

Teaching Guide

**Merchandising:
The Store as
Persuasion**

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Summary

- Learn how retailers use science, detailed shopper observation, and applied psychology to sell goods from groceries to trees, from Internet specials to video rentals, from dog bowls to luxury cars.
- Learn how traffic control, flow patterns, p-o-p displays, and even the size of shopping carts influence sales .
- Learn the power of signage, how names shape perceptions, and how pricing IS merchandising.
- Learn why sales have time limits. 24 Hour Sale! 1 Day Only!
- Learn how names from kiwi to canola oil are shaped to sell. Discover why your grandchildren might never eat a prune.
- Learn how merchandisers structure displays to draw customers ever deeper into the store.
- What does the size of a plastic bag in the fruits and vegetable section have to do with buying a sunroof on a new car? Hint: Think merchandising.
- What does “super-sizing” a fast food meal have in common with selling dog food bowls?
- What does baseball’s strike zone teach about shelf display for maximum profits?
- Learn about markups and inventory turn. Explore lifestyle merchandising and the “open wallet syndrome.”
- Discover that the challenge of the Internet is not new to merchandisers.

Key Concepts From the Script

Modern merchandising began with the invention of “department stores” back in the 1890s. These palaces of consumption marked the first time people could see such a vast display of goods for sale at a fixed price.

Each store featured large windows which drew curious pedestrians to “window shop.” The department store window was one of the first modern merchandising tactics. And from its development came today’s mix of art and science we call retail merchandising.

In today’s stores, every detail, every square foot, every sign and display is carefully designed to increase sales.

Even the shopping cart is part merchandising. Studies reveal that shoppers WITH carts spend more money than those without carts. So an extra 50 or 100 carts each day increases sales. A shopper “driving” a cart is in the “buying mode.”

Today’s SUV size carts make one or two items seem like nothing. Carts today dwarf those of ten years ago because studies show larger carts produce larger sales.

Store layout and displays seek to shape shopper behavior. The basic tactic is to make shoppers notice the goods. Narrowing the aisle slows shopper traffic much like reducing the number of lanes slows automobile highway traffic. And slowing the traffic creates the opportunity to sell. Fast moving shoppers intent only on what they came to buy are not likely to make impulse buys.

Another way to slow traffic, pioneered by supermarkets, is to use a maze of aisles. The theory is that every extra minute spent in those aisles adds up to more impulse buys. The key

is to move the shopper past all the merchandise.

But retailers increasingly find today's shoppers don't want to become trapped in aisles. Recent store designs often use floor plans that reduce the maze and open up the store to allow long views to buying temptations.

Stores are designed to pull the shopper past as much merchandise as possible. For example, supermarkets put milk and items shoppers NEED at the rear of the store to pull them through. Other stores have to be more creative to move shopper into the interior.

What does the size of a plastic bag in the fruits and vegetable section have to do with buying a sunroof on a new car? They both illustrate the "open wallet syndrome."

Even the size of plastic bags in a produce department can be merchandising. Researchers find that an oversized bag encourages the shopper to throw in a few more pears or apples. Adding to a purchase is easier than making the first buy.

When paying \$30,000 for a new car it seems easy to add a sunroof for say \$1,200 more. Yet few people spend that much to add a sunroof to an existing car. Merchandisers know the easiest dollar is one added to an existing purchase. Once the wallet is open, dollars slide out with ease.

Visual merchandisers quickly learned to use displays that suggest how the merchandise can be used. Show a tie WITH a shirt and sales of both increase.

Clothing retailers use displays to sell complete "outfits" instead of less expensive individual articles of clothing. Clothing and supermarket displays both use the same merchandising technique – suggest two items that belong together. Don't say "buy me". Say, "buy us."

Where the product sits on the shelf has been the subject of countless studies. The best shelf placement in the store is similar to the strike zone in baseball – the shoulders to the knees. Products placed outside this “selling” zone suffer. Studies show that the “strike zone” holds about half the products in a typical store but produces 85-90% of total sales.

Even simple signs work. Signs such as “special buy”, “hot price,” “unadvertised special” or merely the word “LOOK” increase sales by up to a third.

One experiment compared sales results of candy bar sales with two signs. One said, “Buy some for the freezer.” The second said, “Buy 18 for the freezer.” Few people actually bought 18, but candy sales increased by 150% with this sign compared to the simple “Buy some.”

TOUCH AND SMELL

Clothing stores once displayed their merchandise almost exclusively on racks. And clothing racks, especially multiple level ones called waterfalls are still popular.

Today’s stores often use more tables to display clothes. They show more of a garment’s front and invite the browser to touch. Hidden camera studies show that shoppers who touch are more likely to buy.

