

# Starting a Retail Business

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## Introduction

How best to set up any business will depend mostly on what you want that business to do for you. Why are you going into that business? Is it a hobby that you're involved with just for fun? Is a serious business venture that you truly believe will be profitable? It's important to be realistic. If you're setting up a shop to sell your own work, ask yourself if you're doing this just to try selling your own work, or because you think there is a real need for a shop selling work like yours. If your work hasn't been selling in other shops, there's no reason to think it'll sell in a shop you establish. If work is good, it sells. If it doesn't sell, it's usually because it isn't good. If you're creating a retail outlet for supplies, do you honestly believe there's a market need for such a shop, or are you just looking for a way to buy your own supplies a lower cost? Deciding why you're creating a retail business will help you decide how to do it.

## Kinds of retail store

- ◆ Home studio – where you sell your work and some supplies from a shop or studio at your home.
- ◆ Retail gift shop/gallery – a commercial outlet to sell your work, and perhaps the work of other artisans.
- ◆ Retail glass shop – selling assorted supplies.
- ◆ Mixed gallery/glass – selling both finished stained glass work and stained glass supplies.

## Personal aptitude

Not everyone is personally suited for operating a retail business. Some people are great at it, while others are terrible. If you're going to work in constant contact with the public, you must sincerely like working with and helping people. It's essential you have the patience and tolerance to put up with many different kinds of people and many different kinds of problems. Here's an example of how I would differentiate between someone that will do well in retailing and someone that won't.

*A customer that had previously been into your shop asking for a price on a glass saw, comes in to tell*

*you they got a better price on the saw from an internet supplier but now that they have it, they are having trouble figuring out how to use it. How do you respond?*

- a) Tell them to get help where they bought it.*
- b) Teach them how to use the saw*

Of course you would be tempted to send them to where they bought the saw. If they weren't willing to buy the saw from you, why should they expect you to take the time to teach them how to use it? The answer is, because you CAN supply the technical assistance they need. If you do that, you'll have created a customer where there wasn't one before. That new customer will continue coming to you for technical assistance, and will then start bringing you all their business. You might not be able to provide better pricing than larger businesses, but there's no reason you can't supply better service. If you have an honest desire to help your customers, they'll help you by buying from you. One of the biggest problems a newly created retailer has is creating new customers. Most spend considerable time and money promoting and advertising their business. The time spent helping someone with a problem is usually much less than you may have spent advertising for new business. More than anything else, you're personal attitude towards your customers will determine their attitude towards you.

## Location

It's always smart to minimize your overhead when creating a new business so it's tempting to look for a place with low rent - but it's not smart to have a place with rent so low it's in a place that produces no sales. Some times the place that charges the highest rent will produce the highest sales. It's not the lowest cost that matters, but the difference between the revenue and the cost. If your business is only wholesale or is restricted to fabricating work, then you can probably get away with a low rent shop, but if you expect retail customers to visit your shop you'll need a shop that's easy to get to and one that's appealing to retail customers. If you expect to operate a gallery, you'll need to be in a location where gallery customers are likely to shop. Don't expect your customers to come to you – go where your customers are likely to already be.

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It's tempting to start with a small shop because it will be easy to fill the shop and you won't have to sell a lot to pay the rent. But, remember that the highest cost of running a retail business isn't the rent, it's the wages. A small 200 square foot shop that requires a person to staff it has the same labor cost as a larger 2000 square foot shop that can be staffed by a single person. That larger shop will have 10 times the amount of stock and is likely to produce 10 times the sales volume – while not costing any more to staff than the smaller shop. A huge problem in running a retail shop is the labor cost continues even when there is no business. If you set up your shop with a work area, you will reduce the labor cost for the store by being able to do productive work when there are no customers to service.

## Price Illusion

If you sell something identical or similar to other businesses, your customers can easily compare prices. If you sell something distinctively different than others, your customers can't make such comparisons. If you set low price markups for those items that can be compared, your customers will think all your prices are competitively low. Even if your prices on those products unique to you are marked up extremely high, your customers will have nothing to compare them to so will think those prices also are competitively low. This is a great way for a new enterprise to improve its profit margin while still appearing to be price competitive.

## Service

Customers are willing to pay a premium price if you provide premium service. How much of a premium they're willing to pay depends entirely on how valuable the service you provide is. If you're selling supplies to hobbyists and artisans that can rely on you for technical advice, they'll take their business to you even if your prices are slightly higher than they might pay elsewhere. The critical word there is "slightly". They'll pay a premium, but not a large one.

