

The First Month After the Competitor Opens

1. With your customer loyalty program in place, once the competitor opens you will be able to quickly identify those good customers who have stopped shopping with you, or who have reduced their purchases in your store. Immediately send these roving customers \$5 or \$10 certificates to spend in your store.
2. Immediately reduce payroll to ensure weekly wage rates, as a percentage of gross are aligned with top line revenue drops.
3. Immediately reduce fresh inventory as sales drop in these categories: especially produce, dairy, refrigerated, and bakery.
4. Send letters to all customers personally thanking them for their patronage and their support of your store and other small businesses in your local community.

Keep the Faith

Brace yourself for the emotional hit that will be experienced during this period. It is a trying time to watch a competitor come into town and take customers that you have taken years to cultivate.

Remember, you don't own the customer. You earn their business. This is a process, not an event. You must continually work to earn their business.

If you approach your plan with care and attention, and have a well-executed customer loyalty program, chances are excellent that you will experience similar rewards that several of my retailer clients have enjoyed—a year after the competitor's opening, they are back to enjoying positive comps and growing profits.

Danny Wells is the leading retail consultant within the natural products industry and former owner of some of the most successful natural food stores in the country. With 40-plus years of industry experience, Mr. Wells provides popular industry seminars, workbooks, audio-tape programs, private consultations, and regular columns in seven leading industry publications. His custom consumer newsletter is distributed by stores throughout the U.S., Canada, U.K., and New Zealand, and is read by over 500,000 natural product consumers each month. www.DannyWells.com



Living Naturally®

THE ONLINE NATURAL HEALTH NETWORK

1-800-360-2231

www.LivingNaturally.com



DANNY WELLS & ASSOCIATES, INC.
The Natural Products Industry Consulting Firm

Mastering Customer Retention to Competitor-proof your Business

Sponsored by *Living Naturally*®

RETAILER EDUCATIONAL SERIES

No.6 October 2006

Mastering Customer Retention

BY DANNY WELLS

It is the same call I get at least once per week. "I just heard that a Whole Foods Market is opening up a mile away next year; so what should I do to keep my customers and business?" Sometimes there is a slight variation, "I just learned that a discount vitamin chain is opening up across town; what can I do to minimize my losses?"

Although the name of the encroaching competitor may change, the panic in the retailers' voices is constant, and with good reason. Depending on how close the new competitor will be located, an established retailer can experience a 20%, 30%, or sometimes 40% hit within the first 30 days of the new store's opening.

If a full service retailer is located within a 2-mile range of a new Whole Foods Market, the average loss in sales comes in at 25%-30%. If the trade market area is already very competitive, it is not uncommon to experience a 40% hit. Well-established supplement stores can realize a 15% loss in sales within 60 days following the opening of a chain discount vitamin store in town. A Trader Joe's opening nearby can shave 10% off a very successful natural food market's top line. Trust me when I say that the percentage loss to the top line only intensifies by the time you reach the bottom line in these situations. If there is any bottom line left.

So what do we do when we hear the news? Do we pull our heads into our shells and come out a year later to assess the damages, only then to decide what action to take? Absurd as it sounds, this is how some retailers react. Unfortunately for them, they are the ones who experience the biggest sales loss and customer migration.

I have clients with stores who, upon hearing the news of the pending competitor's opening, put a plan of action into play that limited their top line loss to single digits. By month 12 after the opening many stores are experiencing positive comps.

Let's review the highlights of the action plan:

One Year Before the Competitor Opens

1. Understand that your tenure in town, fun personality, and stature in the community won't keep customers from patronizing your competitor.
2. Don't make the mistake of believing most of your customers are completely loyal and will never stop shopping in your store when the new store opens.
3. Begin preparations a year in advance.
4. Start to reduce inventory so that by the time the competitor opens your inventory is down by 15%-20% of the level it is now. To keep the store looking full pull items off the top shelves, or remove the top shelves all together. Multiple-face merchandise to fill in any gaps in the shelves.
5. Analyze inventory and sales to determine slow sellers. Eliminate slow selling products and begin double and triple facing better sellers.

6. Establish a robust monthly sale program with as many rotating case stacks throughout the store as you can fit. Each stack should have a large sign-complete with your logo, so that customers are continually reinforced with the name of the store that is bringing these values. These monthly specials should be deeply discounted at 30%-40% off retail to establish a very visible low price image.
7. Do NOT initiate line drive discounts. These merely give up margin needlessly and do little to keep customers loyal. The fact that a customer saved 40% off on a singular monthly special is much more impressive and memorable to a customer than an entire line at 20% off.
8. Look to bring in local products, specialty items and lines that your competitor usually won't handle. There are only three ways to differentiate: your people, your presentation and your products. Look for ways to be different in each of these areas.
9. This next point is most crucial: Begin an aggressive customer loyalty program at least one year before the competitor opens. The program I recommend is **LoyaltyGenius by Living Naturally (1-800-360-2231)**. It even works for stores without a POS system.
10. Create incentives to get your customers using your customer loyalty program.

One Month Before the Competitor Opens

1. Reduce payroll by 15%-20%. Trim the fat. Let go those who are the laggards. Some retailers have made this reduction by not letting anyone go. These retailers involved the staff from the start, and all work together in a reduced compensation mode to ensure the business will survive during the first few quarters of the competitor's opening.
2. Send out specific promotions to all customers based on their current level of purchases as identified by your customer loyalty program. Better customers will be getting better deals.
3. Ensure your monthly case stacks and deals for this month are the best buys on popular products you have ever offered.
4. If you carry produce, begin reducing the inventory by 20% and bring other refrigerated items to fill any gaps in the produce rack. Remember the key in inventory reduction is to always keep everything looking full and abundance, which can be accomplished by multiple facing of products. Some stores move packaged nuts and grains to their produce racks (making sure they do not get water spray).
5. Brace yourself for the hit. It won't take long to experience the loss. Within the first few weeks, sales can be down by 15% and by the first month sales can be off 30% or more.