

TOOLBOX FOR INDEPENDENTS



Service trumps price

You can compete with discount retailers—Wal-Mart included—even if your prices are higher, by devoting your operation to providing great service.

By Michael Bergdahl

This past year, I delivered a keynote speech at the Montana Food Distributors Association’s annual conference in Butte. As part of my preparation, I decided to perform a shopping cart comparison of grocery prices at a super-market with those at a Wal-Mart Supercenter. I made certain that the two stores I chose were a stone’s throw from each other, and vying for the same customers.

I was curious to find out how aggressive Wal-Mart’s Every Day Low Price Strategy really was. I learned it was indeed aggressive, but also that you can beat it.

I compared 50 of the most commonly purchased branded items, the staples that most grocers do everything in their power to price competitively. Consumers are known for leaving one store for another if they determine that these staple items at the first store are priced too high.

The typical rule of thumb is to strive to equal the market on all of these items. Obviously this requires that grocers do their own frequent shopping cart comparisons. Wal-Mart is infamous for performing such aggressive price comparisons for each of its stores. Each week its department managers shop the competition’s stores, noting prices; then they adjust pricing accordingly.

In this way Wal-Mart’s pricing is established on a very local level. Indeed, two Wal-Mart Stores in the same geographic area are likely

to have different prices, based on the specific competition each faces. And contrary to popular belief, Wal-Mart’s goal isn’t to be the lowest on every item in such a shopping cart comparison—but you can bet the bottom total on the Wal-Mart register tape will be.

In my comparison, I was careful to make certain I matched products exactly. What I found was astounding: On those 50 staples in my comparison, Wal-Mart’s prices were fully 20 percent lower than the prices at the grocery store.

But despite this obvious price advantage, the parking lots of both stores were full of cars, and the aisles were much the same. I began to question the theory that a grocer’s staples needed to be priced the same as its discount competitor’s. On closer observation I determined this grocer was thriving because the store provided great service.

Without great service, grocers *must* match discounters’ prices on staples. With great service, pricing becomes less critical, though still

important. (In a market where a grocer is in direct competition with a discounter, it’s recommended that the grocer’s pricing stay within 15 percent to 20 percent of the discounter’s prices.)

A grocer providing great service can effectively neutralize the discounter’s price advantage and level the competitive playing field. The key is to capitalize on the fact that shopping at a discount behemoth isn’t convenient, and service there is almost nonexistent. Not every customer is interested in the trade-off for a discounter’s offering of low-quality products. This opens the door for grocers to use their own stores’ stellar service and tailored product assortments to gain competitive advantage.

Here are 10 lessons about service for all grocers to embrace, regardless of whether they’re in direct competition with a discounter:

1. If you’re not a discounter, don’t try to act like one.

When it comes to competing against superstores, discounters, or category killers, grocers need to avoid being pulled into price wars. It’s a battle price operators must win, and will at any cost. Once you’re sucked in, your business will spiral downward as expenses rise and sales volume falls. And there’s no turning back: By sending the message to customers that you, too, are a discounter, you’ll have changed their expectations—forever. Control your own destiny by designing your niche strategy with products targeting local tastes and preferences, as well as great service.

2. It's the little things that count.

Are your floors, windows, and bathrooms clean? Customers either overtly or subliminally may assume dirty facilities equal substandard food quality. Are your shelves always well stocked? Simply being able to find the products they want can persuade customers that there's no reason to shop anywhere else. Is there staff in place to ensure enough cash registers are open? Customers hate to wait.

3. Customer loyalty card programs are a way to show you're loyal to your customers, not the other way around.

The strategy behind loyalty cards is brilliant: You reward customers for returning, by providing discounts that are only available to cardholders. Many grocers with loyalty programs have found them to be highly effective not only in retaining customers, but also in gaining new ones. It creates value for customers while earning a lifetime of loyalty to your store. It's one of the most effective tools you can use to counteract the pressure from discounters.

4. Wal-Mart's founder, Sam Walton, taught employees to ask unhappy customers this question: "What would you like us to do?" Then he empowered them to fix the problem.

"The customer is always right." Those of us who work in grocery retailing know this isn't literally true, but when it comes to customers, we must act as if it were. Your employees must always project a positive attitude, and show respect for the customer's point of view. If you treat customers right, you can likely count on future business, and even good word-of-mouth advertising. Argue with a customer—even if you ultimately prove that customer wrong—and you can likely count on the opposite effect.

5. Out of stock is out of business.

Walk through your store as if you were a customer. What do you see? Are there unmerchandised products in boxes on the floor? Do you have difficulty navigating the aisles easily with a shopping cart?

Are there holes in your inventory where products are missing? Great execution of store operations requires a commitment to training your staff to aggressively remerchandise shelves throughout the day. Being in stock is the whole ballgame in retailing. Shop the discounters, and you'll see how they're failing to keep products in stock throughout the day. The grocers who keep their shelves consistently in stock have a sustainable competitive advantage.

6. Stack it high and let it fly.

When you advertise promotional products, make certain your buyers are empowered to take the risk of buying deep enough to ensure the products are available for the life of the promotion. Few things are more annoying to a customer than to shop at a specific store for a specific product advertised at a great price, only to find it's out of stock.

7. Use an "outside-in" approach to selecting products and services.

Choosing the right products for his stores and his customers was one of the great secrets to Sam Walton's success. He used an "outside-in" approach: He visited his stores and asked customers every day what they liked and disliked in the product mix, and what products were missing. Wal-Mart's buyers still use this approach each week.

8. The customers are in charge, and can "fire" you by simply spending their money elsewhere.

Who pays the bills at your business? I'm talking about the rent, lights, gas, electric, and even your pay and benefits. The answer, of course, is your customers, by choosing to spend their hard-earned money in your stores. Every day you should think about what you're doing to make your customers want to come back. Explain to your employees the concept that the customer is the boss, and the importance of providing great service.

9. Plunder your competitors' stores for ideas.

Grocers need to make a practice of studying

the local competition's pricing structure, products, and promotional activity. Don't limit yourself to grocery stores, either. Visit specialty stores for ideas on merchandising, graphics, and signage. Sam Walton always said that there are no extra points for original thinking, and if you can copy an idea already in use by another retailer, it's much cheaper than designing a solution from scratch. Require each member of your management team to go out to others' stores periodically, and have them report what they find.

10. Sam Walton positioned the returns desk at the front of his stores so customers in the checkout line could see how other customers' problems were being handled.

It's easy to smile and thank customers when they make a purchase, but how do your employees react when that same customer tries to return a purchase? Your customers will learn more about your company from the way you deal with a product the customer wants to return to you. If you appear to mistrust your customers and make them feel like naughty children when they try to return a product, they'll leave you.

Wherever Wal-Mart has opened stores around the world, there are grocers who aren't just surviving in its shadow, but are also thriving. Customer service is one of the most important common denominators of these operators. They've discovered that great customer service requires staffing with great people, training them properly, empowering them to serve, and retraining them periodically. It also helps to have a company culture that values service above all else. You *can* compete with discounters—just remember to avoid the temptation to compete on price, and never forget that great service trumps low-price competition.

Michael Bergdahl is an international business speaker, author, and turnaround specialist who worked for Sam Walton in Bentonville, Ark. as Wal-Mart's director of "people" for the headquarters office. Reach him at mbergdahl@aol.com or visit his Web site, www.michaelbergdahl.net.