PROVEN PRACTICES FOR ESTABLISHING A RETAIL HARDWARE STORE

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HARDWARE STORE

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CHAPTER I

INTRODUCTION

Need for the Study

The era of the lackadaisical, inefficient methods which were commonly practiced by retailers during the war years is about to draw to a close. During these war years, the retailer, due to a shortage of consumer goods and to increased wages, could operate at less than 100 per cent efficiency and still reap enormous profits. However, owning a retail hardware store in the future will call for more efficient merchandising, more capital, more experience, more ingenuity than ever before.

The hardware retailer of today is not only having to face the fierce competition from other hardware stores but he is having to face competition from other types of merchandising firms. Lebow stresses this point as follows:

> A department store will sell you a prefabricated house, a half-pint automobile, or a frozen dinner. In a cigar store you can buy an umbrella, socks, shirts, alarm-clocks--and even cigarettes. Super-markets handle glassware, magazines, toilet goods and cosmetics, nylon stockings, and electric toasters.....Auto acessory stores sell radios, refrigerators, washing machines.... house furnishings and electrical supplies.[1]

Almost everyone of the aforementioned distributors are competing in some line that at one time was looked upon as belonging almost entirely to hardware stores. This all tends to make it more difficult for the

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[1] Victor Lebow, "Our Changing Channels of Distribution," Journal of Marketing, Vol. XIII, No. 1, (July, 1948), pp. 12-13.

hardware retailer to make a profit and to stay in business.

These competitive conditions brought on by other merchandising firms plus those which already exist in the industry make it imperative for the person who is contemplating opening a new hardware store to be more versed in sound merchandising procedures than ever before.

A new retailer who is entering the hardware retailing field for the first time needs factual information which is relevant to the subject as guesswork, hunch, and intuition are not sufficient to meet the competition of the efficient firms which have long been established.

Acknowledging the need for more dependable retailing information, the United States Department of Commerce has made available a great amount of factual material regarding retail trade. However, this information in part goes too much into detail, while some of the other essential factors are eliminated almost in their entirety. This material makes little attempt to interpret the data brought forth, so that a certain amount of synthesis and analysis is required to determine relevancy for an individual retail store.

Purpose for the Study

It is the purpose of the present study to set forth a flexible outline which will fit the needs of a hardware retailer who is contemplating entering the hardware field for the first time.

There is no substitute for experience in retailing, and it is not intended that this study be substituted for practical experience, as a person can possess all the other abilities, aptitudes, and qualifications which are essential in order to succeed in a hardware store and still fail from the lack of experience. This is exemplified by Amos E. Taylor,

> Records over a long period of years point clearly to the fact that one of the principal causes of failure is a lack of experience and manage-know-how. Certainly in the highly competitive postwar years it will be more necessary than ever before to know and practice good management.[2]

It is the intention of this study to set forth the problems which are commonly encountered in the retail hardware trade, and to provide a practical solution to these problems. Every effort has been made to show both sides of the picture. The disadvantages as well as advantages have been pointed out in order that the prospective retailer can see more clearly why he should or should not do a certain thing.

While some of the factors which have been brought out by this study have not been dealt with in length, and while some of the smaller details have not been touched upon, limitations inherent to this type of study will not permit these phases to be elaborated on in greater detail.

"The hardware trade is a highly competitive one."[3] The new retailer must not only meet prices of his competitors; he must meet the services as well. Therefore, it is essential that the new retailer merchandise his goods in the most efficient manner in order to meet this competition.

In consideration of these points, this study proposes to point out the practices that a new retailer in the hardware field must watch out for and eliminate, and what practices he must follow in order to make a success of the business.

Limitations

For the purpose of this study, no attempt has been made to localize

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[2] Amos E. Taylor, Director of the Bureau of Foreign and Domestic Commerce. "Foreword" to Establishing and Operating A Hardware Store, p. iii.

[3] United States Department of Commerce, Establishing and Operating A Hardware Store, p. 4.

or to draw up a proven plan for a specific section of the United States. It is not the purpose of this study to do so inasmuch as this study is only designed to describe a working model of a typical hardware store.

While it is true that customs and competition vary from one section of the country to the other, with the exception of the type of mechandise carried, little modification would need to be made in order to fit this plan to a specific section of the country.

Again, in this study no attempt has been made to draw up a plan for any specific person or retailer. It would be impossible to draw up a working model which would fill the needs of a specific person unless several factors were known. These factors are: amount of capital to be invested; city and location within that city; type and kind of people being catered to; and the type of merchandise to be carried. These factors will vary from the standpoint of each individual, but with these factors known it would not be difficult to fit this study to the needs of the individual retailer.

Definitions

The following terms are defined as used throughout this study:

Hardware stores--Hardware stores are establishments primarily engaged in selling combinations of the basic lines, such as tools, paint, glass, houseware, cutlery, household appliances, building material, steel fence, steel goods, sporting goods, and the like. The term hardware stores as used in this study does not include farm equipment stores.

Gross sales--Total sales for the period before allowances are made for purchase returns and allowances.

Net sales--"Gross sales less all returns and allowances and exclusive of sales tax revenue."[4]

Cost of goods sold--"Beginning inventory at cost, plus net purchases (gross purchases less returns and allowances, plus freight in), less end-inventory at cost."[5]

Gross margin--"Net sales less cost of goods sold."[6]

Operating expenses--Expenses incurred in operating the business, such as salaries, insurance, advertising, delivery expenses, depreciation, and the like.

Net profit--"Gross margin less operating expense."[7]

Stock turn--The total cost of goods sold for a period of time, say a year, divided by the average cost of the inventory for that time.

Mark-up--The amount which must be added to the cost price to arrive at the selling price.

Trading area--"A trading area is the territory in which live most of the people who come to a specific town to trade."[8]

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[4] United States Department of Commerce, Retail Hardware Stores, p. 3.

[5] Ibid., p. 3.

[6] Ibid., p. 3.

[7] Ibid., p. 3.

[8] Ibid., p. 3.

CHAPTER II

PERSONAL REQUIREMENTS AND OPPORTUNITIES

1. Requirements

A hardware store calls for a variety of abilities and traits from a retailer, in order for him to become a successful operator. Before a person establishes a hardware store of his own, he should make sure he has all the requirements needed to make a "go of it". First of all, he should be sure that he wants to be a hardware retailer more than anything else. He should be ambitious and enthusiastic toward his work. A person who does not like his business is almost sure to fail. To succeed, a person must be ambitious and put his whole heart into his work; he cannot do this unless the business has a special interest to him.

