

special AFCI 2018
DIGITAL EDITION

CREATIVE RETAILER

from the editors of AMERICAN QUILT RETAILER



The secret to success is to be ready when your opportunity comes.



from the EDITOR

Let me introduce myself. I'm Heidi Kaisand, owner of an independent retail store, Hen & Chicks Studio, in Conrad, Iowa, where we focus on quilting and paper crafts, longarm quilting, and have a fully-equipped retreat center (henandchicksstudio.com). My professional background is in publishing consumer magazines (more than 15 years at Better Homes & Gardens American Patchwork & Quilting magazine) and longarm quilting machine sales with APQS. And, personally I've been creating since I was kid, loving all things fabric and

paper, and trying a bit of everything. The creative industries, like the businesses seen in the isles of Creativation, is where my passion is.

In 2015 I purchased the publication American Quilt Retailer, a trade magazine for independent quilt stores. The core content of our publication is about helping retailers and small business owners run their businesses more successfully. So I've been researching how I can help more creative retailers with this core content--and this FREE publication, Creative Retailer, is our first opportunity to test the waters with retailers beyond quilting. We've put together a variety of topics that we think you'll find interesting. And, we can't wait to get your feedback.

I'm walking the aisles of Creativation, so if you see me, please stop me and tell me know what you think. Or if you're already back home when you're downloading this, email me at Heidi@AmericanQuiltRetailer.com and let us know if this is just what you're looking for to help you in your business.

Yours truly,

HEIDI KAISAND

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CREATIVE RETAILER

from the editors of AMERICAN QUILT RETAILER

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American Quilt Retailer always tries to relay accurate and useful information to the best of its ability. However, all of the articles are meant to help guide you to become a better-informed businessperson by seeking out professional answers for your own individual business needs. American Quilt Retailer holds no responsibility for any financial consequences and only hopes you'll find generous financial gains from the information presented.

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The next FREE digital issue of Creative Retailer will be emailed to subscribers approximately April 20, 2018.



Display fat quarter bundles along with quick and easy project ideas.



Got to Have It

Plot a strategy for small items.

BY Anna Woodward

Pull together powerful impulse areas near your cash register and cutting tables stocked with items from your store. Many small, low-priced items will avoid notice when scattered throughout the store. In fact, if customers are seeking particular items, they may tune out smaller presentations. The key is to position small goods in areas customers may linger.

Shoppers' walking pace often dramatically decreases as they head to the cash register, as if their subconscious is deliberating whether they are ready to complete the transaction and end the shopping trip. Take advantage of this slower speed with interesting items on display. And when lines of shoppers jam the checkout or cutting area, avoid customers being annoyed by creating powerful impulse areas that will pass the time plus keep them shopping.

Follow these steps when staging impulse areas:

KEEP IT CLEAN. Don't try to say too much. It is better to have a few, meaningful product presentations in lieu of a sprinkle of lots of several different items. If your store has a large variety of good impulse items, consider rotating the products you display. Simplify your selection by leaving some in the back room. More choices don't always translate into increased sales revenue. Contrary to the traditional rules of retail, a couple of options presented in a compelling manner are more likely to turn faster than a variety of items.

CONSIDER YOUR PRICE POINTS. A price-conscious customer may carefully tally up her choices throughout the entire shopping experience, being careful not to overspend. But once she reaches the cash wrap, she might throw caution to the wind. How many times have you stood in line and thought, "Oh, what's 10 more dollars, really?" This thought is the definition of impulse buying and the store's opportunity to >

Don't limit your sales to tangible goods; experiential offerings can be just as profitable.

add on to sales. Small items under \$15 typically make the best impulse items. Make sure the presentation is powerful, quantities are strong, and fixtures choices are interesting or unexpected.

PRESENT QUICK AND EASY PROJECTS. A project can retail above the suggested price point, if you can suggest an option that will not require a lot of time. A customer is more willing to justify the additional cost if she can imagine a specific date or time she could complete an extra project. For example, even though fat quarter bundles are three times higher than the typical impulse item, a quilter can quickly envision it being used in a fat quarter-friendly project or as a stash builder. A chalkboard sign, stating Create in One Afternoon, helps plant that seed in the customer's mind. The goal is to "inspire" the customer to take on an additional project.

POSITION PRODUCTS WITH CONVENIENCE IN MIND. We've all left a store forgetting one crucial item. Help your customers by placing a double exposure of a must-have notion on the counter. It serves as a good reminder to those who came in the store for that item, plus it spurs others to question if they have any white thread left on their spool or if they did pick up an extra pack of needles before leaving last time. More often than not, shoppers will want to ensure that they don't leave the store regretful. Some might even thank you for the reminder!

PROMOTE CLASSES AND SERVICES. Areas in the store that naturally force customers to wait are great for longer messages. Maximize this time to visually tell customers about your new spring classes or retreat center through sample projects and short, creative signing. Brevity in text is key; keep it as visual as possible. Customers may not stand there to read a brochure, but they could take it home for further information. Don't limit your sales to tangible goods; experiential offerings can be just as profitable.