In one experiment, shoppers viewed a sports shoe and were asked if they would buy it and how much would they be willing to pay. Half the shoppers were quizzed in a room with a light floral scent, half in an unscented room. Those questioned under the floral aroma were more likely to buy the shoe and were willing to pay an average of ten dollars more than subjects not influenced by the aroma.

MUSIC

Stores once limited music to low background levels. Today, music is likely custom made for the store, the time of day, and the location. And it's often delivered by a satellite connection and not at all in the background.

Often, music is part of the store's design. In fact, many stores sell special CD's as a merchandising tool. The right mix of music tells shoppers "this store understands my kind of music" so they likely have "my kind" of merchandise.

SALES

Shoppers expect a sale. The word "SALE" seems to give permission to buy. But there is more to a sale than a perceived price reduction. TIME is also a factor. If a retailer announces "30% off regular prices" sales will likely increase. But add "Sale ends Saturday" and sales increase much more.

Studies show that shoppers are more likely to BUY NOW if given a time limit. That's why the Midnight Madness or One Day Only sale often works so well. The tighter the time limit the more important it appears to buy now.

PRICING

Pricing is yet another merchandising tool. Merchandisers know consumers often buy the middle. A display offering a choice of three price levels of an item will usually sell more of the mid-priced item.

MARKUPS

The word "markup" refers to how much the store increases or "marks up" the price from what it paid. Selling a \$700 computer for \$1050 is marking it up \$350. That's a 50% markup – an unusually high profit that is not typical. The price itself is a selling device. A store buys sweaters for \$30 and marks them up to \$80. Some people buy the sweater at \$80.....but the store knows it will sell more when it

advertises a 40% discount sale. Now at \$48, the store still makes a 60% profit on its \$30 purchase.

The store makes a generous profit and the shopper announces “I just saved \$32.” (original price of \$80 less selling price of \$48).

TURNOVER

For large stores, the profit on each item is less important than how often they make that profit. Retailers call it inventory turn or turnover. High volume discount stores might make less on each item, but they make less more often.

Compare two stores. One marks its goods up 25% and the other only 15%. The one with the smaller markup is more profitable because it sells each item 12 times a year while the other store turns it over only three times a year. The lower markup with faster turnover is about 50% more profitable.

Think of it this way. Imagine you run a store that sells dollar bills. Which is more profitable? Selling a dollar for \$1.15 twelve times a year or for \$1.25 three times a year? Your profit for the year on the 15% markup is \$1.80. On the 25% markup it's only 75 cents. The lower mark-up and faster turnover wins again.

Grocery merchandisers (who typically work with low mark-ups and high turnover) have a saying “better a fast nickel than a slow dime.”

THE INTERNET

The Internet is a challenge. But retailers once before faced a challenge from a new technology that enabled customers to shop from home.

That time was 1900, the new technology was called mail order. Start ups like Sears and Montgomery Ward mailed huge catalogs to almost everyone and had a selection that today would be called a superstore. The mail order catalog was the Internet of its day yet retail stores survived.

Test Your Merchandising Skills The Video Tape Project

Here's a chance to try your own skills in merchandising. Not all merchandising is done by store owners. Sometimes manufacturers make and set up their own displays for the store. This problem assumes just such a situation. You are the merchandiser for the GIANT videotape company. You sell blank video tape in discount stores, grocery stores, electronic stores, etc. You are limited to a pegboard display which holds 24 videotapes.

GIANT video makes high quality videotape. You (and the stores where you sell) need to make the most profit per square foot of display space. You can display 24 tapes (called facings) on your space. How do you maximize profit?

The simple way is to paste on a sign saying "videocassettes – \$4.95 each."
Your task is to devise a better merchandising plan for selling these blank video tapes.

Assign students, either individually or in groups, the task of marketing blank video tapes using the typical supermarket or discount store pegboard display. Remind them that they have complete control over the product and can work with the tape factory and packaging. The only limitation in this assignment is the display space – a pegboard on which 24 facings of tape can be displayed.

Video Tape Project: One Solution

Here is one way using the merchandising technique called variable pricing. There is no “correct” solution, but this one shows the merchandising mind at work. Package your high quality tape in three different grades – for everyday use, exceptional quality, and premium gold for special events. The price increases with each perceived increase in quality. Note that all three “grades” are actually the same videotape. Only the packaging and pricing changes. The “everyday use” is the same high quality tape as the “premium gold” tape.

It is easier for your factory to make one, high quality tape than three different grades of tape.

What do you think of this tactic? Is it fair? After all, no customer buys a tape of LOWER quality than they expect. Each gets a fine quality product. The consumer might be surprised to learn all three grades are the same tape, but none is being cheated. All receive a high quality product.

Our first method is simply to sell all 24 tapes at \$5 each – that means the whole display sells out for \$120. Let’s assume the display “turns over” about 20 times a year. That means sales from this display in one year is 120 times 20 or \$2,400.

