

PROFIT

Store wars

By Kim Hart Macneill | October 11, 2011



(Illustration: Taylor Gallery)

When Brian Lindy learned that U.S. retail conglomerate The TJX Companies was launching a Canadian version of its HomeGoods chain a decade ago, he didn't wait for the big, bad Americans to take a bite out of his business before biting back.

Lindy, president of Stokes Inc., a Mount Royal, Que.-based kitchen and tablewares chain, sent a team south to study HomeGoods' product selection, prices, quality and, even, its

suppliers. He used the information gleaned to move away from suppliers that worked with HomeGoods so Stokes could sell a unique product and avoid competing on price with the discount giant, whose Canadian outlets operate under the HomeSense banner.

Ten years on, Lindy has added 30 Stokes locations to the 100 in operation before HomeSense arrived, and he sees the challenge as an asset: "It actually made us stronger, because it encouraged us to start developing our own in-house brand, which today represents 70% of our sales."

Another wave of U.S. retailers is marching north, among them J.Crew, Crate & Barrel and Target, the last of which plans to open its first Canadian outlets in 2013. If increasing competition from such well-known and respected U.S. brands aren't enough for Canada's retailers to worry about, there are also the issues of falling consumer confidence, high consumer debt and a dwindling supply of retail real estate that's pushing up the rent. (We won't dare mention the other R-word.)

Clearly, these are challenging times for the country's independent retailers.

Yet, all is not lost—quite the contrary. As Lindy did a decade ago, small and mid-sized store owners simply need to step up their game. In the run-up to the critical holiday-shopping season, PROFIT spoke

to retail analysts and successful store owners about current conditions and how to thrive in them. We also conducted an exclusive survey in July of 1,094 consumers in conjunction with Toronto-based Forum Research Inc. to understand better why Canadians shop where they do and identify gaps that smaller retailers can exploit. The outcome: six key strategies to build sales and boost margins.

Exploit your enemy

It's no secret that most big retailers succeed on a combination of low prices and high ad spending. Lindy took advantage of the latter when Home-Sense crossed the border.

"Where it was possible, we actually located ourselves near HomeSense, because we knew that they would push advertising to drive traffic," he says. "The consumer would be drawn to that mall; and once they were in the mall, they would spend time looking at both HomeSense and the competitors in the area."

That tactic exemplifies how small and mid-sized retailers can play their dexterity to their advantage. "You, as a small retailer, only have to worry about the one Walmart or the one Bay store right around the corner from you," says Jim Danahy, CEO of CustomerLAB, a Toronto-based retail consultancy. "The giants, on the other hand, have to have national consistency across the country. All you have to do is fill the gaps that they leave open."

Many independent retailers have no choice but to fill the gaps. Mark Startup, CEO of Shelfspace, an association representing retailers in B.C. and Alberta, uses the example of a store owner who sells barbecues out of two locations. While the owner can't order quantities great enough to beat the low price point on a basic barbecue sold by, say, Walmart, he can offer high-end models not carried by the large chains that will interest people who are shopping around. Says Start-up: "That's what we call outmaneuvering the big guys."

Understand your business

"When you run your own boutique and you're self-employed—how do I say this in a politically correct way?—your head is so far up your own ass that it's hard to see and be objective," says Michelle Germain, owner of Shopgirls Gallery Boutique on Toronto's hip Queen Street West.

She has built her store on women's fashions and an eclectic mix of local art sold on a commission basis. After four years, the shop's sales weren't what she'd hoped for, and she felt buried by the amount of work she had to do with each artist. So, Germain called in CustomerLAB's Danahy to help analyze her operation.

Together, they learned that 70% of visitors live in the store's neighbourhood, that most of them arrive on foot or bike, and that many are mothers who shop the store with strollers in tow. That last fact prompted Germain to space out her merchandise and expand her fitting rooms so moms could wheel their kids in, allowing them to spend more time lingering over the clothes.

