an anchor brand to provide added credibility for other desired suppliers. Some described how useful a good branded website is in providing confidence to potential suppliers, allowing them to see and learn about their business instantly and from a distance. A good discussion of this can be found in the profile *Bob's Bona Fides*.

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Many of the profiled retailers belong to buying groups in order to compete against the large chain competition. Many described this strategy as vital. Belonging to a large buying group not only helps with purchasing power but also provides many educational and training benefits as well. One profiled retailer said, "Buying groups would typically add 3-5 percent of profitability."

Challenge area: vendor consolidation and product sourcing

New solution thinking:

- Join a buying group to access larger variety of product and achieve better competitive pricing.
- Establish share groups with other non-competitive small independents to find new product.
- Invest in attending more trade shows.
- Communicate your uniqueness and differentiation through your website so desired potential suppliers could virtually visit your store anywhere, anytime.
- Seek out smaller vendors who need distribution for new innovative product.
- Work to establish an "anchor" brand that will signal added credibility with other desired vendors.

A common sense sourcing strategy involves simply shopping other stores for new ideas, going to more trade shows and talking formally or informally with other non-competitive small retail colleagues. George Kutsunis (*George's Growth*) has banded together with similar retailers in other states to import goods collectively. He said: "We get different products and we've built our margins tremendously." Jay Goltz said, "I work harder finding better product. We go to more trade shows. We spend the money. When business gets tight some decide to cut and not go to trade shows. Not smart!"

CHALLENGE #3

Speed and overwhelming nature of technological change

For the small retailer nothing illustrates the emotions between "fear and hope" more than the challenge of dealing with the rapid pace of technology advancements. The fear of cost, complexity, and change may or may not be offset by the hope for the powerful benefits of inventory control and customer information. However, it is the speed of technological change with which many small retailers have the most difficulty.

One of the most astounding stories illustrative of the speed of technological change is the growth of Pay Pal, the online payment solution. Started in 1998, the company now handles online payments at an annualized rate of \$17 billion. It has 45 million account holders worldwide, one quarter of Citibank's number. One in three online shoppers in America is a Pay Pal customer. And all of this happened in six years. One would have thought that the global banks would have been first to this idea. They had the infrastructure, the resources, and certainly the motivation. Hmmm. The lesson of Pay Pal is that this technology revolution in which we find ourselves immersed is not just benefiting large organizations, but can benefit small new players as well.

Powerful new retail technology solutions are being created and costing less. They are easier to deploy and more customizable, allowing small retailers to be more in control of their business than ever before. One of the consultants we spoke with had this to say: "Tech is getting better and cheaper. It's a rock solid fact. Today, for well under \$10,000, a small one or two store independent can be fully automated. The systems are more stable and more functional than five years ago. It is brightening every day." Off-the-shelf products can now seamlessly connect

inventory and customer information among locations over the Internet for a fraction of the cost of previous systems.

When asked which operational area would offer the greatest return on investment, most experts we spoke with said “information technology.” Technology systems allow small businesses to do more work in-house, reducing outside consulting costs and internal staff time. They allow work to be done more quickly and to facilitate faster decision-making. This applies to all operational areas: inventory management, advertising, financial reporting, customer knowledge and communication, buying, pricing and customer service.

Mike Baron, of Baron’s Major Brands, described how an Internet-based phone system links their stores, reduces cost and creates a better customer experience. (See *Mike’s Method*). Bobby Ukrop (*Bobby’s Big Idea*) is using loyalty cards in new ways to target and communicate not just with customers but employee associates as well.

Regrettably, many experts also cited the fact that too many small independents have been slow to embrace the benefits of information technology. In some cases, it is a matter of tending to other pressing priorities. In other situations, it is a generational fear. In still other cases, it’s the difficulty in seeing and understanding the potential benefits and return on investment.

It’s important to note that the role of retail information technology is moving beyond its traditional and tactical cost-cutting benefits to a more strategic benefit of driving revenues through business intelligence and customer relationship management. The key is finding ways to manage the power of customer transaction data and make sense of it, delivering the right information for the right purpose at the right moment.