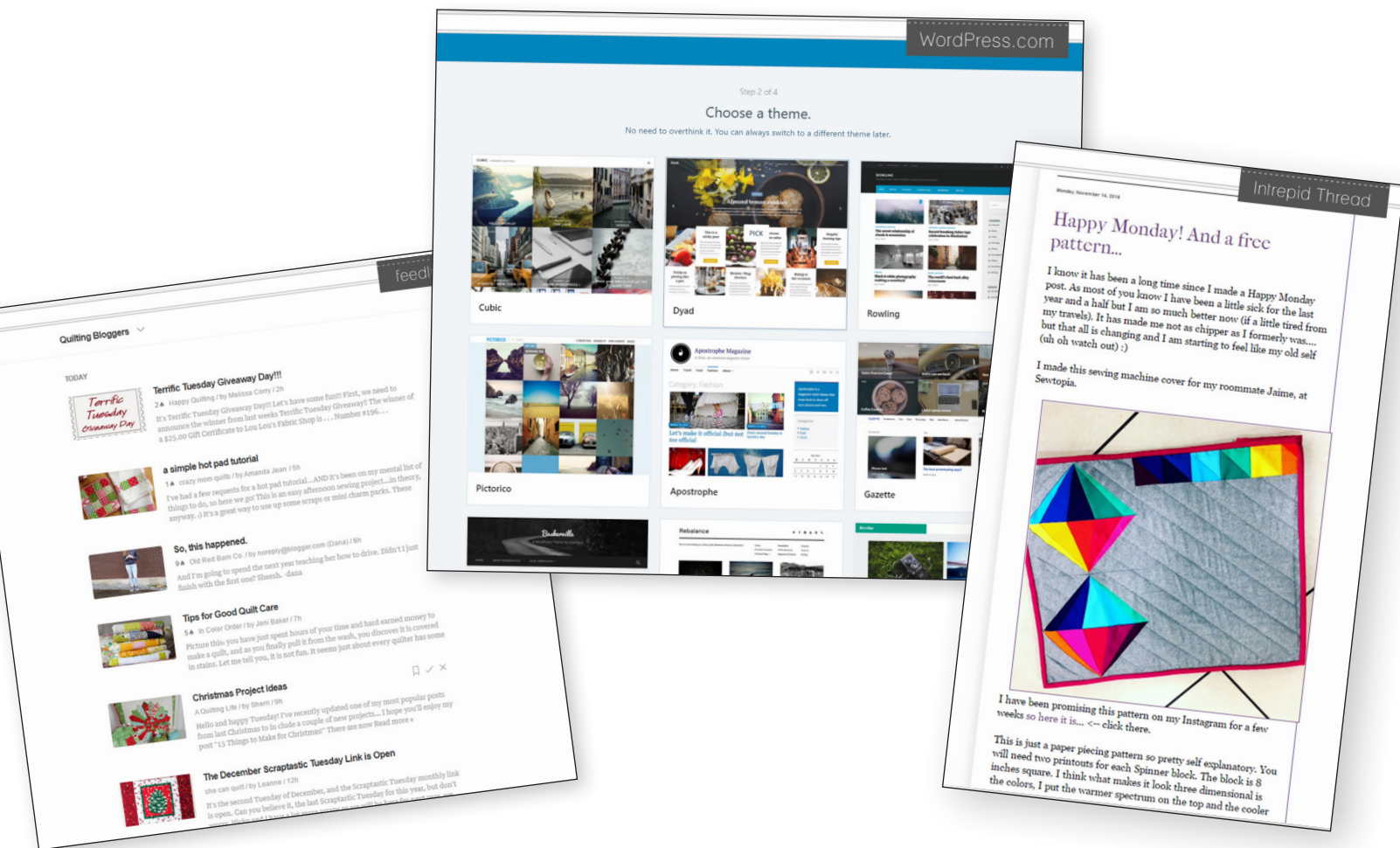
These tips will help you maximize your square footage to achieve the highest sales revenue, not the most capacity or best efficiency. ☒



Showcase everything your store does to inspire your customers.



Encourage class sign-ups with project samples.



Plot a Compelling Blog

An online presence is a good way to grab the attention of new customers and to connect with them. Blogging gives you an outlet to expand your story in ways that can benefit both you and your customers.

BY *Melissa Boike*

Getting Started

Your first step should be a fact-finding journey on the internet to familiarize yourself with other blogs, especially those in the creative industry you focus on. Feedly gives you the ability to discover blogs, publications, podcasts, YouTube channels and more in your area of interest. For example, search for a product, brand, company or keyword, such as quilting, and www.feedly.com will bring you blogs to read and follow if you choose. Every time you log in, your favorite blogs will be there and you can

learn what people in your industry are writing about.

Another excellent source is Bloglovin'. The site at www.bloglovin.com is similar to Feedly but is specifically for searching for blogs. It's very easy to discover what is popular and new in all the topics you want to know about.

Find Inspiration

Study blogs about topics that interest you other than your main focus. Look at the presentation and layout of the blog, the content posted, and the comments

received. Notice details that stand out and what you like best about these blogs. Is it the stunning photography, the layout, the content? Take what you like and apply it to your blog.

Discover what blogging platforms your favorite bloggers use. Do your research to find the one best for you. Many blog platforms are user-friendly and have drag-and-drop features that allow you to customize your blog design, layout and color schemes. Start with something simple so you can focus on the content. The more acquainted you >



become with your blogging platform the easier it will be to customize the look and feel of your blog.

Another great resource for igniting creative sparks is Pinterest. Like blogging, Pinterest connects people through shared interests. The image-based social media is a great place to gather ideas for blog content.

Top Blogging Sites

WordPress, Blogger and Typepad are good choices for hosting your blog. They are relatively easy for beginners and can accommodate your needs as you become an expert. They give you step-by-step instructions, including choosing a domain name. The domain is the name that people will type to reach your blog. After adding your company's info in the "about" section, you can start posting content. Have fun perusing the color options, adding your logo, playing with fonts and making your blog special to you. Once you're up, share your URL with everyone you know. Be proud of what you just created and all the things you will be able to share.

