

As it appeared in *The Australian Financial Review*, July 8, 2003

Small must keep it simple

Working capital Jason Clout

Small retailers complain that it is impossible to compete against the buying power of big stores, but a specialist retail consultant argues that it is often the independent retailers who are at fault because they waste money through ineffective management.

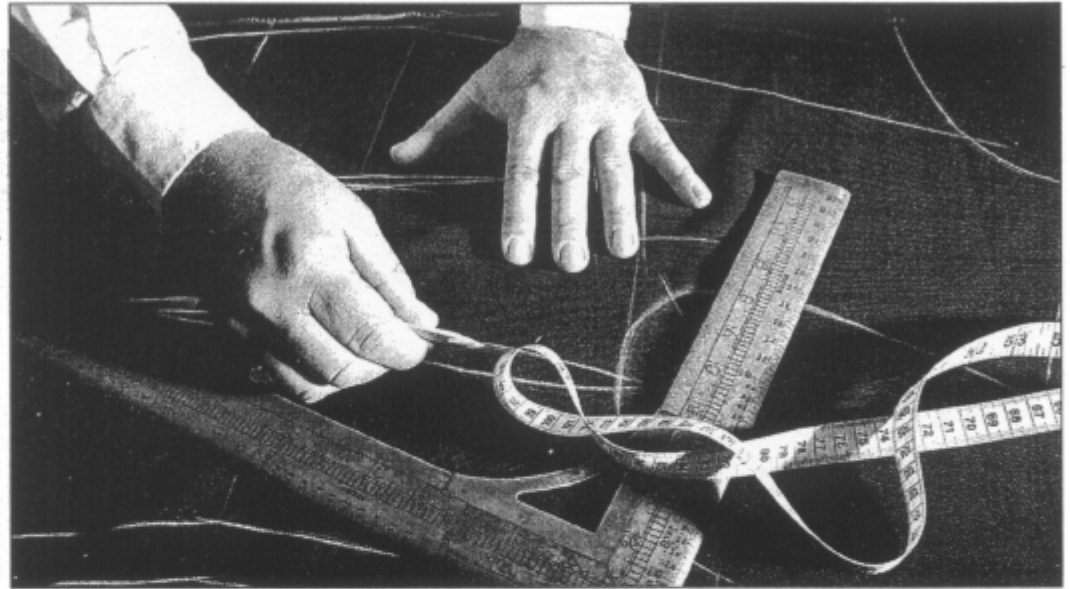
The managing director of Retail Directions, Andrew Gorecki, says many small retail operations throw money away because they do not use straightforward statistical methodology.

With extremely tight margins in the retailing industry, small operators cannot afford to erode their working capital on meaningless tasks, he says.

Counting stock is one example. Retailers insist on counting every item even though that method is riddled with errors.

"Manufacturers learnt a long time ago to use statistical sampling. They don't sit there and count every part," says Gorecki. "Yet retailers think that the best way to account for inventory is to have someone sitting around counting each item."

Because that type of individual counting is flawed, the result is actually less accurate than if sampling is used. And the hand-counting eats up valuable time, especially



By asking the right questions, small retailers can tailor their operation to suit their customers. Photo: JESSICA HROMAS

in small stores where the owner is trying to count and serve customers at the same time.

Discounting is another common problem. Some retailers will cut their price and then find there is no change in sales, which means they have probably given away sales revenue unnecessarily.

Gorecki is not always opposed to discounting but says many retailers fail to use it effectively.

He says other retailing practices are profligate, such as when small convenience stores sell different brands of soft drink. "Only two of them will be good sellers. One of the other

three will be reasonable, but the other two will hardly move."

Retailers argue they do that so it appears they have a full range of stock. In other words, they have what the big stores have.

But the capital cost of carrying unsold stock is substantial. It also increases the administrative burden because the shop owner still has to check when the superfluous items are past their use-by date.

Gorecki is astounded by how many retailers do not test their pricing or product range before a major change.

"I've found some retail chains that will make a change across all their outlets, rather than take one

store and see how the product or pricing goes," he says.

Retailers are fond of believing they have discovered the next big development in the sector. But Gorecki says an untested idea may be of little value.

"It's fine to have a good idea. But unless it is shown to work in practice it means little."

Simply asking customers what they want can uncover surprising results, he says.

The message for retailers is that they need to develop a close understanding of the customer and often all that takes is to ask a few simple questions.

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