Bob Benham (*Bob’s Bona Fides*) described the opportunity: “Information technology saves us money and provides more timely management information to make good decisions. The marketing piece is the big opportunity. We are still underdeveloped in mining that data.” The real future power of intelligent POS systems can be found more in the customer tracking benefits than in the product/inventory tracking uses.

Internet technology offers many benefits to small independents, not the least of which is the ability to sell worldwide. While e-commerce now accounts for a very small percentage of overall retail sales, it is true that more and more people are becoming comfortable shopping online and e-commerce will continue to grow in both the business-to-business and the business-to-consumer segments.

Internet technology is a true leveler of the playing field in terms of providing access to information and fulfilling the promise of multi-channel connection to customers. Virtually all our profiled retailers are now capturing or planning to capture customer email addresses.

Use of the Internet can help small independents find new customers, find new ideas, communicate more efficiently, support relationships, brand and market, sell and buy. A linked global marketplace is now accessible to all.

While it is true that many small independents are constrained by lack of resources, technical, financial and human, many of the small independent retailers we spoke with have found ways to use the Internet for various purposes that fit their current strategy. Veronica Brockwell’s website, gosoak.com, launched in 1999, accounts for some sales but more important, she

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Challenge area: speed and overwhelming nature of technology

New solution thinking:

- Use your website to communicate information consumers would find helpful: location, hours, promotions, etc. Use it to portray your image, value proposition and differentiation. And use it to encourage communication through email and other interactive features.
- Explore joining retail associations that are establishing new localized shopping destinations on the Internet.
- Invest in new more powerful and less costly information systems to not just cut costs and track inventory but to capture customer data that will help you make faster and better decisions.
- Explore the wealth of information available on the Internet to learn about and stay up to date with new technology solutions.
- Capture customer email addresses to establish an additional inexpensive communications and marketing channel.

believes, it has been a good tool to connect with customers, “We like having it. It’s pretty interactive. We have a beauty advisor component. We have people who write in. We plan to put more resources into it.”

The elements required for e-commerce are now all available in turnkey solutions from a variety of sources. For example, a number of state and local retail associations offer e-commerce for their members, aggregating stores and selected products on a common website. Shop.Richmond.com is a good example. This offers an opportunity for small independents to experiment with less risk.

Virtually all of our profiled retailers recognize the fact that new opportunities will probably emerge from the intelligent use of new technology. They plan to watch, assess and continue to experiment.

CHALLENGE #4

The need for delivery of higher levels of service

The experience of receiving great customer service is now a common expectation of all customers in all retail segments. The consistent delivery of such service is still elusive, even among many of the best retailers. Great service is not simply smile training and free gift-wrapping. Rather, it is providing the customer with a subtle mix of product knowledge and personalized care. Only at this higher level can it be a differentiator for small independents.

While providing good customer service is a historical differentiator for small independents and still a primary way to compete against larger competitors, the promised land of achieving the kind of service levels that delight customers day in and day out is often a mirage. There is a very serious gap between the promises of great service and the reality of what customers experience every day. Even good service is rare. One of the great myths of small independent retail is that service is their competitive advantage.

Most of our profiled retailers believe service is a must-have but does not provide a sustainable competitive advantage in and of itself. Exemplary customer service is still not well understood and not executed well by too many small independents.

Customers’ service expectations are continuously increasing and the ability of small independents to stay ahead of this trend is crucial, given the fact that customer service satisfaction results in greater customer retention, which in turn results in higher profitability.

Customer loyalty is a major contributor to sustainable profit growth. People today will not be loyal to any business if the business does not meet their service needs. There are too many

available alternatives, too many competitors. Customers today do not have the time or the inclination to reward less than stellar service.

Why, then, is this subject so difficult for so many? It always boils down to people and leadership. Even big corporations who spend millions in establishing their brand and millions getting everything right can have it all fall apart with one employee-to-customer contact. That's how important it is.