Danahy also advised Germain to trim the number of artists she stocks from 100 to 40. This has allowed her to focus on clothing, which produces higher margins, without sacrificing the artwork that gives her store a unique, gallery-like feel.

For retailers not ready or financially able to work one on one with a consultant, St. John's, Nfld.-based Thrive Software has developed a cloud-based application called Thrive that analyzes store performance and customer habits to develop a game plan for improving the bottom line. Retailers can input their daily sales and traffic, conversion rates and business goals to get an overall picture of their operations and develop a profile of the customer who generates the highest sales. Thrive recently completed beta-testing and currently costs users \$20 a month, which includes support time with Thrive staff to help get the most out of the numbers.

Thrive helped Chris Larder reinvent his company, Liquid Boutique, a Halifax-based vendor of all things related to beverages. Larder tested Thrive in 2010. After looking at the numbers and talking with the Thrive team, Larder focused his business on wine accessories and barware. As soon as he put up a sign proclaiming Liquid to be "Canada's barware experts" (a project that cost him \$282), he says customers finally understood exactly what he was selling and flocked to the store. Larder has since gained clients in the hospitality business and branched into installing wine cellars.

Secure the right location

Almost 17% of the PROFIT/Forum survey's respondents listed "convenience" as the main reason they choose independent retailers over major chains. And what makes a smaller store convenient to shop at is its close proximity to the homes or workplaces of shoppers, or to other sought-after stores.

If you're not already offering the convenience that customers want, the time to move is now. Canada's retail real estate vacancy rate is at a historical low and isn't expected to improve over the next two years, says James Smerdon, director of retail and strategic planning for commercial realtor Colliers International in Vancouver. Ontario will experience very little new development over the next year, says Smerdon, while most of the space in current building projects in Halifax, Calgary, Edmonton and Vancouver was leased out before their developers had even broken ground.

More expressions of interest among foreign retailers in the Canadian market could cause further tightening, says Steven Alikakos, senior vice-president of retail real estate for commercial real estate advisor DTZ Barnicke in Toronto. Alikakos says Target's acquisition of 189 Zellers leases this year means that malls that have floundered with a weak Zellers outlet will definitely raise their rents, "because other retailers will be fighting for those new locations to pick up on the new traffic in those centres."

When an uptick in retail property development does come, Main Street will have the most to lose. Power centres—those open-air, big-box hubs typically located in suburban areas—are in vogue, and they tend to pull shoppers away from downtown cores with the promise of a variety of businesses and an abundance of parking spots. As a result, small retailers need to view the streetscape as an ecosystem and gauge the strength of their neighbours. If one too many businesses close down or move away, it can decimate an entire retail district. "This goes beyond the scope of an individual retailer and what they can

deal with,” says Danahy. “It requires them to act as groups in business-improvement areas, chambers of commerce and with their municipalities.”

Get online. Yesterday

Canadian online retail sales topped \$15.1 billion in 2009, up by \$2.3 billion from 2007, according to the latest figures from Statistics Canada. More important to bricks-and-mortar retailers is that 52% of Canadians go online to research products. Of those digital window-shoppers, 69% made a purchase directly from the store as a result of their research. The message: if your store doesn't have an effective web presence, you are going to sacrifice sales.

David Russell encounters web-prepared shoppers all the time. “Customers may choose to buy online or they may not, but they sure go online to look at what you have,” says the owner of Toronto-based Sporting Life, an upscale chain of four sporting-goods stores. “They come in with a printout of the web page, saying, ‘This is what I’m here for.’” To accommodate his fast-growing base of smartphone-savvy customers, Russell plans to redesign his website in the coming months to make it more functional on popular mobile devices, such as the iPhone and BlackBerry.

And whither social media? It might come as a relief to know that Canadians are less influenced by social media than our American cousins when it comes to shopping. Still, Facebook, Twitter and Foursquare offer opportunities to engage with customers and build brand loyalty. Triple Flip, a Calgary-based firm selling clothing for tween girls, operates eight retail locations that sell its private brand. The company has more than 18,000 Facebook followers, many of whom post questions and comments for staff daily. For Triple Flip, developing a Facebook fan base represents “money better spent than putting an ad in the paper saying we’ve got 40% off in the whole store,” says Linda Maslechko, the firm’s president.

