

On The Bottom Line



How to **Significantly** Improve the Financial Performance of Your Store
by Making a Series of Minor Improvements

For participants in the ABSDA
Distance Learning Library education programs

Program designed by
The PerCon Group
Kansas City, MO

Foreword

by Bill Sharp

In the nearly 40 years I have worked with LBM dealers, I can't remember meeting anyone who unlocks the doors in the morning who "kind of liked" the business. Mostly, people love it. Of course, there are up's and down's, and some customers can be a challenge at times, but overall the work is interesting...and can be lots of fun.

However, "interesting" and "fun" are not words that show up our report cards (P&L reports) each year. And, if the business is not producing a profit, over time all the "interesting and fun" parts seem to dry up.

Highly successful organizations have learned that improvements in sales alone don't assure success and growth. It takes a balanced attack. In this program, we will build a case for very tiny improvements in five different areas of operations:

- Sales
- Gross margins
- Expense control
- Inventory turnover
- Days waiting for payments from commercial accounts

Increases in sales sometimes cause a state of euphoria that draws attention away from other aspects of the business...like expense control. Of course, if sales go up, some expenses will also go up. It costs more in paperwork, staff time and equipment operating costs to deliver more material. But, there are many other expenses that are not tied to sales and should not be allowed to "float higher" simply because times are good.

We will explore two important arenas for improving sales...without adding new merchandise or buying additional fixtures and equipment. First is merchandising. On surveys, customers report that they seldom buy anything other than what they came for. Sometimes that's because they didn't see merchandise and signage that encouraged them to consider other purchases. At other times, it is because employees simply failed to suggest related items. There are 12 things owners and managers can do to maximize the ability of displayed merchandise to help "sell itself."

Employees who have been taught good customer relations skills sell more high profit merchandise. It's a documented fact. But, if you are completely honest, people like yourself have used every creative excuse in the book for not devoting time to short staff meetings and helpful coaching on the retail floor. We will explore 9 skills to develop in your employees

Employees don't have to be taught by you. They are perfectly capable of learning by themselves...on their own, by trial and error, making mistakes with customers. That's an expensive way to learn.

You now have a whole set of customer relations and selling skills training video-based lessons available to help you. Your association has these lessons loaded and ready to view 24/7. They're short (each about 15 minutes), highly specific to the LBM industry...and completely worthless if you don't follow up with employees who are learning on-line.

Gross margins are seldom reviewed item-by-item. Increasing margins with a blanket rise in prices is dangerous to customer relations. Some items that you sell are extremely price sensitive. Raise prices on those, customers will see it immediately and tell you in clear terms what they think about what you did. Other items? Not so much. The only important consideration by customers about those is that you have it when they need it. We will show you how to determine if an item is price sensitive and approximately how much you can increase its price.

The other three places to look for money to put on the bottom line are in expense control, increasing inventory turns and administering the credit policy your store already has. We have ideas for you, but stores operate in various markets in such different ways, there aren't as many universal tip. Regardless, we'll offer thought from other highly successful dealers, and you can decide whether or not to use them.

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Focus on Financial Performance

Following are typical results of Cost of Doing Business surveys done by dealer associations in the US over the past five years.

We have picked three industries for which valid surveys have been done for many years. Each can also be volatile as market prices, the strength of the economy and other factors out of the control of store owners and managers force quick responses to keep customers buying. If you're interested in how other stores do, here are the numbers.

A few key averages over a five year period.

CATEGORY	Equipment Dealers	Hardware Stores	Lumberyards
SALES per store (in millions)	\$11.3	\$1.3	\$16.3
GROSS MARGIN	17%	42%	26%
INVENTORY TURNS	2.1	2.7	5.0
EMPLOYEE COSTS	8%	2.2%	14.5%
ALL OTHER EXPENSES	8%	19%	11%
ALL FORMS OF ADVERTISING AND PROMOTION	0.55%	2.6%	0.43%
DAYS WAITING FOR PAYMENT	17 days	40 days Mostly commercial accounts	43 days Commercial accounts (mostly builders)

Helpful Ratios and Calculations You Might Use

GROSS MARGIN RETURN ON INVESTMENT (GMROI)

Sales \$'s ÷ Inventory = Sales turns

Gross margin % X Sales Turns = GMROI

This is a quick measure to see if your margins and turns on various products or departments are in balance. Any number less than 1.0 indicates the item is not generating enough profit to pay for the inventory investment. **A reasonable target is between 1.5 and 2.5.**

GROSS DOLLAR RETURN ON INVENTORY (GDROI)

Gross profit \$'s ÷ Average Inventory = GDROI

(Current gross margin % ÷ New gross margin) — 1.00 = Velocity change %

This ratio is used to measure the performance of the entire store or an individual item for a specified period of time. When use in conjunction with a Velocity Change chart it allows managers to calculate how many additional items of a certain product must be sold to generate the same gross margin dollars the item would have generated before a price reduction. For example, if item which had carried a 30% gross margin is reduced to a 20% gross margin, need to sell 50% more of the item at the reduced price to generate the margin dollars it would have produced at 30% gross margin. **Target at least 1.5.**

INVENTORY TURNOVER

Cost of Goods Sold ÷ Inventory = Inventory Turnover

Normally a high turnover rate means good inventory management, while slower turnover indicates too much inventory for the sales it generates.

NET PROFIT MARGIN PERCENTAGE

Net profit \$'s ÷ Sales \$'s = Net profit percentage (of sales)

This is the most important path to profitability. Managers can increase sales, decrease cost of goods sold and improve gross margins. While there is little management can do to control many expenses, a careful review of each expense line may reveal potential cost-saving areas. Refer to benchmarks set by high profit stores to develop targets. **HIGH PROFIT STORES GOT 12.5%.**

ASSET TURNOVER

Net sales \$'s ÷ Total Asset \$'s = Asset Turnover

The ratio reflects the sales the company produces per dollar invested in assets. The key areas to focus on for immediate impact are managing inventory investments and controlling accounts receivables. While a high ratio indicates a good use of resources, a ratio too high can be a warning that the company is stretching its resources too far. **A good target is 2.5X.**

RETURN ON ASSETS

Net profit % X Asset Turnover = Return on Asset %

This ratio measures the utilization of assets to produce profits and is a good indicator of the company's ability to survive and prosper. Higher percentages are generally considered positive, but excessive numbers may indicate too few assets and the potential of financial strain. **A minimum standard is 5%, a typical target is 10% and a very good ratio is 20%.**

FINANCIAL LEVERAGE

Total asset \$'s ÷ Net Worth \$'s = Financial Leverage

This number helps managers gauge their reliance on outside financing. **A standard target is 1.5 or more.** However, numbers too high may mean the business is acting too conservatively and not realizing its full potential

RETURN ON INVESTMENT (OR RETURN ON NET WORTH)

$\text{Return on Assets \%} \times \text{Financial Leverage} = \text{Return on Inventory}$

This is the **BIG BOTTOM LINE**. It tells you what you're getting back for all time and money you invest, and the risk you take in your business.

CURRENT RATIO

$\text{Current Asset \$s} \div \text{Current Liabilities} = \text{Current Ratio}$

This measures the company's ability to pay its debts as they mature. As a general rule, **target 2.0X to 3.0X**.

QUICK RATIO

$(\text{Current Assets} - \text{Inventory}) \div \text{Current Liabilities} = \text{Quick Ratio}$

The ratio measures a company's ability to pay its short-term debts on short notice so only highly liquid assets are considered. **Target a minimum standard of 1.0X**. If this number remains low for a long period, additional financing may be in order as a short-term solution.

ACCOUNTS PAYABLE TO INVENTORY

$(\text{Accounts payable} \div \text{Inventory}) \times 100 = \text{Accounts payable to inventory}$

This formula reveals how much a company's inventory is financed by suppliers.

DEFENSE INTERVAL

$\text{Cash} \div (\text{Operating expenses other than depreciation} \div 365) = \text{Defense interval}$

This measures how long a company could operate if sales and collections stopped. **A good minimum is 10 days**.

A QUICK LOOK AT SURVEY RESULTS

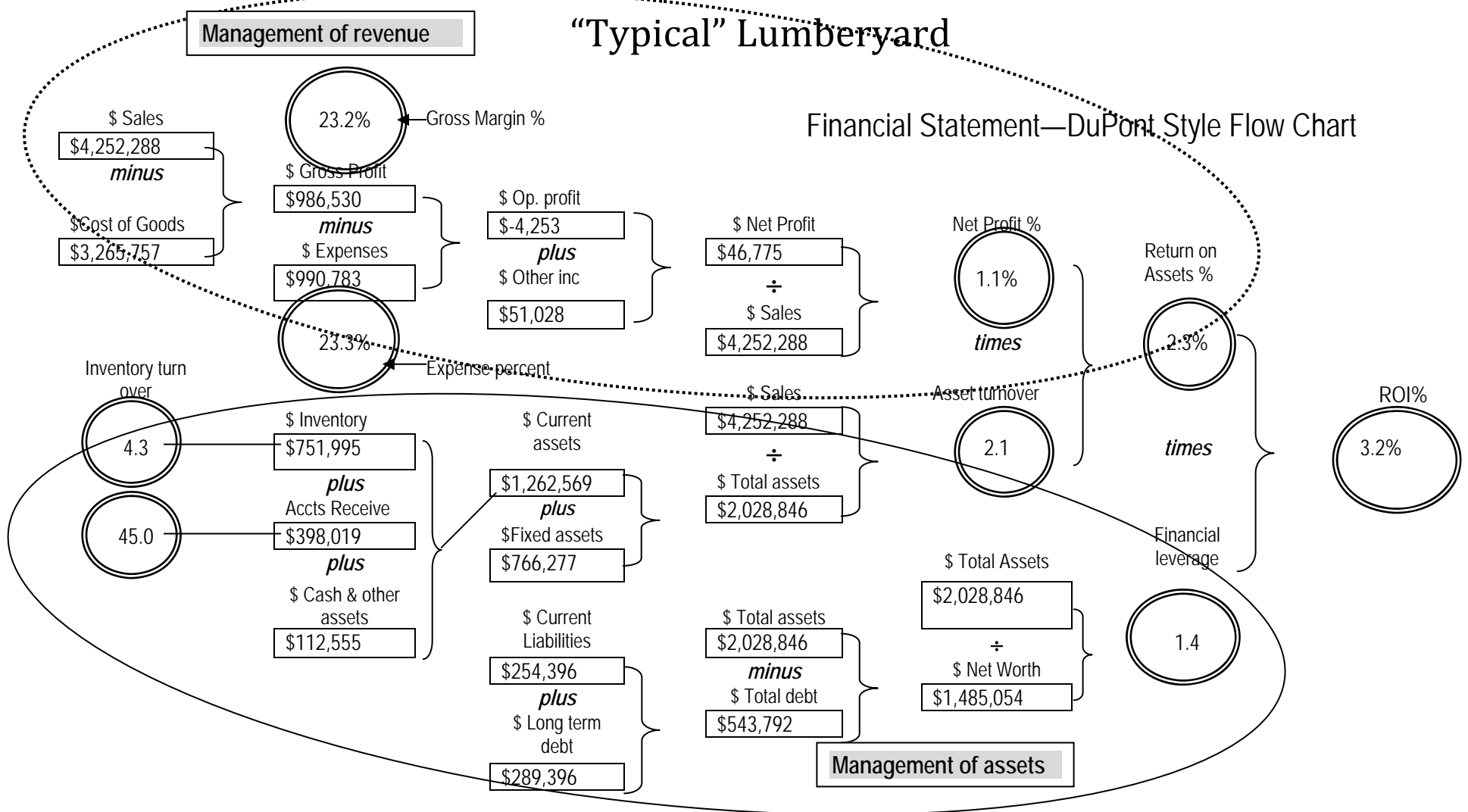
Following are average results of the Cost of Doing Business surveys over recent years of Canadian lumberyards. The "typical yard" had a mix of customers...32% consumers, 57% builders, 11% industrial. Because of the economy in North America, sales have been down (7%) and gross margins have also been down (by 2.1%), but many are seeing improvements. Average number of days to get paid went down slightly...from 48.5 to 45.0.

On the following page we have laid in numbers from the average Cost of Doing Business Survey for "typical" lumber dealers to illustrate how they come together to provide an R.O.I. and Net Worth.

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"Typical" Lumberyard

Financial Statement—DuPont Style Flow Chart



What Would Happen if...?

If we could improve five numbers that give us a snap shot of the health of an LBM business, we can produce amazing improvement ON THE BOTTOM LINE.

INCREASE SALES 1%

Assuming all other factors remain unchanged, we will look for ways to increase sales without raising prices.

INCREASE GROSS MARGINS BY 1%

Since we are assuming all other numbers remain the same, we would not experience any change in cost of goods. We would be increasing gross margins without selling more products.

HOLD EXPENSE INCREASE TO 10% OF SALES GROWTH

Obviously, expenses will increase as sales increase. The objective here is to control the growth of operational expenses not directly tied to sales.

INCREASE INVENTORY TURNOVER BY 0.25 TURN

Money is money. The money can be in the cash register. It can also be tied up in inventory. The challenge for this factor is to maintain inventory levels adequate to support sales without having large amounts selling slowly.

REDUCE COLLECTION TIME BY 5 DAYS

Again, money is money. Inventory on a customer's job site that hasn't been paid for is your money. Builders often do have serious cash flow problems, but getting paid on time is important. Look for ways to get your money.

INCREASE FINANCIAL LEVERAGE (BORROW MONEY)

Finally, just for kicks, look at what would happen if all factors considered above were in place...except sales. What if we kicked sales up by 5% and maintained our improvement percentages? Big sales increases cost a lot of money...to cover cost of goods. Properly managed, the savings from increasing turns and reducing collection days could offset the interest costs of borrowed money at today's interest rates.

Merchandising for Sales Increases

We'd like to share with you things you can do in your store to increase sales...without doing a major remodeling or spending money on new fixtures. Will it take some time to do the things you will learn? You bet! But, the reward is large. Does it all have to be done at the same time? Absolutely not! In fact, it will be better to do things a few steps at a time so that you can see how they are working.

The written material in this section contains many pieces that have been written by Jack Rice and Bob Aiken.

Jack was the Director of Member Services for the National Retail Hardware Association in Indianapolis, Indiana for many years. Later, he was a speaker and teacher conducting programs all across North America, Europe and Australia. His "signature program" was Effective Advertising, but his programs on Merchandising were among the most respected by thousands of dealers around the world. We have taken Jack's original work, modified and added to it additional materials to make it more applicable to equipment dealers.

Although best known for his hands-on workshops in which he teaches retail store employees how to provide correct information to customers who are buying or installing plumbing and electrical parts, Bob's work in showing retail store owners how to improve gross margins without alienating customers is the finest for use in North America that we've ever seen. Period.

His recommendations are easy to understand and apply. The things he learned in his own store and later began to teach to other store owners were eye opening to say the least. Your store can and should enjoy higher gross margins. You'll learn how to do that in this program.

Finally, Bill Sharp worked to put the work of Jack and Bob together with many ideas he has picked up while working with store owners and managers over the past 30+ years to come up with a three step approach to using merchandising techniques to get more sales and higher gross margins. In this program, we will cover:

- | | |
|----------------------|--|
| <u>Step 1</u> | Organize your store and arrange merchandise in ways that stimulate more impulse buying and related item sales. |
| <u>Step 2</u> | Use good analysis of your market and store to determine how you should price the items you sell. |
| <u>Step 3</u> | Do what the experts do to "pump up the volume" on sales by using attention getting displays. |

GET SERIOUS ABOUT MERCHANDISING

Most dealers should enjoy some near term increases in sales if they keep the doors open and inventory in stock. Interest rates are encouraging big ticket purchases, and older possessions need maintenance.

However, enjoying a sales increase may not be enough to protect your business from the tidal wave of marketers moving in to capture a piece of your customer base. It really doesn't take a very shrewd marketer long to figure out that sales of products like those you display are climbing dramatically. Many dealers are vulnerable because of weak merchandising and sales techniques.

You probably have seen the rise in competition from companies that are new to your customers...including box stores and internet merchants. These people have decided possibilities exist for them to efficiently capture market share in many product categories except highly specialized items.

These competitors are excellent marketers. Don't under-estimate their ability to advertise and sell to your customers! They know how customers buy, how to properly merchandise and they thoroughly understand the concept of variable margin pricing.

That's the "not so good news." The good news: all the techniques used by your competitors can easily and inexpensively be used by you to not only hold your good customers but actually increase market share. Sadly, few dealers are willing to put in the time and effort required to create powerful merchandise displays. If you're willing to take the time to follow the ideas in this article, you will stimulate greater sales.

There are so many good reasons besides the potential of losing business to competitors for wanting to maintain interest-getting displays. You've heard them over the years, but let's review them quickly:

Stimulating impulse and add on sales is profitable

Having products where customers remember seeing them is an excellent way to keep in touch with clients

Strong, complete displays can attract new clients

The combination of interesting products and a trained staff to answer questions can often result in finding clients who need other services

The cost of keeping in touch with established customers and giving them a reason to periodically return to your store is easier when they see products they buy regularly...as well as new products they haven't seen before.

GET YOUR PEOPLE READY

If you are considering adding new lines of merchandise or rearranging your store, you may want to include your people in helping plan the layout so that the place "makes sense" to them after

the changes have been made. Be sure to share what you will learn in this chapter so their decisions are both comfortable to them and profitable for the store.

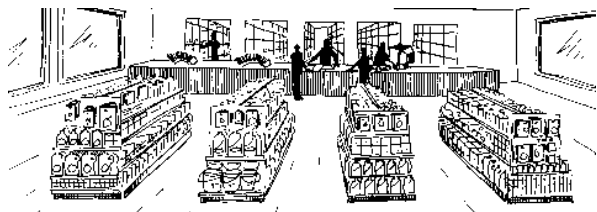
Staff members must also receive enough product training to assure they do not misrepresent a product and know when to refer clients' questions to others.

DECIDE WHAT TO MERCHANDISE

The object of most successful merchandising plans is to expose the customer to as much merchandise as possible to stimulate impulse buying.

You will want to select the merchandise to go on display carefully. It doesn't make sense to put complex items (which require technical advice) out where customers might create problems for themselves by taking home the wrong item. It's also not wise to put high dollar items that can easily be stolen where it might tempt someone who is otherwise fairly honest.