But with three levels of quality, the whole display is 8 x \$5, plus 8 x \$7, plus 8 x \$9 or \$168. \$168 twenty times a year is \$3,360 or a 40% increase over the first method.

Now multiply this by 10,000 display racks in retail outlets nationwide and the improvement in profits is nearly one million dollars a year. That’s merchandising!

Quiz on Merchandising

1. A grocery or discount store often features a large special display of merchandise right near the entrance. The items are often large and inexpensive. Give two reasons for this display as pointed out in the video.

The low cost item is often a good buy, what stores call a "loss leader." By taking advantage of this "special" a shopper is saying "yes" to buying. He or she is more likely to say "yes" to other, more high profit, displays during the shopping trip. The display puts the shopper in the "buying mode."

A second reason for the display of large or heavy items is to encourage the use of a shopping cart. People who take shopping carts spend more money than people who do not. Even a handful of extra shopping carts wandering the aisles each day will boost store profits.

2. What do the initials P-O-P stand for?

Point of purchase. The video describes various point of purchase displays.

3. What does the size of a plastic bag in the produce section have to do with a sunroof on a new car?"

A large produce bag encourages the shopper to throw in one more apple or orange. A sunroof is surprisingly easy to buy as a small portion of a thirty thousand dollar car. Both illustrate that a sale that adds to an existing purchase is easier for the merchant to get than the first sale. It's the "open wallet syndrome." Money flows easier from a wallet that's already open.

4. Why would a merchandiser display ceramic dog bowls WITH the dog food instead of in a separate location?

If the bowls were displayed only in a separate section

devoted to dog food bowls, the only people who would buy them are those who came into the store looking for dog food bowls. By displaying them with the dog food, they serve to tempt ALL shoppers as an impulse buy. Also, dog food is a relatively low profit item while the bowls are most likely high profit. The merchandise mix increases sales per square foot of store space. Of course, such a special display does not mean the merchant should not also have shelf space devoted to bowls.

5. What does the “strike zone” in baseball have to do with merchandise display?

*The best shelf placement in the store is similar to the strike zone in baseball — the shoulders to the knees. Products not in this “selling zone” suffer. Studies show the “strike zone” holds about half the products in a typical store but produce 85-90% of total sales. From: **The Marketing Game** by Eric Schulz.*

6. In what way is the placement of new titles at a video rental store similar to the placement of milk in a grocery store?

Both new titles and milk are items that will pull shoppers deep into a store. Milk is on the list for many shoppers so they will seek it out — it is NOT an impulse buy. The same is true for new titles at a video store. Most customers head FIRST to the new titles section to “see what’s new.”

A grocer will often place milk on a back or side wall. A video rental store will use a similar location for much the same reason. Both serve to draw the shopper into the store and past other potential impulse buys.

7. Why might your grandchildren never eat a prune?

In order to change the poor image of prunes, their name is being changed to “dried plums.” Your grandchildren might not know the meaning of the word “prunes.” Of course, there is no guarantee they will eat dried plums either.

From the World of Merchandising

Wal-Mart alone accounts for 5% of all U.S. retail sales. More than one in every 300 Americans works for Wal-Mart. (*Info from WORTH, March, 2000*)

Target: Visual clutter is forbidden on the floor. A third of the space is devoted to apparel, the rest to “hardlines” such as housewares and electronics. The stores’ primary-colored aisle markers were inspired by the game Candyland.

Target positions itself as an upscale discounter. Its average store check of \$40 is higher than most other mass discounters. Many of its goods are made for Target and sold under its labels such as Cherokee or Merona. Unique merchandise and private brands.

Pricing: One study (relating to the selling of bath towels, hosiery, slacks, jeans, and shirts) found a “regular” or “full price” sign reduced sales. A sign announcing a sale sold 20% more, which a sign with the price AND a benefit (like great fitting) added 50% in sales. (*Data from Journal of Retailing*)

If you compare prices between large discount stores (K-Mart and Wal-Mart, for example) you will often find greater price differences between one K-Mart and another or between one Wal-Mart and another than between K-Marts and Wal-Marts located nearby. Stores price according to the local market.

The Power of Nines

In one experiment, a women’s clothing catalog was mailed in three versions. The only difference among the three

was a price change of one item. One version had it as \$44, one at \$49, and the third at \$54. The \$44 and \$54 prices sold about the same, but the \$49 price showed a 50% increase. They tried another catalog with every price ending in 9 and found that if the “nine strategy” is used too often it works less well. Evidently the 9 signals a sale price, but if every price ends with a nine the consumer sees nothing as “on sale.”

Jewelry prices are a prime area for abuse of sales because of the difficulty in comparing similar items. One state attorney general sued a well known national retailer claiming that the retailer advertised jewelry at “50 percent off regular prices” that were actually double the going market price. He concluded that in the jewelry business, phony discounts were standard practice.