## Inventory Variety

When you start your business you'll be competing with large established shops that offer a larger variety than you do. If you can't compete with the variety your competitor offers in stock, you can compete by giving your customers the opportunity to order in good you don't stock. This not only allows you to offer your customers a huge selection, but anything you "special order" can be sold at a significantly lower markup than inventory merchandise. What you lack in stock, you make up in service. Just because you don't stock it, doesn't mean you can't get it. Instead of having a large inventory of merchandise, you can have a large inventory of catalogs.

## Co-op selling

You can give your customers low prices on a huge selection without having to carry a huge inventory by setting up "co-op" ordering. Set fixed dates when you will order replacement inventory for your shop and tell customers that anything they want can be ordered along with your order. You order only what customers special order. Your only expense is the cost to handle the order. In many cases, you can arrange for the customer's order to be drop shipped direct to them. Your only expense then is the time to do the order paper work. This is especially appealing on large item sales. If a customer orders a \$3,000 kiln and all you are doing is having your supplier send the kiln to the customer, there's no reason you shouldn't be satisfied with a 10% markup.

## Financing

Financing a retail shop is the same as for any other business enterprise. You get the money where ever you can. Until your business is established, it's unlikely that any of the traditional lending institutions will lend you money. Most won't work with you until you've been operating for at least one year. You'll have to start up with money you supply – either from personal savings or personal loans. Most shops start off by using personal credit cards.

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## Turn over

In theory, you can sell what you buy before you pay for it. That's every retailers dream. You buy something on 30 days credit and sell it before payment comes due. If that works, you're always operating on customer's money. In practice that doesn't happen. Most large retailers work on an expectation of selling in an average of 90 days. They're so committed to turning stock over in 90 days, many consider that any stock unsold after that is worthless. It's now using up space that could instead be better used by stock that will sell quickly. It's common for them to either unload it at deep discounts, or donate it for a tax deduction.

## Wholesale supply sources

A new business always has difficult accessing the best price supplies. Larger and already established shops have a distinctive advantage because they can usually buy at lower prices then you'll have to pay when you start your business. You can either try to sell for a higher retail price then your competition, or you can try to operate at a lower profit margin. It's unlikely you'll be able to convince customers to pay more from you than they can buy elsewhere, so you must resort to finding ways to do business at lower margins until you can develop lower cost sources. The biggest problem a new business faces is how to create enough momentum to keep going. You should be more concerned about sales momentum than profit margins. Expect to start by operating at very low profit margins. Build sales. As your sales volumes increase, you'll be able to negotiate better buying costs.

## Markup

Most retailers work on "keystone" pricing. That's when they price to sell at 2 times what they paid to buy. Some will try to a slightly higher price markup. The jewelry business often sells retail for 3 times the wholesale price. What ever markup you use, it's naive to assume any fixed percentage price markup will reflect an accurate cost of doing business. If you understand and use the S.T.E.M. method of pricing, you'll establish prices that more accurately reflect your real cost of doing business. How long something takes to sell, and how much space it requires, is more important than how much it costs. Your objective should be to make the most total profit

per day, not the highest percentage markup. Taking 3 months to sell something at 100% markup doesn't make as much money as taking 1 week to sell something at only 25% markup. This is especially true for a new enterprise. You can't afford to tie up your money and your store space for merchandise that takes a long time to sell.

## S.T.E.M.

Many artisans and resellers rely on an overly simple method of determining what to charge. They just add a fixed fee or percentage onto their costs. This is usually inaccurate and rarely relates to the actual cost of producing the item or the cost of selling it. A more accurate way is the S.T.E.M. method. By considering the four factors that determine cost (Space, Time, Effort, and Money) it's possible to more accurately calculate the true cost of business.

- ◆ **Space**  
The amount of space required either to produce the item or to store and display it for sale. A small item uses less space than a large one, so costs less for the space it uses.
- ◆ **Time**  
Some things take very little time to make or to sell, while others take a long time. Something that sells quickly costs less to handle then something that takes a long time.
- ◆ **Effort**  
Some things require more work to make or to sell. The more work that's required, the more it costs to make it.
- ◆ **Money**  
This is the financial cost of providing the capital to make or to sell the product. Essentially, it's nothing more than the interest on borrowed money.

Most artisans and resellers fail to consider all the factors that determine their real costs. If they just take a fixed percentage markup from either the cost to make it, or the cost to acquire it, they are considering only the MONEY factor and ignoring all others. This failure leaves them at a disadvantage to any competitor that relies on the more complex, but more accurate, STEM method.