Creating the Perfect Blog

Blogging allows you to communicate and interact with your customers and to be a part of a community of people who share the same passion you do. Coming up with blog content takes commitment but is very rewarding and a great way to let your creative juices flow. Post what's important to you, what makes you stand out as a company and information you know will benefit your customers. Focus on things that make your quilt shop special.

Informative Posts

Time is precious, so packing your blog with information to benefit your reader customers is an obvious choice. Appropriate topics include the following.

NEW MERCHANDISE: The arrival of new items at the store is always exciting. Create a place in your store to showcase new merchandise and snap photos to include in your blog post (see "1 photo = 1,000 words" for tips on taking pictures). >



1 PHOTO=1,000 words

If done correctly, a picture can tell a story better than any words you can come up with. Posting pictures in your blog post is very important, but bad pictures or too many pictures can turn a good post into a bad one. Pay attention to lighting. A dark picture or one that's overexposed does you no favors. Don't worry about buying an expensive camera. Most smartphones will give you a photo of good enough quality for your blog. You can even use free apps to edit your pictures. Practice and pay attention to what attracts you about good photos.

Sometimes the best way to give your customers what they want is to ask them what they want. When readers comment to your post, always comment back in a timely manner.

SALES: Informing customers about sales in your shop through a blog post is a great way to let them know when the sale starts and ends, and what products are featured. You can even offer a coupon code and other discounts exclusive to your blog readers.

CLASSES: If your shop offers block of the month programs, sewing classes, meet-ups and anything that brings the sewing community together, blog posts about these events are a great way to spread the word. Promoting details of the events in advance helps your customers plan their schedules and lets you gauge the enthusiasm for the event through the comments section on the blog. It's also a great way of informing potential customers about the programs you offer. Your post can describe what they will learn by attending the class. You can also ask what they want to learn and create classes based on the feedback.

DIY PROJECTS: Have everyone on your staff create a fun project to share on the blog every month. This will add personality to your blog and keep it fresh with new ideas from different people.

How-to Posts

Find an interesting topic, problem or technique your customers can relate to, such as clever ways to keep your creative space organized; the 101 on different types of supplies; all you need to know about specific techniques; or creative basics.

These posts can feature products you sell in your store while offering readers tips and tricks to become better at their craft. It won't seem like you are just trying to sell readers something; you are also educating them, which people will appreciate.

Question Posts

Sometimes the best way to give your customers what they want is to ask them what they want. When readers comment to your post, always comment back in a timely manner. This shows that you care and are dedicated to their satisfaction. This will also strengthen your relationship with your customers and help you to stand out from other quilt shops. Comments, good or bad, offer valuable information you can use to improve upon your next blog post or on your business in general. Also a great way to increase traffic to your blog is through comments.

Promotional Posts

While it's important to post regularly, it's even more important to keep your blog posts exciting. If you always blog in the same format about the same general things, people are going to get bored. You need to offer them something new, keep them on their toes. A great way to do this is to promise them something, a reason to keep reading and to stay connected with you. This could be a fabric giveaway, a contest, special quilting classes or a quilting club they can join.

Posts from Guest Bloggers

Collaborating with other bloggers is a great way to bring interesting content to your blog and more followers. Team up with pattern makers, fabric designers, wholesalers you buy from. Invite them to be a guest blogger and thus get people excited about a new product or new fabric line you offer in your store. >

HOW TO GET FOUND

You have started blogging, you are full of enthusiasm, your articles are interesting, your pictures are crisp, and it seems you are doing everything right. But when you check the blog analytics, your audience is not as big as you hoped. Don't get discouraged. Here are four ways to increase traffic to your blog.

- **Work with influencers in your industry.** Find other bloggers or fabric manufacturers who would gladly link to your blog post. The more high-authority domains that link to you, the better your rankings are. You can also write guest posts to another blogger who is targeting a similar audience.
- **Choose the right titles and keywords for your posts.** If you just wrote an awesome sewing tutorial but you titled the blog post, "My cool Saturday project," you didn't tell search engines what your blog post is about. The right title should contain keywords related to your project; for example, "How to make a hexagon pillow" or "Quilt as you go: learn fast and easy method of quilting." Remember to include the related keywords within the content of your blog post as well.
- **Share your content on social media.** That may seem obvious but when you get busy you may forget about sharing your content on social media channels. Use one of the scheduling platforms, such as Hootsuite, and schedule your content once a week, allowing you to focus on other important tasks throughout the rest of the week.
- **Post consistently.** You can't leave your audience waiting for a new blog post for long. Try to blog at least once a week. Also remember to link from your new blog post to the related content you wrote some time ago.



*Give the people more.
Show them who you are.*

Personal Posts

Where is your quilt shop located? What makes your city special? What popular attractions or things are you proud of? What are things that every local can relate to? For many places, it's a beloved sports team, your weather, food or hospitality. Be true to who you are and where you come from.

Give the people more. Show them who you are. This will create a unique personality that people will be attracted to and is a good way to draw them into who you are and what you do. ☑

Connecting with Omni-Consumers

Who are these consumers and how does it affect sales in your store?

BY Rich Kizer & Georganne Bender

Have you met your new customer? The new shopper has morphed into an omni-consumer, someone with the ability to shop everywhere at any time. Omnis use technology to shop because it's easy. They shop online from their desktops, laptops, tablets, smartphones and on your sales floor. These smart, socially connected consumers want things done their way.