The retailers profiled in this paper talk about this challenge and how they have chosen to address it. Again, they believe it boils down to people and leadership. Is it hard to find good people? Yes. Is it time-consuming and costly to train and educate them? Yes. Can it be difficult to retain good people? Yes. Do you have to genuinely care about and take care of your employees? Yes. Do you have to communicate your goals and strategies better? Yes. Do you have to find ways to motivate people beyond a paycheck? Yes. Do you have to empower your employees with better actionable information? Yes. Are there ways to accomplish all this? Yes.

Good people can come from anywhere and increasingly they can be found among the large group of retirees. A 2003 AARP survey cited that 68 percent of workers age 50 to 70 said they expected to continue to work or never retire at all.

Bobby Ukrop (*Bobby's Big Idea*) employs 1,500 people age 16-86. Fifteen percent are high school kids. Ukrop's has 57 employees over 80 years old and very little full-time turnover. How does he do it? Read about his "servant leadership" model. He offered the following advice: "Take time to know what's important to the people working for you. People who care about people get good results."

Nan Napier (*Nan's Necessity*) spoke about the weekly training she does to constantly upgrade their service. As she said, "We have salespeople who have developed such a relationship and rapport with our customers that if they left we would lose some of those customers." Can something like this be said of the large chain experience?

John Clarke (*John's Journey*) believes so strongly in customer service that his employees answer the phone by saying, "The friendliest store in town." He said, "If you say something often enough, the more apt you are to do it."

And Mike Baron conducts weekly staff meetings for 20 minutes where they often talk about what's important in their customers' experience. Mike stated, "Our biggest challenge is to continually improve our customer experience. We involve our entire team. The solutions usually come from the troops."

John Wohlwend (*John's Gems*) believes so strongly in professional development that he closed his store for two days to allow his entire staff to be together at a trade show and learn new things.

Challenge area: service selivery

New solution thinking:

- Institute formal training programs involving service innovations and enhanced product knowledge.
- Communicate more often and more effectively with employees. Ask them for solutions to raise your customer service bar.
- Explore new avenues to find good people. Expand the search pool by talking with high school counselors and looking more closely at the growing number of retirees who represent a growing, mature labor pool and want extra work.
- Interview potential hires more closely. Determine if they have a passion for retail service. Check references carefully.
- Consider employee ownership through the establishment of ESOP plans, providing a financial stake in the success of the business.
- Consider new ways to conduct team building exercises and new ways to provide motivation programs.

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Bob Benham (*Bob's Bona Fides*) articulated the people/leadership dynamic well when he said, "We have a singular philosophy on creating a customer service culture. We pay our people the most we can afford to pay and not the least we can get away with."

CHALLENGE #5

Transparency of price and product information

Consumers have more knowledge and power than ever before in history due to the ease of getting information instantly from the Internet. They now can obtain complete knowledge about virtually all products and prices and they can compare and contrast choices. This reality creates added competitive pressures for small independents. And they must adjust to this fact of life.

One of the fundamental drivers of the control shift from seller to buyer is the empowerment of consumers made possible by the Internet. Increasingly consumers are researching, learning about, comparing and contrasting all kinds of products and prices. This is particularly true for high-ticket, considered purchase items as well as products with features and benefits that are complex. Perhaps the best example of this is new trend is car buying. The car buying process has fundamentally changed. It is now so easy for consumers to access dealer pricing, causing the traditional car buying dynamic to be turned on its head, negotiating up from dealer invoice rather than down from sticker.

A store staff has to be more knowledgeable in order to provide the service necessary to close the sale, or the customer will walk in favor of a better deal elsewhere. "Price transparency is becoming totally possible because of the web," said one consultant. "Where I used to either watch ads or drive to different stores to compare prices, now I can do it in an instant. Indeed, Internet access via mobile devices now allows price/item information to be accessed right in the store. Now I go to the store and in most cases I have more knowledge and information than the staff. Give me the name of one customer who will spend more than they have to for any product or service.