It makes sense to display such things as DIY and simple repair items. These items often require little explanation and are the target of many trips by customers to your store. Putting them out where customers can see them and touch them will stimulate additional sales.



Before you move anything, take an overall view of your store. Does it make sense? Something has to be at the back. Be careful about putting items that don't have strong customer appeal at the back of the store. They may die there.

That "something" should be your strongest line of merchandise. What do customers come for most frequently? Whatever it is should be at the back to create double trips past impulse and sale items.

CUSTOMERS ENJOY A WAITING PLACE

Your customers are different. Many of them come to your store because they need advice on products or how to properly install items. As a consequence, creating an environment (that reduces stress and makes your client comfortable while waiting) adds something important to the shopping experience. Some stores have coffee available for customers...a nice area some place off to the side with chairs, the coffeepot and some literature.



Some stores have a "business spot"...an enclosed area away from the retail area that has things like a fax machine, copy machine, and a large table to look at large scale plans or charts.

Customer lounges encourage customers to visit...but with each other rather than employees. By creating an environment that makes them feel welcome and gives them an opportunity to look at literature, you can stimulate conversations and discussions of common concerns.

DECIDE TO INCREASE IMPULSE BUYING

There's a popular breakfast cereal that promotes its "Snap, Crackle, and Pop." You can add lots of snap and crackle to your sales by effectively using Point of Purchase (POP) displays and materials.

Ask yourself, "Where do my customers make their decisions to buy the products we sell?"

Obviously, big ticket items costing hundreds or thousands of dollars are usually planned or considered purchases. They involve a great deal of thought and time spent shopping before making the final decision.

There are, however, lots of items available to your customers that offer substantial profit and volume for your store which do not fit into this category. These are purchased on the spur of the moment (or impulse.)

One recent study indicated 50% of all purchases of repair items in well-merchandised stores are impulse purchases. The customer had no intention of buying the item when entering the store. Interestingly, 75% of all impulse purchases result from seeing merchandise. It's very unlikely customers will buy additional merchandise simply because they entered the store.

A study done by a dealer association concluded 64.8% of all purchasing decisions are made in the store. How many of your customers would say at least one item they purchased on a visit to your store was bought because "I saw it on display"?

To the customer, items on display seem to be on sale--even if they aren't. The primary reason cited most frequently for a first-time purchase is, "I saw it on display."

A frequently neglected way to improve sales and profit performance of your store is to find ways to extend the time clients stay. There's an old saying in retail that "lookers often become good buyers." It's important to make your store's environment not only inviting but also attractive and motivating for your customers.

This is a challenge every day for all retailers, large or small. They must constantly be looking for ways to make their stores interesting, exciting and fun places to shop.

It takes a concentrated effort to get customers to look at merchandise and not just stand around visiting with your sales people.

Excellent tools are already available from manufacturers and distributors from whom you buy. They have spent thousands of dollars on POP displays and materials. Sadly, some of their best of materials never make it to the sales area. Many excellent displays and other POP materials are found collecting dust in the storage rooms.

Like anything else, however, **be careful about over-using signs,**



banners and displays. There is so much material available to you that you must choose carefully what will be used and how to use it most effectively.

If you don't make wise choices, the benefit of effective merchandising can be lost and the overall results can be worse than if you use no display materials. You can "clutter up" a sales area.

When overused, POP can work against itself and confuse customers.

UNDERSTAND MERCHANDISING PHILOSOPHY--

R.I.P.

All displays and merchandise in your store should be arranged to accomplish one or more of three purposes. They should **REMIND**, **INFORM**, or **PERSUADE** your customers.

Your displays and signs can **REMIND** customers of the brand name products you carry or perhaps connect the image of those products to your business. This is especially important in helping customers remember to buy something they have previously heard about through advertising.

Reminders can stimulate sales that customers (at one time) planned to make but forgot before driving to your place of business.

Signs and displays can be a fast, inexpensive way to **INFORM**. They can announce special events. For example, you may be running a three day reduced price sale on an item that can be used by a lot of your customers (who come to the store for other reasons). Sometimes displays are designed to tell customers the benefits of a product or service you offer.

Effective merchandising and point of purchase displays can **PERSUADE** customers to buy a specific product or buy it in your store. **Good POP displays sell benefits and give lots of**

emotional reasons to buy. They can also give details of a special in-store promotional offer that was not included in advertising.

The very best merchandising is coordinated to act as a silent salesman to help customers select what they need, step themselves up to a better value or make a choice without the constant help of one of your staff.

Again, the primary purpose of all of your advertising, displays and other materials is to **slow the customer down** long enough to consider the possibilities of buying or at least carefully inspecting the product or offer.

MERCHANDISING STARTS OUTSIDE THE STORE

Many dealerships can benefit from effective outside displays during fair weather. Outside displays are exposed to more dirt. It is very important to clean outside merchandise frequently. Make sure someone is assigned to periodically cleaning of equipment.

We can take a lesson from our friends in the automobile business. New and used cars are hosed down daily. **Consumers readily associate dirty with old and clean with new.** A new piece of equipment can look old in two or three days if it's covered with dirt.

DEMONSTRATE VARIETY

Variety is a key to effective outside merchandising. Showing twenty or thirty of the same item is not nearly as impressive as showing a variety.

Customers sometimes have difficulty seeing (in their minds) what a product looks like fully assembled.

Make sure the area is solid enough to walk on, and there's room enough to actually walk around...enough space between equipment for customers to comfortably walk all the way around, open doors and allows them to do anything else they may need to do to inspect the merchandise.

IDEA #1: MAKE WINDOWS SILENT SALESMEN

What do the windows in your store tell clients? Is there a special sale inside? Is there a special event they need to remember? Your windows can start the thinking process. They can also shut off the thinking process. Are there logos or signs on your windows for merchandise you no longer have available? If so, scrape them off.



Don't fill the windows with signs. Although grocery stores use their front windows much the same as you might use a gigantic newspaper (to tell of all of the specials for the weekend), you should not put many signs on windows.

Don't block the view of the interior.

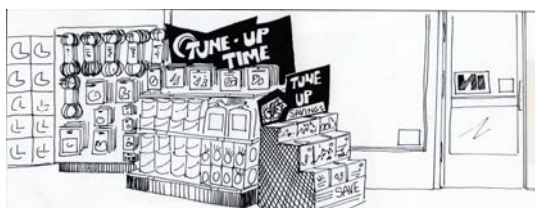
Signs and banners should be selected to attract attention to seasonal merchandise. Window signs should not stay up more than thirty days...they become somewhat like billboards and are not seen by customers.

Do you have a place to display merchandise in the windows? If so, build interesting displays showing a variety of merchandise which might interest customers at this time of the year. Again, make sure items are priced and clean. Change the displays at least every thirty days.

IDEA #2: BUILD TRAFFIC STOPPER DISPLAYS

One of the most powerful places for merchandising is toward the front of your store and to the right. Nineteen of twenty customers either turn right or look right upon entering.

Displays inside the front door showing interesting or seasonal items can be a real eye catcher and sales builder.



Experts contend most special displays should not stay up more than about three weeks before they're revised. Take some time over the next week or two to evaluate the various displays in your store. Observe how much time your customers spend looking at them. If the display is stopping customers, keep it. If customers continually pass it, or don't even notice it, you can reasonably assume the display is either not working or has outlived its usefulness and should be replaced.

This "up front" spot is also a good place for mass displays which create the illusion of product dominance. Deliver the message that you have plenty and are ready to sell.

IDEA #3: MAKE IMPULSE BUYING EASY

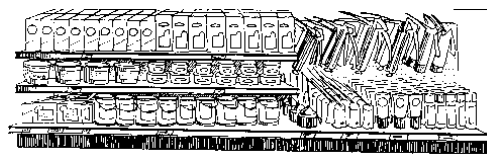
As customers approach your merchandise area, there are a number of things you can do to stimulate sales. First, make sure related items are displayed together.

Stores sometimes "displace" merchandise. They ran out of space for one item as another grew in sales. Instead of using the back room as a storage area, the display area became the storage area.

Sometimes merchandise arrives to go into a space that at one time occupied three feet of shelf space but has grown to six feet or more. Of course, the item that was next to it had to be put someplace else. Unfortunately, the "someplace else" was across the store. The salability of the "someplace else" item dropped substantially.

Look at every display section in your store and ask yourself if the merchandise seems to fit together. Is there something else in the store which, if displayed with this merchandise, would sell better? The idea is to create impulse purchases by having customers see other items.

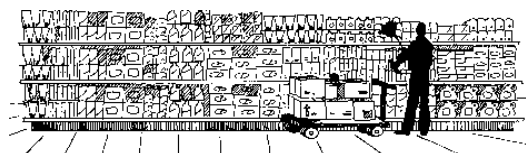
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IDEA #4: HOUSEKEEPING IS IMPORTANT TO SALES

Customers almost always associate dirty with old and clean with new. I have seen a number of situations where products were set on the shelf dirty. Perhaps one was broken in transit and leaked on others. The merchandise, although brand new, looked old.

It takes only a few moments to clean things up before putting them on shelves and only an additional few moments each day to dust and clean items.



While cleaning merchandise, it takes only a few moments to face the shelves. Grocery stores and hardware stores regularly use this simple housekeeping step to stimulate greater sales.

A grocery store may only have twelve cans of green beans, but all twelve will be on the front of the shelf stacked to give the impression the shelf is entirely full.

You might argue that shelves which are not faced give the impression lots of merchandise is being sold. Studies show consumers don't think of it that way at all. Consumers generally associate half-full shelves with slow sales.

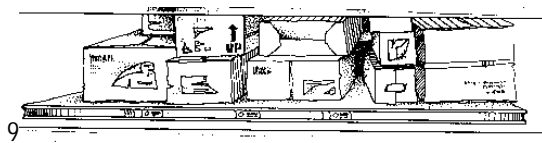
Housekeeping is a responsibility that must be shared by everyone. During the slower times of the day, it is important that everyone think of cleaning and facing merchandise before having an additional cup of coffee.



IDEA #5: DO YOU WANT TO STORE IT OR SELL IT?

One of the best ways to assure you get to keep merchandise is to set it on shelves in sealed boxes. Of course, there will be those times when sales have been so brisk the merchandise sitting on top of boxes has been sold and no one has had an opportunity to open an additional box. Often this is not the case. Often no attempt is made to open boxes, make the merchandise accessible to customers. Customers have to want your merchandise badly to tear open a box.

If you do nothing more than cut the lid off the top boxes on a stack, it will stimulate more sales. If you have a strong inventory and a good promotion in place, go ahead and put some unopened cases of

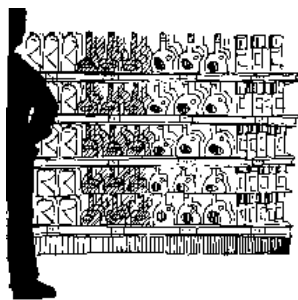


merchandise on the floor as the base for a display. But, be sure there is plenty of merchandise easy for customers to reach.

IDEA #6: DISPLAY DOWN RATHER THAN ACROSS

In general, items sell better when you use a vertical rather than horizontal display. A good example might be seen in hardware stores. Hardware stores seldom show three different kinds of power drills beside each other. Instead, they show a power drill beside a skill saw, beside a jigsaw, etc.

Use vertical display of similar merchandise, putting items of the same type below each other. Of course, items must be out of the box, clean and priced.



In general, put your best margin item in the "eye high" area. The area between the belt and the eyebrows is the easiest for the customer to reach. Put your best margin items there.



Put items that have less margin higher or lower. Customers may buy the lower priced item, but they're more likely to at least pick up the better quality product and look at it.

IDEA #7: PRICE FOR PROFIT

Each item should be priced. Pricing on bin or shelf edge is helpful, and when possible, individual pricing reduces confusion at the register and also creates price legitimacy. When an item is not priced, customers are more inclined to challenge the person taking their money about whether or not the price is current. When salespeople must look up prices, they may not quote correctly and customers may see the wholesale price.

As much as some owners and managers prefer to not price outside displayed items and want customers to "come in and ask", studies show pricing merchandise displayed outside increases sales dramatically.

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Some think if items are priced, customers will see the price and decide not to buy. But, studies show customers are more likely to ask salespeople about items if they see the price. Gigantic consumer chains have found

***Merchandise sells as much as
34% better when priced.***

Later, we'll be talking about rules in regard to pricing. For now, we will simply say pricing items attracts attention.

IDEA #8: LEARN ABOUT THE POWER OF SIGNS

The FW Woolworth Company is credited as being a retailer that significantly changed buying habits. Woolworth changed their stores from ones where the merchandise was behind the counter to ones where merchandise was set out where customers could touch it and look at the price. They proved immediately that customers quibbled less when the price was already on the product.

Most hotels have signs saying, "Check out time 12:00 noon." If travelers checked out at 12:30 or 1:00 o'clock, no great problems would be created. However, the signs cause most travelers to check out before the deadline.

It's important that prices be consistent. Regardless of the accounting system you use, it's generally best to have all items on a shelf priced the same. It often irritates consumers to see a price of \$9.95 on one item, \$8.95 on another.

If you do individual item pricing, make sure items are re-priced immediately after sales. The Federal Trade Commission has challenged retailers who tend to leave items on sale too long. One major retailer was told they could not say a certain item had a regular price of a \$XXX because the item had been on sale so long and so frequently they had, in effect, established a new regular price.



If you have a sale, make sure signs on the shelf or near the item tells it's a sale. As mentioned earlier, it's not enough to say the item is on sale. Effective retailers deliver a message to the consumer about how much the item is on sale.

This includes telling what the regular price was, and the sale price, or the percent off regular price. For example, an item that ordinarily sells for \$10.00 sells more effectively when the sale sign says, "regular price \$10.00, sale price 20% off...\$8.00".

DON'T GIVE AWAY GOOD MARGINS

Many stores simply use the *manufacturer's suggested list* and apply it to all items. Why? Generally, because *it's easy*. It's simple to lift the suggested price out of the book. It's simple to calculate

price since all markups are the same. It's simple because the staff understands it. It's simple because "that's the way we've always done it."

To compete in today's marketplace, it's important to consider the possibility of pricing points and variable pricing systems. Let's look first at pricing points.

As much as we laugh about it, there is some powerful psychology in pricing items at \$99.95. Grocers know a can of corn that might be priced at 25¢ will sell just as well at 29¢...and add 20% to margin.

We know customers generally look at the first number in the pricing sequence. If an item has a price of 89¢, customers associate it more with 80¢ than 90¢. When the last number of the price falls some place in the middle of the number series...six, seven...sales will not be lost and additional margin will be gained by moving the last digit up to nine.

By definition, price sensitive items generally fall into one or more of the following categories:

1. The item is *disposable*.
2. It's *fast moving*.
3. It's a *seasonal* product.
4. It carries a *high retail price*.
5. It is *heavily promoted*.

In addition, on many items, it makes no difference whether the item is priced at 79¢ or 99¢. A few moments spent looking at the retail price of the items in your inventory may produce a gold mine of additional profits by moving your pricing points up to take advantage of this psychology.

The inventory of every store contains certain price sensitive items. Those are items that, for a combination of reasons, cannot be priced as high as others. They must be priced very competitively to project a proper image in the marketplace.

People running hardware stores have learned there are certain items in the electrical and plumbing sections of their stores which are "price sensitive." For whatever reason, customers tend to look at those items first after entering the department to make an immediate determination about the pricing level of the entire store.

This is the case in your store. Certain items are looked at first by customers. If those items are properly priced, customers assume other items are also properly priced. Conversely, if those items are priced substantially above nearby competition, they assume all items in your store are more expensive.

To a certain degree everything you sell is disposable, but certain things are considered by customers as disposable. For example, a light bulb is disposable but the light fixture is not.

Disposable items are purchased frequently and therefore customers remember the price paid on the last purchase. They are also buying these items in large enough quantity to watch pricing of nearby competitors. Even though you're selling a brand-name

product, you must price disposable items competitively. This doesn't mean brand name items must be priced to match a generic, but they must be competitive.

Items sold heavily for a limited time become price sensitive. There are times when **everybody** seems to be running ads in hopes of capturing as much of a seasonal market as possible. As a consequence, seasonal items quickly become price sensitive. Customers see many ads from many stores promoting similar products. Price comparison is easy.

High dollar items become price sensitive. Customers come in and pick up items priced at \$10 and do not stop to carefully consider whether they may have bought the item someplace else for less. But, when contemplating the possibility of spending \$100, they are very likely to do some price comparison. You should not vary too far from the manufacturer's suggested list on high dollar items because of the likelihood the customer will price compare with others selling identical items.

Finally, virtually any item can become price sensitive **if it's heavily promoted**. Even though an item is not seasonal or disposable, if for some reason a store chooses to promote the item heavily for an extended period of time, it will become price sensitive.

Margins less than the manufacturer's suggested list may need to be taken on these kinds of items. Of course, to make up losses in margin, higher margins must be taken on other items. There are literally hundreds of "blind items" in your inventory.

Blind items are those which are virtually never shopped by customers. These include things not frequently purchased, not heavily promoted, not high in dollar amount and not considered disposable. These are items that can easily carry a higher margin without disrupting relations with customers.

It would be easy to say it's too much trouble to go through an inventory and selectively price items higher. If you have a computer system in place, it's not difficult at all.

Even if you don't have a computer in place, the pay back so dramatically offsets the investment in time it's well worth the effort.

Start by checking your inventory movement. All slow moving and special items lend themselves to higher pricing margins. Not just a percentage or two higher but sometimes double or triple the normal margin. There are some items in your inventory which carry a price of \$4.30 that could just as easily be sold at \$7.98. Price low where it counts, but increase your margin in those areas where it can be increased.

It will, however, be important to prepare your employees for this change in pricing structure. Employees, without some idea of the overall pricing plan, tend to side with customers in thinking you are gouging the customer.

Be sure your key people understand the necessity to make a good average margin on all sales and that price increases on certain blind items are only being taken to offset low margin or losses on price sensitive items.