Omnis are powerful consumers of all ages who shop in a variety of ways. The Harvard Business Review recently surveyed 46,000 consumers and found that 7 percent shopped only online, 20 percent shopped only at brick-and-mortar retailers, while the remaining 73 percent used multiple channels during their shopping journey. The study found that when consumers used multiple shopping channels, they spent more money in the store. The research found that customers who used more than four shopping channels spent 9% more in-store, on average, when compared to those who used just one shopping channel.

What does this mean to you? Omnis compare their experience in your store with what they see online and what happens to them in other brick-and-mortar shops. This means you need to up your game in every area of store operations and customer service. It means offering customers a choice about where to engage with your store, whether in the shop, online or through social media.

Your goal should be to create a fun, interesting, engaging and interactive experience that connects with customers regardless of where they encounter your brand. This experience is emotional. Here are some suggestions to maximize your “emotional retailing.”

Younger Generations Set Trends, Older Generations Adapt

Every customer, regardless of age and gender, can be an omni-consumer. Much of where generations differ lies in the use of technology. Millennials and Gen Z are leading the charge for change, but baby boomers and Gen Xers quickly adapt to whatever the younger generations do.

Online, omnis want to find what they are looking for quickly, plus if they request something they want a rapid turnaround. They don't read long blocks of copy. They prefer interactive websites that offer project sheets, photos, demos and more. Omnis like websites with FAQ (frequently asked questions) pages because they would rather read the answer to their questions than call. Omni-consumers are multitaskers who don't always give your message their full attention; it's up to you to capture it. Your website and social media should reflect their desires, not what's convenient for you.

Connecting with Omni-Consumers

Email is still your best bet to connect with omni-consumers of all ages. Although it's not the preferred way for young omnis to communicate with each other on a personal level, they love it for offers from retailers. An eMarketer study predicted 236.8 million email users in the United States in 2017. You want a piece of that big marketing pie.

Keep in mind that 54 percent of emails are now opened on a mobile device, and 64 percent of people say they open an email because of the subject line, so make sure yours are compelling and display correctly before you hit send.

Connecting with customers via email is inexpensive, has a huge reach and allows you to share professional-quality communication. Spend an hour twice a month to build and send an email blast.

Email marketing companies, such as Email Contact, SnapRetail, Constant Contact and MailChimp, make it easy to create, send and track your email blasts. Tracking is important. If you never read your stats, you won't know what works and what doesn't.

For your email, think big pictures, concise copy and clickable links that take the customer to your website for more details. If you send out information on specific products, make sure those products are in stock and that every associate knows about what's in the email. Omnis hate when the connection between online and in-store isn't what was promised.

Embrace Video

Omni-consumers love video. When you add a short video to your email blasts, your open rate increases as much as 300 percent.

This means you need a YouTube channel to house your videos. Younger omnis spend more time on YouTube than they do watching television. Use your free YouTube channel to showcase your store and your product. Talk about yourself and your store associates and teachers. Have fun and be creative.

Omni millennials use YouTube videos to learn new things and like the aspect of being self-taught. A smart retailer will lean into the self-taught craze and host events to draw customers into her store. Add videos to your email blasts and on social media. The videos you capture on Facebook Live can also be saved and added to your channel.

Social Networking Strengthens the Bond

Omni-consumers live life out loud on social media. Millennials and Gen Z have no privacy barriers; they put their entire lives online. Boomers and Gen Xers are still somewhat cautious, but they are dipping their toes into the over-sharing pond. Over-sharing means customers are willing to participate.



Younger omnis spend more time on YouTube than they do watching television.

Think about what you post. An occasional photo or comment that's just for fun is fine, but the true goal of social networking is to bring customers to your website or into your store. It's simple to list ideas and store photos in a Word document, then just cut and paste when it's time to post.

Post about people having fun creating in classes and at retreats. Share demos that are happening on the sales floor, and showcase customers and their creations. Share from Quilt Market and trade shows. You want customers to think they are missing out if they don't visit your social media and your store on a regular basis.

One of your social networking sites must be Facebook; 80 percent of users said they prefer to connect with their brands

CONNECT THE IN-STORE EXPERIENCE WITH THE ONLINE EXPERIENCE

The experience begins the moment a shopper connects with your brand. In a quilt shop, shoppers step into a rainbow—they are surrounded by colorful product. That's what should stand out, not your in-store décor.

- **Use color in your store design in two ways:** neutrals should be the primary color and bold accents the secondary colors. The primary color should be 80 percent of your store décor; its job is to create a relaxed atmosphere for customers. Accent colors take up the remaining 20 percent. This formula allows the merchandise to pop. It also ensures that shoppers are not overwhelmed by colors, because certain colors can send a customer right back out the door.
- **Red should never be a primary color because it's too aggressive.** It actually speeds up the metabolism, raises blood pressure and increases respiration rates. Too much red can also make people anxious and aggressive, traits you don't want on your sales floor. But online, red attracts the eye.
- **Yellow can be hard on the eyes, causing fatigue or agitation;** that's bad for quilters. Certain greens cause people to think about money—also bad because it subliminally prevents people from shopping. Blues, whites, creams and grays are a good choice for your store's main color. Accent colors can be bold and bright. Visit your local paint store to pick up paint charts that offer complementary color combinations.
- **Feature your accent colors on your website as well.** Use them as background on your social media cover and profile photos. Put them on signage, bags, uniforms and whatever else represents your store.
- **Set aside a few hours to look at your omni experience across every category.** Your sales floor, website, email blasts and social media should each tell the same brand story, making it easy for consumers to identify what belongs to you.
- **Omni-consumers want a seamless interaction with your store.** They want the things they see and read online to match the actual in-store experience. They want the friendly faces they see on social media to be just as welcoming when they visit your store, and they want the brilliant ideas they see on your sales floor to be available online when they can't make it in. You want that too.

of choice via Facebook. Your ads on Facebook can be finely targeted to specific locations and demographics.