"Anytime your customers' knowledge exceeds yours, you're in trouble," the consultant added. "If you can't deliver on the higher service and greater knowledge you're supposed to have, you've become just an expensive cash register."

And how does this affect the traditional "sale events" that many retail businesses rely upon? A consultant we spoke with said: "The big sale event is just about over because the web is a 24/7 discount store."

The ability of small independents to sell widely distributed brand name products is eroding. That business is moving to the mass market with great speed.

Another interesting take on this subject was mentioned by a number of our profiled retailers who acknowledge that price transparency and product knowledge is a fact of life. They think about the subject in more positive ways. Steve Illingworth of Urner's (*Steve's Selling*) had this to say: "We believe that the Internet has increased the average sales price because the manufacturers do a much better job in presenting all the features and benefits...the consumer will get excited by the manufacturer's website...so when they come in to us it's much easier for us to make the presentation and a sale."

Perhaps the best example of a company that has embraced price transparency and uses it to their advantage is Progressive Insurance. As a service to its potential customers, Progressive quotes competitive prices along with its own, and they are not always the lowest. Why do they do this? They know that consumers don't like insurance companies. They know consumers will research prices. By offering this service, Progressive builds trust, maintains control of the customer and moves the buying decision beyond price to a decision about how Progressive is better and different.

More and more, consumers will continue to use the Internet to seek information about product and price. So, the question is: Are there ways your business can take advantage of this new reality? It does not make sense for many small independents to sell online. Without unique, differentiated product, online selling defaults to price. All a consumer has to do is click and compare on websites like Shopping.com, Bizrate.com and Google's new shopping search engine, Froogle.

While many of our profiled retailers do not sell on the Internet, many have, nevertheless, established a beneficial Internet presence to help build their retail brand, communicate with customers and suppliers, and educate about the store and its products.

One of the troubling challenges in all retailing is that some customers now have more product information than the sales associates do in our stores. Darryl Rosen (*Darryl's Decisions*) talks about training employees in product knowledge, but also training to handle questions to which they don't know the answer. Again look at John Wohlwend (*John's Gems*) where he trains employees to have enough knowledge to meet price objections.

Challenge area: transparency of price and product information

New solution thinking:

- Recognize that this new reality requires higher levels of sales service and staff knowledge.
- Communicate your high quality value propositions so customers understand that your value is derived by much more than price.
- Consider providing lots of self-service product information either on your website or in-store with links to manufacturers' information, making it easier for your potential customers to know more.
- Carefully track the changing distribution patterns of the products you sell; as brands move into Internet distribution and other mass channels your value proposition may have to change.
- Assume your customers are knowledgeable.
- Listen to those on the selling floor and get feedback from those who have direct contact with the customer. Find out what customers are saying about what they buy and don't buy and why they buy or don't buy.

CHALLENGE #6

Limitation of management skills and capabilities

The increasing complexity of business and the speed of change place an increasing premium on financial knowledge, strategic planning and leadership. This is a critical area of focus for small independents because there is no longer the kind of margin for error that might have existed in the past.

Management is about making decisions. If change is indeed coming at us faster, then it stands to reason that management skills and capabilities need to be developed to cope with the need for faster decision-making. Chief among these capabilities is financial control. It was generally agreed that the single most important management capability that distinguishes potential winners from losers is the ability to see and control the full financial picture. Measuring performance is the first step toward improvement.

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Many small independent retailers started their business because they enjoy the product, the merchandising, and the marketing sides of the business. Relying on accountants to “manage” the financial sides of the business is a bad choice. Most accountants are trained in tax and audit issues with little experience in retail financial analysis. Knowing what the numbers mean is crucially important. For example, GMROI (Gross Margin Return on Investment) may not be important to many small storeowners, but this is one of the survival indicators on the retail battlefield. That understanding is not something that can be pushed off onto the accountants.

Inventory control was identified as a specific area for increased attention. One of the consultants we spoke with said: “The single greatest reason for the demise of a small specialty store is they buy too much product and take too many markdowns.”

