

Little Guy Lessons

With much of the world's retail storyline focused on Wal-Mart and the other "big guys," there is, as always, a series of interesting sidebars revolving around small, innovative retail chains.

While size has its advantages and—God knows—it has clout, bigger is not always better. Something is left behind as scale becomes the dominant objective. That "something" is usually a feeling, an attribute, an aspect of the retail experience that consumers may be willing to overlook for a while as they settle for the benefits of size. But, inevitably, small competitors creep up to remind consumers of what they are missing.

The opportunity for mega-retailers is to learn from these emerging retailers and, if appropriate, find a way to build those insights back into their operations.

McDonald's actually missed one such opportunity to learn from a smaller competitor in Italy. You may have heard the story about how a little bakery in Altamura, Italy, ran the Golden Arches out of town.

When McDonald's first arrived, it was welcomed; the locals saw its arrival as a sign of modernity. Luca Digesu, a local baker, saw it a little bit differently, and thought it would be a good idea to open a new bakery right next to the new McDonald's. Like any good businessman, he figured the traffic there would be high and that he could build a nice business based

on spillover customers alone. He claims he did not intend to challenge McDonald's, but it wasn't long before he became a mortal threat to them.

The reason was simple. While McDonald's was serving what McDonald's serves, Mr. Digesu's bakery, **Antica Casa Digesu**, was serving up thick slices of authentic focaccia bread, a local favorite—a source of local pride, in fact. He priced a slice of his bread exactly the same as a single McDonald's hamburger. When McDonald's began to notice it was losing business, it fought back by offering various promotions and incentives. They even installed a television set so its customers could watch soccer games.

It didn't work. Customers would watch the games at McDonald's and then go next store to get some focaccia at Digesu's. The lesson here is that promotional overlays are no substitute for local authenticity. One wonders how McDonald's might have fared had it introduced a focaccia item instead of a television set.

Sometimes the competitor is not so brazen as to open shop right next door to a mega-retailer, but the result could be nearly as impactful. **Kazoo & Company**, a small toy store in Boulder, Colorado, does have a bricks-and-mortar presence, but it's their online operations that largely ensure its competitive edge. For example, when customers order an out-of-stock item, they get a phone call from a real, live person who offers suggestions for possible substitutes. When was the last time anyone got a call like that from a national retailer?

That kind of attention to customer service has earned Kazoo a global audience, competing successfully against the "big guys" not only in their own backyard but also around the world. Another thing Kazoo does really well is differentiate its merchandise by making a point of not carrying the same toys that shoppers can just as easily find at Target, Kmart or

Big lessons
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Wal-Mart. Strong vendor relationships are the linchpin of that strategy. Kazoo is so tight with its vendors that they regularly spill the beans on what all the mega-retailers are buying, so Kazoo can offer its shoppers something different.

Some big retailers certainly could learn a thing or two about customer service, as well as the importance of a differentiated merchandise mix, from Kazoo & Company.

Customer service is also a hallmark of **New Seasons**, a six-store supermarket chain in Oregon that has made a name for itself for at least two reasons. One is the legendary “get out of jail free” card that it gives each of its employees. The card can be redeemed whenever an employee goes over-the-top to help a customer. *The New York Times* reports that “one young clerk opened 81 jars of mustard for a customer to taste” but didn’t get into trouble for it. “We never reprimand someone for helping a customer,” explains Brian Rohter, ceo and co-founder.

New Seasons is even more noteworthy for its commitment to local, homegrown goods. Being “organic” is not enough for New Seasons, where 27 percent of all items on the shelves are locally grown. This is very much appreciated by the locals, who recognize that buying organics from national brands doesn’t do very much for their communities. As retail guru Phil Lempert observes: “What they are saying is, we are your store and we want to build a relationship with you. That lack of a relationship has been the downfall of supermarkets.”