In order to like the business, the prospective dealer must like hardware, and it will be advantageous to him if he is mechanically inclined. If the prospective dealer has both of these aptitudes, it will be easier for him to sell goods carried in the store.

If the prospective retailer has had no experience in the hardware business, he should get some outside experience before he thinks about acquiring his own store. Lack of experience is one of the main causes of failure in the hardware business. In fact, there is no substitute for practical experience; it is one of the most important assets that a person who is contemplating owning his own store can possess. A person who has had no experience in a hardware store would be acting wisely by taking a job in such an establishment. This will mean postponing the time when he will own his own store, but this delay may mean the difference between success and failure. According to the United States Department of Commerce, "One of the best ways to learn the hardware line is to get a job as a retail salesman in a well established, successful store."[1] This person by working in a successful, well-established store can pick up much practical experience from the owner and other experienced salesmen. An alert, wide-awake person can pick up much information, while working for others, that will be a great help to him when he establishes his own store.

Instead of working for others, the prospective hardware retailer might purchase a part interest in a going concern. This is more risky than working for others, but it could prove more profitable as the person would have more incentive to learn the business. Before buying into a going concern, the prospective retailer should make a thorough investigation of the partner or partners, and of the business. In a partnership, a member is not only liable for his own acts but those of his partners as well. Therefore, he should investigate the business thoroughly before he invests his money in a going concern.

There are certain personal qualifications or traits that a person must possess before he can be successful in a retail store. No matter where he works, for himself or for others, he must have these qualifications: "Honesty and a sense of fair play are probably the most important of all personal traits."[2] A hardware merchant relies on the public for his success; therefore, any shady or dishonest deals that he

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[1] United States Department of Commerce, Establishing and Operating A Hardware Store, p. 16.

[2] Ibid., p. 16.

makes will come back to him. Not only will he lose the customer that is involved in the shady deal, but he will lose other customers as well. Not only must a hardware merchant be honest with his customers; he must also deal fairly with his sources of supply.

Managerial ability or the ability to manage people and merchandise is another trait that a person should possess. Fortunately, this managerial ability can be acquired. As a manager of people, the prospective retailer needs to be able: to hire the right kind of sales people, to train them in the various phases of retailing, and to supervise them so they will be able to do good work. As the retailer is acting as a buying agent for the public, he should be able to buy the kind of goods that the public wants, at the time that they want them, and at prices that permit their re-sale at a profit. The hardware retailer must know at just what time to buy these goods. If he buys goods too late he will lose sales, and if he buys too early he will keep funds tied up that he could use more advantageously elsewhere. He must know how to mark-up, mark-down, display, advertise, and merchandise these goods.

The job of a retailer calls for long hours, hard work, energy, and persistence. A merchant, especially in a small store, often works as many as twelve hours a day, and he is on his feet much of this time. He is always on the job at 8:00 or 8:30 in the morning, and many times he has to work long after closing hours, checking the records and stocking his shelves. Therefore, a hardware retailer's job is no place for a lazy person.

The prospective retailer should be a person who likes people and who is able to make friends easily. A retailer has to deal with the public; therefore he must have patience and tact to get along with them. Strand has said,

> Your chances for success will depend more upon your personality than upon any other factor or combination of factors. In fact, your personality is three or four times as important as your technical knowledge and skills in securing or holding a job or in the making a success of your own business.[3]

While it isn't advisable to wear a suit to work in a hardware store, the retailer should stay neat and clean at all times. Not only should he keep himself clean, he should keep the store and merchandise clean and dusted at all times.

A retailer should be courteous at all times and avoid arguments with his customers. He should use correct English, speak in a clear moderate tone, and pronounce his words accurately. Strand has this to say about correct English:

> No matter who you are, where you are, or what your vocation or family background may be, you are constantly being judged according to the way in which you use your native tongue. There is no better clue to a man's intelligence, ambition, pride, and general effectiveness than his degree of mastery of his own language.[4]

It can be seen from the abilities that are required for a hardware retailer that this is no easy job, but unless a person can meet these requirements he has no place in the hardware business.

2. Possibilities

The outlook for hardware stores, while not as good as it was during the war years, is still good. To quote from a bulletin issued by the National Retail Hardware Association:

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[3] Carl B. Strand, Salesmanship, p. 22.

[4] Ibid., p. 97.

> The hardware store in the next twenty years should have unprecedented business since the pent-up demand for hardware items, has never been greater than it is today.
>
> A hardware store is one of the most consistent types of operations in the retail field, offering as it does a broad selection of hard line merchandise to all types of people, in every income bracket.
>
> According to the Department of Commerce 1939 business census, there were 29,147 hardware stores in the United States. Although this may seem like a large number, there never has been a time when the need for enthusiastic, energetic, properly-financed ownership of hardware stores was greater than it is today in many towns. In other towns the number of hardware stores operating is sufficient to meet the present, as well as future demands, for hardware items in the community.[5]

A person who is thinking about investing his money in a hardware store wants to know what his chances of success are before he enters the trade. Few people can afford to invest money in a business and then have it fail. There have been failures by hardware stores in the past; there will be failures in the future; but Table I, which gives the mortality rate of hardware stores from 1930 to 1937, shows that the mortality rate for hardware stores is lower than any other type of retail stores with the exception of drug stores.

There are inconsistences in Table I, the total numbers of stores quitting the business plus those remaining at the end of the period does not total 100, but this table will tend to show the prospective retailer what chances he has of surviving in the business.

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[5] The National Hardware Association, <u>How to Start In The Hardware Business</u>.

TABLE I*

PERCENTAGE OF FIRMS STARTING IN 1930 LEAVING BUSINESS 1931-37
(New Firms 1930 = 100)

Line of Business	1931	1932	1933	1934	1935	1936	1937	Still in Business in 1937
Hardware................	12	16	10	3	2	7	5	46
Drugs...................	14	14	2	5	2	5	2	50
Men's clothing..........	17	16	11	12	6	1	1	35
Shoes...................	24	2	13	4	...	2	...	35
Women's clothing........	22	22	6	5	6	4	3	32
Groceries...............	23	16	10	8	5	5	3	30
Furniture...............	23	18	6	4	6	13	6	29
Department stores.......	30	27	9	6	3	...	...	24
General stores..........	24	19	15	7	3	4	4	24
Garage and auto sales...	31	20	12	6	6	6	3	17
Restaurants.............	33	20	8	11	5	4	2	16
Total 11 lines.....	25	19	10	8	5	5	3	27

* Data from U. S. Department of Commerce, Establishing and Operating A Hardware Store, p. 11.