The same merchandising techniques can be used to sell beer, soft drinks, cereal, candy, hamburgers, rock music, or movies. Marketing directors today can easily move from selling hamburgers at McDonalds’ to selling movies for Warner Brothers.

Spending Time

A study at a national housewares chain compared shopping times. Here’s what they found about time and shopping companions:

woman shopping with another woman: 8.25 minutes

woman with man: 4.7 minutes

Women who shop with men (at least in houseware stores) feel rushed so spend less time and money in the store. Merchandisers at such stores would do well to provide a “holding area” to entertain men while their women shop.

Quote from Paco Underhill's Why We Buy:

“The vice president of merchandising from a national seller of young women’s clothing explained a display of T-shirts like this: “We buy them in Sri Lanka for \$3 each. Then we bring them over here and sew in washing instructions, which are in French and English. Now, we don’t say the shirts are made in France, but you can infer that if you like. Then we merchandise them like crazy-- we fold them just right on a tasteful tabletop display, and on the wall behind we hang a huge, gorgeous photograph of a beautiful woman in an exotic locale wearing the shirt. We shoot it so it looks like a million bucks. Then we call it an Expedition T-Shirt, and sell it for \$47. And we sell a lot of them, too.”

Legal Bait and Switch

One national retailer offered a low priced vacuum cleaner that they almost never sold. Its only purpose was for salespeople to sell off of – to move shoppers to higher profit models. In fact such low end merchandise often used to draw customers into a store is sometimes called a “sell off” or a “step piece.”

New car dealers use a similar approach with newspaper or TV ads for a car priced at what seems a steal. But the car is really for merchandising – they don’t want to sell you that car. It exists to bring in customers so sales people can move them to a more expensive model. Sometimes sales people would call the car a “nail down” because the dealer never expected the car to move — as if it were nailed down.

Colors

Schools and athletic teams typically have logos, team colors, and a specific typestyle that helps give it a visual identity. Retailers also use a carefully selected color scheme (often based on two colors) to create an identity.

The colors are almost like a uniform that subtly reminds shoppers where they are. What are the “team colors,” logos, and typestyles of K-Mart, Wal-Mart, Target, Home Depot, and other national stores in your area?

Color is a merchandising tool. It influences shoppers both physically and mentally. Shoppers are often drawn to bright warm colors such as red and yellow.

That’s why warm, even hot color schemes are common for sale signs, windows, entrances, and point of purchase displays. They attract shoppers like moths to a lightbulb.

But warm colors don’t feel comfortable for a long time. So cool colors (blues and greens) that have less pulling power are more comfortable. They are used for areas where shoppers spend any length of time – fitting rooms or waiting areas for example.

Products and Profits

A movie theater makes a modest profit on admission tickets, but it sells popcorn, candy, and soft drinks at a higher mark-up. Some theater owners claim they’re really in the popcorn and candy business and movies are their “loss leader.”

A restaurant makes a profit on food, but many owners admit it’s not the food at all that’s key to their profit – it’s the possession of a liquor license.

Some electronics and appliance stores make half their profit, not from big ticket items, but from selling extended warranties.

A fast food franchise might be a “hamburger stand” but much of its profits come from specialty sandwiches, soft drinks, and french fries. Fast food companies buy frozen french fries for about thirty cents a pound and mark them up to about six dollars a pound.

Resources

WWW.WSLSTRATEGICRETAIL.COM

Intended for merchandisers on a subscription basis but includes enough free information for students.

WWW.VISUALSTORE.COM

Insights into the world of visual merchandising. Excellent site presenting merchandising from the seller's perspective.

Secret Formulas of the Wizard of Ads by Roy Williams (Bard Press. Austin, Texas. 1999.)

Practical, easy to read, and filled with clever insights into the world of buy-ology. Also check www.WizardofAds.com.

Why We Buy: The Science of Shopping

by Paco Underhill. (Simon and Schuster, NY. 1999)
Underhill sees himself as an anthropologist studying shopper behavior. An accessible book for students.

“Data-Crunching Santa: Wal-Mart Knows What You Bought Last Christmas,” by William Holstein in **U.S. News and World Report**, December 21, 1998. Another article detailing the sophisticated merchandising of Wal-Mart is “Smooth Operator” by Constance Gustke in **Worth**, March, 2000.

“The Diva of Retail” by Edward O. Welles in **Inc.**, October 1999. Article about a merchandising consultant who advises merchants such as Starbucks, Blockbuster, and Nike.

“How Target Got Hot,” by Shelly Branch in **Fortune** of May 24, 1999. Also by the same author, “Inside the Cult of Costco,” in **Fortune** of September, 5, 1999.