Instagram, another omni favorite, is the perfect place for quilt retailers to showcase their wares. Save time by connecting your social media so that what you post on Facebook shows up on Instagram and Twitter. Don't worry about overkill because different people view different social media at different times. Post regularly, at least once a day.


Omnis Love a Good Party and a Good Deal

In-store events and promotions should be a regular occurrence at your store. Every month aim for one major event that attracts a crowd and one to two minor events, such as trunk shows, classes or demos. Include promotions with limited-time deals or celebrate something exciting that's happening in your store or your town. Advertise via email, host a party on Facebook or run a flash sale on Instagram.

Events should be fun. Try a ladies night open house that includes refreshments, entertainment, mini classes and demonstrations right on the sales floor. Stage contests and draw for door prizes throughout the evening. You might post a gentleman in a tuxedo at the front door to welcome guests, or invite the high school varsity football team to park the cars (tips encouraged!). Add a few "This night only" specials on certain items or categories.

Sales in which customers create their own coupons are lucrative too. Everyone loves an event where they can choose what's on sale. You'll build foot traffic and increase sales in just a short time, plus you can expect a much greater response than for your basic coupon promotion.

Post like crazy on social media during your event so people know what they are missing. Follow up after the event with an email blast that's loaded with photos.

For how-tos and customizable templates for the above events, plus additional events for each month of the year, send an email to info@kizerandbender.com. 



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Retailing is more than third grade math

Why you need to learn margins, turn and dollar contribution

BY Tom Shay

For the first couple of years of elementary school math was just adding and subtracting.

The challenges of math picked up when we started learning multiplication. With the help of a teacher and plenty of practice, most of us mastered the concept, able to do some of it in our head and the rest of it with pencil and paper.

Retailers put these multiplication skills to work every day as they determine the price of the products they are selling. Although it seems like it should be simple, retailers need to consider many factors. Let's start at the beginning.

Determine the Selling Price

Many retailers simply take the cost of the item and multiply it by a certain number to get the selling price. This has become the dominant factor in determining the price by retailers nationwide, meaning the only consideration in the selling price of any item is what it cost you. Looking at an initial item for an example,

take the cost of an item (\$2.00), multiply the cost by two (often referred to as "keystone"), and you have the selling price of \$4.00.

As the cost is half, or 50 percent, of the selling price you have a 50 percent margin or markup. All you have to do is decide what number you are going to use to multiply the cost, right? It could be two, three, four, or even something like 2.5 times the cost.

There is even another unique, but incorrect, method of determining the selling price and calling it a margin or markup. This is when the buyer takes our example item with a cost of \$2.00 and says she wants a 50 percent margin or markup.

Knowing that 50 percent of the \$2.00 cost is \$1.00, they add the \$1.00 to the \$2.00 cost to have a selling price of \$3.00; this formula doesn't have a name. As simple as this formula sounds, it is the wrong approach for many reasons. As a buyer of merchandise, you have many responsibilities:

- *Determine the selling price* of an item.
- *Make as much profit* as you can (suggestions to follow).
- *Order the right quantity*, which can be a factor of what the selling price is as well as working to see that you minimize the amount of leftover merchandise and markdowns for products that have a seasonality to them.

Following are explanations of what is wrong and how to improve the way you are buying and selling merchandise.

Pitfalls of Using One Multiplier

If you're using the same multiplier for all products, you will more often be pricing the item too high or too low as compared to getting the price right. Retailers too often use a basic formula (cost multiplied by a certain number) for thread, another for zippers, a different multiplier for fabrics, and so on. And although it seems like a good idea, it doesn't work so well in all situations.

When you find a unique thread that no one else in the area stocks, if you are >

using only one multiplier you are going to use the same multiplier as the more common thread you stock. Most likely the common thread you carry will be priced too high, and the unique thread is priced too low. Your customers may see how you have priced the common thread and walk out after seeing your higher price. You will not even have the time to tell them about the special thread and other products you have that are unique.

Improve your pricing by having more than one multiplier.

Cost of Product Does Not Equal Sale Price

The cost should technically have nothing to do with what something is sold for. The determining factor for the price is asking, “What will the customer pay for this item?” Once you have made that decision, you can then consider how you are going to sell the item and if it is worth the effort of stocking the item. This is where other buyer responsibilities come into play, such as deciding where and how to display the item within your shop.

The buyer also needs to know when the peaks and valleys of the sales cycle is for that item. Without these considerations we will have too much inventory at some point during the year. However, in answering the question of what the customer will pay for the item, we are going to look at more than just margin in another of our lessons.

If cost is the sole determination factor in how something is priced, consider the situation in which you have decided to add a new line of thread. At the trade show you place an order that provides a new display rack as well as plenty of spools of each thread. It is the best price you can get for the thread. With that cost in mind, you establish the retail price.

As you continue to sell through the product, you need to reorder. However,

your order is not sizable enough to place an order through the manufacturer so you order the thread, at a higher cost, from a local wholesaler.

Now how do you price the product? Using the current technique for pricing, you will have some colors at one price and other colors of the same thread at a different selling price.