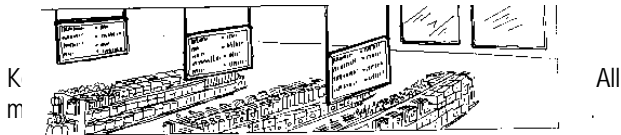
PRICE LOW ONLY WHERE IT COUNTS

Watch for price sensitive items. There may be a number of items in your store which are also sold by mass merchandisers. Customers who have seen their advertising may come to your store and look only at the item they've seen advertised by the competitor.

It's better to take a lower margin on highly shopped items and recover it someplace else. Shoppers have a tendency to look at heavily advertised items, and if they are not competitively priced, make a broad assumption that all of your items are higher priced. Often, this is not the case. Related items in your competitors' stores probably carry strong margins. Don't lose sales simply because you're not watching price sensitive and heavily advertised items.

IDEA # 9: CREATE AN INVITING APPEARANCE

Make it easy for your customers to feel comfortable in your store. Area signs are helpful to customers. If certain merchandise is displayed in one area of the store, let signs direct customers to it.



If you have broken items, put them on a sale table. Don't use the retail floor as a warehouse. There will be times when merchandise has recently arrived and the sales floor will be stacked with boxes, but they shouldn't stay there. Get the merchandise up and get the boxes out of the way so customers don't have to twist and turn to move around through your store.

There is a back to every store. Unfortunately, sometimes the back cannot be seen from the front. As stores expand the amount of merchandise they handle, they sometimes start stacking merchandise too high. Displays should be around five and a half feet high. This allows visibility to the back of the store and also makes it easier for customers to reach your merchandise. A good item too high for customers to reach may go unsold.

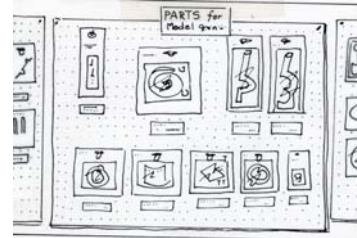
You must make some decisions about what to display at the back of the store. Of course, certain items have to be displayed against walls, but try to locate merchandise that is very popular at the rear. The obvious reason is to get people to move through the store.

Our friends in the grocery business have learned this lesson well. Virtually every grocery store locates bread, meat, milk and produce at the rear. The idea is to get the customer to walk past the other merchandise to get to items for which they most often come to the store. This creates additional sales.

IDEA #10 USE DISPLAYS TO HELP CUSTOMERS "FIGURE IT OUT"

Several stores use an excellent technique to sell merchandise that is not displayed. They use pegboards or walls to display parts that show customers the differences in various stock numbers.

It's an easy way for customers to identify the products they need without tying up staff. It cuts down on confusion, reduces errors and creates a great many sales.



IDEA # 11 MAKE SPACE PAY...AND SELL

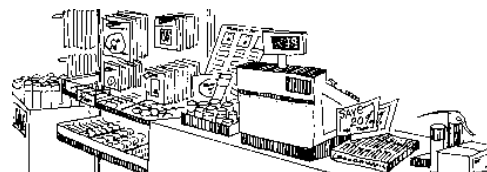
Calculate the value of display areas. Do you know the number of inventory turns on your merchandise and the average sales per square foot of your display area? Merchandise that does not have adequate turns ends up costing you. If merchandise is turning too slowly you may be devoting too much space to it. Perhaps by cutting down the amount of space allowed for that item and using some of the space for an item that can turn faster would create greater profitability.

Another important measure is sales per square foot. Many industries have guidelines for retailers to use in calculating desirable sales per square foot. These guidelines are primarily intended to help retailers spot merchandise which is not producing. If you're devoting space to an item not generating enough cash flow to pay for itself, you may want to unload it and replace it with an item which can do a better job for you.

You probably won't be too far off course if you'll periodically ask yourself the fundamental questions; "Do I have what my customers buy?" "Am I making a reasonable return on my investment to sell this merchandise to my customers?"

IDEA #12: COUNTERS CAN BOOST PROFITS

A final area for good merchandising is on or near the counter. All your customers should end up at the counter. Displays of small items appropriate to the season can easily be sold from displays near the counter.



You may also want to put some items that are difficult to secure near the counter so one of your salespeople can keep an eye on them.

Merchandise on or near the counter should be changed frequently. Since customers may return regularly to pay bills or buy merchandise, they should be seeing new items frequently.

Jack's BONUS IDEAS for merchandising

Now, let's add a few key ideas for getting the most from your display area. Here are some tips from a noted expert, Jack Rice, on the subject of display merchandising:

- 1. Display your best sellers.** There's no point in occupying your retail sales floor with things which are not of interest to your customers. The goal is to maximize the cash return per square foot devoted to the merchandise. Theoretically, you could devote space to every category of merchandise in your inventory. Of course, you can't do this. There isn't enough space. You have to pick and choose those items that will be displayed very carefully based on their profitability and customer demand. Try to select items that are proven moneymakers.
- 2. Be sure your display merchandise is supported with a good advertising program.** Your merchandise and your advertising must work hand in hand. It doesn't make any sense to advertise something not in stock. By the same token, it makes no sense to merchandise something you don't advertise. Make sure merchandise reinforces what you said in the ad. Once customers get to your store, the attractive merchandise will cap off the interest that your ad created.
- 3. Use the good P.O.P. aids available from manufacturers.** They have the financial resources to develop attractive fixtures and signs that you may not be able to do on your own. Watch for elaborate signs that might create attention and later can be modified for use in another way. Many good merchandising aids may already be in your back room.
- 4. The more people who walk by a display, the greater the sales.** The best spots for special displays are inside the front door and at the counter. Every-body goes there. In addition, if customers stand in line to pay for their purchases, they may have even more

time to look at the display. Watch the traffic pattern of your customers through your store, and then position displays to increase traffic in areas they don't normally go.

- 5. Use signs not only to announce the price of the item, but also to sell the product.** Brightly colored signs and attractive graphics catch attention.

There are probably a number of very talented artists available to you. Many times high school art departments do a wonderful job hand lettering or drawing pictures for signs that might otherwise cost a great deal to produce.

- 6. Use motion wherever possible.** Sometimes the elaborate displays from your manufacturer or supplier come with motors that cause one part of the sign to move back and forth. Studies show motion displays have greater impact. After the display has outlived its usefulness, be sure to save the motor device for use in some other way.

- 7. Look at your entire display area from the customer's viewpoint.** Does the area encourage you to look around, pick up an item and perhaps take it to the cash register? Can people easily see your entire merchandise area and quickly identify where they need to go? Once they arrive in a merchandise area do they see a wide variety of related products?

Pick up additional ideas by looking at your competition. If they are good merchants, you can bet they're looking at you.

As competition increases, "total merchandising" becomes a must. What may have seemed unimportant even five years ago has become critical today and will be even more important tomorrow.

Is your store a pleasant place for customers to visit or does it look like a place lost in a time vacuum? The average age and the profile of your customers is changing, and the market is changing rapidly. You will probably be changing the kinds and types of merchandise you offer. Make sure what you're adding to your inventory becomes a profit generator, and not a liability.

Smart Merchandising Cheat Sheet

- Walk your store. Look for strays. Ask yourself whether the best pulling merchandise is at the back. Obviously, the parts counter is generally at the back, but what else is there to pull customer through.
- If space permits, do you have a customer area...could be a play area...could be a "sit a spell and have a cup of coffee" place...could be a place to conduct business.
- Look to see if customers can easily spot several types of merchandise. Are displays too high to see more than one row? Are there signs to help them quickly find groups of merchandise?
- Got too many signs up? Are the signs that are up current?
- Are you using signs to Remind, Inform and Persuade?

The Big 12 Merchandising Tips

1. Check your windows. What are you selling in the window displays? Think Ralph!
2. Are you using the spot at the front right to **REMIND AND INFORM**?
3. Get related items together. Double displays are fine, but be sure to **REMIND** customers of related items.
4. Have a "clean and face" plan. Every merchandise group touched at least every 72 hours...think about McDonald's attention the cleanliness...**PERSUADE** them that your merchandise is "fresh."
5. Do you want to store it or sell it? Get cartons opened...or customers will do it for you. Let an opened item on display **INFORM** customers.
6. Use vertical arrangements to **REMIND** customers of accessory or complimenting items...stimulate impulse purchasing. Put profitable items **EYE HIGH**.
7. **PRICE IT!**
8. Make sure sales signs tell how good the deal is. **PERSUADE AND INFORM** male and female customers in terms they like.
9. Get the dogs off the shelves. Use clearance tables and bins.
10. Use pegboard displays to **INFORM AND PERSUADE**.
11. Don't waste display space on losers. If it isn't selling, dump it and replace with something that produces sales.
12. Get the counters cleared to sell impulse items. **REMIND AND PERSUADE** customers of small items they may have missed while shopping.

Even more tips from Jack Rice

- **Don't waste time, effort and valuable retail floor space displaying losers.** Buying mistakes happen. Don't expect customers who weren't interested in the product before to start buying just because you put it on an end cap. Reduce the price and get rid of it.
- **Tie displays to strong advertising and promotion.** Although great displays can increase impulse buying, advertised items on eye-catching displays really crank up sales.
- **Check out manufacturer POP materials.** Lots of good display material arrives from manufacturers that is never opened. Don't use it all, but at least see what you received.
- **Study traffic patterns.** If there are areas of the store where people seldom go pull them there with promotion items and great displays.
- **Use motion.** Some display materials come with motors to create motion in display signs. When the sales event has ended, toss the display, but save the motor so that you can build your own motion signs.
- **Make things easy to find in an environment that says, "Stay a while."**

Turning End Cap Displays into Power Sellers

TECHNIQUE USED	IMPACT ON SALES
<i>Large pail product</i> Displayed on end cap--no signs	up 112%
With feature/benefit sign	up 112%
With price sign	up 131%
Large pail product on an end cap with price & feature/benefit signs	up 229%
<i>Small frequently used item</i> Displayed on counter	up 40%
Small frequently used item Power display on end cap	up 540%
Small low priced item in dump bin	up 43%
Cross display moderate priced item in a second area	up 67%
Floor stack display in power aisle	up 79%
Regular shelf location, price signs present, but special temporary item signs added	up 68%

Making “*The Big 12*” Work in Your Store

Circle **3 from the Big 12 list** below that you think could have an immediate positive impact on impulse/related item sales in your store and use them as the “first steps” to turning you store into a selling machine

Big 12 Merchandising Tips	My choices for our store and why
Window displays	
“Up front/right” displays	
Related items together	
“Clean and face”	
Open one or create display showing contents	
Vertical merchandise arrangement	
Price it	
Sale signs that tell percent off or dollars off regular price	
Get dogs off the shelves	
Customer helpful area or department signs	
Create displays to help customers figure out what part they need	
Dump losers	
Counter/check out area displays	

Selling Skills & Customer Relations

Step 5: Teach employees how to give excellent service...so well that they “get it”...and don’t have to try to remember to:

- ❶ Greet quickly and courteously
- ❷ Convert “lookers” into buyers
- ❸ Handle complaints properly
- ❹ Use visual aids regularly
- ❺ Sell quality over price
- ❻ Respond to objections skillfully
- ❼ Ask customers to buy
- ❽ Suggest related items
- ❾ Be a pro on the phone

The 9 Most Important Retail Selling Skills

① Greeting Customers

Customers come in all sizes, shapes and ages. We'll discuss various kinds of customers in a later chapter, but for now, there is one concept that applies to virtually every customer. *"The first twenty seconds a customer is in your store or department can often be more important than the next ten or twenty minutes."*

Does that seem a little strong? Perhaps not if you have been ignored or treated rudely by salespeople in stores where you shop.

You can set the stage for pleasant sales encounters with customers in a matter of seconds. You can also set the stage for unhappy and tense discussions.

Making customers feel welcome is not complicated, but don't get an incorrect idea of what you need to do. We're not recommending a "glad hand" or "swarm 'em" approach...like you may have experienced at automobile dealerships.

It is not necessary to plaster a huge grin on your face, run across the sales floor, pump customers' hands, slap them on the back, tell them how fine they look and ask them how things are going. **You wouldn't want to be treated that way and your customers don't either.**

What both you and your customers want is a timely greeting and a simple, courtesy offer of assistance.

The ways in which customers define "good service" changed throughout the 1900's and even more in this century, but it underwent even greater change when discount stores put Grandma and Grandpa at the front door with big grins. Fast food places put a whole line of smiling teenagers behind the counter saying, *"May I take your order?"*

So, what's a company like yours to do? Just make sure customers don't get irritated before you've had a chance to help them. This seems to be the single biggest reason some customers have drifted away from stores like yours. Following are the statistics on **why customers stop shopping** at businesses like yours.

Almost two out of three customers are lost because employees didn't seem to care???!!!!

Why We Lose Customers:

61% drift away because of **perceived indifference** to customers by salespeople.

14% leave because they had an **unresolved complaint**

17% started shopping elsewhere for **lower prices.**

4% do business with **friends, relatives or acquaintances.**

3% **move away** from the community.

1% **die.**

Rockefeller Foundation

As it turns out, about the most important rule to remember is...**SPEAK FIRST**

If your store is large, perhaps customers have been spoken to several times already before you see them...perhaps not. For now, don't worry about what to say.

The key is to try to not make customers feel like they have to work to do business with you. Once, they are on your turf, it's your job to **SPEAK FIRST**.

Also, remember this with what we call the **20/20 Rule**. In general, no customer should wait more than 20 seconds nor walk more than 20 feet into a department area where an employee is working before being recognized. "Recognized" can include a wave, nod or smile (if you're with another customer).

That's the base line for **all customers**, but is there more you could (should) do with your "regular" or "steady" customers?

Imagine these special customers with signs hanging around their necks reading:

"MMFI"

Make **M**e **F**eel **I**important.

We feel sure you've made special customers feel important. In the space below, write some of what you say or do to make customers know you remember them, their purchases or..perhaps knowing something about their lives or families:

When you make friendly statements to customers, you're establishing rapport... "breaking the ice." This allows customers to begin telling you what they want.

Rapport can be initiated by simply saying, "Hello" or "Good to see ya" or "You look like you're searching for something."

Customers like to be noticed and hear friendly comments. It sets the stage for a more open discussion.

You may have something nice and/or personal to say to "regular" customers, but you certainly won't know all customers on a personal basis. Ways to create rapport with customers you don't know all that well might include saying:

"Wow, isn't it a beautiful day?"

"Really is wet out there, isn't it?"

"You sure look happy today!"

"What a pretty dress." (Commenting about a child whom her parent is accompanying)

"He has a big ole smile."

Another part of greeting customers is to smile. Smiling is a relatively easy thing to do. It takes only 17 muscles to smile, but 62 to frown. We're not suggesting a silly, phony smile. A genuine smile is a simple, but powerful way of saying, "Good to see you... I'm ready to help you...today is going pretty well."

Even the nicest words and most professional questions can sometimes seem unfriendly to customers when not accompanied with a smile. Test it. Stand in front of a mirror, fold your arms and, without a smile, say, *"How may I help you today?"* Without a smile,

customers may feel you don't want to help them at all and are only asking because you have to.

To really get things off to a good start, begin by asking interesting questions. Questions customers sometimes hear that can produce differing reactions:

"May I help you?"

"Find what you need?"

"Need some help?"

"Looking for something?"

"Whatcha lookin' for?"

"What can I do you out of?"

The most frequently asked question is: *"May I help you?"* The question really has only two answers... *"Yes" or "No."*

Customers who have had bad experiences with pushy salespeople know that saying, "Yes" brings more questions. That is one reason customers often say, **"No, I'm just looking."**

You can turn *"May I help you?"* into a better selling question by adding one word-**"HOW** may I help you?" Now the question cannot be answered *"Yes"* or *"No."* Frequently, customers will engage in a dialog with you.

None of the questions on the above list are actually bad questions provided you match them with familiar ("regular") customers. However, it is natural to form behavioral habits. If you say, ***"May I help you?"*** often enough, soon you'll be saying it to everyone.

With very familiar customers, use any question with which you are comfortable. Your question can be confirmation to them that you look forward to seeing them.

"Are you buying or just wandering around?"

"What can I do you out of...you old buzzard?"

Obviously, these are not your "everyday, usual" questions, but they can make special customers **FEEL IMPORTANT**.

REMEMBERING CUSTOMERS' NAMES

The final step in making customers feel welcome is to **learn and use customers' names when appropriate**. Most customers like to be recognized by name. If you are relatively new to the store and still unfamiliar with regular customers, you can become good at remembering names by practicing some simple techniques.

(1) When approaching a familiar face (which you can't match with a name), **start by introducing yourself**. If you wish to know both first and last names of customers, give them both your first and last names.

You might say something like,

"Good morning. It's good to see you again. I'm Betty Smith and your name is...?"

You may wish to **hold attention by shaking hands** while you're introducing yourself and listening to customers' names.

(2) **Look customers "right in the eyes."** Your brain remembers things partially in the form of words and statistics and partially on the basis of pictures and images. By looking at customers' faces while you are also hearing their names, you **help your brain match faces and names**.

(3) **When you hear customers' name, repeat them.** After you've introduced yourself, the customer may say something like, "*My name is John Brown.*" You could say, "*John Brown?*" and pause for a moment to make sure you heard the name correctly... the customer will confirm it. Then say, "*It's nice to meet you, Mr. Brown.*"

If customers want you to call them by their first names, they will let you know. It is generally safer to use courtesy titles such as, "Mr. Jones" or "Ms. Adams" until they invite you to join them on a first-name basis.

This technique is not magical. But, it does work. It works because you are engaging both parts of your brain while hearing customers' names three times in a short interval. Customers say their names, you repeat the names (to double check) and finally, you use the names. Repetition is an excellent way to learn names of unfamiliar customers.

In addition to the greeting, use names periodically during your sales presentation and, if appropriate, write names on sales tickets. These steps will not only help you cement customers' names in your mind, but will also make customers feel important.

There is one other method of greeting customers that is useful when you were unable to greet them as they entered the store or department. It is called the "merchandise approach."

EVEN MORE WAYS TO "SPEAK FIRST"

Instead of saying, "How may I help you?" to customers who are already looking at merchandise, begin with a comment about the merchandise.

You might say,

"You're looking at the best quality _____ we carry."

This approach allows you to begin a short presentation immediately.