Maslechko knows that tween Facebook users are wearing her clothes, but she also knows who’s paying for them. The company’s catalogue models are all Triple Flip customers, drawn at random in the company’s yearly Be A Triple Flip Girl contest. To enter their daughters, parents have to hand over their own email addresses at the checkout. The company enters these into a database used to track customer purchases, visit frequency and store preferences. More important, it gives Maslechko email access to a pool of 40,000 customers, to whom she sends weekly e-blasts about sales, contests and other promotions.

Keep your staff

According to a survey done last spring by GfK Custom Research, a global research company with offices in Mississauga, Ont., 40% of Canadian employees feel disengaged at work. Ask the average store patron, and they’d likely say the number is higher in the retail landscape. After all, what customer doesn’t have horror stories about store employees who provide underwhelming service or blow off (if not completely ignore) their requests?

“I think it’s part of the culture that [Canadians] have never really embraced retail as a career,” says Robert Warren, the I.H. Asper Executive Director for Entrepreneurship at the University of Manitoba. “It’s always been something you did and got out of as fast as you could.”

When you have a good retail staffer, do what you can to lock her in for the long term. Warren suggests creating policies that encourage loyalty, such as clearly outlining advancement opportunities or offering additional training to those who display an inkling of wanting to grow with the company.

For Peter Simons, retention begins with smart hiring. And that means looking beyond a job applicant’s resumé. The president of Quebec City-based fashion retailer La Maison Simons Inc. interviews “enormous numbers of people” before hiring staff for his Quebec stores. “We’re looking to hire values rather than experience. You can train for the technical experience side,” says Simons. “But you can’t really undo someone’s upbringing; you have to build on it. The pleasure found in serving other people—some have it; some don’t. It’s not a judgment—it’s a fact.”

Create in-store experiences

Despite the many challenges small retailers face, they appear to win the prize for overall excellence. When asked which type of retailer provides the best overall shopping experience, 29% of PROFIT/Forum survey respondents said independent retailers, versus 25% for major Canadian retailers and 21% for U.S. retailers operating in Canada. The small-store experience is also the top reason cited for choosing independents over major Canadian retailers.

Customer experience is the sum of customer service, price, selection and how easy it is to shop in your store or on your website, says Shelfspace’s Startup. These elements are measured by each customer individually, but their perceptions are in your hands.

Sporting Life’s Russell tells his employees to think as if they’re welcoming customers into their homes. Instead of just pointing a customer to a cashier after helping them find the product they were looking for, his staff carry the product to the cash register. It’s little touches like these that keep people coming back, says Russell.

For Shoppirls’ Germain, too, customer service is about more than smiling and ringing in a purchase. Because of her boutique’s popularity with mothers, she chooses staff as much for their skills with children as their fashion sense. “I have a sales staff that loves, loves, loves kids,” says Germain. “So, we’re always trying to offer help if moms need a bit of time to do their thing. And we have toys to keep kids busy.” It’s all about adding value wherever you can to make the shopping experience positive and easy.

Your store can be a destination in and of itself, adds Simons. His store designs incorporate local flavour into the architecture to encourage customers to linger as they shop. Simons’ Côte de la Fabrique store in Quebec City blends modern fashions with huge 17th-century-style murals that tell the history and evoke the feel of the old city. In the centre of his modern Ste. Catherine Street store in Montreal, you can find

a towering, rainbow glass sculpture by the late Montreal artist Guido Molinari that's visible from both floors in the open-concept layout, attracting art fans and shoppers alike.

Retail in Canada is changing faster than ever before, with new players in the market, new technology in the hands of customers and new sales channels to navigate. Now is the time to identify what your store can give to consumers—and where you need to step up your game.