Customers do not care how you purchased the thread. The only issue for them is deciding which color and if they believe it is a fair price. Perhaps we have too often heard the advertising by other businesses, especially auto dealerships, who state, “We buy for less so we can sell for less.”

That may be a neat advertising tagline, but realistically, why would you work hard to pay a lesser price for an item followed by selling it for a lesser price? All this means is that with this extra effort, you are going to be making the same profit as the other businesses. It should be that by being an exceptional buyer, you will have increased margins and increased profits.

If you are the buyer working for the store owner, the only way you are going to get an increase in pay is by increasing the profit; not just increasing the sales. Your additional pay has to come from additional profit.

Understanding the Terms Used

The terms “margin” and “markup” are not interchangeable. The margin is calculated as we previously described. Note that the math for margin is the same as what is used in your profit and loss statement. Hence, it is the “correct” reference for retailing.

Markup, using the same cost and retail price as previously described, is 100 percent because you are taking 100 percent of the cost and adding it to the cost of the product to determine the retail price.

You can never have a margin that is 100 percent (this would mean you got the merchandise for free), and if you use markup, you can have an answer that is higher than 100 percent. If there are two of you in the conversation, you and the sales representative, make sure both of you are using the same terminology and the same method of calculating the answer.

However, in considering the suggestion of the sales representative for the selling price of the item, remember that in today’s market the idea of items having the same price in every retailer that stocks the item has gone by the wayside. >

ANOTHER COST TO CONSIDER

Attending a trade show incurs expenses such as hotel, meals and airfare. There is also the added expense of additional help to cover the sales floor in your absence. For many stores this just becomes an operating expense. However, for those who find products at a lower price and unique items that can be sold at a premium, the extra margin gained will pay for the expense of attending the trade show.

“Using only the multiplier of cost factor in determining selling price is sure to leave you with many items that are priced incorrectly.”

—Business expert Tom Shay

Making Money

So far we have talked about margins and markups. When you want a profitable store, you must look at the checking account and the profit and loss statement. Both of them use dollars; not percentages.

Let's look at three methods of making as many dollars as possible in your store: turn, dollar contribution and margin. Each has an appropriate place in your store in creating the best opportunity for profit as well as not having your customer see you as a high-priced local store. Consider how these concepts are illustrated in the examples, right.

Of the three methods offered, which one do you want for your quilt shop? It is a trick question because the correct answer is that you want all three methods in their appropriate places. You also note that all three create a gross profit of \$600 for your business. You pay bills with this cash; you do not pay bills with the percentages in the margins (or markups for those we have not yet convinced to change their terminology). Dollar contribution, turn rate and margin are all necessary so that your merchandise is priced right.

All Things Considered

Using only the multiplier of cost factor in determining selling price is sure to leave you with many items that are priced incorrectly. Multiple factors should be considered in determining the selling price of each and every item in your shop. Determining the correct margin is definitely not third grade math. ☒

THE PRICE IS RIGHT

Consider how turn rate, dollar contribution and margin affect pricing in these three common scenarios.

Slow Turn, High Dollar, Medium Margin

The most expensive item in your shop sells for \$999.99 and has a cost of \$700.00. For the past several years you have sold, on average, two a year. The gross profit this item drives to the bottom line of the profit and loss statement of your business is just under \$600 each year. Your gross margin on this item is 30 percent. (To calculate the gross margin, you take the selling price and subtract the cost to determine your gross profit. Then you divide the gross profit by the selling price. The answer, stated as a percentage, is your gross margin.)

With this item you have only two of them in the shop at any given time. When you sell one, you reorder one so that you are never out of stock. This is referred to as “One to show and one to go.”

High Turn, Low Dollar, Low Margin

Our second item sells for \$2.00 and has a cost of \$1.75, meaning with each transaction you make 25 cents as a gross profit. Using the math we just explained, the gross margin is a mere 13 percent; however, over the course of the year your shop sells 2,400 of this item. That 25-cent profit along with the quantity you sell drives \$600 to the same bottom line of the profit and loss statement. And because you are reordering this product every two weeks, the turn rate is tremendous.

If you are selling 2,400 of this each year and have only 200 on the shelf at any given time, your turn rate is 12. This is calculated by dividing the quantity sold by the average quantity on hand in the shop.

Medium Turn, Medium Dollar, High Margin

The third item is selling for \$9.99 and has a cost of \$6.00, meaning you have a gross profit of almost \$4.00 on each sale. Over the same year, your shop sells 150 of this item. Using the same formulas offered previously, we find this item has a 40 percent gross margin and drives \$600 to the profit and loss statement bottom line. The turn rate on this may be a mere two or three times a year.

Turning Your Inventory

Smart management yields higher profits

BY Amy Mann

Pete Seeger wove words from the Book of Ecclesiastes into the song “Turn! Turn! Turn! (To Everything There Is a Season),” which The Byrds propelled to hit status in 1965. Just like the song says, there’s a time for everything: A time to love and to hate. A time to mourn and to dance. A time to rend and to sew.

Turn, turn, turn is more than just a memorable song—turn is one of the single most important things every retailer must pay attention to in order to build a profitable, sustainable business. And now is the time for you to understand what inventory turn is and how it affects your business.

The simple definition of inventory turn is the number of times each year that you sell through your inventory. So if your turn is three, you sell through the value of all the goods in your store three times per year.

The calculation for inventory turn is tricky though because your inventory ebbs and flows. You get more goods in right before your busy season and let inventory levels fall as your slow season approaches.