When the mortality rate of hardware stores is compared with the mortality rates of other retail stores, it is plain that their stability record is good. If a hardware store can "weather out" the first five or six years, the future is almost assured. "According to students of store mortality, the hardware store that stays in business for say five or six years has a life expectancy of some 25 years on the average."[6]

There are advantages as well as disadvantages in owning a retail store. The amount of profit that a retailer can make depends largely on the individual. In normal times approximately three-fourths of all hardware stores show a profit, but during the depression of the early

[6] United States Department of Commerce, op. cit., p. 12.

1930's less than 50% of the stores made a profit. Table II shows for 1940, a typical year, 1,164 stores reported to the National Hardware Association, of the 1,164 stores reporting 874 or almost 75.09% made a profit.

TABLE II

OPERATIONS OF 1,164 HARDWARE STORES REPORTING TO THE NATIONAL RETAIL HARDWARE ASSOCIATION FOR 1940*

Operations	All Stores (1,164)	Profitable Stores (874)
Gross margin (sales minus cost of goods)--percentage of sales......	28.2	28.8
Expense--percent of sales............		
Selling salaries.................	9.4	8.9
Other salaries...................	4.3	4.1
Advertising......................	1.0	1.0
Delivery.........................	1.4	1.3
Rent.............................	3.1	2.85
Taxes............................	1.0	.9
Interest on borrowed money.......	.4	.4
Bad debt losses..................	.6	.4
Other............................	3.7	3.65
Total.......................	24.9	23.5
Profits--percentage of sales..........	3.3	5.3
Profits--percentage of investment.....	7.1	11.7
Salary of owner.......................	$1,962.00	$2,014.00
Salary per salesman...................	1,035.00	1,052.00
Sales per salesman....................	14,095.00	15,708.00
Sales per person (all persons employed)	10,256.00	10,866.00
Rate of stock turn-over..............	2.3	2.4
Rate of capital turn-over............	2.2	2.2
Percentage owning real estate.........	36.0	34.0
Percentage of sales on credit.........	50.0	51.0
Days to collect credit sales..........	91	90

* Data taken from U. S. Department of Commerce, <u>Establishing and Operating a Retail Hardware Store</u>, p. 22.

It should be remembered that the figures in Table II are averages; they are made up of figures from profitable and unprofitable stores, from large and small stores, stores run by both efficient and inefficient merchants. In 1940 a well-managed average store would pay the owner $2,000 or more in salary, and 7 to 12 per cent on money invested or 3 to 5 per cent on sales.

TABLE III*

OPERATIONS OF HARDWARE STORES IN 1940, CLASSIFIED BY VOLUME OF SALES**

OPERATIONS	SALES				
	Under $25,000	$25,000 40,000	$40,000 60,000	$60,000 100,000	Over $100,000
Gross margin (percentage of sales)...	28.09	26.85	26.85	26.00	24.78
Expense (percentage of sales)...	27.22	25.31	21.77	23.28	22.08
Profit (percentage of sales)...	.87	1.54	3.08	2.72	2.70
Cash discount and interest received......	1.17	1.40	1.29	1.40	1.55
Profit percentage of investment*...........	3.92	6.50	9.64	9.55	11.07
Salary of owner...........	$1,372	$1,806	$2,015	$2,309	$3,156
Net worth for each $10,000 of sales.......	$5,209	$4.520	$4,534	$4,314	$3,838

* Includes cash discount and interest received.

** Data from U. S. Department of Commerce, Establishing and Operating A Hardware Store, p. 23.

Note in Table III, which gives a picture of gross margin, expense and profits in relation to total sales, how profit as a percentage on investment increases as sales increase. Profits as a percentage of sales increase also with an increase of sales. While it is true that most prospective retailers will be limited in the amount of capital that they can command, they should keep in mind that with increased sales, profits increase faster than expenses, up to a certain point.

Profits and salaries are not the only satisfaction that a person will get from owning his own hardware store. He will have the satisfaction of being his own boss and making his own decisions. He can feel free to act as he chooses. If he has a plan that he wants to put into action, he is free to do so. If the plan that he wants to put into action is good, the merchant receives all the gain, but if it fails, he has to answer to no one except himself and his creditors. A person who owns his store has more incentive to work than he would have working for others. He will have no fear of losing his job; therefore, he can do better work.

A person who owns his store will receive greater recognition from his commuhity. He will have a chance to join and to participate in the affairs of civic clubs and community organizations; he probably would not receive these opportunities if he were an employee. Through this advanced standing in the community, and his club memberships, he will have a chance to meet and to know many of his customers. This should help him to build up his goodwill and sales.

There are disadvantages in owning a hardware store as well as advantages. A retailer faces heavy responsibilities. Put into the words of a bulletin released by The National Retail Hardware Association:

> Owning a hardware store in the future will require more capital, more experience, more hard work than at any time in the past since modern merchandising will be stepped up to an intensity never before experienced. You may say more consumer dollars than ever before are going to be available for hardware, which is true, but many more types of retail business, such as syndicates, department stores, auto supply stores, etc., with much greater efficiency in selling, merchandising and operation, are going to be after those consumer dollars.[7]

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[7] The National Retail Hardware Association, How To Start in The Hardware Business, p. 1.

A retailer is responsible for the money he has invested plus that which he has borrowed. When the employee goes home at night he need not think about his job again until morning, not so with the retailer. He cannot lock up his worries when he locks up the store at night. He must keep on his toes at all times.

CHAPTER III

LOCATION

The location of a retail hardware store plays a very important role in the store's success or failure. This is because the location of a store determines to a large degree the volume of sales made and the profits realized from those sales. Duncan and Phillips state, "Regardless of the size of the store or the kind of merchandise offered for sale, the location must be suitable or profits will be restrained and failure may be the ultimate result."[1]

The prospective retailer should select the location carefully; this applies to buying a store which is already in existence, as well as starting a new one.

In selecting the location of a hardware store, first to be considered is the section of the country in which the prospective dealer wants to locate. It makes little difference what section he chooses; there are good locations in all parts of the country. It is a recognized fact that more hardware is sold in the Middle-West states than any other section of the United States; this is due to the fact that these states are located in the heart of the Cornbelt. The hardware stores of the Middle-West states may sell more hardware than any other section of the country but this is not sufficient reason for saying that all the good locations for hardware stores are in the Cornbelt.