This technique also works well for customers who previously said they were "just looking" but then stopped to examine a product.

You might also offer customers the opportunity to look at other merchandise. For example,

"You may want to check the batteries on sale when you finish looking at the flashlights."

These are called "merchandise approaches." Your comments about merchandise are a way to begin establishing rapport.

Directing customers' attention to related item or sale merchandise is especially important for **the browser**. You'll learn more about this category of customer (the "browser" or "looker") in the next chapter.

SOMETIMES 'REGULARS' HAVE FRIENDS THEY LIKE TO REFER TO YOUR STORE

You have seen customers ask to talk to specific employees. Even though other salespeople offer to help, customers see, only to want to deal with a certain employee and may say, "*I'll come back when _____ is here.*"

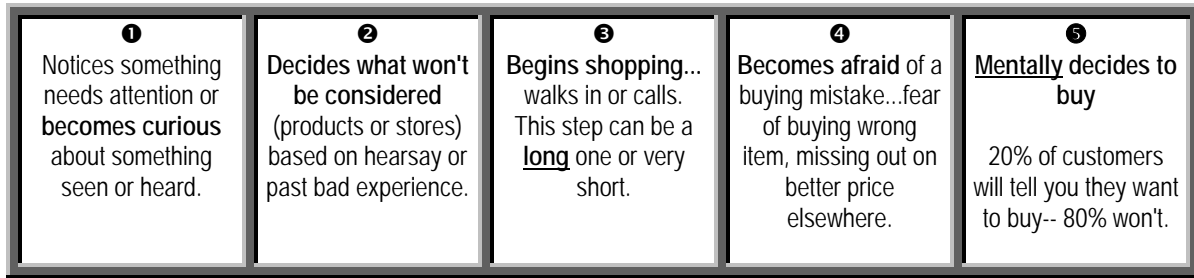
Usually customers ask for a particular employee because they know him or her. When this happens, if you don't know the customer, go ahead and introduce yourself.

Customers who regularly shop at your store may not be familiar with you and may feel uncomfortable talking to you until they get to know you better. When you begin to know regular customers by name, they feel more at ease and will get down to business more quickly.

In this lesson we have explored the importance of making customers feel comfortable by using five simple skills that help them "open up" with you.

You'll find customers more friendly and willing to do business with you on a personal basis when you take the burden of getting preliminaries out of the way.

② Help Customers Decide to Buy



Browsers or "lookers"

The chart above shows the steps buyers go through when purchasing something. Sometimes the entire process takes only a few minutes... sometimes, days, weeks or months.

Depending upon where customers are in this buying process, their responses to your offers of assistant can be very different.

Sometimes it is difficult to get customers to tell you what they need or want (sometimes because they don't know). Other customers know exactly what they want and tell you quickly. Customers can be classified in three rather broad categories. These are:

1. **Decided** customers
2. **Browsers** or "lookers"
3. **Undecided customers.** Customers who want to buy...but are not sure which or what.

Decided customers

They know exactly what they need, which size, where it is and are often in a hurry.

In most cases, very little sales assistance is required for decided customers. About all you have to remember to say is, "Thanks for coming in."

When these customers choose items for which there may be additional merchandise required (for example, they picked up pet shampoo but didn't look at brushes or flea collars), it is good to suggest the additional merchandise. These are the least difficult customers to assist.

These folks drive some salespeople bonkers. After you have greeted them with a friendly, "*How may I help you today?*" they say, "*Oh, I'm just looking.*"

Of course, some of them are just looking... shopping, killing time or seeing what's available. Most, however, came to your place of business with something specific they want to see and may only say they're "looking" to avoid being "bothered by a sales person" or having to admit they really don't know what they need.

Asking a few common sense questions can often nail down the "need" in a matter of seconds. Here are some questions that are easy for customers to answer, and get you the information you need to identify what customers want the product to do and/or why they are asking about/looking at it.

Turn "Lookers" Into Buyers with 6 Common Sense Questions

- (1) "*Is there anything in particular I can at least direct you to?*"
- (2) "Is this the first time you have purchased this type of product or are you replacing something like it that you have bought before?" or "Have you done a project this before or is this the first time?"
- (3) "*Have you already looked elsewhere at products like this?*" or "*Has someone given you ideas?*"
- (4) (If the customer is not familiar to you) "We're glad you decided to check with us. How did you learn about us?" (or this product...if the customer is asking about a brand name)
- (5) "*So I don't go over things you already know, has someone at our store shown you our product?*" or "*Has someone from our store given you a quote?*"
- (6) "How will this be used?" or "What do you want this to do?"

In answer to your first question, **true lookers** may say:

"Oh, I'm just killing some time and wanted to look around your store."

In that case, the remaining questions may not be appropriate. Simply offer the opportunity to browse. When practical, offer suggestions about where they may enjoy browsing. For example you might say,

"We're glad you decided to look around in our store. If you have any questions, let me know. While you are here, you may want to look at our..."

You'll be surprised how often lookers will take your suggestions and look at sale item.. You'll also be surprised how often they buy.

Most so-called "browsers" don't just wander into your store. If you work in a lumberyard, for example, it is very seldom that customers would come into your store just to see what you stock. Chances are pretty good they "need" something specific, for a certain project.

However, customers use the word "**need**" for all kinds of things. For example, one customer might say, "I need a lamp..." as he holds a broken one in his hand. Another customer might say, "I need paint..." when she has become tired of the old color. Both of these "needs" are important to the customers, but they mean different things.

If you listen, customers say things that reveal their real needs. The need may be physical (he doesn't have enough light to see)...it may be pride (she wants her friends to make nice comments about her living room)...or numerous other reasons.

The first of our six common sense questions helps identify *what* they are looking for. The remaining five questions uncover issues that help you help them decide *why* to buy your product. Think how easy it would be to help customers if you knew the answers to all six questions.

Listen to customers and ask questions to *find out what they want the item to do*. Again, most customers are not interested in how the product is made or where it comes from ("So what!"). They are interested in what it will do for them.

The purpose of asking questions is to convert "browsers" (for whom you have few answers) into one of the two other categories...decided or undecided customers. You can do something to help once you have information.

Undecided customers

These are the ones for which this course is designed. These customers want to buy but need answers. The remaining five questions work well with undecided customers.

Pay attention to answers for the second, fourth and sixth questions. These gather information about buying motivations ("needs") and help you design your presentation.

So far as we know, there are nine main reasons people buy things. Some of these *buying motivations* don't apply to the types of products you sell; others are right on target. Here's the complete list. People buy:

1. Products to make money or as a **part of a project**. This is a prime motivation in the purchase of power tools or other items to maintain a home, craft items and house wares.
2. **Convenience**...your store is located close to their home and/or they want to buy something which makes life easier...an accessory or electronic equipment which will save time or effort (a microwave oven, garage door lifter, electric toothbrush, electric pet clippers, etc.).
3. Products to pursue a leisure **hobby or sporting activity**...any garden tool, soldering iron, instructional books, equine accessories.
4. They are interested in your product because **someone they know and admire owns one**. In a sense, they are imitating and may say, "I have a friend who told me." Most products you sell (even simple maintenance items) can find themselves in this category.
5. They want the product to **prevent or avert loss**. Often paint, repair and security items are purchased to protect investment in equipment or homes...also (if you sell products for pets) vitamins and health products.
6. They want the product for **health or physical fitness reasons**. Sometimes items such as filters, humidifiers, dehumidifiers and exercise equipment fit this one.
7. Desire for **recognition or friendship**... prestigious brand-name products as well as the "newest, biggest or best" of any line of products fill this need.
8. They are interested in **self-improvement**. Some simply want to know how to do something better or more effectively.

"Do-it-yourself" books and "fix it" information on how to correct a problem fit this category. If your store conducts short workshops for DO-IT-YOURSELF customers, invite them to attend.
9. **They are buying just for themselves**. Even though the item may seem illogical (a 42" riding mower for a person with a tiny yard), it makes great sense to them.

A tip-off to this buying motivation is when customers say, "*For as long as I can remember, I've always wanted...*"

When customers tell you *why* they want a product, **they enable you to match the features and benefits of an item to their desires**. By asking key questions before you start presenting...and thinking carefully about what those answers reveal...you have the power to

target your presentation and give precise, individual customer assistance.

Customers sometimes don't state their needs clearly. The customer with the tiny lawn might say, "*Even though my lawn is not that big, I need a riding mower because my doctor says I have a bad back. My neighbor has a top-of-the-line Nifty Brand, says it does a good job for him.*"

Behind his actual words, this customer is telling you he knows a huge mower is foolish for his size lawn, but he has admired and envied his neighbor's riding mower and would love to own a prestige model that would make other neighbors jealous. Therefore, your presentation could have less to do with how the mower works and more about what a well-known and respected brand it is.

Analyzing these facts enables you to hit key points in your presentation about the mower that will "ring this customer's chimes." You may even need to give a bit of reassurance that this mower will not necessarily be too large for his tiny lawn.

Emphasize the appearance and convenience features of this top-of-the-line mower that differentiate it from basic models.

You would tend to give less emphasis to horsepower or blade size, because these things are not really very important to this customer.

With practice, you will become more alert and "tuned-in" to customers' words, and mentally convert what they are saying into the needs behind the actual statements.

Of course, customers come in both sexes, all ages and various financial positions. Even though some products tend to be purchased by customers in certain age or financial brackets, **don't assume** those who do not fit the "typical customer" profile would not buy the product.

By asking intelligent questions, you'll discover a number of situations where you will be surprised by the size of your sale to a customer you might have suspected would not buy at all.

Some customers may be **youngsters**. They also fall into the "decided," "browser" and "undecided" categories. Don't overlook the importance of these young people. Some day many of them will be adult consumers in the community. Most people remember how they were treated when they went to a store as kids.

Customers you see today may be **spending a small amount**. If treated properly, however, they often return some day for larger purchases.

Regardless of how much customers spend in the store, how old they are or how much influence they have in the community, **their purchases are important to them**, and they want you to show them what products will do to meet their needs.

③ Dealing with Unhappy Customers

As you know, there is a fourth category of customers. These are customers who return because they are upset about a product or service they have previously purchased. **Nothing we will say in this chapter will make handling of these customers "fun."** We can, however, share some ideas to make your handling of irate customers more effective and beneficial for you.

Our ideas hinge on one key concept... **irate customers returning to your store is a welcome sight.** If you've handled angry customers, you may disagree with that thought at first.

Here are some statistics from the book **SERVICE AMERICA**. This book reported results of a study commissioned by the US government (White House Office of Consumer Affairs). The purpose was to find out what happens when customers are unhappy with products or services they have purchased and tell of their unhappiness. Here are some of the most important statistics:

THE BAD NEWS

- For every customer who takes the time to complain, there are **26 others** (nationwide average) who are also unhappy about something but **decided not to let someone know**
- Of the 26 who are unhappy, six have concerns that would be considered serious by your company or any other company. 65% - 90% of unhappy customers (who don't tell you they are unhappy) "take a look" at a competitor's products or services
- On average, 87% (of the 26 unhappy people) tell 9 - 10 other people about their problem...13% of them tell about 20 others

THE GOOD NEWS

- **You can win back 55% - 70%** of unhappy customers just by listening to the complaint
- **You can win back 95%** if you listen and then can offer an immediate solution or adjustment.

Looking back to the reasons why we lose customers, **the third most significant reason why customers start doing business elsewhere is because they had an unadjusted complaint.**

Actually, the main reason customers get so frustrated and angry that they quit buying is not because of a product that failed, but because of the way a salesperson handled the complaint.

Also think about long-term results you may have experienced when you have successfully handled unhappy customers. **They come back!**

You may have experienced situations when customers came back with legitimate complaints, were professionally handled and the problems solved. If so, you may agree that those customers often became some of your most loyal.

Of course, that doesn't mean they will not complain about future problems, but they are often more loyal to **you** and your store. Customers may begin asking for you by name because you helped them solve a problem.

Maybe you can think of one or two places you shop where your complaints were properly handled. Perhaps because your problems were handled well, you buy there often. Conversely, some people refuse to ever (again) set foot in a store because once (often, it only takes one bad experience) they were not able to work out a satisfactory solution to a dispute.

It's not easy for most of us to complain. It is easier to avoid a confrontation. Have you ever asked for a refund or exchange? You probably felt a little uneasy. Your customers feel the same way. By coming back to your store to talk about problems, they have chosen to do something difficult.

When angry customers come back to your store it is a pretty good sign. They could easily have decided not to come back at all and gripe to their friends about how they were ripped off at your store. They could have gone to competitors and started buying another product instead of yours.

This is why we say you should be happy to see dissatisfied customers come back. Those customers are saying, in essence, "I have a problem, but I'm willing to give you a chance to help solve it." **Customers who come back and have complaints properly handled often become loyal customers.** And, when they tell their story to friends, your store becomes the "good guy."

CONSIDER UNHAPPY CUSTOMERS' MINDSET

Think about the attitude of unhappy customers as they enter your store.

- They are uneasy about what may happen.
- Sometimes, they have a "me against you" attitude.
- They have pre-rehearsed or thought through some of the things they plan to say **and what they think you might say.**
- Some expect salespeople to say, "*Gee, I didn't sell you that*" or "*I'm not the person who handles this kind of problem.*"

Begin with the goal of creating a climate that assures customers you want to help them. Your attitude and the use of some very simple but powerful skills can make these transactions shorter and more effective.

As soon as you know you are dealing with an unhappy customer, say:

1. *I'm sorry this happened.*
2. *I'm glad you came to tell us about it.*

These statements will not take all the "angriness" out of angry customers, but **they help customers focus their emotion on the problem...not on you.** These statements demonstrate interest in solving problems.

If irate customers don't begin telling you about their problems, invite them to by saying, "*Please, tell me about the problem.*" Really angry customers have little difficulty doing this.

This is the least enjoyable part of dealing with truly irate customers. They not only talk about the problem at hand, but also may dredge up all kinds of problems from the past. If you remain silent (and interested), upset customers talk less than you might expect.

During the time angry customers are talking, **use non-committal replies.** Examples are statements like:

"Uh-huh...I see...No kidding...Then what happened? ...Hmmm?"

Non-committal acknowledgments demonstrate you are willing to listen without indicating that you agree or disagree.

Customers' problems may be as simple as a wrong size or wrong color. Of course, some problems are more complicated. Perhaps the product has failed to function properly or is broken. In these cases, asking questions and listening become more important. Sometimes, you will need to know if the customer used the merchandise correctly. You may also need to know if the merchandise is beyond repair.

Ask how the item is not meeting customer expectations. As simple as that sounds, some salespeople start telling customers their problem is not important before customers have had a chance to talk.

Let them say what they planned to say about the problem, their feeling about the problem, etc.

Guard against accidentally telling customers they are wrong. Salespeople do this by saying things like, *"Gosh, we've sold at least 200 of those and never heard anything like that happening."*

Such a comment can make the customer more defensive because it essentially sends the message: *"You evidently did something unusually wrong or stupid with this item that 199 others did not do."*

You may be right, but it certainly doesn't help customers feel any better about their problems!

When customers are explaining problems, they may want to show you what the problem is by pointing to (or handing you) the broken item. If they don't, ask them to. Seeing problems is helpful in three ways:

1. It shows interest.
2. It helps you determine the extent of actual problems.
3. Customers become more factual and tend to moderate the severity of problems.

Once you have heard and seen the problem, you may know immediately what to do and have the authority to make the adjustment. In those cases, make the adjustments and thank customers again for bringing their problems to your attention.

On the other hand, it may be an issue with which you are unfamiliar or the adjustment is something you do not have the personal authority to approve.

Never promise something you cannot personally fulfill. Even though your store may have a policy of replacing or repairing certain things, if you don't **personally** have the authority to approve the replacement or repair, it is best not to seem to promise it to customers until a manager tells you for sure it will be done.

In these cases, a useful question to ask is:

"What do you think would be fair?"

Ask this question instead of explaining why you are not going to handle the adjustment personally. The question is designed to help customers think in a broader context. Instead of a selfish request, they often request something well within reason or store policy. **Often what the customer wants most is for someone to listen.**

Don't promise anything until you have authorization. You might say something like:

"Ms. Customer, I think I see what the problem is now. Let's see what we can get done."

Finally, if the decision of the manager or owner is to replace merchandise or provide a refund, (even if you think the customer doesn't deserve it),

GIVE IT WITH CLASS

To communicate disapproval or disgust with the refund or replacement--even subtly with a fleeting facial expression or roll of your eyes, has the effect of undoing the good will your store is trying to buy. Smile and thank the customer.

If you follow all the steps in this chapter, the person to whom you must go to seek approval for the adjustment will be in an excellent position to make a fair decision. You will also have averted one of the most dangerous problems of dealing with irate customers. Sometimes, with good intentions, we promise customers something we later cannot deliver. Then we have to go back, apologize and try to explain why what we previously promised is not going to be done.

Irate customers...they are not fun, but they can become good customers through proper handling. If you remember **the irate customer's deepest need is to be heard**, you'll be successful. If irate customers only wanted to scream and yell, they could do that at home. The fact they come to you indicates they feel something worthwhile will happen. By handling them professionally, you not only build loyalty to the store, but to yourself as a sales person.

It is good to learn the (often large) number of situations in which you can completely handle needs of customers in regard to refunds and returns. On the following page is a chart you might discuss with your manager. It covers just about all the situations you might face in handling unhappy customers.

In some cases, your authority to say "yes" or match the desires of customers without further review by a manager will be based upon store policy. In others, it will be determined by your experience.

The whole process begins with the block in the upper left of the page. What is the largest dollar amount about which you will have authority to make decisions? For new employees, the amount may be \$20...or even less. For veteran employees the amount may be very large. Knowing your "line of authority" will help you know when to ask for assistance.