At **Cabela’s**, the sporting goods chain, the claim-to-fame is both a commitment to the local community as well as an astonishing shopping experience. From the outside, Cabela’s stores look like hunting lodges, and inside they are like amusement parks. The primary target is men: Stuffed grizzly bears doing battle—stuff like that—occupy up to 45 percent of floorspace. Huge aquariums, too, housed in stores that soar like indoor stadiums. To date there are only about 15 Cabela’s stores nationwide, but wherever they open they quickly become tourist destinations. In fact, in Texas, the Cabela’s

reportedly is drawing as many tourists as the Alamo.

Cabela’s executives say they do not intend to build more than a total of 40 or so stores. Whether its model could be replicated on a broadscale basis is open to debate, but certainly elements of its appeal could be applied to mass merchandise and perhaps other channels as well.

Another interesting aspect of Cabela’s is the effect it tends to have on its local communities. In contrast to other retailers, who have been accused of having a negative economic effect when they come to town, Cabela’s positions itself as almost an economic development package for rural towns. Its role as a tourist attraction tends to spawn development of related businesses such as hotels and restaurants, bringing jobs and helping to lower tax rates in previously struggling locales. So far, the locals seem to appreciate it.

Cabela’s expansion blueprint is also worth noting. The retailer got its start in the catalog business, and decides where to build new stores based on where its biggest-spending catalog customers live. They don’t worry that the stores might cannibalize the catalog business because, as Mike Callahan, a Cabela’s vp told *The New York Times*: “We’re in the age of multi-channel shopping.”

Dylan’s Candy Bar shares Cabela’s appetite for in-store dramatics. Founded by Ralph Lauren’s daughter, Dylan Lauren, the appeal is not to hunters and fishers, but to everyone’s child within—especially women. The store itself is a Willy Wonka wonderland, jam packed with sweets of every kind. Even the see-through steps leading to the store’s lower level are embedded with Gummi Bears, Jujubes, Jujufruits and other colorful candies that recall one’s childhood.

Dylan, as reported in *The Wall Street Journal*, hopes to “do for candy couture what her father has done for cashmere.” That is, use presentation and a sense of aesthetics to merchandise what are otherwise relatively undifferentiated products. In many ways, her approach is similar to what Starbucks did with coffee, although there is more to it than that. Her store has also served as a new product show-

room for candymakers including Mars, Hershey and Topps. Buyers from Wal-Mart and Target are known to check in at Dylan’s to find out what is new.

While Wal-Mart and Target are perhaps already learning something from Dylan’s Candy Bar, it’s intriguing to imagine what it would be like if a major drug store or supermarket chain took a page from their playbook and turned their candy aisle into a Dyanesque destination. For obvious reasons, many shoppers avoid the candy aisle like the plague—and most retailers make that decision easy by doing little to make it appealing. It’s an opportunity for the taking.

Last, but not least, we have **Village Vanguard**, a quirky chain of bookstores in Japan that is succeeding where others in its category are failing via what its founder, Keiichi Kikuchi, calls an “improvisational” approach to cross-merchandising. As described by *Forbes*: “On the same shelf as, say, the novel *Norwegian Wood* by Haruki Murakami, you might find the Beatles’ *Rubber Soul* album and books that inspired the Japanese author, including Truman Capote’s *Breakfast at Tiffany’s*; a photo collection of Audrey Hepburn, who starred in the movie of the same title, rounds out the display.”

Perhaps most impressive of all, the effect is achieved by giving store managers free reign to improvise their own merchandising mix. That’s quite a switch from the command-and-control style of some U.S. mega-retailers.

It would be unwise for the “big guys” to dismiss these small competitors for size reasons alone. The little guys may stay relatively small...but, on the other hand, as John Fleming notes in his *HUB* cover story interview, Wal-Mart was small once too: “The challenge,” says Mr. Fleming, “is to keep what made us what we are—which is very local.”

Which is another way of saying: Stay closely connected to your shoppers and the rest will take care of itself. That’s the main thing the “big guys” might remind themselves by watching “little guys” like Antica Casa Digesu, Kazoo & Company, New Seasons, Cabela’s, Dylan’s Candy Bar and Village Vanguard. ■