There are good locations in all sections of the country, but the

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[1] Delbert J. Duncan and Charles F. Phillips, Retailing Principles and Methods, pp. 99.

personal taste of the prospective hardware dealer will regulate to a certain degree just where he will locate. A person who lives in the highly-industralized North or East might not want to locate in the South, and a person from the West might not want to locate in the Middle-West. A person might prefer to stay in the section of the country in which he was brought up, and establish a retail hardware store there. Other things being equal, this would probably be as good a move as the prospective dealer could make because he already has his friends and contacts there.

After the prospective dealer selects the section of the country, he must select the town or city in which he wants to locate his store. This is a more difficult process than selecting the section of the country. In selecting a specific city or town, the prospective hardware retailer is faced with all the problems that are encountered in selecting a sector of the country, plus many others. Some store owners contend that the selection of the town is more important than the selection of the location in the town, because no matter how good the location, the store will fail if the trading area does not provide enough business to support it. "In the selection of a town, one should consider not only the town itself, but also its trading area. A trading area is the territory in which live most of the people who come to a specific town to trade."[2]

In selecting a town the prospective hardware merchant must first consider the population of the town. Nystrom states,

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[2] Paul D. Converse and Fred M. Jones, Introduction to Marketing, p. 272.

> All people are consumers, and as such are customers of retail stores. Other things being equal, the greater the number of people within a community or trading area, the greater the possibility of profitable operations, and the more valuable is the property for the location of a retail store. Stress needs to be placed on the point that retail trade is dependent upon the population of the trading area rather than on the city, town, or village constituting a political or governing community.[3]

Of course, there are exceptions to this, as there are hardware stores situated in small villages which draw trade from many miles outside the village limits.

A second factor which determines the location of a city in which to establish a hardware store is the character of the people living within the city or trading area. The kind and type of people making up the population has much to do with selecting a community. Retail trading conditions vary from trading area to trading area depending upon differences in nationality, race, and religion. People's taste and demand for goods and services vary from city to city also. The demands of a farming community will differ greatly from the demands of an industrial city, or from a college town. People's attitudes differ from community to community. People in certain districts are conservative; while in other districts, people are progressive and like to buy newly-developed things. Therefore, the character of the people may have a great bearing upon the success or failure of a new hardware store.

Another factor is whether or not the contemplated city needs another new hardware store. Converse and Jones state that in the United States there are on the average 4,500 people per hardware store.[4] This does not mean that it takes 4,500 people to support a hardware store.

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[3] Paul H. Nystrom, Retail Store Operation, p. 444.

[4] Converse and Jones, Op. cit., p. 273.

In some communities a store may need more than this number to support it; while in other communities, a store might prosper with a population as low as 1,000 to 3,000 people. Riggleman and Frisbee stress this point as follows:

> ....the distribution of purchasing power will often be quite different from the distribution of population. That is, an area which has a small population may have a high purchasing power, while an area that has a large population may have a low purchasing power.[5]

A new store seeking to locate in an older city will be forced to face the competition from the firms which are already in existence. This competition may prove disastrous to a new hardware store unless it can offer better merchandise, better service, or lower prices, or be able to promote its services more aggressively than the older competitors.

A fourth factor considered important in locating a hardware store is the purchasing power of the community. It can be readily seen that the amount of retail hardware trade will depend upon the purchasing power of the people of the community. The wider the dispersion of income the better the community will be for the location of a hardware store. A prospective dealer can construct a fairly accurate index to reflect the purchasing power of a community and the dispersion of this purchasing power by getting the number of automobiles owned, the kind and types of homes owned, the number of telephones, the percentage of homes wired, the per capita retail sales, and the number of credit sales. By analyzing this information a person can get a fairly accurate knowledge of what he can expect in the way of sales.

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[5] John R. Riggleman and Ira N. Frisbee, Business Statistics, pp. 443-444.

It is important to know at what time this income will become available for retail trade. In certain agricultural communities the farmers are largely dependent upon one main crop for their incomes; consequently the retailer in a community of this type would be forced to sell some goods on credit. It would be better for the prospective retailer to bypass a community of this type, unless he is financially able to bear the risk of large credit sales.

Still another factor is the availability of transportation. A hardware store located off the "beaten track" will be facing failure before it can get started. In a community where inadequate transportation facilities are available, a firm might be forced to pay such high freight charges as to make it impracticable to operate. Therefore, a new firm should locate in a city where transportation facilities are adequate to take care of the business.

The trend or growth of a city is still another factor. A city that is growing in population would offer little risk compared with a city that is declining.

> When industries and commerce are expanding, both population and purchasing power are likely to continue to increase. Such communities offer the best possible outlook for the establishment of a retail store. Under these conditions a store may ordinarily hope to parallel the growth of the community in its sales and profit possibilities. The difficulties of getting ahead, or even of maintaining one's own in the face of declines in population and purchasing power, are for the most part insuperable. It is essential, therefore, that community study for purposes of retail location be seriously concerned with all indications of possible future development.[6]

Some of the other factors which are merely being commented upon here as significant but could not be dealt with in detail in this study

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[6] Nystrom, Op. cit., p. 450.

are: legal restrictions, banking and credit facilities, availability of suitable employees, availability of advertising media, and location of wholesalers and other sources of supply.

After the city is selected, the prospective hardware merchant must select the site within that city. Nystrom has stated,

> In order to secure the utmost results from a retail store, it is as necessary to exercise care in the selection of a site within the community as it is to find the right community. Sites vary widely in potentialities for retail success.[7]

Sites for hardware stores differ from sites for clothing stores, department stores, or specialty stores. Perfect sites for the three latter stores are usually located in the "100 per cent district"; on the other hand, it is unusual for a hardware store to be located in the "100 per cent district". A "100 per cent district" is the major downtown shopping center within a city.

There are reasons for not locating a hardware store in the central downtown shopping districts. In the first place, rents are much higher in the main shopping districts of a city. Another reason, shoppers do not like to go downtown, especially in a large city, to buy hardware. Furthermore, parking space is limited in downtown sectors. Therefore, it would normally not be a profitable practice to locate a hardware store in the downtown shopping districts, especially in a large city.

Hardware stores are usually located just outside the central shopping center. Converse and Jones state that, "Hardware stores are usually located on the edge of the shopping districts....."[8] While there are hardware stores located on side streets, and in neighborhood districts,

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[7] Ibid., p. 452.

[8] Converse and Jones, Op. cit., 114.

the sub-center of a city is held to be the most likely location for a hardware store. The reasons for this are: Side streets must depend largely upon people passing through, while neighborhood stores must depend upon the people living in the neighborhood for their trade.

