



Aberdeen *Group*

## Avoiding Extinction

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*Small Business Retailer Survival in the 21<sup>st</sup> Century*

Business Value Research Series

March 2005



## Executive Summary

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### The Issue at Hand

“Making a living” as an independent retailer has become harder and harder. The best locations have become unaffordable, as landlords raise rents to a level that only national chain stores, with their unattainable economies of scale, can afford to pay. Local customers may wish a retailer well, but unless that retailer has exceptional products or customer service, they will still gravitate to the lowest cost provider. In these times, working harder is no longer enough. Instead, small retailers must work *smarter* to capture a reasonable share of their customer’s wallet. The small retailer is threatened with extinction and only a dramatic shift will make this once critical segment profitable again.

### Key Business Value Findings

When a retailer breaks through the cloud cover of day to day minutia he or she will discover customer buying patterns, or product synergies that they might otherwise never have noticed. These discoveries are critical to creating a sustainable business model.

Small business retailers who move to automation take advantage of tools to help improve merchandise mix and make timely inventory investments. In addition, an automated Point of Sale (POS) system can help retailers cut costs even while reducing typing and counting errors.

A professional looking check-out process coupled with knowledge of their likes and dislikes engenders trust from retail customers. They gain confidence that the retailer is successful and professional.

Finally, a move to an automated POS system promises a return to an improved quality of life. Time previously spent agonizing over menial in-store tasks can be spent with friends, family, or pursuing other interests.

### Recommendations

For those just starting out in a retail business, moving directly to POS will save you time and money versus changing mid-stream.

For those migrating to POS, for optimal time to benefit, enter merchandise a category at a time into the system, starting with the best-selling category.

Use automation to free up time to analyze your business, cater to your customers and make the most of your inventory investments.

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## Chapter One: The Issue at Hand

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### Times Have Changed

Our grandparents lived in a very different world than we do today. Some worked for one company their whole lives and were rewarded for their loyalty with a gold watch when it was time to retire. Others were shopkeepers. Of these shopkeepers, some were content to just “make a living” while others grew wealthy running “the family business”. The truth is, even an owner of a single store could earn enough to put children through college without too much worry. This generation worked hard and expected their work would bring better lives for themselves and their children.

Times have changed. Little loyalty remains between corporations and their employees. Corporate downsizing and layoffs have become a fact of life, and workers will not hesitate to jump to another employer for a little more pay or better benefits. Opening a store or buying a franchise seems like a more desirable option for many corporate expatriates and young entrepreneurs, but “making a living” as an independent retailer has become harder and harder. The best locations have become unaffordable, as landlords raise rents to a level that only national chain stores, with their unattainable economies of scale can afford to pay. Local customers may wish a retailer well, but unless that retailer has exceptional products or customer service, they will still gravitate to the lowest cost provider. In these times, working harder is no longer enough. Instead small retailers must work *smarter* to capture a reasonable share of their customer’s wallet. The small retailer is threatened with extinction and only a dramatic shift will make this once critical segment profitable again.

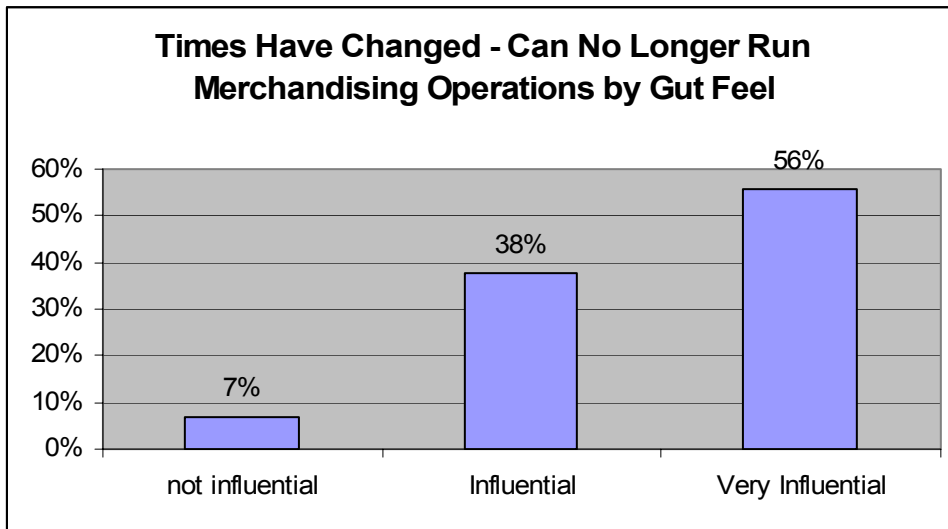
### The Importance of Automation

The first tenet of working smarter is to automate the basic purchase order and replenishment part of store activities and focus more on analyzing the product mix that works best for the retailer. The more mundane aspects of running a store are better left to a computer.