Making Return/Refund Policies Consistent

<p><i>HIGH \$</i> IS ANYTHING OVER</p> <p>\$ _____</p>	LOW \$ FAMILIAR CUSTOMER		LOW \$ UNFAMILIAR CUSTOMER		HIGH \$ FAMILIAR CUSTOMER		HIGH \$ UNFAMILIAR CUSTOMER	
MERCHADISE UNUSED CUSTOMER HAS RECEIPT	REFUND? EXCHANGE? BOTH?		REFUND? EXCHANGE? BOTH?		REFUND? EXCHANGE? BOTH?		REFUND? EXCHANGE? BOTH?	
MERCHADISE UNUSED CUSTOMER HAS NO RECEIPT	REFUND? EXCHANGE? BOTH?		REFUND? EXCHANGE? BOTH?		REFUND? EXCHANGE? BOTH?		REFUND? EXCHANGE? BOTH?	
MERCHADISE USED CUSTOMER HAS RECEIPT	REFUND? EXCHANGE? BOTH?		REFUND? EXCHANGE? BOTH?		REFUND? EXCHANGE? BOTH?		REFUND? EXCHANGE? BOTH?	
MERCHADISE USED CUSTOMER HAS NO RECEIPT	REFUND? EXCHANGE? BOTH?		REFUND? EXCHANGE? BOTH?		REFUND? EXCHANGE? BOTH?		REFUND? EXCHANGE? BOTH?	
MERCHADISE BOUGHT ELSEWHERE	DO IT AT ALL?		DO IT AT ALL?		DO IT AT ALL?		DO IT AT ALL?	
CUSTOMER WANTS REPAIR SET UP INSTRUCTIONS	CHARGE?		CHARGE?		CHARGE?		CHARGE?	
CUSTOMER WANTS EXCHANGE MERCHADISE BOUGHT ELSEWHERE	YES	NO	YES	NO	YES	NO	YES	NO

④ Make it Easy for Customers to Understand

Buying a product or service is an enjoyable experience for customers--provided they need it, feel your **product or service is capable of doing the job**, your company (or you as a sales person) **can be trusted to deliver what is promised**, the **price is fair** in relation to the value offered by the product and finally, that they can **benefit from having the product or service right now**.

If they are to buy the products you have to offer, **customers must make decisions**. To make decisions, **they must have information**. The information they need must come from you...in an **"easy to remember"** format.

Unfortunately, we sometimes make it difficult for customers to buy our products or services because **we don't use good presenting techniques**.

Selling is an applied behavioral science. If you are willing to learn the techniques of good selling and regularly use them, you'll be successful with your customers.

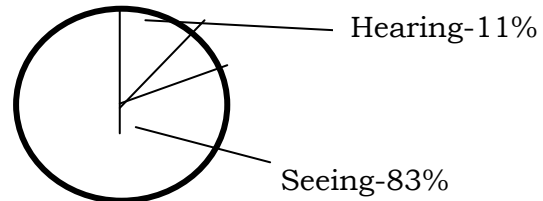
One of the techniques critical to the selling process is **"Show and Tell"** selling. It is surprising how little people remember, at times. This is especially true when they are trying to remember things they have heard but not seen.

Whenever possible, it's good to let customers see and touch the item they are considering. You can also increase their understanding by encouraging them to discuss what they are hearing from you.

Regardless of how many times you may have sold a product, you probably haven't previously sold it to this customer. Take time to allow them to decide to **buy** instead of feeling like they were **sold**. Customers who have time to explore product features, think and muse often feel better about purchases they make.

The Part Our Senses Play In Learning

Sight.....83%
 Smell.....3%
 Taste.....½%
 Touch.....2½%
 Listening.....11%



72 hours later, people generally remember:

10% of what they read
 20% of what they heard 3 days ago
 30% of what they see others do
 50% of what they hear and see others do
 70% of what they talk about during the presentation
 90% of what they talk about and work with

The effect of time on your method of presenting:

METHOD USED	AMOUNT WE TYPICALLY REMEMBER AFTER	
	3 HOURS	3 DAYS
Other person told us	10-15%	2.2%
We were shown	72%	20%
We were shown and told	85%	65%

Some people have more difficulty seeing and hearing:

AGE	SIGHT DEFECTS	HEARING DEFECTS
20	13%	23%
30	19%	39%
40	25%	48%
50	34%	71%
60	51%	82%

When customers are looking for a specific product, take them to it, of course. This sounds simple, but we sometimes forget if we are too intent on finishing some task. Sometimes, we simply point customers in the right direction...and thereby miss excellent opportunities to explain products.

USE SALE LITERATURE

The need to see the product is particularly true of "decided customers." They want to find the merchandise and get quick answers to one or two simple questions. Their questions can be more convincingly answered if you **show them the product**.

The other two kinds of customers ("browsers" and "undecided's") may need additional help. For these customers, **seeing the product will have a great impact on their willingness to buy**.

This is why television has such a tremendous impact on sales of products. People see the product on television, and then when they again see the product in your store, they remember things said in the TV commercial.

TAKE TWO

First, if the product is small enough to hold, **take two of the products from the shelf or pegboard hook and hand one to the customer...keep one for yourself**. This is called the "take two" technique. Customers who have difficulty seeing can be comfortable holding the product as close or far from their eyes as they need.

Holding the product also gives them a sense of possession. You'll be surprised how often customers will keep the item. **When customers have products in their hands, attention is almost totally dominated**, and other things going on in the store won't as easily distract them.

When you handle merchandise, use respect and care. This makes products seem more valuable, more important. When you hand products to customers, they will tend to handle them with respect as well.

WALK AROUND IT

Another variation of having the customer look at/touch the product is the **"walk around"** presentation of a piece of equipment or an appliance. The term "walk around" refers to the technique of walking around large items, periodically stopping to point out various features customers wouldn't know unless told and allowing customers to touch the product, push buttons, etc.

Stress the features customers said were most important when they answered questions by you.

"Walk around" presentations become boring when salespeople "tell everything they know" about a product. **Customers don't need to know or want to hear everything. Customers want to hear how the product will fill their personal needs.**

Another good technique is to **use brochures and sales literature**. Often, literature is located close to products. When the item is not actually stocked in the store, information may be found in a catalog or wall chart. Use of brochures or charts is also helpful when the product is too big or too heavy to hold.

When using this technique, it is important to **hold the picture in such a way that it is easy for customers to see**. If necessary, turn the brochure around so it is properly positioned.

For maximum effect, **use a pencil to mark on the brochure**. Of course, you can only do this when the brochure is the type that can be given to customers. As you are presenting the product and answering questions about it, you can **underline and mark various key phrases**, specifications or prices while you are talking.

This focuses customer attention on what you are saying and also builds recall points.

When you have marked certain key phrases (especially when customers need to "think it over" or get additional measurements before purchasing) the marks you make will help them remember important facts when they are back at their homes or places of business.

Most important about the technique of using brochures and sales literature is that it adds credibility to what you say. The old sayings **"A picture is worth a thousand words"** and **"Seeing is believing"** are actually true. When a well respected manufacturer puts a statement about product performance in a brochure, customers tend to believe it.

DRAW OR CALCULATE IT

A third technique is to **use pencil and paper**. When you are calculating or designing a special use of your product, use your pencil. **Write down such things as how much of the product is needed, when and where it should be used, the names of products, sizes, etc.** All of these help customers remember and understand your presentation.

Using visual aids makes selling easier because, again, **people tend to believe what they see**. Another saying we grew up with is worth remembering..."**Don't believe anything you hear, and only half of what you read.**" Somehow seeing facts and calculations help customers understand...and believe.

To increase the amount of your sale without exploiting customers or being offensive, **show customers your best quality products first**. Of course, when customers know exactly what they need or want, take them to it first.

On the other hand, when customers are uncertain, show them your best quality before showing lower priced items.

Not all customers want the lowest price. Most people like to own high quality things. A few customers become annoyed at salespeople who suggest higher quality items, but customers should never have to say, "*Well, I'd like to see something of a little higher quality if you have it.*"

Point out the features of the "top of the line" product. **It is easier to sell down to a lower priced product**. Customers who wish to save money can buy your next best quality rather than the "top of the line."

As customers begin to reveal needs or spending limitations, you should begin to focus on the product that seems the best fit. Eliminate other products from your discussion and, if possible, put the product that best fits the need in their hands.

Reduce the number of choices customers must make. Help them focus on products that target their needs.

Show and tell selling is easier because you do less telling. When you are showing customers a product, handling it carefully and allowing customers to hold it, you really don't have to do much fancy talking.

You'll also help customers remember much more about your products. When you are showing and telling, you're not selling...you're helping customers learn the things they need to know to make buying decisions.

5 How to Sell Quality over Price

In the last chapter, we showed how the use of visual aids can reduce the amount of "talk" required to make a successful presentation.

In this chapter, we will further minimize the number of words required to help customers make buying decisions by using the powerful technique of **talking in terms that help customers see what your product or service will do for them...answer the "So What?"**

This poem describes the reaction customers might have to long-winded sales presentations.

*I see you've spent quite a big wad of dough
To tell me the things you think I should know.*

*Your store is so big, so fine and so strong;
Your record of service goes back "Oh so long."*

*Your company started in 1902?
How interesting that is...to you!*

*You're building the thing up with the blood of your life?
I could run home like mad and tell that to my wife!*

*Your product line is modern and Oh so complete;
Your manager flawless...your people so neat.*

*Your motto is quality with a capital "Q"?
Why am I tired of hearing about you?*

*So, tell me quick and tell me true
(Or else, my friend, I'm through listening to you!)*

*Less of "How this item came to be"
And more of "what the darned thing does for me"!*

***Customers don't buy products.
They buy what products will do for them.***

The key to selling is to discover what customers want products to do. Why are they really interested in this type of equipment, this appliance, these accessories or other things about which they have asked?

There is an old saying that applies here. People going to a hardware store to buy a ¼" drill bit don't actually want a drill bit. What they want is a ¼" hole. They're buying the drill bit to get the thing they want.

We will explore how to describe important products in terms of how it's made, why it's made that way and what it can do for customers. This is a very important skill for selling "big ticket" items. It's not likely that you will need to use this selling skill when describing a common bolt and nut.

GREAT SELLING PRODUCT #1

FEATURE	FUNCTION	BENEFIT

GREAT SELLING PRODUCT #2

FEATURE	FUNCTION	BENEFIT

In a previous chapter, we stressed how important it is to ask questions to find out how customers plan to use products, what caused them to want to see your product, what other products they've seen, and other information which isolates the **buying motivation**. The objective of this chapter is to demonstrate how to match the things you tell customers about your products to their needs.

People are interested primarily in themselves. Just about everything we do is related to our own self-interest. Imagine customers with a neon sign on their foreheads that say, *"So what?"*

Customers are not initially interested in how the product is made or where it came from. Instead, they want to hear what it will do for them. Obviously then, it makes sense to find out what customers want products (they are shopping for) to do.

Most customers are in a buying mood, but that doesn't mean they will buy. It takes your help and skill for them to make decisions. Before you can help customers make decisions, you need to understand what will motivate them to buy.

Customers need to be told what products or services mean to them personally. Salespeople mistakenly assume customers can figure out the potential benefits of buying or using a product. Often, not clearly explaining benefits leaves questions in the minds of customers and makes it difficult for them to make decisions.

To make sure customers hear what they need to know to make a buying decision, products should be described in three ways...**features, functions and benefits**. Let's define these three parts of describing products.

Features are information that tells how products are made, packaged or put together...facts about what's in it. Features are easily spotted by looking at products or reading about them on packaging labels or in a brochure. For example, a quality interior latex paint often contains titanium dioxide. It's just a cold, hard fact about the paint.

For every feature there is a function. **Functions** tell what the feature does or why the product works better because of the feature. Functions build a bridge between the production plant and customers. Functions explain in logical terms what the feature does.

For example, if you were describing paint which contains titanium dioxide (a **feature**), the **function** is to give the paint "hiding power" to cover one color with another.

Finally, benefits help customers visualize themselves using products. **Benefits** help customers see products doing something...for them. Benefits convert products from impersonal manufactured objects to needed and useful items.

Features and functions are easy to recognize. Anybody who looks at a product (or its label) can normally pick out several features. **Benefits, on the other hand, should be personalized to specific customers...by you.**

In our example of latex paint that contains titanium dioxide (**feature**) so the paint will cover other colors in one coat (**function**), the **benefits** to various customers could include things like: (1) less time paint, (2) can use the room quickly, (3) more attractive appearance.

Some people wonder why functions are so important. Sales people have said, *"Why not explain the feature of the product and the benefit and just skip the function?"*

Suppose you were describing the paint with titanium dioxide (feature), skipped the function, jumped to the benefit and said something like:

"This paint contains titanium dioxide (feature) so you can use the room quickly (benefit)."

By omitting the middle element, the function, where you tell what titanium dioxide does, you leave customers with potential questions. You may also leave them with the feeling you have just glossed over the product or perhaps are only saying things you know they want to hear.

Functions provide a natural bridge between explaining how the product is constructed and how it will benefit customers.

As you listen to clues (answers to the questions you asked about **how the product will be used**) you determine **what customers want the product to do**.

You can then include the benefits most appropriate to each specific customer's needs.

For example, the paint with titanium dioxide could mean entirely different things to customers who want to paint and "be done with it" from those who want "a smooth professional look." **Although a product is made exactly the same way, it can benefit customers in different ways.**

When you describe products in terms of benefits, you demonstrate concern that products are useful for customers.

The question in customers' minds is: "What's in it for me?"

Benefit selling normally answers this question. It also reduces the number of objections customers raise.

When you describe products in terms of benefits you eliminate many of the "So what's?" in the minds of customers.

Surprisingly, as easy as this technique is to use, fewer than one out of seven salespeople take the time to show customers what products can do to fulfill needs. This is why in the minds of many

customers, "All windows are pretty much alike" or "A toaster is a toaster."

Try this concept on page 141. Pick two important products you sell and fill in Features/Functions/Benefits. You can also try it with services your store provides using the chart below.

SERVICES PROVIDED BY YOUR COMPANY ARE AS IMPORTANT AS PRODUCT FEATURES. USE THE CHART TO LIST FEATURES, FUNCTIONS AND BENEFITS OF YOUR SERVICES

ONE OF THE SERVICES WE PROVIDE IS	THAT'S HELPFUL BECAUSE	WHAT THAT MEANS TO YOU IS

⑥ Responding to Customers' Objections

Wouldn't it be nice if all customers said, " *Yes, I'll buy it*" or " *You're right, I do need some today.*" Sure, it would, and often they do...more often when the purchase is small.

We described "decided" customers who come to your store knowing what they want, pick it up, pay for it and leave.

But, there are also "the browsers" and the "undecided" customers who know they want something...but aren't quite sure what. They also may not be sure whether they want to buy it today. **Most people don't like to make decisions.**

Many sales people unnecessarily fear objections. Some sales people think objections indicate customers don't want to buy.

Perhaps it will be comforting to know the opposite is true. **In many cases when customers raise objections, it's an indication they are planning to buy!**

At the point of purchase, customers must deal with two concerns: (1) making a wrong decision and (2) fear of missing out on a better offer. At the point of decision these two concerns are expressed as objections.

Good rules to remember in responding to objections are:

1. **Objections are almost always an indication of questions** in customers' minds that need to be answered
2. Customers often "object" to the things they are thinking of doing

When customers say, " *The price is too high,*" in many cases they are wondering whether or not the price is justified in view of what they think they are receiving...**but they are already considering and weighing the possibilities of purchase.**

Another important factor: **as long as customers are looking at alternatives or listening to presentations, they have some degree of emotional involvement.** However, when you finish your presentation and say something like, " *That's about all I can say. Does it sound like the kind of thing you need?*" customers know a decision is required. **Customers often have difficulty dealing with the tension of making decisions.**

Some sales people feel uncomfortable trying to get customers to talk through their concerns when objections have been raised. They think they are being "pushy."

Quite the contrary is true. Remember what we said earlier. Few customers wander into your store because they have nothing better to do. They probably intend to make a purchase or at least gather sufficient information to make the purchase in the near future. **Only by helping customers decide can you truly serve them.**

There is pleasure following a purchase decision. After the purchase has been made, a sense of relief comes over customers...they now own the solution to a problem...have finally taken care of something they needed to do.

Taking this attitude...**you are helping customers make decisions they probably need to make anyway**...will help you at this critical point.

So we can focus on those objections you most want to know how to handle better, in the space below, list an objection or two that customers have given you which were difficult to handle.

KEEP THE RIGHT MIND SET

Don't react to the first words customers say. Their initial statements are often like the outer layer of an onion. You don't use it. Peel it off and look for something better.

Customers often don't know exactly what is bothering them, so they just say "something." Don't worry about the first statement. You could pretend customers say, " *I like chicken soup*" instead of what they actually say. If they actually said, " *I like chicken soup*", you'd likely wonder, " ***What in the world does that mean. I wonder what s/he really meant?***"

Customers say all kinds of things, but objections fall into basically two very broad categories. **The objection (question) can be answered...or it can't.** Sometimes customers may say something like, " *That sure looks like a good item, but my boss has only given me \$XX to spend.*" That is probably an objection you can't solve. Offering a less expensive item may be the answer.

This is an example of a category of objections we call condition objections.

Condition Objections

Condition objections are situations serious enough that they prevent customers from buying your product...or anyone else's...at least right now. Often this problem arises when you fail to ask some important probing questions.

Conditions can be less final. Your customer might say:

"I like it, but I'll need to talk..."

When customers announce they must consult someone else, do three things:

1. Find out what the customer "likes" about the product.
2. Ask what the "other person" may want to see or hear.
3. Check to see if you can visit with the "other person."

Truthfully, many customers who say they need to check with someone else don't really need to. They are the decision-makers and are only using the "I'll need to talk to..." as a way to avoid deciding.

If you can help your customer decide, do so. If not, thank him or her and let go.

Another category of resistance is:

The Stall

Customers say things like:

"Let me think about it."

None of us wants to be pushy, but salespeople must be interested enough to find out what the concern really is. By finding out the true concern behind the stall, perhaps you can add new information to help your customer analyze the decision.

When customers say, "I'll think it over," an effective way to help them reveal their true concern is to ask a question like:

"Mr. or Mrs. Customer, I realize this is a major decision and you probably have some things to consider, but just for my own information, what would you say is the main thing you feel you need to think over?"

Let's separate the three components of this statement to see why it works so often.

1. *"Mr. or Mrs. Customer, I realize this is a major decision and you probably have some things to consider"*

A nice way to show empathy for concerns customers may have...especially if the purchase is large

2. *but just for my own information*

A simple change of perspective from asking customers to defend to instead explain...or teach

3. *what would you say is the main thing you feel you need to think over?"*

This is the question many salespeople actually want to ask, but by softening first with some empathy and change of perspective, customers are more likely to answer.