Before locating in a particular site within a city, careful study must be made to determine the best available location for the store.

One of the first steps to determine the location of a hardware store is to take a traffic count of the people passing. The fundamental purpose of making a traffic count is to determine the proportion of the pedestrians who constitute potential customers who would enter a store of the type being proposed. The best method of making a traffic count according to the United States Department of Commerce is to:

> ....count pedestrains traffic on a series of days, for, say half hour periods and at different hours. If you follow this plan enough days, you will certainly get some variation in the weather and thus learn what effect such changes have on people passing by the location you are considering.[9]

Counting the number of people passing by is not enough, the proportion of men to women should be checked also. This must be done in order to know what items will sell best in the locality. Nowadays, a hardware store must cater to women as well as to men; therefore, a site must be chosen which will draw the trade of both sexes. The type of people passing should be checked also, to find out if they fall in high, median, or low income groups. This information will be important in judging the types of goods which will be in demand.

Another thing to notice is how many people enter stores, instead of

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[9] United States Department of Commerce, Establishing and Operating A Hardware Store, p. 31.

passing. If the site that the prospective tenant is checking upon is vacant, it would be well for him to check the traffic entering a hardware store near by, which has a comparable location. This check can serve a double purpose. It can give a check on the competition that the prospective merchant will have to face, and at least an indication of how many people can be counted on to enter the proposed store.

The number of people passing should be checked against the hour of the day that they pass. If the check shows many people passing early in the morning and again in the afternoon, with a slowing down in between these two periods, the checker should look upon much of this traffic as being people going to and from work, and not as potential customers.

Any proposed site should have available parking facilities. People will hesitate to shop at a store where they have to walk any distance to and from their parked cars. The site should have room in the rear for unloading and loading incoming and outgoing goods.

It has been assumed, up to now, that the prospective merchant will either rent, or buy a building which is already in existence. If he should choose to build, or be forced to build instead of renting or buying a building which is already standing, the prospective retailer should take into consideration zoning regulations, land cost, building construction cost, and taxes. But whether he buys, rents, or builds, all the previous mentioned factors will still require careful consideration.

CHAPTER IV

BUILDING LAYOUT AND EQUIPMENT

1. Building

Great care should be used in the selection of a building. Nystrom states, "Retailers need to give as much ingenuity and as careful consideration to their buildings as have been given by manufacturers to their machines."[1] Some of the things that should be looked for in selecting a building are: sturdy construction, fireproof material, good display windows, rear entrance, and a large dry basement for the storage of goods.

The type of goods to be handled will determine to a certain degree the size of the building. If many lines of bulky goods are to be stocked, the building will need to be large; on the other hand, a smaller building will serve the purpose if fewer lines, such as tools, sporting goods, building hardware, kitchenware, and other small items, are to be carried.

Some dealers take their estimated volume of sales as a basis for determing the size of the building. It has been estimated that;

> A building 20 to 25 feet wide and 60 to 80 feet deep is large enough for a $20,000 to $40,000 business. One measuring 36 to 50 feet in width and 70 to 100 feet in depth, they say, can handle $100,000 in sales.[2]

The trend in hardware stores is toward wider buildings as the biggest problems of hardware stores today is the lack of space to display bulky items. The most practical building width today is 40 to 50 feet.

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[1] Paul H. Nystrom, Retail Store Operation, p. 466.

[2] United States Department of Commerce, Establishing and Operating A Hardware Store, p. 44.

However, the beginning retailer will probably have to rent a much smaller building, especially if his capital is limited. It would be better for a dealer, who is going into the business for the first time, to promote fewer lines and get the maximum volume from these fewer lines than it would be to promote many lines and do only an average business from them.

One of the basic principles of any retail store is that is should reflect the character of the business. A grocery store should look like a grocery store, and a hardware store should look like a hardware store. The front of the store should extend an invitation for the public to enter.

> Your store front should not be a barrier between the merchandise inside and the potential customer outside. It should distinguish your store from the others. The present trend in hardware store fronts is to the open center with small windows on either side, open except for a removable background up to three feet high, permitting the window shopper to see into the store interior.[3]

The interior of the store should be painted in light colors so that it will show up the merchandise to the greatest advantage. The ceiling should be lighter than the side walls. White and light ivory colors are recommended for the ceilings, for the side walls buff, light tan, or a real light green. Both the ceilings and the side walls should be painted often, in order to keep them clean and shining.

Proper lighting is one of the most important principles of retail selling; therefore, an electrical expert should be called in to help with the lighting of the store. If the lights are higher than those of the adjoining stores, it will give the store a competitive advantage. Good and proper lighting will help in many ways. It adds to the attractiveness

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[3] The National Retail Hardware Association, <u>How to Start in The Hardware Business</u>.

of the merchandise. It provides a cheerful atmosphere which reacts favorably on both salespeople and customers. It cuts down on shoplifting. It permits closer inspection of merchandise and thereby helps to cut down on returns and exchanges. Finally, it attracts trade from poorly-lighted stores.

Both fluorescent and incandescent lights are used in hardware stores; each have their advantages and disadvantages. Fluorescent lights are cooler, and have the advantage when long hours of operation, or daylight quality of illumination are essential. Fluorescent lights are ideal for show cases, wall cases, and the like. Finally, the fluorescent light gives about two and one-half times as much light as the incandescent light for a given quantity of electricity.

On the other hand, incandescent lights are somewhat cheaper than fluorescent lights as the installation charges are much higher for fluorescent lights. Incandescent lights can be used more advantageously where spot and color lighting is required.

Heating is another factor to be considered in a hardware store. If the prospective dealer is renting a building which is equipped with floor furnaces, this will not be much of a problem. However, if the building has no heating equipment, a heating expert should be called in for consultation. The radiators, stoves, or floor registers should not be placed until the store's layout has been planned. If the prospective dealer is financially able, he should install some central heating system which will provide for the circulation of the heat throughout the store.

Space should be provided for an office. The size of the office space will be determined by the size of the store, but an office of some size should be provided for the store. An office will be needed in order to have a place to keep records, to meet salesmen, etc. Probably the best place for an office is on a balcony overlooking the store; here the manager can see what is going on at all times.

Wash and rest rooms will have to be provided for the sales personnel. In these rooms lockers should be provided for coats, overshoes, rain coats, and the like. If possible, a hardware store should provide rest rooms for customers; this is essential if a large proportion of the store's customers come from rural areas. This is often a highly significant service feature greatly valued by rural customers.