All retailers, regardless of size, are beginning to recognize the importance of automating their merchandising operations, but nowhere is this more acutely felt than in the world of small retailers. In a survey conducted in fall 2004, *AberdeenGroup* asked retailers of all sizes to cite the pressures they face in running their operations. The results for fifty small retailer respondents are summarized in Figure 1 below: small retailers are acutely aware that they can no longer run their merchandising by gut feel and survive.



**Figure 1: Strong Pressure on Small Retail Businesses**



Source: AberdeenGroup, March 2005



## Chapter Two: Business Value Findings

### Key Takeaways

- Automation will give you tools to improve your merchandise mix and make more timely inventory investments
- You can cut costs and reduce typing and counting errors at the same time
- A professional-looking check-out process engenders trust from your customers
- You can own your business and still spend time with your family and friends

When a retailer breaks through the cloud cover of day to day minutia he or she will discover customer buying patterns or product synergies that he might otherwise never have noticed. These discoveries are critical to creating a sustainable business model.

### Improve Your Merchandise Mix and Inventory Investment

There are a fixed number of hours in the day and a single store can have 5,000-10,000 different stock keeping units (SKUs) in inventory at any one time. Most of these items are re-ordered at least once, and many are, in fact, “staples” of the store’s inventory. It’s virtually impossible to keep track of inventory of all those items, let alone determine when and how much to re-order. With automation, store owners can set minimum required in-stock quantities and let the system report when it is time to place a new order. Users report this feature alone has saved them several hours a week, freeing them up to analyze *why* certain items are selling better than others and to find more interesting ways to display their merchandise.

Allowing the computer to calculate re-order points has other benefits as well. Carrying inventory requires working capital, and honing optimal in-stock amounts can be virtually impossible when looking at all the items that can be on the shelves at one time. Automation can help retailers buy the right merchandise at the right time, freeing up precious cash for more opportunistic buys. One retailer, for example, a purveyor of custom-made deli sandwiches, became befuddled over some information his recently purchased Point of Sale (POS) system was presenting. He called his system vendor to report “the system can’t subtract...I am buying way more sandwich meat than I am selling”. Further investigation showed the meat was spoiling and store employees were just throwing it away without telling him. The real answer was “buy less”. Left to their own devices, the employees would perhaps never have shared this information with the retailer.

Knowledge is power: without the basic knowledge of what’s selling in his own store, both by item and by product category, a small retailer is left to trust his vendors to tell him what will sell. Unfortunately, the vendors have their own agenda and also may not understand the idiosyncrasies of the retailer’s local market. The vendor may be promoting volume discounts instead of identifying faster turning merchandise. Volume-discounts may not be useful if the product remains of “museum quality” as it sits on store shelves unsold.



### **Cut Costs, Save Time, Reduce Errors**

Retailers cite other ways automated POS can help them cut costs. One retailer reported an automated feed to her general ledger from the POS allowed her to eliminate a contract bookkeeper and cash register “report checker”. This saved her over \$1,000/month. As she pointed out, to a small retailer \$12,000 a year is “real money” – money that can be reinvested in more value-adding ventures. In fact, these savings alone generated enough money in less than one year to pay for the purchase of her computer system.

The value of automation or of POS in particular in preventing theft has been well documented. One retailer reported his new system highlighted 10-15 sales voids being rung per day in a store. After further investigation, he learned that the cashiers were stealing the money. The computer system acted as his eyes and ears while he was out of the store on other business.

The integrated credit card processing offered by most POS systems allows customers to move through check-out much faster than by using a stand-alone credit card authorization machine. The need to re-key dollar amounts can also result in errors, further slowing the check-out process.

### **A Professional-Looking Check-Out Process Engenders Trust**

A worry frequently expressed by small retailers is that using a scanner and POS system at check-out would make their store feel more impersonal and be off-putting to their customers. In point of fact, our research indicates just the opposite is true. A professional looking check-out process engenders trust from customers and helps them feel they are working with a modern, up-to-date company. In the words of one retailer: “It demonstrates the ability to compete with the big guys while having the customer service of a small business”.