Given an opportunity to express concerns, customers often discuss the real reasons they want to "think it over." Of course, some customers do need to think it over or visit with someone else before making a final decision...if so, let them.

In many cases, however, customers who *stall* only need more information before making the decision. By finding out what information they need, you have an opportunity to supply it...instead of permitting one of your competitors to supply the information...and get the sale.

A third category of resistance is:

Buying Signal

Customers sometimes say things like:

I hadn't planned to buy this early.

I should have checked with my wife.

I wasn't planning to buy one this nice.

Notice all these statements are in **past tense**.

Customers who say, "I *hadn't* planned on paying quite that much," may be saying, "I *hadn't*, but I am now, and I need reassurance I'm making a good decision."

Before asking additional questions (and perhaps making the statement become an objection) offer reassurance followed by a question such as:

"I think you'll be pleased you bought the more durable model so you'll get the kind of performance you really want. Wouldn't you agree?"

You'll find, in many cases, customers will agree...and purchase the item.

In other cases, customers may indicate they really want the most durable item but cannot afford it. In these situations, you will need more information, and an additional set of skills. We will discuss those shortly.

These three categories of objections... conditions, buying signals and stalls... constitute about 30 to 35% of the objections you hear in day-to-day selling. By far, most objections you will hear fall into a category we call:

Problems and Questions

Problem statements may begin with:

"Yes, your product looks very good but my neighbor bought one like it and..."

"It certainly looks like the kind I need, but I only have \$50 to spend so I guess I'll have to look for something else."

Problems and Questions are seldom stated as questions. A good example is when customers say, **"Your price is too high."** In many cases, this is a question...but stated as a fact.

Both statements imply desires to buy but there are problems that must be solved. Customers may be wondering if they will receive sufficient value to justify a higher price or at a price higher than expected or more than a similar item.

What these customers are looking for is justification for purchasing or new information to resolve the question.

Sometimes, salespeople say, *"Well, but let me show you a couple of other things about this product, and I think you'll agree the price is fair."* The information they give is probably correct, but may not help. Many times customers are simply confused.

By dealing with objections as they arise, you can steer your presentation to the real issue...saving time for you and your customers by delivering the targeted information they need.

Conveniently, you can use the same skills to handle:

1. Problems and questions
2. Issues behind buying signal statements
3. Questions needing to be answered after peeling open a stall.

A quote from the Bible may be a good "mind set" rule. Proverbs 18:13 says, *"The person who answers a question, before he's heard it, is not only foolish but insulting!"*

We think there are four steps to handling Problems and Questions. Each is a building block and has special importance.

Don't try to overcome objections by telling still more about your product or service...until you find out what the problem is.

Four Steps for handling Problems and Questions

1. Invite customers to talk
2. Restate customers' statements as a question (which you have a chance at answering)
3. Show concern by agreeing with feelings but not necessarily with facts.
4. Solve the problem by offering new features, functions and benefits.

STEP 1

Get customers talking about problems. You gain new information and often customers do too. Many times the more customers talk about concerns, the more they realize they're not so important after all. Here are examples of what you might say to get customer to talk with you:

- *I would appreciate hearing more about what you're thinking.*
- *I'm sure you have reasons for saying that. Would you mind sharing them with me?*
- *I doubt that I know exactly what you mean. Would you give me some more information?*

This approach helps you avoid accidentally implying to customers that objections they have raised are unimportant.

STEP 2

Restate customers' objections as questions. You are doing something very important You're not proving them wrong, not arguing. Instead, **you're acknowledging they have questions.** You're also assuring the information you give in your answer is what they want to hear.

Here are examples of how to restate customers' objections:

- *I may be wrong, but it sounds like you're wondering if our price includes something the discount store doesn't. Is that correct?*
- *If I understand, you really like the better quality one and are wondering if it is really that much better than the less expensive one. Is that correct?*

STEP 3

Agree with customers' feelings or acknowledge their point of view. When you do this, you reassure them that you have empathy for their feelings. Remember though you're not agreeing with the facts... you're agreeing with feelings.

See how these examples might help:

That's a very good question. Thanks for asking.

I can see why you might feel that way. Many customers who have bought this one felt the same way. We looked at the differences and here's what we found.

STEP 4

List offsetting advantages or add new information you missed in your original presentation. You help customers tip the scales toward buying.

In 60 to 65% of cases when customers object and say, "No,"
what they are really thinking is, "I don't kNOw"
I'm not sure. This is a tough decision.

When customers say, "No," you sometimes can't change that decision. But, you can often **help customers make new decisions based on additional facts**. They begin to see more reasons for buying than for not buying.

Reasons for not buying never go away. We all kind of hate to part with our money...even when we're buying something we really need. And yet, when enough offsetting advantages in favor of buying can be seen, the objection (parting with our money) is outweighed.

Respond carefully and somewhat slowly to objections. Help customers realize you are taking their questions seriously. If you rush right into your response, they may feel you simply wanted enough information to give them a "pat" answer you may have memorized and used with dozens of other customers.

Even though many objections will become familiar to you, **each customer's objection is important to that customer and has a slightly different twist**. Treating objections with respect demonstrates concern.

When customers object, they are no longer listening to features, functions and benefits of products. They want someone to listen to them...**now**.

Sometimes you won't make the sale. Sometimes customers will raise an objection, you'll listen carefully, give your best answers and they still won't buy.

But, you'll be surprised how many sales you can make when you try to understand customer's questions.

Common Objections Cheat Sheet

CUSTOMER STATEMENT	POTENTIAL REPLY
<p><u>CONDITION</u></p> <p>I like it, but I'll need to check with my husband</p>	<ol style="list-style-type: none"> 1. What do like about it? 2. What will he want to know? 3. Can I visit with him?
<p><u>STALL</u></p> <p>Let me think about it I need to check around</p>	<ol style="list-style-type: none"> 1. I'm sure there are things to consider 2.but for my information 3. what you would you say is the main thing?
<p><u>BUYING SIGNAL</u></p> <p>I hadn't planned on paying that much</p>	<ol style="list-style-type: none"> 1. I think you'll be happy you got the better one. 2. Wouldn't you agree?
<p><u>PROBLEM/QUESTION</u></p> <p>Your price is too high Can't afford it Your terms are too tough</p>	<ol style="list-style-type: none"> 1. I would appreciate.... could you tell me...? 2. It sounds like you want some info about _____+ <p>Is that correct?</p> <ol style="list-style-type: none"> 3. That's a good question 4. Let me point out that.....

7 Close more Sales

Nothing is more difficult, and therefore more precious than to be able to decide.

Napoleon Bonaparte

The thoughts in this chapter apply to "big ticket" sales. Customers who came to buy a couple of bolts and nuts for a repair project generally don't need decision making assistance after they have selected their item(s).

However, the reason for sales presentations of major purchases is to help customer decide. That may seem obvious, but sometimes salespeople forget. Sometimes they make good presentations, answer questions, then forget to ask customers to make the final decision.

Often salespeople don't actually forget...they fear asking closing questions. They see asking closing questions like picking up grade cards at the end of the semester. That's when they find out how well they did. Since some are afraid they may not have done well, they don't ask. They allow customers to walk away with sufficient information to buy from someone else...often, a competitor.

Myth #1 about closing sales

There are a couple of myths about closing which have been passed along to each new generation of salespeople. The **first myth** is that there is a **magical psychological point** when customers are exactly ready to buy, and if you don't ask the closing question at that very moment customers won't buy. In reality, there are many points where closing questions can be asked. After each closing question, you receive a "Yes" or "No" reply and can decide the next step.

Customers make many decisions in the process of buying: (1) **do I need a product or service like the one you are offering?** It's the old, "Would Eskimos buy ice cubes?" question. Regardless of price, they may never see a need for purchasing such a product. **However, most customers come to your store with this first decision already partially made.**

They arrived curious enough to look, but they may have decided (after seeing the product) that they don't want it or can't afford it.

During your presentation, customers must make two more decisions (assuming they want the product): (2) **will the product you are offering fill the need I have?** and (3) **do I feel confident purchasing the product from you or your company?**

Customers must decide (4) **is the price fair in relation to value received?** Finally, (5) **is now the time to buy?**

As you can see, there are a number of opportunities during the presentation and while handling objections to check out whether any of these decisions have been made.

Myth #2 about closing sales

A **second myth** is: "Once customers have seen a product or service they really want, **they will volunteer the decision to buy.**" This myth is partially true. About 20% of customers will say, "I'll take it!" after your presentation.

Nearly 80% won't say they want to buy--even when they are convinced the product is what they want or need. **About 8 out of 10 customers need help making the final decision.** They are afraid they may make a wrong decision or miss out on a better offer.

Unless you ask closing questions, many customers are likely to walk out of your store still concerned with those issues. Your reassurance and help in finalizing decisions can cause those concerns to melt into a feeling of satisfaction...the decision is made, the solution to a problem has been purchased.

In a recent survey, **96% of retail salespeople were evaluated by customers as not clearly asking customers to buy.** For reasons we mentioned, salespeople fear what might happen if they ask a closing question. However, think of closing questions this way: **questions require answers, answers require decisions. By asking questions you can help customers make necessary decisions.**

There is no magical way to eliminate the normal tension customers feel at the time of purchase. Sometimes with small purchases of urgently needed items, tension is non-existent. When the purchase is major, the product complicated or financing terms complex, the tension level can be very high.

There is a difference between tension and pressure. Tension associated with making decisions is normal. Pressure is that uncomfortable feeling of being pushed to make a decision without sufficient information. Customers who feel pressured are being asked to make decisions before their questions have been answered. Give their objections more processing.

Many customers begin to indicate their willingness to buy through statements and physical gestures. These are **"buying signals."** For example, the customer may say, *"This may be exactly what I've been looking for,"* or *"Does the cost of this item include delivery?"*

Customers may also nod approvingly, smile or hold the product as though it was their own. If you are listening and watching your customers, you'll notice many signals from customers which almost say, *"Now's the time...help me decide to buy this product."*

The key to closing more sales is to ask more questions. Notice the word "ask."
Customers don't want to be pressured, but they do expect to be asked.

FIVE WAYS TO CLOSE SALES

Summary with an action question

First is the **"summary" close with an action statement.** When using this technique, you merely review the points that have been made. It is an excellent technique for customers who have heard in a rather complex presentation. **It works well because customers know a few words in advance the closing question is about to be asked.**

Using the summary technique can sound something like this:

"Let me see (Mr. or Mrs. Customer), we've talked about the key things which make our product more durable than others, the service our company provides in case you should experience a problem, the financing program so you can have the product today and our delivery schedule. Can you think of anything else you need to know?"

Even though customers can answer "Yes" or "No," the question moves them closer to the final decision. You'll find, in many cases, customers will say, *"Yes, I also need to know..."* or *"No, I think that's it."*

Even with this commitment, **it will be necessary for you to ask an additional question** or start writing the order. **You must take action** to help customers finalize decisions. You might ask:

"The only thing left is to get your authorization on the delivery order. Shall we do that now?"

The summary close is effective because it reminds customers step-by-step of the decisions already made. It also is an excellent way to clear up potential misunderstandings.

In one major study, salespeople who did a good job of probing for needs, presenting and dealing with objections received orders 75% of the times they used summary closes with action questions.

Direct question

The second closing approach is called the **direct question.** As the name implies, it is a straightforward question asking customers to purchase. You might say:

"Would you like to buy it?"

It is businesslike to ask customers to buy if you've made a good presentation.

There is, of course, a built-in limitation to this closing question... it can only be answered "Yes" or "No."

It is, however, very professional. **It demonstrates confidence and leaves no question in the minds of customers what the next step is.**

When customers say, "No," what do you do? Go back to the skills discussed in the chapter on dealing with objections. Find out what "No" means.

Direct closes are excellent for small purchases or ones where the decision seems obvious. Here are some additional examples:

"Do you want us to load it?"

"Shall I order it for you?"

"Do you want us to service one?"

They all seek a simple "Yes" or "No" answer...direct, professional.

OFFER A CHOICE

Another technique is called the **"choice" question.** This is the most popular closing technique. Instead of giving customers a choice between something and nothing, **offer a choice between something and something.**

You might ask:

"Do you prefer a quart or a gallon?"

"Do you want delivery today or first thing tomorrow morning?"

Many times when offered a choice, customers take the initiative and begin finalizing the purchase.

We recommend you offer a choice question only when you have a legitimate need to know what the customer wants.

If a customer says he needs eight spark plugs, don't say something like, *"Do you want 8 or 16?"* He said he wanted eight... your "choice" would sound (and be) manipulative.

ASSUME THEY HAVE SAID "YES"

Another indirect approach is the **"assumptive" close**. This closing technique is appropriate when customers have given a number of buying signals; perhaps have even said, *"This is exactly what I've been looking for."*

When you feel customers want the product, are trying to make the buying decision and need your help to finalize their choice, **assume you have the order and ask something which would normally be asked after the decision to buy has been made like:**

"We seem to agree this is what you want. How would you like to pay for it?"

You could then ask a direct question about payment terms or offer a choice. Customers hear you verbalize the decision they've probably already made.

As we said earlier, many customers want to buy your products but because of two nagging issues (Is this the right decision? Will I miss out on a better deal?), they just can't bring themselves to say, *"I'll take it."* They need a gentle nudge to help them finalize the decision they have already made.

MAKE SOME SMALL DECISIONS

The final technique is called the **"minor point" close**. This technique is appropriate when you have been presenting a variety of items or a single, complex product with many accessory features. For example, when presenting electrical parts to customers, they may have a number of small decisions to make (like gauge of wiring, types of switches, recessed or surface lighting fixtures, etc).

To help customers when there are decisions to be made you might say something like:

"As you are thinking about a mower, I'd like to know if the optional grass bagger is something you would want."

Move from this to other issues for which you must legitimately have answers.

Minor point closes can be used throughout your presentations to help clarify what customers want to see so you won't waste time presenting unnecessary information. **After a number of minor point questions, a summary close is very appropriate.**

Now let's go back to where we started. What is the worst that could happen if you asked a closing question? Customers could raise objections...which, we have already said, are often nothing more than requests for more information. When you ask customers questions or encourage them to make decisions, you are serving as a friend and advisor.

If it were easy to make decisions, there would be no need for salesmanship or advertising. It's not easy to make decisions... customers need your help.

If you are genuinely enthusiastic about your services and products, know how they work and the benefits that can come from using them, you'll be successful as a salesperson. It's fun to see customers happy to get what they've wanted to buy.

To become good at all five techniques, use them one at a time and practice each for one week with as many customers as you can.

Two important things will happen. First, you'll become skilled in using a variety of closing techniques. Second, you'll be asking for sales more frequently. As a result, you will become a more polished, professional salesperson.

8 Suggestion/Related Item Selling

Have you noticed how people relax somewhat after they've made an important decision? This often happens in buying. **After major decisions are made, people relax and are more willing to consider additional small decisions.**

For example, when customers decide to purchase lumber for deck repairs, they become more receptive to suggestions of items like sealant, joist hangers and other things directly related to the product purchased.

Customers don't go soft in the head immediately after a purchase. If they came in with the intention of picking up an important item and only have money and a need for that single item, they won't suddenly buy everything in the store. **Other customers may be aware they need a range, but have not given thought to the fact that they may need to bring the connections up to code.**

This is where the term "**suggestion selling**" comes from. You will have dozens of opportunities every day to suggest other merchandise to complement items purchased by customers. Suggestion selling is nothing more than helping customers remember other items which may become important later.

Don't defeat the opportunity by wording your suggestion in the negative as:

"You wouldn't need a filter today would you?"

That question encourages customers to say, "No".

Avoid vague, empty questions like, **"Anything else for you today?"** or **"Is that it?"** Neither of these offers a specific suggestion, and customers are not likely to buy more.

It's a little bit like leaving your home for a vacation trip. Someone generally suggests a number of things to check before departure: lights off, doors locked, thermostat down...?

Suggestion selling can significantly increase sales. Customers, when offered specific suggestions, purchase additional items that have good profit margins to help the store (and you) as well as the customer.

Sadly though, a recent survey of customers showed that salespeople almost never suggest related items. The survey showed: 29% of customers leave without buying anything...even the item for which they came. **Perhaps we didn't speak first, ask questions or listen.**

Another **59% bought only the item they came for.** That means only **12%** bought at least one additional item...a related item, a sale item, an impulse purchase.

WE CAN DO BETTER THAN THAT!

To be helpful, the suggestion has to be specific and directly related to the product or service just purchased. For example, when customers buy oil, say, *"While I'm getting the oil, you may want to look at our filters."* Or in lawn and garden center, *"While I'm loading your shrubs you may want to look at the fertilizer and pesticides on sale now."* Both offer customers an opportunity to look at something specifically related to the product just purchased.

Some customers enjoy looking at brochures while the order is being written or merchandise is delivered from the storeroom. **Many customers will accept an offer to "look at something" when they may not accept a suggestion to "choose something."**

When customers become interested in an item shown in a brochure or catalog, use the "merchandise approach." Say something like, *"What you're looking at is our best..."*

Suggestions demonstrate interest. Suggest things to make the job easier or the item work better. Eliminate situations where customers are about two blocks from your store and remember, *"Why didn't I grab a... Darn, I'm going to need some..."*

Look at major items displayed in various departments. Look for items that complement each other so you'll be prepared to point out logically related items.

You'll find suggestion selling easy. It's easier for customers to nod approval to additional items than to make more decisions. Remember from our lesson on closing sales, it is difficult for customers to make decisions. Once this psychological hurdle has been overcome, many customers tend to be somewhat more receptive to suggestions and therefore more frequently nod approval to suggestions of additional items.

Suggestion selling is also easy because in many cases you don't need to do a presentation on the added product. Customers may have questions, but it is often not necessary to re-ask many of the qualifying questions.

⑨ Telephone Courtesy

Thousands of customers are "letting their fingers do the walking through the yellow pages." At your store, you may receive dozens of telephone inquiries each day. The image of you and your store can be made or saved by good telephone techniques.

Customers call stores for a variety of reasons. They call to make sure an item is in stock. They call to check prices. For whatever reasons customers call, it's a good sign. These customers could easily have decided not to call. The fact they call indicates they have some interest in your store.