At least that’s what you should be doing. This ebb and flow is critical to getting a good inventory turn. We’ll get into how to manage this flow below. First, let’s answer this question: If your inventory level is a moving target and ebbs and flows with the seasons, how do you figure out what your turn rate actually is?

Inventory turn is calculated by taking your yearly sales in retail dollars and dividing it by your average stock (also in retail dollars), with your average stock being the sum of 12 consecutive beginning-of-month (BOM) inventories and ending-of-month (EOM) inventories divided by the total number of inventories.

The longer your money is tied up in any one piece of merchandise, the less likely it is that you will ever get that money back out of it, not to mention make any money on it. And while your cash is tied up in that piece of merchandise that isn’t selling, you don’t have those dollars available to spend on merchandise that will sell. This is why turning your inventory over as quickly as possible is so very important.

You gambled money you had in your hand on merchandise that you are going to try to sell for more than you paid for it. Maybe it was a “sure thing”: You spent money on best-sellers and they’ll sell all day long. Or maybe you took a long shot: You spent your cash on new stuff and don’t know how your customers will respond to it. One is generally a better bet than the other, even though retailers need to do both. But they are both gambles. Inventory is a liability until you move it out the door. That’s the reality. Far too many small retailers don’t look at their merchandise that way. And that leads to stuff hanging around way too long.

Your inventory must turn over at least three times per year. Four times a year is better. It doesn’t matter if you sell \$150,000 per year or \$3 million per year. Your inventory has to turn or you don’t make money.

This is a down and dirty way to calculate turn. The inventory you have right now may not be your average inventory. If your busy season is approaching and you have more stock than your average, your turn rate will look lower than it really is. Conversely, if you just finished your busy season and cleared out bunches of stuff, then your inventory might currently be a bit lower than average. In this case, your turn will look higher than it actually is. Keep that in mind as you look at the calculation.

Don’t feel bad if your inventory is out of whack. You aren’t alone. Some retailers are over-inventoried by hundreds of thousands of dollars. It’s a scary place to be.

What can you do about it?

The first thing to do is to liquidate your old merchandise. This could mean having a clearance sale. Any items that have been in your store for more than a year need to get moved out the door pronto. Anything that you’ve had longer than nine months should get a hard look too. These things likely need to go.

If you have items that aren’t doing well with your local market, listing them on eBay or a similar website is a great option. This gives you access to a much larger audience. You can create groups of items to sell too. >

Another way to pull cash back out of your dead merchandise is to look for a jobber. Jobbers are people who buy large quantities of merchandise to resell elsewhere. You won't get as much as you would selling it yourself, but you will move a lot all at once. If you have a lot of extra, this is usually a good way to go. A web search for "wholesale jobber" can find one that might work for you.

After remedying your current inventory problem, it's important to implement strategies that will ensure you never get into this situation again.

The single most important thing retailers can do to make sure

they have the right amount of the right kind of inventory at the right time is to use open-to-buy (OTB) planning.

Figuring out exactly how much inventory you should have at any given time is basically a big math problem. Your inventory requirements are determined by several factors, including how much you plan to sell in the next couple of months, what you plan to take in markdowns, what your initial markup is, what your goal turn rate is, and so on.

Doing OTB planning by hand is hard—it's time consuming and prone to error. Good computer-generated OTB plans are worth their weight in gold. They tell you exactly how much >

INVENTORY TURN FORMULA

It's complicated and time consuming, and that's why it's a very misunderstood number that many small retailers don't understand. It is very important to look at turn on a store level and within each department.

- **Here's a quick, "back of the napkin" way** to guesstimate your store's turn (figure 1), without having to do all the math in the equation in Figure 2. Keep in mind that this number is not 100 percent accurate, but rather an approximation. It allows you to easily see what ballpark your turn is in.
- **Look up what your net sales** (after discounts and without sales tax) were for last year. That's your numerator.
- **If you have a point-of-sale system**, look up your current on-hand inventory in retail dollars. If you don't have a point-of-sale system or the one you have doesn't give you this number at retail, you can find it on your balance sheet. Look for your "Inventory Asset" number. Once you find it, multiply that by your average markup, because it's currently a cost value. So maybe it's two, if you do a straight keystone markup. Or maybe it's 2.2. Use whatever is closest to your store average. This will tell you what your store's inventory at retail is right now. This number is your denominator.
- **Divide the first number by the second number.** What do you get? Is it over three? It should be at least three. That's the minimum. If it isn't, you have too much inventory. And there are fewer ways to lose money faster in retail than having too much inventory.
- **It seems counterintuitive**, doesn't it? As a retailer, you make your money with your merchandise, so it seems like having more inventory should mean more money. Your inventory is even listed on your balance sheet as an asset. Well, it is and it isn't. For accounting purposes, yes. Your on-hand inventory is considered an asset. But from a practical retail perspective, your merchandise is a liability from the moment it enters your store until the moment it gets sold.

