Views on the world of shoppers, retailers and brands

tns retail and shopper | UniSA Ehrenberg-Bass Institute for Marketing Science

Five Reasons Your Store Might Sell Five Times as Much! (and what if it only sold twice as much?)

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I first penned this "letter" six years ago, intending it as directed to a single person. Some portions I included in the final chapters of my book, *Inside the Mind of the Shopper*, and have now edited it slightly for publication in this *Views*. The message is just as scientifically solid as it was six years ago. Since then I have learned a great deal more about why the message, as valuable as it is, falls on deaf ears. I remind you of the iconic quote of a senior executive of one of the top five global retailers, who, after a presentation on how to help shoppers increase sales in his stores asked, "Why would we do these things, if no one is paying us to?" As a side note, almost certainly that chain will lose it's current global ranking in the next two years. But I'll not stop encouraging a wholesale attitude adjustment within the self-service retail industry. So here you have the five solid foundation stones for retail (and supplier,) growth.

Think of this as a letter to a single individual store owner...

...the person responsible for making sure a retail store sells as much as possible, as profitably as possible. Of the three parties involved in retailing — the shopper, brand supplier, and retailer — the retailer has the strongest interest in the answer to this question, but the other two parties are intimately involved.

Reasonable people are likely to be skeptical that they could sell *five times as much* in their store(s). You should be skeptical. But it can be done, and it has been done. The key is to recognize that for all the sophisticated knowledge that goes into bringing shoppers into stores and making them aware of brands, many retailers and brand owners have treated the store itself as a "black box." There is a great deal of conventional wisdom about what happens when shoppers roll their carts through the aisles of stores, but rigorous research, such as the studies we have conducted with millions of shopper visits, has shown that some of this conventional wisdom is simply wrong. By understanding true shopping behavior, you can significantly increase your sales. Here are five good reasons why you should pay attention to these results.

Reason One: Somebody else is selling one hundred million dollars per year in *their* supermarkets!

The principles don't apply to just supermarkets, but if someone can sell *$100 million* per year in a supermarket, where typical sales are $10 - 30 million, then we need to account for the *missing $80 million* in all those other stores. It's not enough to compare our operations to what "everyone else" is doing, and ignore the massive successes.

I'm always interested in extraordinary performance, and the reasons for it, even if the exceptional performance has some elements that seem not reproducible. So, for example, there is a Costco store, #1 in *their* chain, a few miles from my office, that does a million dollars of sales *a day!* Maybe not every day, but often enough to be pushing $300 million per year in sales. So I ask, why, why, why? Costco is not a "supermarket," but it isn't that far removed from a super-center. (I'll suggest later a feature of Costco that accelerates sales, that may not be obvious to either you or Costco. Note: Since the original writing of this letter I have come to recognize that whenever a retailer is doing something *really* well, they probably *do* understand exactly what they are doing, and why it is so effective. But you won't see them on stage trumpeting it about. ;-)

More directly relevant to the supermarket business is the chain of stores in New England that is regularly selling $100 million per year, per store, of groceries. You can't do that, even in a double-size supermarket by simply running the store right. That other $80 million of sales cannot be achieved by doing what others do, only better. It requires some fundamental structural changes in the business. We'll discuss that change in a bit more detail after looking at the relevant facts. But this first reason is hard evidence that you *could* sell five times as much as you do — but probably not by tweaking your present business model and retail strategy.

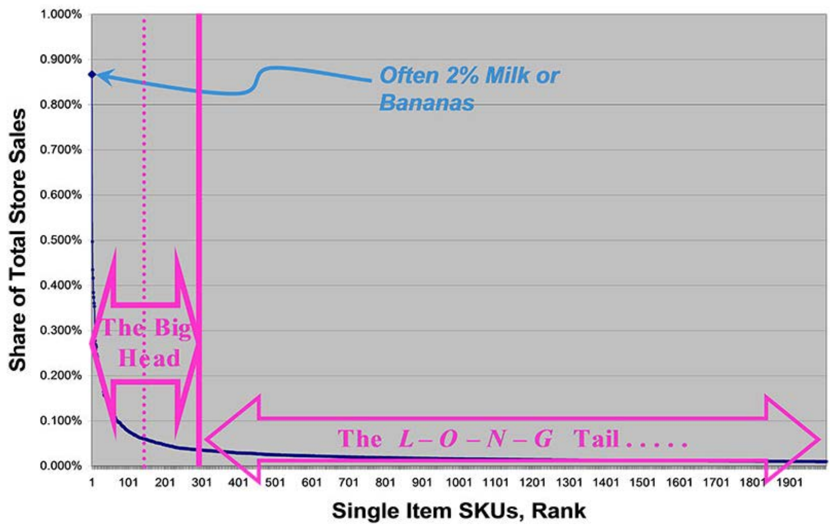
Reason Two: Shoppers would like to spend more money in your stores.