The floors in the majority of hardware stores are pine or maple, but whatever type of floor is used, it should be able to stand up under hard usage. Inlaid linoleum makes a beautiful floor, and if it is laid over a solid surface, it will stand up well under hard usage. Cement floors are used in many instances, but cement floors are not as attractive as other types of floors, and they are much harder to keep clean and attractive.

2. Store Layout

Store layout is used to describe the arrangement of equipment and fixtures, merchandise, displays, and aisle tables.

> Store layout has two fundamental objectives: First, to make the store as attractive, inviting, and convenient as possible to the customers in making her purchases; and second, to provide the most effective utilization of the space from the standpoint of operating efficiency for the store proprietor.[4]

A good store layout helps guide customers through the store, controls customer traffic, and helps employees to work more efficiently.

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[4] D. J. Duncan, and C. F. Phillips, Retailing Principles and Methods, p. 139.

First of all, the layout of a store should be flexible. Probably no retailer can on the first trial set up the fixtures and displays in a store in such a way that they will attract maximum attention to the goods; therefore, a retailer's layout should be flexible in order to make it easier for him to make the necessary improvements. If a store's layout is flexible, it will be easier for the retailer to change things about in order to meet the requirements of his store and his customers.

> While it is a basic principle that customers should become accustomed to finding items in a given spot, the theory is good only so long as sales hold up. When they decline it has been found that by moving the line to another part of the store sales will often increase.
>
> You will soon discover that certain spots in your store will attract more business than others. Items should be given these premium locations with the definite purpose of building sales. If they fail to do so, they should be replaced by others.[5]

The store's layout should be designed to meet the requirements of its customers. A different layout is required for women than is required for men. The retailer should keep this in mind when he is planning his layout. He should know what sex he plans to cater to, or if he is going to cater to both men and women.

A hardware store which caters primarily to women will have much of its inventory tied up in housewares, paint, kitchen appliances, electrical appliances, cooking utensils, and other household appliances. The front part of the store will be stocked with these items, and the back part of the store will be used to display tools, hardware, sporting goods, plows, and the like.

A store which caters primarily to men will display tools, sporting

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[5] United States Department of Commerce, Op. cit., pp. 51-52.

goods, and hardware in front while the rear is taken over by houseware, steel goods, nails, bolts, etc.

If a retailer's customers are made up of a like proportion of men and women, he will arrange his store somewhat differently. The general trend seems to be to use the right side of the store for goods which are largely bought by men, and the left side for goods which are bought primarily by women.

> ....in medium-sized and large cities, the tendency is to place men's merchandise on the right, since it is generally thought that the flow of traffic toward men's goods should follow the lines of least resistance. A woman will be attracted by housewares, etc., when she enters the door, even though these items are on the left side of the store.[6]

Most modern hardware stores have each side wall lined with shelves to display their goods, and many of them have tables down the center of the store for the same purpose. The aisle tables should be from 30 to 34 inches tall; 32 inches seems to be the most popular height. They are usually 30 inches wide, and the length of these tables vary from 5 to 7 feet. These display tables should be so arranged as to allow from 4 to 5 feet between the tables and the walls. Display tables are usually made of wood, and the ones which are used to display small articles are divided into compartments with glass or wooden dividers.

There is a tendency for the bottom part of display tables to be closed, inclosing two or three shelves. The bottom part of these tables can be used to store reserve merchandise. The bottom shelves of these tables should rest either on the floor, or be high enough from the floor to permit cleaning under them. Most display tables have open tops, but they

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[6] Ibid., p. 54.

can have, and some do have, closed tops. These closed cases are used for merchandise which is easily soiled, for small items with high unit value, and for items which are easily broken. Some items which are usually stored in closed cases are firearms, knives, fishing lines, reels, fine cutlery, and the like.

While both wall cases and tables can be purchased from some fixture company, a new retailer if he is handy with a saw and hammer can build them himself. If the retailer is limited in the amount of money that he can spend for fixtures, it would be best for him to improvise his own fixtures. When he gets well established, he can buy manufactured ones to fit his needs.

Nails, bolts, screws, nuts, and the like are usually stored in the rear of the store in steel lined, tilting bins. These items are usually stored near or under the wrapping counter, near the scales.

3. Equipment

Equipment covers items such as scales, cash register, hand trucks, delivery trucks, office equipment, and so forth.

A retailer can make out with little equipment until he gets started in the business, but such things as scales and cash registers are essential. In the beginning he can make out with one cash register, but it should have a separate recording key for each salesman. As the store grows, a cash register should be provided for each section or department of the store. One pair of scales probably will be all that is ever needed as little outside of nails is sold by the pound anymore.

A hand truck is essential, especially if large bulky items are handled, such as refrigerators, stoves, washing machines, etc.

A desk, filing cabinet, chairs, adding machine, typewriter, and record books will be needed for the office. While the adding machine, and the typewriter can be done without, they are important.

If the retailer plans to deliver, he will need a truck of some sort, or he will have to hire someone to deliver for him. A used truck can be purchased which will serve for a time.

There is little unanimity on the amount of money which should be spent for equipment and fixtures. Some trade journels advocate spending around 10 per cent of the current assets of the business on equipment and fixtures.

> On this basis, if a store has cash, accounts receivables, and merchandise inventory amounting to $15,000, its equipment will be worth $1,500. Such an amount represents about 4 or 5 per cent of the store's annual sales.[7]

On the other hand, a bulletin published by The National Retail Hardware Association estimates that the minimum requirement for fixtures and equipment is around $1,000; this estimate is exclusive of a delivery truck.

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[7] Ibid., p. 60.

CHAPTER V

ESTABLISHING THE BUSINESS

After the prospective retailer has decided upon the general location for his store, he must acquire the property that is needed. There are three practical methods by which this property can be acquired: one, rent a vacant building and stock it; two, buy out a going concern; and three, buy a part interest in a going concern. The other possibilities are: buy a vacant lot and erect a building, and buy a building and establish a store. The latter two possibilities will not be considered as few beginning dealers are financially able to buy or to build.

The building should be inspected and investigated throughly before it is acquired. This will apply if the retailer is acquiring a store by either of the three practical methods.

1. Renting A Vacant Building

These three practical ways of acquiring a hardware store will be commented on separately. Renting a store building will be considered first as it is the practice that is followed by the majority of new retailers.