### **Regain Control of Your Life**

No discussion of the small business retailer is complete without discussing quality of life. The appeal of becoming a small business owner is the lure of becoming “master of your own domain”. In fact, most small business owners discover just the opposite can be true. Your business can completely take over your life. The store is open six or seven days a week; from 10 in the morning until 6 o’clock in the evening or later. Any administrative activities have to be done during off hours, and most retailers will confess to obsessing over improving their business even on their days off.

Several interviewees for this report confirmed that since installing an automated POS system they are able to spend more time with friends and family. They cited improved quality of life, and even while in their stores they were able to focus on tasks that were more interesting to them, like improving displays and talking to their customers, rather than burying their heads in books and spreadsheets.

Most importantly, their business was performing better, giving them breathing space and time. They had moved from surviving to thriving, or at least competing on a reasonably even footing with their giant retail brethren.

## How Well Does Your Retail Store Perform?

With this understanding of the opportunities available, a small business retailer can evaluate his or her own performance. Table 1 below is Aberdeen’s model of a competitive framework for small retailing excellence. Thriving small business retailers will make the most effective use of their time and money while working to improve the customer experience in their store. Survivors will have room for improvement, but are managing to get by in a land of giants. Those who fall into the category of fading are likely spending far more time, money and energy in micro-managing their retail stores, and gaining dubious returns. For these retailers, change is the critical imperative for survival. They cannot compete, either with the retailing giants or with their more efficient small company counterparts. Each retailer is advised to review where they stand within this framework. Improvements in process, organization, knowledge, technology, and measurements can result in decreased costs, improved sales and most importantly, improved customer satisfaction.

**Table 1: Small Retailer Competitive Framework**

|              | Fading   | Surviving   | Thriving  |
|--------------|--|---|---|
| Process      | <p>No consistent method of capturing customer interests. Merchandise is ordered based on “gut feel”. No plan to manage slow-sellers.</p> <p>Manual review of cash register tapes to balance cash receipts and bank deposits.</p> | <p>Customer information is captured manually. Vendor assists retailer in determining what to sell, based on sales at other retail accounts.</p> <p>Electronic cash register produces daily report of total cash receipts.</p> | <p>Customer information captured at POS. Reorders of ongoing merchandise automatically recommended by computer system.</p> <p>POS system produces audits by day, by employee, and by register. Exception reports of voids, refunds and price overrides.</p> |
| Organization | <p>Store is totally dependent on presence of owner. Absence of more than 24 hours creates crises in decision-making.</p>   | <p>Assistant manager can run the store without the owner present, but no orders can be placed or merchandise receipts processed without owner in the store.</p>   | <p>Computer generated orders can be run and produced by assistant managers. Merchandise receipts can be processed without owner.</p>  |



|             | Fading  | Surviving  | Thriving   |
|-------------|---|--|--|
| Knowledge   | <p>Limited to no knowledge of above average or below average selling merchandise.</p> <p>Limited or no knowledge of customer buying patterns.</p> | <p>Knowledge of best sellers, but little awareness of slow-sellers until end of season or physical inventory.</p> <p>Some knowledge of "best customers" but the vast majority is unknown.</p>        | <p>Knowledge of best-sellers, slow-sellers available in real-time. Reports analyze category performance.</p> <p>Customer buying patterns available for analysis to improve in-store displays and marketing mailings.</p> |
| Technology  | <p>None. Manual receipt slips, low-end electronic cash register. Manual re-entry of sales and receipts into accounting system.</p>                | <p>Limited. Electronic cash register with daily summary information re-keyed into accounting system.</p> <p>Customer database may be kept on an off-site computer, manually re-entered by owner.</p> | <p>Full POS system with direct interface to accounting system. Customer and product databases are available in store and through remote connections from home.</p>   |
| Measurement | <p>Revenue is the only real measurement used. Total inventory is measured bi-annually.</p> <p>Employees not measured.</p>                         | <p>Some measurement of turn and gross margin accompany revenue measurements.</p> <p>Employees measured on customer and product knowledge.</p>  | <p>Measure revenue, gross margin, and return on inventory investment to determine optimal buying patterns.</p> <p>Employees measured on honesty, transaction volumes and sizes, customer satisfaction.</p>               |

Source: AberdeenGroup, March 2005



## Chapter Three: Recommendations

### Key Takeaways

- For those just starting out in a retail business, moving directly to POS will save you time and money versus changing mid-stream
- For those migrating to POS, for optimal time to benefit, enter at least one category of merchandise at a time in the system
- Free up your time to be more customer-centric.