As long as you approach retailing with the attitude that it is a tussle between you and the shopper about money, and just how can you relieve them of a bit more of it, you'll get their minimum allowance and share. Shoppers come into your stores with the express purpose of getting stuff they want, and they have no compunction about wanting *more*. Of course they would like to spend as little as possible, but that's not because they want to get as little as possible. Don't get diverted by a focus on the money. Focus on delivering what they want, not the getting, and amazing things can happen. The remaining reasons focus on opportunities to allow shoppers to spend more by removing the barriers to those opportunities that you may have erected.

Reason Three: Shoppers are Exhausted and Frustrated with their Choices.

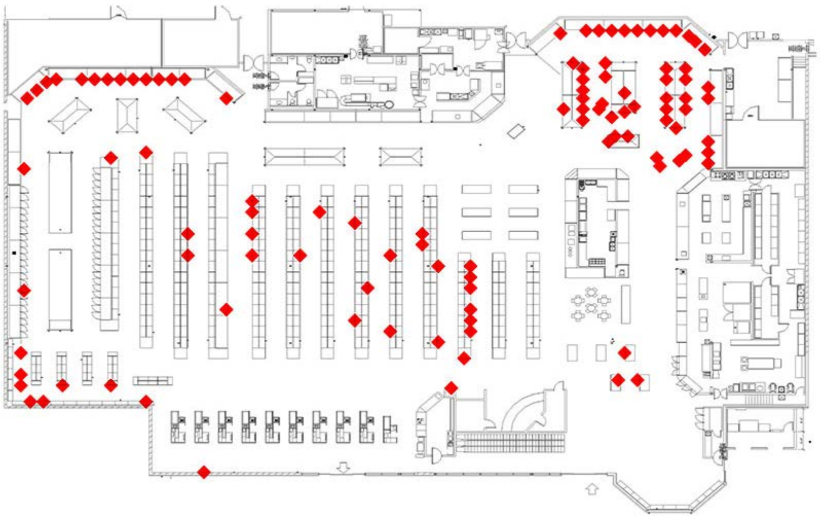
You probably already know that the warehouses in your area offer in the neighborhood of one million different items that you could offer for sale in your stores. You have probably "wisely" selected 30,000 - 50,000 items to offer in your stores. But did you know that your typical customer's household only buys a total of 300 - 400 distinct items in an entire year? And they only buy about half of those on a regular basis. Here's the data from a typical store:

Those items purchased over and over, day in, day out, week in, week out, constitute a really short list. In fact, 80 items may contribute 20% of a store's total sales, with milk and bananas typically vying for the top slot at supermarkets. A thousand items contribute half the dollar sales. (The same phenomena holds for other classes of trade.) As noted here, those few items generating the lion's share of sales are referred to as "the big head," while those thousands of other items — and they do generate significant sales — are referred to as "the long tail."



Winning *always* involves making careful distinctions. There are a few crucial distinctions in your business that largely define your success. This distinction between the big head and the long tail could be the single most important distinction, in terms of managing the *range* of merchandise that you carry. Yet we observe many retailers stirring the two together, indiscriminately, in an attempt to sell more of the long tail. Selling more of the long tail is a good idea, but not at the expense of penalizing the big head. (While there is some debate about the role of the "long tail" in online retailing, bricks-and-mortar retailers shift attention from the big head at their peril.)

The reality is that it is easier to increase total sales of the big head than it is to increase sales of the long tail. Focusing on the long tail is equivalent to trying to get more people to shop on Thursday, rather than focusing on how to serve the Saturday crowd better and more efficiently. Slight increases in Saturday performance *per shopper*, are worth a good deal more than lots of additional weekday shoppers. In the same way, modest increases in per item big head sales are worth much more than large long tail sales increases, scattered across the massive range of products. Help your winners to win more and bigger. It will give you the resources to selectively focus on the long tail more appropriately. Here's the relation of the big head to the rest of the long tail store in one store:



This is a map of the store showing the exact location of those top 80 from the big head for this particular store. As expected, there is a significant collection in the produce section — right rear — and in the dairy — left rear. Otherwise, the big head is pretty well scattered about, as the retailer attempts to sell more long tail by "hiding" the big head amongst those many thousands of items of very limited interest to the shopper.