The amount of rent to be paid may be, and often is, a determining factor in the prosperity of the store. Hardware retailers pay, on the average, a rent equal to about three per cent of gross sales. In smaller towns this may be lower, but it may run up to four per cent or more in cities of 50,000 and over. If a higher rent is asked, the prospective dealer should study the question with great care to see if there are factors which would warrant the paying a higher rent. If a building needs a great amount of remodeling, a prospective retailer cannot afford to pay a very high rent. On the other hand, if the building needs little or no remodeling, the prospective retailer can afford to pay a higher rent. There are exceptions to this, a site might look so promising that a higher rent might be justified.

The length of the lease taken on the building will be determined largely by the current stage of the business cycle, and by the agreement which can be made with the lessor. During a business recession, it might be best for the dealer to sign a long time lease with the lessor. If a long time lease can be secured during a recession, the dealer will have to pay a smaller rent during prosperous times. On the other hand, the prospective dealer should not sign a long time lease during prosperous times as this might prove to be onerous, especially if a depression should come along. The most practical arrangement for a person just starting in the business is a one year lease with a renewal option of four to nine years at the same rent, or at a specified rent.

There are several types of rental leases, and they are all used by hardware retailers. Each has advantages as well as disadvantages. The type used will depend upon the customs in the community and the arrangements made by the two parties. The straight-rental lease, where the tenant agrees to pay the same amount of money each month or year, is preferred by many retailers as it is easy to determine the amount that will have to be paid each period.

The gradual rental lease is preferred by some retailers as it provides for smaller payments in the beginning; the payments increase throughout the length of the lease. This type of lease gives the tenant a chance to get started while paying a low rent.

The percentage lease, where the tenant pays a certain percentage of his gross sales as rent, is preferred by other retailers.

> Usually the percentage lease specifies that the owner shall get a guaranteed sum with a percentage of all sales above this fixed amount. The minimum rental is paid regardless of the amount of business done. For example, the lease might provide that you pay $60 a month or 4 percent of gross sales, whichever is higher. If your 6 months' sales for a period are $12,000 you would pay $80 per month. But if they should be only $8,100, you would still pay the guaranteed rental of $60.[1]

If the dealer takes a long time lease, he should check it very thoroughly. He should check the property to see that the lessor has a clear title, and that there are no mortgages or liens against it. The lessee should have a lawyer check the lease before he signs it. It would be better to have a lawyer draw up the lease. The lessee should make certain that he can make alterations from time to time to take care of the business as it grows. Benson and North states, "The tenant may make repairs, alterations, or improvements to the premises with the consent of the landlord."[2] Therefore, to make certain that these improvements can be made, a clause to that affect should be included in the contract. The lessee should keep in mind that once the contract is signed it cannot be altered without the consent of both parties.

After the matter of the lease has been settled satisfactory, there is the matter of stocking the store. As the matter of equipment and fixtures will be discussed later in this chapter, they will not be elaborated on here.

The amount and kind of goods that a new store will carry depends upon the amount of capital that the prospective dealer has, the amount

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[1] United States Department of Commerce, Establishing and Operating A Hardware Store, p. 35.

[2] Philip A. Benson, and Nelson L. North, Real Estate Principles and Practices, p. 166.

of competition that he has to face, the needs of his market, and the knowledge and interest that the dealer has in the different lines.

If a person has time and money, he can conduct a survey of consumers in his trading area; this will give him a definite picture of the goods that are in demand in this area. If this is out of the question, the wholesale suppliers of the area can give him information about goods which will sell well in the community. Much can be learned by studying the goods carried by competitors in the neighborhood.

A hardware dealer will have to decide between a complete line of goods and fast-selling goods. A hardware store which handles a complete line of goods builds up a reputation for having a wide variety of goods. The person who handles only fast selling goods, stocks only those goods that are in the greatest demand. He seeks a rapid turn-over and counts on special prices to bring customers into the store.

> Some experts argue that a hardware store can reduce its lists of goods and the number of sizes and styles of a given article, without losing many sales. Many of those who have specialized in the business and are qualified to give sound advice, however, recommended a complete line of goods.[3]

While both of the previous mentioned plans have their merits, most beginners have a limited amount of money to invest; therefore, it would be best for a beginning dealer to start with a narrow line of fast-moving goods. When the new retailer builds up his capital, he can add new lines from time to time.

2. Buying Out A Going Concern

The person who wants to buy a going concern should make a thorough

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[3] United States Department of Commerce, *Op. cit.*, p. 36.

study of the business before he buys. He should not take the story of the seller, as to why he is selling the property, as being true until he has substantiated it. The seller is only human, and he will build up the good points of the store, and fail to mention the bad points of the business. The seller's profit-and-loss statement, and his sales-tax returns will give an accurate picture of his past business.

The advantages of buying a going concern that is profitable are many. The store will already be set up and stocked with goods which will sell in the community. The new retailer can count on a large proportion of the old customers of the store, and by sending out cards and letters announcing the new ownership of the business, he can attract many more. Through curiosity, these people will come into the store at least once; their repeat business depends upon the retailer.

Old employees of the store may be enticed to stay with their jobs. Old employees often are an advantage to the store as they have their old established customers. Sometimes the seller can be talked into staying on with the store until the new retailer can get well established.

On the other side of the picture, there are disadvantages to buying out a going business. It would be best for the new retailer not to buy the liabilities of the old store. From the point of view of the buyer, it would be a better arrangement for the seller to pay off all the liabilities against the store. <u>If the buyer does not assume the liabilities, he should make sure that the seller pays off all obligations; otherwise, he may have to pay the creditors of the business under the provision of the "bulk" sales laws.</u> If the buyer assumes the liabilities, he should pay the seller only the difference between the value of the store and the liabilities he has assumed.

In the matter of buying the inventory, it would be best to take a physical inventory. Many wholesalers are glad to furnish a man to help with this inventory and to give advice. The value of an inventory is usually set at cost or current market price, whichever is lower. It is important that allowances be made for the condition of the goods on hand. Many goods may be soiled, dirty, rusty, or obsolete or merely be slow moving stock; therefore, the buyer will not want to pay full price for these goods. Because of the importance of the inventory and the amount of money that it represents, great care should be used in purchasing it.

In buying equipment and fixtures, the retailer should determine their suitability for the store. Equipment and fixtures that are obsolete will be worth little to the new retailer, regardless of their original cost and their present physical condition. If the equipment and fixtures are suitable for the new store the original cost, less depreciation may be taken as a basis of worth. Usually an amount of around ten per cent is allowed for depreciation each year.

