

Focus on the core customer

Abstract:

Do not expect Sam's Clubs in the future to be quite as attractive, colorful and neatly merchandised as they've been in the recent past. Do, however, expect them to generate higher sales and be more profitable thanks to a renewed focus on the business and personal needs of small businesses. That is the loose translation of the merchandising strategy in place at Sam's Club following a senior-management shift last year that resulted in a return to the philosophy toward merchandising and operations upon which Sam's Club was founded. It is a strategy as simple as one, two, three. Sam's Club was inconsistent with Gold Key hours, that time from 7 a.m. to 10 a.m. when business members are allowed to shop. Basic items such as file cabinets and some spices used by restaurants were deleted. Serving the business needs of small business is priority No. 1. Serving their personal needs is priority No. 2. The third priority is the member that is not a small-business owner. Known as Advantage members, these people can take advantage of the products and services Sam's Club offers in pursuit of the first and second priorities. Deciding to pursue the one, two, three merchandising strategy was the easy part. Executing it is where the challenge comes in.

Full Text:

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[Headnote]

Merchandise mix to be geared toward small businesses

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That is the loose translation of the merchandising strategy in place at Sam's Club following a senior-management shift last year that resulted in a return to the philosophy toward merchandising and operations upon which Sam's Club was founded. It is a strategy as simple as one, two, three.

"We are in business for the business needs of our small-business members, to bring them the things they need to run their business every day," says Doug McMillon, executive VP of merchandising. "We had made that more difficult for them as of late."

Sam's Club was inconsistent with Gold Key hours, that time from 7 a.m. to 10 a.m. when business members are allowed to shop. Basic items such as file cabinets and some spices used by restaurants were deleted. "We were not aggressively pursuing the small-business owners," McMillon says.

Serving the business needs of small business is priority No. 1. Serving their personal needs is priority No. 2.

"These small-business owners are so busy, they have one life. They don't have time to shop in every retail and wholesale outlet in town. So when they come for their business needs, it is logical and convenient for them to want to shop for their personal needs," McMillon says.

The third priority is the member that is not a small-business owner. Known as Advantage members, these people can take advantage of the products and services Sam's Club offers in pursuit of the first and second priorities.

Deciding to pursue the one, two, three merchandising strategy was the easy part. Executing it is where the challenge comes in. It has meant changing the thought process of buyers, more aggressively communicating with suppliers and doing a better job of listening.

"The biggest single challenge that we faced and are still facing is to get all of the merchants working on the right kind of issues with the right approach," McMillon says. "We want the building to look like one person merchandised it."

With personal-need items, for example, it means ensuring consistently high-quality goods. As McMillon explains, if a customer goes into the electronics department and finds unknown brands at lower price points, and then goes into the apparel area and finds a great brand-name cashmere sweater, that member is being sent an inconsistent message. Personal-- need items are expected to be department store and specialty store quality and offered at prices up to 50% less than typically found at those outlets. McMillon also is concerned that Sam's Club doesn't miss out on new items because buyers were inaccessible. That is a fairly standard complaint suppliers have of retailers, but one McMillon concedes had some truth to it regarding Sam's Club.

"The supplier relationship with the buyers at Sam's Club is getting better. Even though we have a limited number of items, we cannot afford to miss a great new item. It is not an option," McMillon says. "So we have started tracking when buyers are late for appointments. I get a report every week. Treating suppliers with respect and being punctual, those things are important. I don't hear nearly as much as I did when I started in September that suppliers couldn't get through to people."

If the attitude toward merchandising is a throwback to the early days of how Sam's Club approached its business, so too is the attitude toward operations. Central to Sam's Club's renewed focus on small-business members is adherence to the low-expense structure and operating-cost philosophy that enables the whole membership warehouse club concept to function profitably.

Sam's Club began to drift from that philosophy in the late 1990s, but strong sales growth during the boom years of the Internet bubble masked an expense structure that had gradually increased. Sure the clubs, especially the new clubs, were never more attractive, colorfully signed or neatly merchandised, but that was part of the problem. When the economy started cooling off and Sam's Club's sales slowed, the expenses remained and profits suffered.

Enter a new management team with a new way--actually the original way--of thinking about merchandising and operations, beginning with some supply-chain and club-operations basics.

"Suppliers need to put their product on good pallets. It sounds like a no-brainer, but we have to do a lot of pallet switching in the clubs," says executive VP of operations Greg Spragg. "For safety reasons, the merchandise has to be on good-quality pallets to go into the steel. Anytime a product comes to our back door without a pallet or with a poor-quality pallet, we have to switch it out, and anytime we do that, it saps efficiency."

Another basic requirement for suppliers is to ship merchandise in a way that requires limited handling in order to display it. Suppliers also need to package merchandise in such a way that packing materials are easy to remove, but the contents are still protected.

On the actual sales floor, the priorities of Sam's Club associates have been shifted to allow them to focus on sales-- building activities and getting to know their business members better. Some of the new priorities seem relatively simple, like suppliers using good pallets, but hundreds of small changes spread over a growing base of 525 clubs can have a big impact.

"We used to do a lot of hand stacking of merchandise," Spragg says. The attitude toward club standards is to make sure they are clean, neat and safe, but the attitude toward neat can be

taken too far. Today, if a pallet of merchandise sells down halfway and it will get the club through the rest of the day, a club associate does not need to restack it. "How well faced out and pretty the pallet is does not really matter to the small-business member."

With club-level associates less burdened by such tasks, they have been encouraged to get better acquainted with their business members and listen to their ideas for products and how Sam's Club can improve. When a club-level associate has an idea, they are expected to send an e-mail to McMillon and Spragg or use a recently established hot line.

"One of the things that we have done over the last few months is to give the clubs a voice in merchandising decisions," McMillon says. "The clubs live in the right place to make some of these decisions, and we want them to, so we established the hot line. That hot line didn't exist, and we have created it to get their feedback, and they are using it. It gets worn out."

If the hot-line calls are related to operations issues, Spragg has vowed to have the matter resolved within 24 hours.

Ultimately, merchandising and operations in Sam's Club is all about the items and the demonstration of fantastic values enabled by a low-expense structure. That is how excitement is generated in the club environment. Sam's Club may have drifted from that belief in recent years, but those merchandising and operations principles responsible for the early success of Sam's Club are again being pursued.

Sam's Club is reinstating some basic product offerings in its merchandise mix, especially items that appeal to smallbusiness customers.

[Sidebar]

We are in business for the business needs of our small-business members, to bring them the things they need to run their business every day.

Doug McMillon, executive VP of merchandising, Sam's Club

Disponível em: <<http://www.proquest.com>>. Acesso em: 25 jun. 2003.