The net result of this is a very large loss in big head sales, and angst: frustration or ennui, on the part of the shopper. Don't worry, there is an important role for the long tail, but this killing off of sales for the big head, is not one of them. There are *valid* justifications for "SKU proliferation — range growth" and promotional fees to support the long tail.

The typical retailer has no conception of what it is costing them in lost opportunity with their shoppers by jamming up their stores with tens of thousands of "choices" that are largely irrelevant to their shoppers. Stew Leonard's (the chain cited in Reason one,) cuts the Gordian knot by eliminating all but *2,000 items* in his supersized store. That may seem radical, but it is eminently reasonable from the shopper's perspective. Remember, the shopper is only going to buy up to 400 different items in an entire year. This means that Stew Leonard is giving the typical shopper, on average, *5 options for every item they buy*. This represents a massive reduction in selection angst for the shopper.

For some people this *selection angst* may not be too large of an issue. But as professor Barry Schwartz points out in his book, *The Paradox of Choice*, there are two kinds of people — optimizers and satisficers. The satisficer has some level of performance that they require when they make a choice, and as long as the product meets their expectation, they are satisfied, without spending a lot of time worrying about whether something else might be better.

The optimizer, on the other hand, always wants to make the best choice. Giving them lots of choices can overwhelm their decision system, and lead them to either not make a decision, or fret with dissatisfaction over whatever decision they have made, on the grounds that, with all these choices, there must have been a better option. This is not theoretical: shoppers have been shown, under parallel test conditions, to buy ten times more from a limited selection than from a large variety. Dr. Schwartz describes an experiment [by Sheena Eyengar's group,] involving product demonstrations at matched stores:

"In one condition of the study, six varieties of the jam were available for tasting. In another, 24 varieties were available. In either case, the entire set of 24 varieties was available for purchase. The large array of jams attracted more people to the table than the small array, though in both cases people tasted about the same number of jams on average. When it came to buying, however, a huge difference became evident. *Thirty percent of the people exposed to the small array of jams actually bought a jar; only 3 percent of those exposed to the large array of jams did so.*" (*The Paradox of Choice: Why More is Less*, pp. 19, 20)

As Dr. Schwartz observes, "A large array of options may discourage consumers because it forces an increase in the effort that goes into making a decision. So consumers decide not to decide, and don't buy the product." In this case, fewer choices led to *ten times as much purchase!*

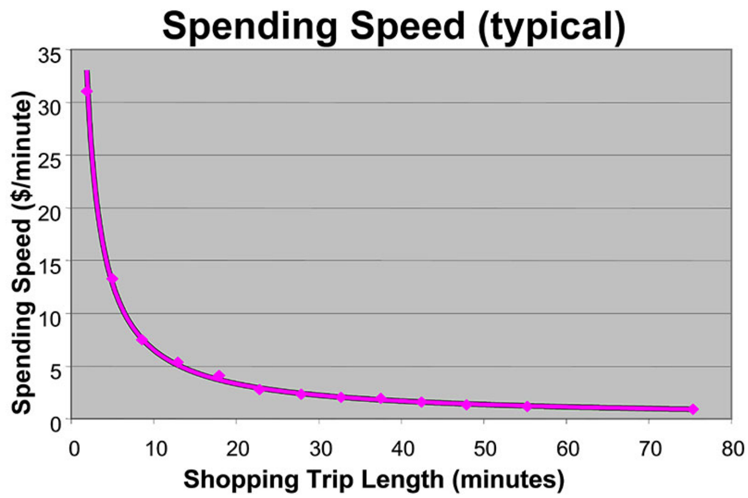
Reason Four: Shoppers only spend 20% of their time in-store actually selecting merchandise for purchase.

Since pretty much the sole reason a shopper is in the store is to acquire merchandise, and that pretty well aligns with the retailer's reason-for-being, too, this means that 80% of the shopper's time is economically non-productive — largely wasted! This single fact has huge implications, because time is money, and we are obviously wasting a lot of it. (This fact lies at the root of my own focus on seconds per dollar as THE single most important productivity measure for shopping.) But I hope it hasn't escaped your attention that simply making that non-productive time productive would give you five times the sales.