THINK BEFORE YOU ACT

There are a few things you should do **before answering the phone**. Perhaps the most important is to **decide what to do if you are with a customer** in the store when the phone rings. If your situation with the "live" customer is such that you can courteously excuse yourself for a moment to answer the phone, do so and return quickly. On the other hand, it may be important to stay with your "live" customer if you're at a critical stage of presenting, dealing with objections or closing.

Next, prepare yourself to answer the phone. **If you don't have a note pad and a pencil near the phone or workstation, get them before you answer.** Often callers give a great deal of information in the first few seconds. If you don't write down the information, you're likely to miss something important and have to ask customers to repeat themselves.

Also, it is helpful to **have brochures and copies of your store's current advertisement near the phone.** A high percentage of calls will be "Do you have...?" calls. By having literature near the phone, you can answer these questions efficiently.

ANSWER QUICKLY, EFFICIENTLY AND CLEARLY

Generally, it is best to answer the phone by at least the **third ring**. Perhaps you have called a store, and the phone rang 16 or 18 times before being answered. The reason you know it was 16 or 18 is because as the number begins to ring all your attention becomes focused on the rings...and counting them. If the phone rings too many times, customers can become very irritated.

Finally, **take a deep breath and smile** before picking up the phone. Some sales people view telephone inquiries as an irritation. Unless they clear their minds and put on a "happy face" before answering, their greetings may seem gruff.

Although phone calls may be interrupting important work, adopt the attitude, "That's my job calling." In addition, **even though callers cannot see your face, they can detect the pleasantness of your voice.** Telephone companies and telemarketing consultants teach employees: *when there is a smile on your face, there's almost always a smile in your voice.* You actually sound different when you're smiling from when you aren't.

You might say, *"Good morning. Valley Whatever Store. This is Mary. How can I help you?"* That takes only five seconds to say, but callers know they have reached the correct number, to whom they are speaking and get a sense of helpfulness.

Sometimes people answer the phone and mumble something like, "Lummeryard." Callers have little or no idea if they have reached the right number. They often ask, "Is this Ajax Building Supply?"

Speak directly into the mouthpiece and speak as distinctly as possible. Some people hold the mouthpiece down by their throat, making it difficult for customers to hear.

When you answer the telephone, include four elements in your greeting:

1. Good morning...afternoon
2. The name of your store
3. Your first name
4. A good opening question

HANDLE ABSENCES AND TRANSFERS PROFESSIONALLY

When transferring inquiries to another person in your store, explain what you're doing and to whom you are transferring the call. **Avoid saying things like:**

"Just a minute. Let me look around."

"Hold on, I'll see what I can do."

Instead try statements like:

"It will take a minute or so for me to find that information. Do you care to wait or may I call you back?"

"I'll transfer your call to Mr. Smith now. One moment, please."

"Mrs. Brown is the person who has the information you need. I'm going to transfer your call to her. Please hold on one moment."

"I'm sorry. I'm new in this department. I will ask someone else for assistance. Would you care to hold while I get someone to answer your questions or would you prefer us to call you back within five minutes?"

When you must leave the phone, check back with callers frequently. If you said it would take "a minute or two" to get information and it is taking longer, report back. Ask if they wish to continue to wait. You might say *"I promised to be back to you in two minutes. It is taking me longer. Would you care to wait one more minute or would you prefer for me to call you right back?"*

Two minutes waiting...on hold...can seem like foreevvvvvvvver.

If it becomes necessary to call for someone and your phone does not have a hold button, hold the phone away from your mouth and cover the mouthpiece with your hand. Some sales people page other employees with the mouthpiece still close to their mouth. In those situations the caller hears, *"JIM, THERE'S A CALL FOR YOU ON LINE 1."*

Move the phone away from your mouth so you don't yell into the mouthpiece. It is also important to move the phone away from your body to talk. Some people hold the mouthpiece to their chest. **Your lungs echo sound and customers still hear virtually everything you say.** *"Mary, it's that jerk who lives north of town."*

MAKE NOTES AND USE THEM

Begin immediately to **write down names and information requested.** As we said, many calls to your store are, "Do you have...?" calls. You may need to leave the phone and go to the merchandise area to see if you have the item.

When you have notes, you are less likely to become confused, forced to return and ask customers to repeat.

Take your note pad to the merchandise area. **If the item is small, bring it to the phone.** If the item is too large to bring back to the phone, **write down the more common information about the item such as current price, colors available, and accessories in stock.** When you return with the information originally requested, callers often ask for additional information. If you have made notes, you will be prepared to answer quickly and save time. So often when you return to the phone and say, *"Yes, we do have that item in stock,"* customers then ask additional questions:

"How much is it?"

"Can you use it with?"

"Is it available in more than one size?"

DON'T LEAVE THE PHONE UNATTENDED

Sometimes employees assume "someone else" will answer the phone. Perhaps others assume you are in the area. If you're going to be away, let others in the department know so they can answer the phone.

This also applies when you have answered the phone and must go to the merchandise section for information. Whenever possible, **let another employee know you've "answered line 1" and are going for information.** Other employees will not pick up the phone and say, "Have you been helped yet?" They will also know not to refer "live" customers to you.

If you have been away from the department, upon returning ask if there have been any calls.

Employees take phone messages and forget to pass them along. If inquiries have come in your absence, as soon as possible, take a few moments to return the calls.

CONFIRM DETAILS AND CONCLUDE CALLS COURTEOUSLY

When customers request specific information or say they will be in to pick up a particular item, confirm details before hanging up. Sales people can assume incorrect information. You might say:

"Mrs. Adams, let me confirm what we talked about. You are planning to come in early this afternoon for the three-gallon widget gizmo."

I will have it waiting for you at the Service Desk with your name on it. Is there anything else?"

When customers confirm your information is correct, conclude the call professionally. Avoid saying things like:

"O.K., so long." "See you later." "Bye-bye."

Instead try: *"Thanks for calling us, Mrs. Jones. If you have any more questions, don't hesitate to call me."*

USE THE BUSINESS LINE FOR BUSINESS

The telephone can be powerful tool in building good customer relations and business. It is a primary vehicle for customers to find information they need. For this reason, it is important for you to **limit use of the business phone for personal calls.**

Obviously, it is sometimes necessary to make personal calls from work. However, those sales People who make frequent or lengthy personal calls are tying up lines that could mean additional sales and earnings.

Some employees say, "Oh, I don't make any calls...personal or otherwise...from the store phone. I use my cell phone."

If you place or receive calls while on your break, that's okay. It's also not a problem to take emergency calls. But, as the old saying goes, "Business is business." Don't use time for which you being paid to work to "chat" on the phone or send text messages.

USE THE PHONE TO RING UP MORE SALES

Most customers enjoy talking to pleasant and helpful sales people. In this chapter, we've examined the importance of being prepared before answering the phone, smiling, speaking distinctly and professionally and offering to help the customer.

Some retail businesses are now installing Caller ID devices on phones so you can see the names and numbers of callers. Obviously a great help when you ask, **"What was Mr. Smith's number?"** Some stores that provide specialized items or services to a limited list of customers have computer terminals near phones so they can punch in the phone number of the caller and see the caller's purchase history displayed. Of course, this saves tons of time getting credit card information, shipping address, etc. Electronics however are only an aid to the live voice providing service.

Since customers can only hear your voice on the phone, such little things as using customers' names, giving simple/uncomplicated explanations and sprinkling the conversation with, "Please, thank you and you're welcome," make their inquiries more pleasant.

Many of the skills we discussed in other chapters apply to the telephone questions and listening skills. Most importantly, remember to close the sale.

Gross & Net Profit

Step 4: *Producing healthy gross and net margins (without getting negative customer reactions) is accomplished by:*

- Evaluating the very small number of tested factors that define which items can have higher profit margins
- Using gross margin and inventory turn records to choose items that will be increased in price
- Actually starting...instead of making it another “when we get a *Round Tuit*” project



Pricing For Profit...Increasing Gross Margin

COOKING UP A GREAT PROFIT PIE

Begin with a pinch of highly sensitive items, one tablespoon of moderately sensitive items, and two cups of blind items. Mix thoroughly until the sensitive items are not noticeable.

Add some promotional items, a dash of prestige pricing, a touch of skimming, a small amount of discount pricing, a pint of price point adjustments. Blend thoroughly until there is a good mix of market pricing.

Bake until profit margins rise to acceptable levels.

Bob Aiken

The major retailers understand the effective use pricing systems that cause customers to perceive them as offering low prices throughout their stores. The truth: their average gross margins are strong, and they often price certain items higher than nearby independent dealer/competitors. What they do is wonderfully captured in a quote by the CEO of a major "discount" chain of stores.

"We operate on a simple concept...islands of loss in a sea of profits."

IS PRICE THE CONTROLLING FACTOR IN DECISIONS TO BUY?

Customers' perceptions of places where they do business is affected by many things... convenience, appearance, number of items from which to choose, quality, service...and price. Many believe customers buy only when they find the lowest price. Of course, this isn't true in a vast majority of cases. A reasonably small percentage (17%) of customers buy based solely on lowest price and essentially disregard other buying considerations. That means a whopping 83% are not "lowest price" shoppers.

There are many ways in which pricing decisions are made.

- **Moral pricing**--It's just the right thing to do. We see this frequently following big storms or other disasters when many people need supplies to live or repair. Retailers who price goods at cost in these circumstances are doing so because "it just seems right."
- **Market pricing**--That's just the way it is in this area. Regardless of MSL (manufacturers suggested list price), actual selling prices are often lower or higher because other stores price things at levels that are about the same and are in line with customers' expectations. Why do people pay \$5.00 for a beer on an airplane? Partly because you don't have any shopping choices at 35,000 feet, but mostly because other airlines charge that and passengers have become used to paying it...so there!
- **Price points** Customers often think the price of an item is more related to the first digit than the last. Does an item priced at \$49.99 seem less expensive than the same item priced at \$50? Of course it is lower priced...by 1¢. But customers, often feel like the difference is \$10. We will discuss this in more detail later. It's a very good pricing practice.
- **Prestige**--"If you have to ask the price, you probably can't afford it." Is a garment always better made when it has a designer label than one without a "big name" label but sold at lower prices? For some customers the answer is, "Absolutely." Knowing this, retailers can and do charge more for items that are considered "big name." Interestingly, in Germany comparable models of Mercedes, BMW and Audi automobiles are priced about the same. However, in the US Mercedes automobiles consistently sell at prices higher than their cousins.
- **Skimming**--Is it fair to apply a higher gross margin to an item that has very low turns, and customers never know what they should pay for it? Absolutely. We'll show why later.
- **Discounting** To a degree, lumber and hardware dealers invented discounting... "contractors", senior citizen, church and charitable organizations get discounts. But, customers will also ask for discounts when they are not part of any group. If the objective is to get a majority of the purchases of a certain group or encourage prompt payment, discounting can be a good pricing strategy.
- **Promotional**--Getting your name out there. A very common practice when there is a short selling season (or an item is new and will have a short sales period) is to very attractively price the items. This is good business thinking when you have purchased heavily to have a deep inventory to capture market share...when the items are perishable, or the selling period opens and ends quickly, or you're trying to pull customers into your store (and away from other more established retailers).
- **Penetration**--Y'all come back. Whether it be a single category of merchandise, a new store, or an established location, if the objective is to carve out a larger share of market, pricing held low for extended periods often works. When it works, customers often arrive at a place where they say, "Oh, XYZ store always has the lowest price on _____."

- **Predatory pricing**--As opposed to promotional or penetration pricing, predatory pricing isn't intended to have a short term or fractional market share effect. This kind of pricing is intended to kill off other competitors. Wal-Mart has been accused (unsuccessfully) of doing this. Independent retailers say Wal-Mart often sells items for less than independents can buy them from their suppliers (true). They say that Wal-Mart has deep pockets and can afford to sell below cost long enough to close down competitors (also true). Therefore, the reason Wal-Mart sells for less is to kill off competitors (not true). However, when some retailer does this, that's how it happens.
- **Gouging**--Get all you can...the flip side of "doing the right thing" is pricing to take advantage of situations when many people need supplies. In these short supply situations, some retailers quickly raise prices to astronomical levels. Within hours after the attacks on 9-11, several gas stations raised prices to over \$5.00 per gallon even though there was no shortage...just fear...and an opportunity.

PRICE SENSITIVITY

Not everything you sell should have the same markup/gross margin. Pricing of items is affected by evaluating into which category items in the item fits:

- ☐ Very Sensitive (frequently purchased) and often promoted
- ☐ Sensitive but seldom or never promoted
- ☐ Regionally sensitive...is more or less popular in various areas of the country
- ☐ Not sensitive

So how does one determine whether or not an item is "sensitive" and therefore probably not eligible for higher gross margins? Use these guidelines. Is it (check all that apply):

- ☐ **Disposable?** Any item that is used up within a few months of purchase, and then is normally replaced. Or, items that tend to be purchased in large quantities and disposed of within a short period.
- ☐ **Fast moving?** Use industry patterns of movement of the item. Don't base it on your store. If the industry considers this a high turn item, even though your store doesn't sell it often, it's fast moving.
- ☐ **Limited selling season?** Items that are in "peak demand" during a limited period. For example, bedding plants and nursery stock at home centers generally have a short selling season...ice melting products...lawn and garden chemicals.
- ☐ **High dollar value?** This applies not only to high dollar items, but it also applies to items that are the focal point of the sale and are purchased in large quantity at one time. For example, the lumber for a deck project is the focal material.

In general, the higher the retail price, often the lower the margin. There are exceptions to this, such as jewelry, but it covers the majority of hard lines merchandise.

- ☐ **Heavily promoted?** Products that are regularly advertised in circulars, newspapers, etc.
Use the chart below to evaluate three items you sell. In your small group, pick any three items that all of your stores sell, write them in the left column, discuss the sensitivity to the right of that item. **Simply put a check mark in each category that applies.**

ITEM	DISPOSABLE	FAST MOVING	LIMITED SEASON	HIGH \$	PROMOTED
Toilet seat ring and lid set					
Denatured alcohol (qt)					
Gasket for combine door					

SCORING

- 0 boxes checked--absolutely not a sensitive item
- 1 checked--slight chance of being sensitive
- 2 checked--fair chance of sensitivity
- 3 checked--sensitive to some degree
- 4 checked--very sensitive
- 5. definitely highly sensitive

Equating Scores to Gross Margins

SCORE	APPROXIMATE MARGIN
0	Over 50%
1	Less than 40%
2	Less than 35%
3	Less than 30%
4	Less than 25%*
5	Less than 20%*

Track items with four or five checkmarks carefully and often. Shop your competition.

Even though an item may be fast turn, limited selling season and heavily promoted, if your competitors are applying strong margins, you probably should, too...unless you are pricing for other objectives (i.e., market penetration, discounting).

Using math to decide whether you're making or losing money

Although it is not always the case, it is often true that items which don't sell often (low turns) can (and probably must) have higher gross margins. You can determine whether or not you are losing money on things you have for sale by doing some quick calculations. Here are two formulas to determine whether items have a profitable gross margin.

GMROI--GROSS MARGIN RETURN ON INVESTMENT

Multiply an item's gross margin X Number of turns = GMROI
GMROI means Gross Margin Return On Investment.

An item with a gross margin of 30% that turns 3 times a year has a GMROI of \$0.90.

That means the owner is getting 90¢ for each dollar invested in that item

GDROI--GROSS DOLLAR RETURN ON INVESTMENT

The calculation helps determine the impact of reducing margins to increase turns. The formula is:

Gross profit dollars ÷ cost of inventory = GDROI

For example, an item that has a cost value of \$100,000 with a 40% gross margin and 2.5 turns. The retail value of that item is \$166,666. That's \$66,666 in gross dollars per inventory turn... so with 2.5 turns X \$66,666, the **GROSS PROFIT DOLLARS** for this item is \$166,665. Divide that by the cost of inventory (\$100,000) and **GDROI IS \$1.67**.

If you were to reduce the margin to 20% and increase turns from 2.5 to 7.0, what would the new GDROI be?

Gross dollars (\$53,333) X 7 turns ÷ \$100,000 (cost value of inventory) = _____ GDROI

This illustrates that the important thing is to not focus solely on gross margins. What's important is how effectively you select the margin you apply to both fast and slow moving inventory.

THE MARGINAL PRICING PROCESS

So with all this information, how do you determine how high your gross margin can be on a non-sensitive item? Use the chart on the next page to consider higher gross margins. Again, in your small group, pick three items that you suspect are **not** sensitive. Write them in the Item columns. Look at the nine factors and apply them to each item you listed. Put an 'X' beside each factor that applies.

FACTORS TO CONSIDER FOR INCREASING MARGINS.	Item 1 Cedar privacy fence	Item 2 4" low quality paint brush	Item 3 Satellite radio (for tractor or combine cab)
Does it take extra time to price?			
Extra handling time for the customer			
Is it a natural add-on item to another purchase?			
Item is seldom used			
A repair or replacement item			
Has luxury or status appeal			
Item is seldom promoted			
Item is not seasonal			
Is a "for fun" item or for a pet			
TOTAL OF ALL "X's"			

SCORE

0-2
3-4
5-6
7
8-9

MARGIN POTENTIAL

40% - 45%
46% - 55%
56% - 60%
61% - 65%
66% - ??%

The margin potential will vary depending on industry average margins for various kinds of merchandise. As a guideline, add about 4% to the industry averages as a starting point.

Increase profit by using price points for small items

Another useful approach to increasing margin without alienating customers is the use of **THE "PUTNEY" PRICE POINT SYSTEM**. It was developed by Chet Putney (former Executive Director of the New England Hardware Dealers' Association). The concept is simple and can have a huge impact on profit. Small items cost lots in terms of time to order, receive, price, stock, and sell.

