NO ROOM FOR COMPLACENCY ANYMORE

Making a change in your business can make you

By Stan Pohmer

I'm a student of retail, always have been. I truly enjoy watching new trends, formats, players and dynamics emerge, trying to understand what drives them and the reasons and rationales for their existence. By default, I study consumer behavior, watching how consumers respond to these new retail landscapes and plays. The reality is that consumer behavior should drive the retail playing field, but that doesn't always happen. Too many times, someone will come up with a new hare brained scheme and try to force consumers to adopt it, without any real understanding of the way the consumer will react. Yet, there are those rare instances where a true visionary studies and anticipates a changing consumer dynamic or need and creates a new retail strategy that fills a future need. The development of home improvement centers and supercenters are classic examples of new retail formats that were created in response to anticipated consumer needs and changing lifestyles.

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MAKING A CHANGE?

Far too often, retailers stay with what once made them successful and profitable, even as sales decrease, profits erode and customer traffic drops off; the world around them is evolving, and they are not. Then, facing disaster in the eye, they decide that drastic wholesale changes are needed to survive. At this point, the necessary changes are radical, very expensive and disruptive to the owner, employees and customers. By the time the retailer realizes a change is needed, it's almost too late to turn the tide that's pulling them to the precipice of insolvency.

There used to be a clear delineation of retail differentiation. At the high end were department stores and higher-end specialty retailers located in shopping malls. There were also high-service, freestanding retailers like garden centers, florists and corner hardware stores. Other segments included traditional discounter and supermarket retailers, focusing on commodity-type merchandise with minimal service.

But over the years, the retail playing field has become homogenized, with many retail formats and channels becoming blurred, looking and acting just like one another, losing their points of differentiation or niches, and compromising merchandise assortments, service levels and image. The lack of compelling reasons for a consumer to shop one retailer versus another led them to shop on price, which benefited the middle of the road retailers.

In 1995, shopping mall-based retailers accounted for 38 percent of total retail sales dollars; in 2002, they only accounted for 19 percent. Of the $766 billion in sales from the largest 40 U.S. retailers in 2002, 80 percent ($617 billion) were generated by freestanding retailers like Home Depot, Wal-Mart, Target and supermarkets. Why the channel shift? The mall operators failed to see that they were out of step with a changing consumer — a.k.a., the time starved, convenience consumer. The freestanding retailers, on the other hand, recognized these consumer dynamic changes and not only capitalized on them, but exploited them.

DENIAL

Over the past 10 years, supermarkets refused to recognize Wal-Mart's supercenters as a viable food competitor. Yet in those same 10 years, Wal-Mart's food franchise grew to 18 percent market share, the largest of any retailer in the United States. Only in the last two years, as Wal-Mart's balance sheets are being decimated, are the supermarket chains starting to react and re-position their operations and images. But, it's too late in the game to make gradual changes; they now have to take drastic steps to survive.

The format changes that the large discount and home improvement chains implemented were evolutionary, rather than revolutionary. They kept on pushing the envelope, constantly expanding their offerings and services, always studying consumer reaction and trying to read consumer trend behaviors, anticipating and building programs before the consumer realized it was something they wanted. Were these new formats and services disruptive to the company or the consumer? No way! In most cases, the changes were logical extensions of their core businesses, and they leveraged their existing strengths and relationships with their customer.

Wal-Mart is the master at continually developing and testing new strategies and formats — some work (i.e., supercenters, neighborhood markets, gas stations, etc.), some don't (i.e., used car sales, clearance centers, craft stores, etc.), but the important fact is that it is always looking at those assessments mentioned earlier and what's happening in the retail market place, seeking out new opportunities to increase its offerings to the consumer and its relationships with them, resulting in a huge competitive advantage.

Home Depot is now focusing on becoming a "home aggregator," a true solutions provider by offering installation services for almost everything it sells. While some may say that this is a response to lagging same-store sales and competition, the reality is that this thrust is right on with the changing demographics of the U.S. consumer who wants to be involved in the project process, doesn't have the time or expertise to perform the actual work and has the money to have someone else do it for them.

THE POINT

The point of this discourse is simply to challenge you to be more cognizant of ever-changing consumer dynamics, demands and expectations. Be more aware of what's happening in the competitive retail environment, even beyond your direct lawn and garden competitors. Continuously re-assess your own business, looking for opportunities to change; re-position; and test new strategies, merchandise assortments and services. Evolutionary change is easier to manage and control; revolutionary change is drastic and high risk. You dictate evolutionary change; revolutionary change is usually driven by outside forces over which you have little control.

There's a lot of truth to be learned in the old cliché "lead, follow or get out of the way," especially in today's tough business climate. There's no room for complacency anymore. GPN

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