One of the things that gives me confidence in these recommendations is that there are actually multiple streams of evidence coming together that all support the fact that an awful lot of sales are being left on the table.

For example, consider the average walking speed of shoppers on the different kinds of trips. Counter-intuitively, quick-trippers average walking speed through the store is much slower than the stock-up shoppers. This is a direct consequence of the fact that all the shopper's time in the store can be divided into two buckets: now I am standing at the shelf, selecting merchandise for purchase, and *walking* very slowly, if at all (< 1 ft/sec;) and then I am looking for the next merchandise that I might be interested in buying, and hurrying along trying to find it, walking quite quickly (1 - 4 ft/sec.) So quick trippers have a lot less wasted time than the stock-up shopper, and as a consequence spend their money a lot faster:

So here's supporting data showing the increased rate of spending on the shorter trip, as a direct consequence of them doing less walking about and more actual acquiring of merchandise. As for direct confirmation of all the "wandering" going on in those long shopping trips, I recommend you check out the report from The Wharton School titled *The 'Traveling Salesman' Goes Shopping: The Efficiency of Purchasing Patterns in the Grocery Store*.



In addition to focusing on the large head, the other massive angst reduction at Stew Leonard's comes from having only one, single aisle, that wends its way through the entire store. This is a wide, serpentine aisle that essentially transports every shopper through the store, introducing them in the same order to all of the merchandise there. This virtually eliminates *navigational angst*, because shoppers in most stores are wasting 80% of their time wandering around the store, looking for something to buy.

Think about it: what is the Stew Leonard shopper doing in the store? Much the same thing that all the other shoppers are doing in that store: moving along in an orderly fashion, with never a thought about "where is this?" or "where is that?" *because*, "this" and "that" will surely appear in their field of vision sooner or later. All the shopper has to give attention to is, "do I want one of these?" and make a selection from the few and well chosen options provided. This means that the shopper is devoting close to 100% of their time to the single issue of common interest to them (and to Stew Leonard,) putting merchandise into the cart. Well, it at least amounts to another $80 million in sales for each store for the year.

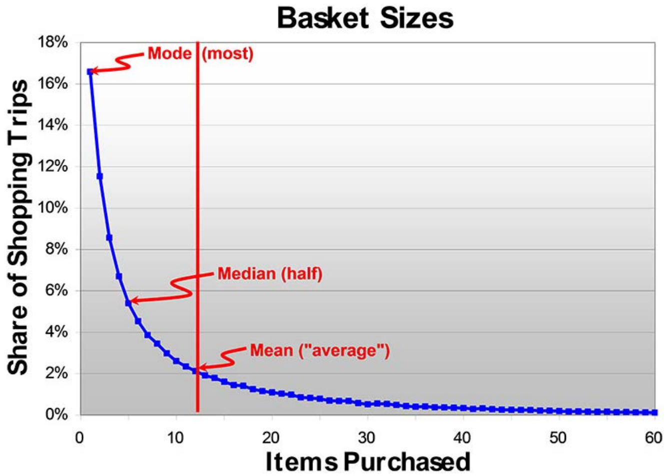
The two dominant changes Stew Leonard has made are, whacking off the long tail, and eliminating in-store navigation. For a wide variety of good and valid reasons, everyone is not going to run out and build a "Stew Leonard's" kind of store, although HEB has — their Central Market. And, of course, Lidl and Aldi are knocking it out of the park with their limited selection (and hard-discounted) stores. The point is not to copy anyone, but to understand the principles that drive extraordinary sales, and leverage those principles in your own operations.

Earlier we cited one Costco store as an extraordinary success. Market structure and location for that store are of course important factors in that. But this success led me to notice the "inverted perimeter" nature of all their stores. What I refer to here is that most supermarkets have a fairly wide, open perimeter, that accounts for a large share of the modern supermarkets success. The "warehouse" area is relegated to the center of the store — a lot of the long tail is there. Costco, in contrast, puts the warehouse around the perimeter of the store, within easy view of the huge center-of-store, open merchandising area. This allows the shopper to be virtually bathed in high-interest, big head type merchandise, while all of the long tail warehouse is within easy eyesight.