PUTNEY PRICING SYSTEM					
COST	CONSIDER IT	DOUBLE IT	ADD 24¢	ROUND UP	NEW MARGIN
10¢ or less	10¢	20¢		49¢	80%+
11¢ to 15¢	15¢	30¢		59¢	75%+
16¢ to 20¢	20¢	40¢		69¢	71%+
21¢ to 25¢	25¢	50¢		79¢	68%+
26¢ to 30¢	30¢	60¢		89¢	66%+
31¢ to 35¢	35¢	70¢		99¢	65%+
36¢ to 40¢	40¢	80¢		\$1.09	63%+
41¢ to 45¢	45¢	90¢		\$1.19	62%+
46¢ to 50¢	50¢	\$1.00		\$1.29	61%+
51¢ to 55¢	55¢	\$1.10		\$1.39	60%+
56¢ to 60¢	60¢	\$1.20		\$1.49	60%+
61¢ to 65¢	65¢	\$1.30		\$1.59	59%+
66¢ to 70¢	70¢	\$1.40		\$1.69	58%+
71¢ to 75¢	75¢	\$1.50		\$1.79	58%+
76¢ to 80¢	80¢	\$1.60		\$1.89	58%+
81¢ to 85¢	85¢	\$1.70		\$1.99	59%+
86¢ to 90¢	90¢	\$1.80		\$2.09	59%+
91¢ to 95¢	95¢	\$1.90		\$2.19	58%+
96¢ to 99¢	99¢	\$1.98		\$2.29	58%+

If you're not near the above chart when you're choosing a price for an item costing less than \$1.00, here's a simple formula that works most of the time: (1) go to the top price in the group, (2) double the cost of the item, (3) add 24¢ and (4) round up to the nearest 9. For example, an item costs 23¢. Go up to 25¢. Double it. Add 24¢...74¢. Round up to the nearest 9...79¢.

The chart allows you to maximize profit while staying with price groups that are psychologically acceptable to most customers. While you generally move up to the maximum limit of the group, it is sometimes prudent to drop back...as in situations where the 24 ¢ addition puts you in the next higher price group.

The system is useful for non-sensitive items that cost you under \$2.00. It is sometimes surprising to retailers to discover how much inventory they have in low cost items.

APPLYING THIS CONCEPT TO HIGHER PRICED ITEMS

Finally, use these guidelines (that have been used by highly successful retailers for years) to improve your price image with your customers while increasing your profit.

Following is a chart showing price point groups for higher dollar items. First, determine the appropriate gross margin based upon sensitivity and decide a "normal" selling price. Then locate the price on the chart and price the item at the highest point in its group.

For example, an item costs \$3.89. You want a **40% gross margin**. This means the item should sell for \$6.53...which is in the \$6.50 - \$6.99 group. Price it at \$6.99 and pick up an additional 46¢ in gross margin...and your **new gross margin on this item is 44%**.

The chart below is not suggested retail prices. They are simply examples of what you can do to improve gross margins in a way that is "buying price friendly" for customers.

When you arrive at your desired selling price by using appropriate margin calculations, find the group into which the price falls, and then increase the retail price to the highest number in the group.

PRICE POINT ZONES			
\$1.00 - \$1.29	\$3.50 - \$3.79	\$7.00 - \$7.49	\$14.00 - \$14.99
\$1.30 - \$1.49	\$3.80 - \$3.99	\$7.50 - \$7.99	\$15.00 - \$15.99
\$1.50 - \$1.79	\$4.00 - \$4.29	\$8.00 - \$8.49	\$16.00 - \$16.99
\$1.80 - \$1.99	\$4.30 - \$4.49	\$8.50 - \$8.99	\$17.00 - \$17.99
\$2.00 - \$2.29	\$4.50 - \$4.79	\$9.00 - \$9.49	\$18.00 - \$18.99
\$2.30 - \$2.49	\$4.80 - \$4.99	\$9.50 - \$9.99	\$19.00 - \$19.99
\$2.50 - \$2.79	\$5.00 - \$5.49	\$10.00 - \$10.99	\$20.00 - \$21.99
\$2.80 - \$2.99	\$5.50 - \$5.99	\$11.00 - \$11.99	\$22.00 - \$24.99
\$3.00 - \$3.29	\$6.00 - \$6.49	\$12.00 - \$12.99	\$50.00 - \$54.99
\$3.30 - \$3.49	\$6.50 - \$6.99	\$13.00 - \$13.99	

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How much sales must go up when prices are reduced

THE VELOCITY CHANGE/PRICE REDUCTION CHART

This chart can be used to determine the sales percentage increase needed to make up for a given reduction in selling price

Current Gross Margin Percentage

Price Cut	10%	15%	20%	25%	30%	35%	40%	45%	50%
2%	25%	15%	11%	9%	7%	6%	5%	5%	4%
3%	43%	25%	18%	14%	11%	9%	8%	7%	6%
4%	66%	36%	25%	19%	15%	13%	11%	10%	9%
5%	100%	50%	33%	25%	20%	17%	14%	12%	11%
6%	150%	67%	43%	32%	25%	21%	18%	15%	14%
7%	233%	88%	54%	39%	30%	25%	21%	18%	16%
8%	400%	114%	67%	47%	36%	30%	25%	22%	19%
9%		150%	88%	56%	43%	35%	29%	25%	22%
10%		200%	114%	67%	50%	40%	33%	29%	25%
11%			150%	79%	58%	46%	38%	32%	28%
12%			200%	92%	67%	52%	43%	36%	32%
13%				108%	77%	59%	48%	41%	35%
14%				127%	86%	67%	54%	45%	39%
15%				150%	100%	75%	60%	50%	43%
16%					114%	84%	67%	55%	47%
17%					131%	94%	74%	61%	52%
18%					150%	106%	82%	67%	56%
19%						119%	91%	73%	61%
20%						133%	100%	80%	67%

TO USE THIS CHART: Use the left column to locate the % you plan to reduce the price of any item. On the top row, find the % of gross margin you are currently making on the item. Find where the two percentages intersect on the chart. This is the % of sales increase you will need to maintain the same gross profit dollars.

CONTROL EXPENSES

Becoming obsessive creates too much stress for you and your staff. However, without some monitoring, lack of attention to making good decisions can get lost. The old bromide is true...people do what's **IN**spected, not what's **EX**pected. If you don't periodically ask about things you notice, sloppiness can creep in. Here are some suggestions other dealers have about things they did that worked:

- Have a cleaning supplies closet or shelf. Get what you need, but put it back when you're done.
- Audit expenses you wouldn't normally consider moveable. You can't change the rate you pay for electricity, and you can't shop for alternative suppliers, but you can get help on ways to reduce your use of utilities. Your association has a list of vendors who provide audit services at no charge to dealers. They earn money for their services through keeping a portion of what they save you.
- Get bids for services...like what you pay for trash removal.
- Be sure automatic settings on thermostats are appropriate as seasons change. Check for leaking faucet and toilets than don't fill and shut off. Seems small, but over a month, the additional water use can be amazing high.
- Be proactive on equipment maintenance. Having routine service work done on a schedule can save thousands on breakdowns...and lost sales.

INCREASE INVENTORY TURNS

Suggestions from other dealers tend to fall into two major categories: (1) get rid of stuff that isn't selling, (2) monitor minimum re-order levels.

Take a hike! Look slowly and carefully for buying mistakes...stuff that you thought would sell but didn't. It's often piled on the top of wall shelving units. Money is money. It can be in the cash register or sitting on shelves in the store or racks in the yard. Stuff that isn't selling takes space from merchandise that could occupy the space and make money. Get rid of the dogs!

The same applies to merchandise that has been returned. The item is not damaged but the package is. Taping it up and putting it back on the shelf or hook only makes it harder for customers to remove it momentarily so that they can get to a "new one." Get rid of damaged items!

Watch for minimum reorder levels that trigger purchases. Sometimes, reordering when the number of items in stock gets down to 3 can be a costly mistake. Maybe the reorder level should be 0. If you have multiple stores, move one or two from one store to another. Evaluate situations where your wholesaler's offer for less than case lot quantities (at a higher price) can be wise.

GET PAID ON TIME

Most stores that have problems with getting paid for merchandise sold and/or delivered is not because they lack a good customer credit policy. Mostly, it's because they don't administer the one they have. It begins with everyone agreeing and holding to a position that additional material will not be added to a credit account that is maxed out or overdue. Period.

However, emotions cause people to make bad decisions. Customers who have bought for years...and eventually pay...sometimes are treated as a "we don't ordinarily do this" exception. Once the door to additional (over limit) purchases is open, it's tough to get it closed.

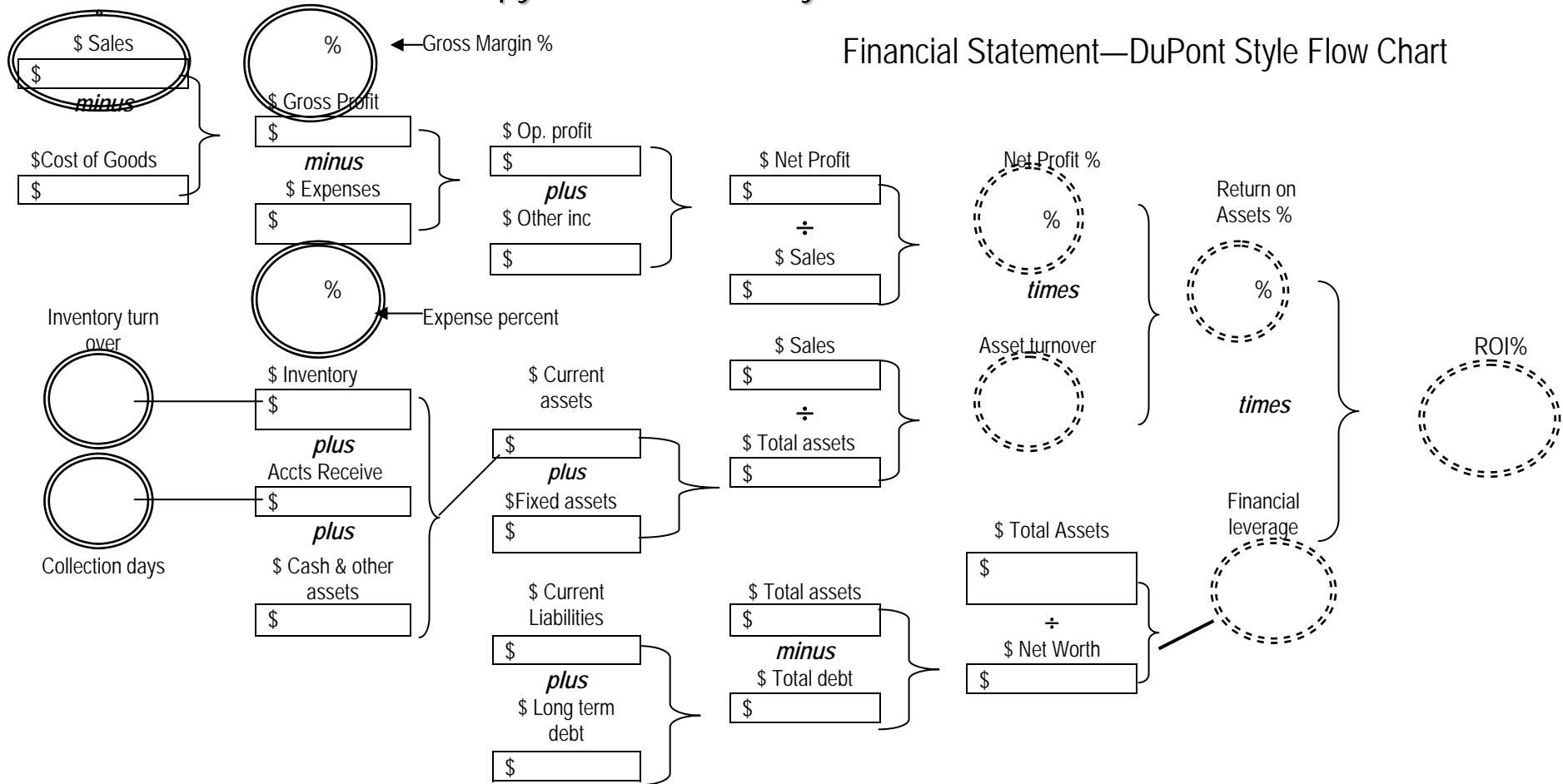
Bill quickly and make sure terms on all paperwork. Make sure delivery tickets, invoices and other documentation you hand to or send to customers show your payment terms.

Follow up methodically. The pattern is: (1) gentle reminder letter the day payment should have been received, (2) another gentle letter a week later, (3) a phone call after three days to ask if there's a problem, (4) a second phone call 3 days later, (5) first warning letter telling that no purchases can be added, (6) a second warning letter explaining that the bill is being set to professional collectors, (7) use a collection attorney to get paid.

Does all this seem "too mean" to you? Afraid the customer will quit buying from you...and rack up a pile of debt with a competitor? Follow through in a "business is business" manner and see what happens.

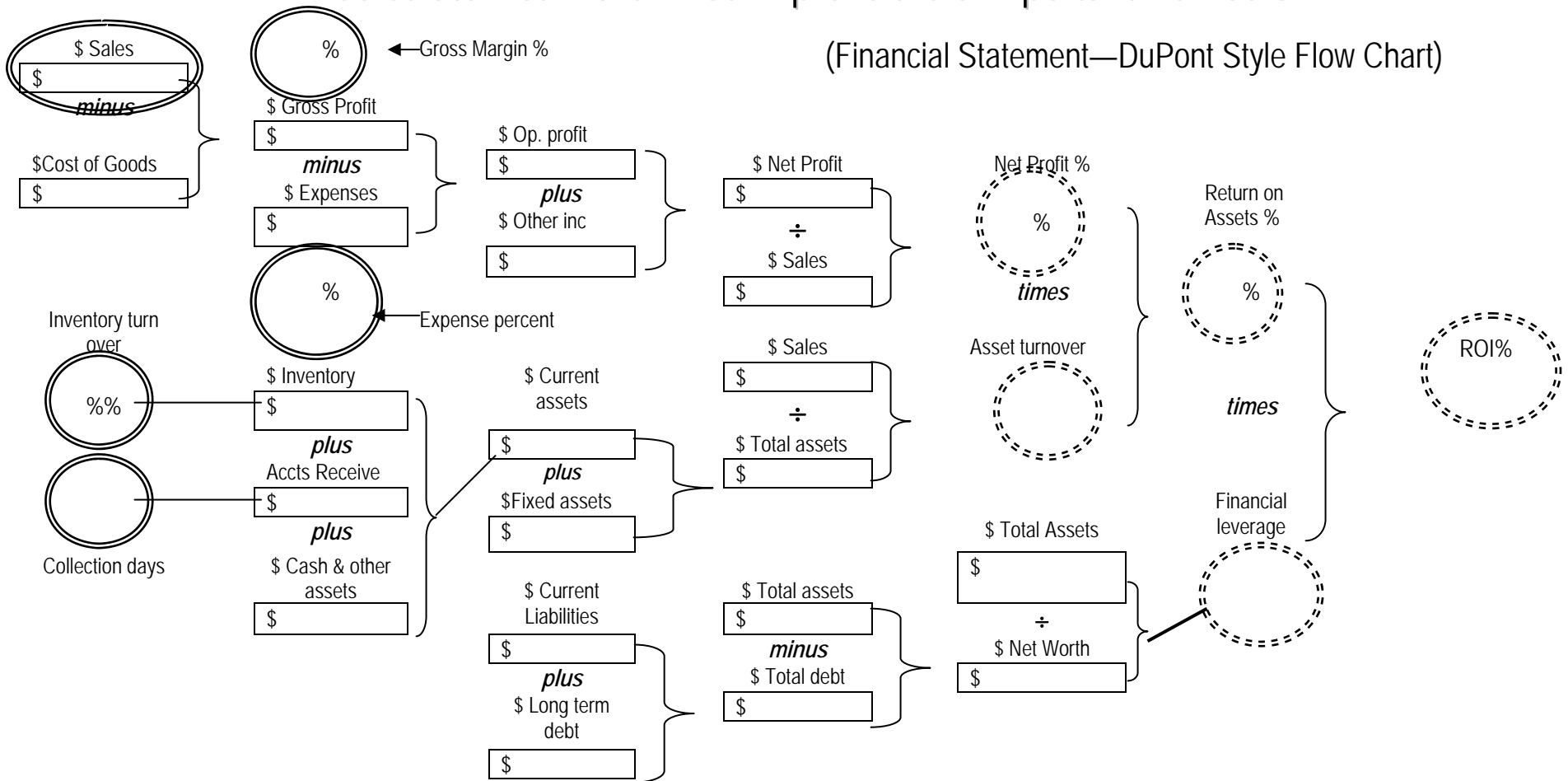
Copy Your Store's Key Numbers for Last Year

Financial Statement—DuPont Style Flow Chart



Calculate Net Profit if You Improve the 5 Important Numbers*

(Financial Statement—DuPont Style Flow Chart)



*

Sales up 1%, gross margin up 1%, expense increase of 10% of sales growth, inventory turns down 0.25%, days waiting for invoices to be paid down by 3.

Biographical Sketch--Bill Sharp



Bill Sharp is one of the most respected training consultants in our industry and the only sales trainer ever to be simultaneously endorsed by both the National Lumber and Building Material Dealers Association and the North American Building Material Distributors Association

Bill also travels coast to coast teaching a selling skills program for builders and remodelers...sponsored for them by their suppliers. He has twice been a featured speaker at the NAHB International Show.

Since becoming a training consultant more than 30 years ago, he has spoken at hundreds of conventions and personally conducted seminars in which more than 900,000 front line sales people learned how to better serve their customers.

In 1984, his Selling Skills and Customer Relations video taped training program became the standard for teaching retail salespeople how to provide excellent service to their customers.

His workshops for managers have won the praise major manufacturers, distributors and dealer associations because his programs are known for their fast pace, humor and easy to remember skills rather than psychological mumbo-jumbo and theory. Participants consistently say, "*He knows me and my customers. He talks about real situations exactly like I see every day.*"

Bill was formerly a salesman, manager and sales trainer for three Fortune 500 companies. He has been on the adjunct faculty of the University of Missouri, Park University and William Jewell College. He has also been a guest lecturer at several others.

Now Bill is using his accumulated knowledge of the retail lumber industry to provide on-site consultation with owners and managers about how to increase both revenue and profit.

Bill and his partners call themselves The PerCon Group (PERformance CONcepts for Management Excellence). They regularly conduct selling skills and sales management programs across the US and Canada, and sometimes in Western Europe and the Far East.



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