### If You're Just Starting Your Business – Start with a POS System

Achieving full benefits from an automated POS system requires each and every item in the store to have a unique identifier, or SKU (i.e., stock keeping unit). Each of these SKUs needs to be identified in the POS system. Our interviewees indicated that the time to full benefits was elongated because they purchased their POS system long after their stores opened. Rather than take time out to enter every SKU into the system, they are gradually migrating. Starting your new retail business with a POS system will give you the best leg up in managing and controlling your inventory.

### If You're Migrating – Move one Category of Merchandise at a Time

While we recommend making the effort to get all active items into your new POS system in the shortest possible timeframe, we understand time may not permit this effort. Consider an orderly transition, entering one category of merchandise at a time. This will allow you to achieve full benefits on a portion of your store's inventory, rather than limited benefits on your entire store. Start with the best selling category and work your way down to the laggards.

### Free Up Your Time to be Customer Centric

The ever-consolidating face of retail creates a sense of urgency to improve business processes. On the one hand, consolidated massive retailers like Federated Department Stores, CVS, The Limited, and Albertsons have overwhelming buying power, both for merchandise and for the best real estate locations. Small retailers unable to improve their profit margins, take advantage of local buying patterns, and lift their total revenue overall will find themselves unable to compete.

On the other hand, large retailers' ever-increasing size makes it harder for them to keep in touch with local trends and tastes. Customer-centricity is often lost upon mega-retailers. Those small business retailers use automation to free up time to analyze their business, cater to their customers, and make the most of their inventory investments have the opportunity to take center stage as successful entrepreneurs. Their grandparents would be proud.



## Author Profile

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**Paula Rosenblum,  
Director of Retail Research  
Aberdeen Group**

As director of Aberdeen Group's Retail Research practice, Paula Rosenblum focuses on the critical issues facing today's retail executives. The overarching themes of her research are “*Thriving in the Post-Wal-Mart World*” and “*The Globalization of Retailing – Exploring Best Practices Around the World*”.

Paula’s research demonstrates how best-in-class retailers satisfy their various constituencies. These retailers please their shareholders by promising sustainable growth; delight consumers by providing product selection, convenience, and reasonable pricing; and motivate employees by setting clear expectations and defining manageable tasks. Her studies give retailers insights into strategies to optimize their enterprises, empower the customer through the art of merchandise selection, and marry world-class technology with logistics management.

Prior to joining Aberdeen, Rosenblum was a retail research director for AMR Research. Previous to that, Rosenblum spent over 20 years as a retail technology executive.

Rosenblum holds an M.B.A. in Management of High Technology from Northeastern University and was nominated for the Beta Gamma Sigma Honor Society. She also holds a Bachelor of Arts from the State University of New York.



## *Appendix A:* **Related Aberdeen Research & Tools**

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Related Aberdeen research that forms a companion or reference to this report include:

- The Empowered Store (September 2004)
- The Proactive Merchant (December 2004)
- Moving Beyond Mediocrity: The Retailer Imperative for 2005 (January 2005)

Information on these and any other Aberdeen publications can be found at [www.aberdeen.com](http://www.aberdeen.com).



## About **AberdeenGroup**

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### **Our Mission**

To be the trusted advisor and business value research destination of choice for the Global Business Executive.

### **Our Approach**

Aberdeen delivers unbiased, primary research that helps enterprises derive tangible business value from technology-enabled solutions. Through continuous benchmarking and analysis of value chain practices, Aberdeen offers a unique mix of research, tools, and services to help Global Business Executives accomplish the following:

- **IMPROVE** the financial and competitive position of their business now
- **PRIORITIZE** operational improvement areas to drive immediate, tangible value to their business
- **LEVERAGE** information technology for tangible business value.

Aberdeen also offers selected solution providers fact-based tools and services to empower and equip them to accomplish the following:

- **CREATE DEMAND**, by reaching the right level of executives in companies where their solutions can deliver differentiated results
- **ACCELERATE SALES**, by accessing executive decision-makers who need a solution and arming the sales team with fact-based differentiation around business impact
- **EXPAND CUSTOMERS**, by fortifying their value proposition with independent fact-based research and demonstrating installed base proof points

### **Our History of Integrity**

Aberdeen was founded in 1988 to conduct fact-based, unbiased research that delivers tangible value to executives trying to advance their businesses with technology-enabled solutions.

Aberdeen's integrity has always been and always will be beyond reproach. We provide independent research and analysis of the dynamics underlying specific technology-enabled business strategies, market trends, and technology solutions. While some reports or portions of reports may be underwritten by corporate sponsors, Aberdeen's research findings are never influenced by any of these sponsors.



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