This inverted perimeter design has been tried with good results in supermarkets, too. But working for shoppers is not the only consideration: it needs to also work for the retailer-supplier relationship (promotional money) and deal with the competitive brand world of SKU proliferation (range extension.) Those issues can all be managed without foregoing that extra $80 million per year per store sales.

Reason Five: Most of shoppers' trips don't work very well in your stores.

The fact is that more than half of all shopping trips, including to supercenters, and across classes of trade, are for only one or a few items — the quick trip. Check out this data on the number of items in the basket compared to how many shoppers have baskets of that size:



The most common number of items purchased is *one!* There are lots of reasons for this. But just ask yourself, "How much time and attention have I given to planning how I will manage the 1, 2, 3... item trip?" Is that a minor share of your time? But let's not focus on past deficiencies — after all, your competition is pretty much doing the same thing. Instead, let's think about how you can increase the sales in your store by a very big number.

First, when I brought up the idea of selling five times as much, you were probably thinking of how jammed the store would be, and how bulging all those stock-up baskets would be. But let's get realistic. There is probably no way to practically get someone with a full basket to fill a second basket. But how about getting someone with two items in their basket, to pick up a couple more?

The reality is that the 1-5 item basket is presently generating one third of your dollar sales, and simply doubling the size of those small baskets would increase your total store sales by more than 30%. All right, am I seeing a glimmer of hope there for a first-year sales increase? I'm giving you reasons here, not all the how-to. In reality, you know a great deal more about retailing than I do. I just have a few really important facts that the retail world has given inadequate consideration to. Probably we can put our heads together to accelerate your growth.

But this is not simply about figuring out how to coax customers into picking up a few extra items on trips, trips that continue to look just like the trips they are taking now. Instead, just as there is a need to understand *distinctly* the big head and the long tail, so there is a need to understand *distinctly* the three primary types of shopping trips: quick trip, fill-in trip and the stock-up shop. If we don't make this mental change, we're thwarting our growth. It would be like pouring rocket fuel on a bonfire: lot's of heat and light, but not much useful movement.

Those retailers and brands that make a conscious and focused distinction between the quick trip and the stock-up trip; and between the big head and the long tail, will steadily pull to the fore in sales and profits.

So, in conclusion...

This letter is the distillation of nearly forty years of a scientist spending time in stores studying shoppers, with the last decade increasingly spent on understanding the relationship of those shoppers to the store and its management, on the one hand, and to the products and their brand suppliers on the other. Although much of my experience derives from supermarkets and other packaged goods merchants, this has broadened over the years to auto-parts, consumer electronics, building centers and many more around the world. During the twenty years immediately preceding the sale of my own company to a global research and information business, we grew at an annualized rate of 30%. I don't need to brag, but you need to understand that I do have somewhat of a single-minded focus on growth.

Is that growth mentality relevant to the $15 trillion global retailing business? You'll be the judge of that, but if you are looking, like the mythical bird, to rise from the ashes of the past to a glorious future, consider this story: In *The Flight of the Phoenix* we are introduced to a crashed airplane in the desert, in time of war, with enemy all around the survivors and their damaged plane. On board, as chance would have it, there is an aircraft design engineer of many years experience, who suggests that they can make some fundamental changes in the remains of the plane, and this "new" plane can fly them out of their peril. At the last instant before their saving flight, they learn that their aeronautical design engineer has spent his entire career *designing model airplanes!* The fraught chance they then took was rewarded with freedom, and the continuation of their interrupted lives. I'm as confident from building a "model business" as that design engineer was with his aeronautics.

Attitude at retail is a factor given too little consideration, when a large share of achievement is attitude. The reason many people accomplish very little, is that they set out to accomplish very little. Actually, people often *start out* with big ideas, but long before they are anywhere near achievement, they have really, totally forgotten what it was they were going to do. If you are the *one* to whom this letter is addressed, then increasing your sales by a factor of five is of burning interest. It remains to be seen if it is also a burning *commitment.* Here I am encouraging not only the BHAG (Big Hairy Audacious Goal,) but the definiteness of purpose that perseveres to its achievement. And if you fall short of a fivefold increase in sales, wouldn't you be impressed if you could double your sales? The opportunities are there, but you need the right insights and attitude to seize them.

Here's to GREAT *"Shopping"* for YOU!!!
Your friend, Herb Sorensen