Stepping back from the day-to-day operations to look at the business strategically is a common problem for small independents. In times of dramatic change, a strategic orientation is more important than ever. Mike Baron of Barons Major Brands (*Mike's Method*) addressed this issue by saying: “We often get caught up in the day-to-day and never see the big vision. We became involved in a ‘Visions’ program...that forced us to look at the big picture, to document the roadmap and to make progress. Since we have done that, suddenly we are accomplishing our goals. We’re making incredible progress. Not only is it improving our business but it’s personally much more fun and our teams of associates are much happier. They know what we’re doing and know where we’re going.”

Ron Romero of Schaefer’s (*Ron’s Rules*) said it this way: “Be able to work your business and not work in it.”

It is also important to note how many of the profiled retailers spoke about the need to be less insular—to go outside of comfort zones and seek help and advice from others, particularly the various local, state and national associations and buying groups. As Veronica Brockwell put it: “I would not be here today without our retail association. I would not have been able to grow this business to where it is today without them.”

Again, Mike Baron said it well: “If you choose to change...that typically means you have to get control back of your environment. And if you don’t know how to do it, there are support mechanisms in your industry that will help you accomplish it, support that will take you through all the steps, no matter what level your company has evolved.”

Succession planning is an important topic for many owners. The vast majority of U.S. businesses are family-owned, yet statistics show that only a small percentage of family-run companies succeed into the second generation. An even smaller number survive into the third. The reason, according to many experts, is the lack of an orderly succession plan.

Today, effective succession planning typically not only targets key leadership positions, but also includes other important positions in a variety of job categories. Effective succession planning establishes a process that recruits employees, develops their skills and abilities, and prepares them for the future.

Benefits to this planning include increased retention, better employee satisfaction and stronger organizational commitment. In an age requiring the empowerment of employees and a need for increased leadership throughout an organization, succession planning has become a very real must-do.

Bob Benham (*Bob's Bona Fides*) described this issue: "A lot of businesses have trouble with succession. You can't teach all the things you learn from osmosis....I'm now going through another major strategic rethink. I've been handing off major areas of responsibility to others over the last few years to free myself up to work on the strategic issues, the value creation issues, 'the where are we going from here' issues." An anonymous quote sums it up well: "If you want to manage somebody, manage yourself. Do that well and you'll be ready to stop managing and start leading."

Nan Napier (*Nan's Necessity*) said it this way: "As a business owner, the business trains you to have both a short-term and a long-term focus. I view it as a natural outgrowth of my job."

In their own words

Seventeen independents discuss success, change, challenges, risk, opportunity, hard work, passion and fulfillment. The following profiles present a set of views, opinions and actions taken. We hope they may inspire new thinking about the potential application of the principles discussed and challenge some all too comfortable mental maps. It's been said: "What we are familiar with, we cease to see." We hope these profiles illuminate new possibilities of promise for an individual reader's business. We hope they may shine a forward searchlight to help navigate more confidently into the future.

These successful independents demonstrate the power of positive intention, vision and consistent commitment in creating their own future of prosperity and success. What do these people have in common? Focus? For sure. Passion? Of course. Bias for action? Definitely. But most of all, they all approach the future confidently. Where does this confidence come from? It comes from learning and gaining new knowledge. These profiled retailers are constantly curious. They are curious about what's changing, curious about customers, curious about competition and curious about creating. They strive to be different and better in everything they do.

Challenge area: management skills and capabilities

New solution thinking:

- Don't just rely on your accountants for timely financial analysis. Take ownership of the numbers.
- Succession planning isn't just about your eventual demise. The process can be a powerful catalyst to making your business better today.
- Recognize your weak areas and seek help from knowledgeable consultants, local and state associations and industry colleagues.
- Develop a formal strategic planning process in order to step back from the daily pressures to think about the longer-range issues that will affect your future. Involve your employees, managers and business partners.
- Successful leadership requires consistent effective communication. Most of us don't communicate enough. Use effective communication as a strategic tool.