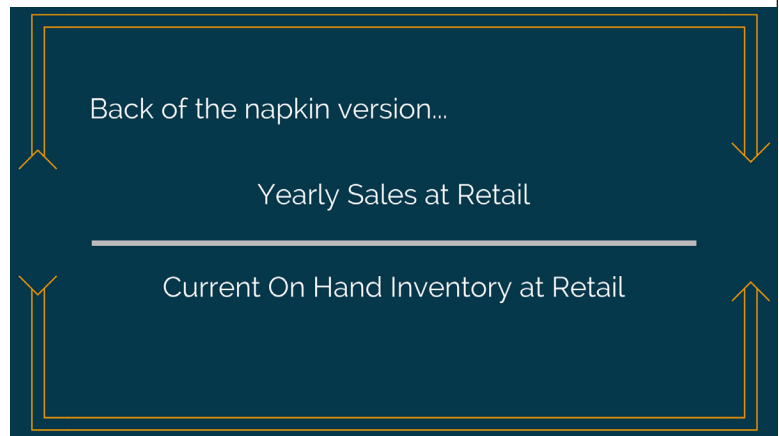


figure 1

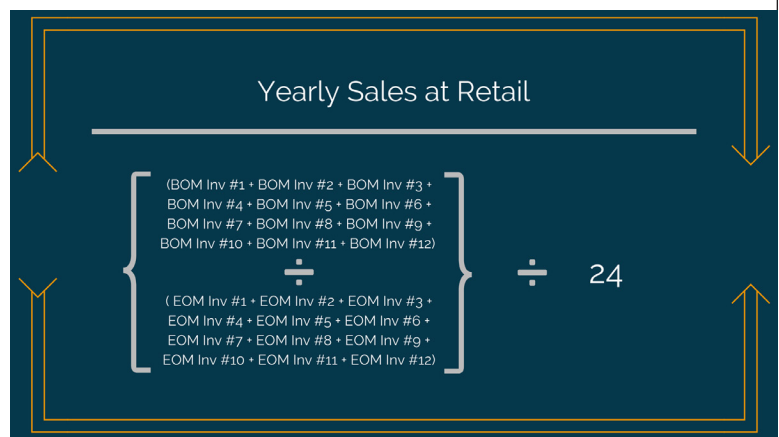


figure 2

“Your inventory must turn over at least three times per year. Four times a year is better. It doesn't matter if you sell \$150,000 per year or \$3 million per year. Your inventory has to turn or you don't make money.”

—Amy Mann

inventory to purchase in each department of merchandise, plus you'll also get solid sales goals based on where your sales are trending and an in-depth analysis of how your inventory is performing.

OTB planning software is different from OTB calculators. Like regular calculators, they require a lot of knowledge and thought from the person using them. They won't provide any projection of your sales trends or analysis of your inventory patterns. They're strictly going to do the calculation of how much inventory you should have based on the parameters you enter.

OTB planning software, on the other hand, gives you sales projections based on where your store's sales are trending. It also allows you to analyze things like your inventory turns, the effects of your receiving patterns on sales, how markdowns are affecting your profitability, how fresh your merchandise is, and so much more.

To get this higher level of OTB planning software, you generally need to work with a retail consultant. Working with a retail consultant can be pricey, but if you find a good one that tailors offerings to small retailers, the expense will pay for itself many times over. Just be wary of long contracts or high monthly payments that will drain your cash flow.

OTB planning can help you understand your merchandise, how to manage it, and what that ebb and flow should look like.

Another key way to make sure you don't become over-inventoried again is to place small, frequent orders with your vendors. Resist the temptation to save a little bit on freight or get long terms if it means you need to place an order that is too large for you to comfortably move within a few months. The money you'll save on freight is almost always lost in markdowns and other opportunities you missed because your money was tied up in stuff that isn't selling fast enough.

Trends can also change in an instant in today's totally connected world. If the bottom falls out of the market, you'll end of sitting on a bunch of inventory that you can't even give away.

Look at what your minimum reorder thresholds are with your vendors. Then figure out how long it takes you to go through that amount of inventory. This time frame then becomes a good guide for how often you should be placing orders with that vendor. For some vendors, it might be monthly or even every other month. For your higher volume vendors, placing orders every one or two weeks is what you should shoot for.

Frequent ordering, or higher turn, is the best way to make more profit on the items you're selling.

If managing inventory and turn feels overwhelming, ask for help. Most small retailers have little to no education in retail when they start. It's no wonder that a large percentage of them don't make it to the coveted five-year mark or take home a decent paycheck if they do. Knowledge and planning are integral to your long-term strategy for success.

Seek Help from Specialist

If managing inventory and turn feels overwhelming, ask for assistance. Most small retailers have little to no education in retail when they start. It's no wonder that a large percentage of them don't make it to the coveted five-year mark or take home a decent paycheck if they do.

Retail is hard. Hire a mentor, coach or consultant to teach you how to create a profitable and sustainable business. “Winging it” and “hoping for the best” are not long-term strategies for success. Knowledge and planning are. ☑

We are Your Business Partner

CREATIVE RETAILER (from the publishers of American Quilt Retailer) provides independent retailers with tools to help you succeed.



• **BUSINESS GROWTH & SUSTAINABILITY**

Build your store for longterm success by learning strategies that work from experts. Explore opportunities for generating revenue to keep business on track.

• **BUILDING & NURTURING RELATIONSHIPS**

From the shop staff members, to your customers, to your family and community, there are tips and techniques for building relationships that help you run a successful business.

• **INSPIRATION & CREATIVITY**

Shop owners are required to provide inspiration to customers every day, yet they need that inspiration to! Creative Retailer can provide that with ideas for events, classes, retreats and marketing ideas.

• **RESOURCES** With busy schedules and multiple responsibilities for shop owners, we want to be a one-stop location for information on techniques, products, trends, and opportunities for you to run your business with ease.

• **BEHIND THE SCENES** Every shop owner knows that many things have to happen before products ever reach the sales floor. Let Creative Retailer help you better understand distribution channels and help you work with your vendors.

• **ON THE SALES FLOOR** Train your staff to learn how to handle customers, upsell products, and build your customer base. And, we will guide you to better visuals and displays for selling your products.

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