It is not advisable for a buyer to buy the account receivables of the seller; however, the seller may insist that the buyer take them. If the seller is selling on account of his health or if he is leaving the country he will probably insist that the buyer take the store as an entity. Buying the receivables will tie up capital, and many of the accounts may well prove to be uncollectable. It is often best not to publish the fact that the store has changed hands, at least until the receivables have been collected. People who would not hesitate to pay the old owner might not want to pay the new owner at all.

In appraising accounts receivable it should be remembered that the likelihood of collecting accounts decline with their age. One way of valuing accounts is:

TABLE IV*

APPRAISING ACCOUNTS RECEIVABLE

Age of Account	Per cent Uncollectible	Value Per Dollar
Under 2 months............	0	$1.00
2 to 6 months.............	11	.89
6 months to 1 year.........	33	.67
1 to 2 years...............	55	.45
2 to 3 years...............	77	.23
3 to 5 years...............	85	.15
Over 5 years...............	100	.00

* Taken from Converse and Jones, Introduction to Marketing, p. 266.

Table IV is only an attempt at generalization; therefore, for this reason and others it would be wise to take the local conditions into account. Farmers who have had several bad years may be willing to pay debts which have run for several years. A better method is to check the individual accounts against their local credit rating. From 15 to 25 per cent of the accounts receivables should be allowed for collection expense.

The goodwill of the old owner may be a valuable asset, and he may insist that the new owner buy it.

> Goodwill may be defined as the price paid for the control of the excess earning power of the business. By excess earning power is meant the earning power of a particular business in excess of the average earnings of other businesses of the same size in the same industry. This excess earning power may be due to a reputation built up through years of satisfactory service, called customer

> goodwill; it may be due to a superior location; it may be due to the unusual valuable experience of one or more of the partners or employees; or it may be due to an unusual value in the name of the business.[4]

If the prospective dealer is having to pay for the old owner's goodwill he should include a clause in the contract stating that the seller will not establish another hardware store in the community for several years. This will protect the new owner from having to compete with the seller; otherwise, the seller can establish a store next door, and the new retailer can do nothing about it. This precaution is sometimes of extreme importance.

In buying out a going concern, a lawyer should be called in to draw up the contract, and to advise each of the parties on the legal formalities required in transferring property. Converse and Jones states that:

> All states and the District of Columbia have "bulk" sales laws to protect creditors in the event that a business is sold. These laws require that proper notice of the sale of the business be given to all creditors. If these laws are not complied with, creditors may claim the assets which the buyer has purchased. A lawyer will protect both parties by making sure that the transactions conform to all legal requirements.[5]

3. Buying A Part Interest In A Going Concern

The third practical method of acquiring a hardware store, buying a part interest in a going concern, should be studied very carefully by the prospective dealer before he acquires the interest.

This part interest may be acquired by one of three ways: (1) buy out a retiring partner's interest; (2) buy a part interest in a store which needs additional capital; or (3) buy a part interest in a store

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[4] Newlove, Haynes and White, Elementary Accounting, p. 286.

[5] Converse and Jones, Introduction to Marketing, p. 268.

which needs additional managerial skill. But no matter which way the business is acquired, the incoming partner should check every phase of the business, and have an "air-tight" contract drawn up with the other partners. This contract should cover the matter of sharing profits and losses; otherwise, all partners will share equally in profit and loss, regardless of the amount of capital each has contributed to the business. The contract should also cover the salaries to be drawn by each partner; it should state whether these salaries are to be treated as drawing or profit and loss accounts. The contract should also cover the number of hours that each partner must work, and the duties of each partner.

A serious drawback to a partnership is the matter of "unlimited liability". Converse and Jones state,

> All partners, except under very special circumstances, are individually responsible for the debts of the partnership and all their wealth, whether or not invested in the business, may be taken to pay the debts of the partnership. This means that one partner by mismanagement or dishonesty can incur debts which the other partner is obligated to pay even though it takes his home and all of his other property......if one partner sells the accounts receivables, signs notes at the bank, takes the cash and absconds, the other partner is liable for the debts of the partnership.[6]

Accordingly, it is necessary to emphasize that while a partnership has its advantages; it should be checked and investigated very thoroughly by the prospective dealer before he invests his money in it.

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[6] Ibid., p. 270.

CHAPTER VI

FINANCING THE BUSINESS

Insufficient capital is rated by business managers to be the cause of more business failures in retail stores than any other factor, with the exception of business depression. Even those failures which come about during a business depression are caused largely by insufficient funds; therefore, a prospective dealer should give much thought to the question of finance. Maynard and Beckman have this to say about financing a business:

> In a capitalistic and exchange economy every marketing activity must be financed, whether performed by an ultimate consumer, a middleman, or a producer of the goods involved. Adequate financing of such activities with the proper type or kind of capital or credit facilitates the performance of the marketing task and redounds to the benefit of society. By the same token, inadequate or improper financing has sent many otherwise sound enterprises to ruin or greatly handicapped them in the performance of the required functions of distribution.[1]

If a person does not have sufficient savings for all of his initial outlay, he might be able to borrow funds from his friends or relatives; or he might be able to secure part of his needed funds from some commercial credit house. It would be best for a person to have all the funds necessary to establish a business, but if he does not have all the necessary funds but does have all the other requirements necessary to make a success in the business, he should not feel afraid to borrow funds for at least part of his current working capital. But according to Converse and Jones;

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[1] Harold H. Maynard, and Theodore N. Beckman, Principles of Marketing, p. 467.

> The major portion of the long-time investment or capital for a marketing organization should be provided by the owner. Funds which are needed to finance temporary expansion in the inventory or the accounts receivable may be obtained from banks or from merchandise creditors.[2]

Two types of funds are required for a retail hardware store, one for permanent or long-term capital, and the other for current working capital. The permanent or long-term capital will be needed to purchase the fixed assets of the firm, such as, building, delivery equipment, furniture and fixtures, and other assets which are of a more or less permanent nature. Some of the normal working capital will be of a permanent nature. The funds which are required from week to week and month to month to carry a minimum inventory of merchandise and supplies and to care for initial payroll, advance rent payments, insurance premiums, are no less fixed than those used to purchase delivery equipment, furniture and fixtures for they are constantly needed to replace whatever goods are sold. Maynard and Bechman states,

> A surprisingly large number of concerns, particularly among smaller establishments, fail to provide an adequate amount of working capital through long-time credit or investment. Instead, they depend upon short-time accommodations by their creditors to care for these expenditures. This method is dangerous and should be discarded. The business, under such circumstances, becomes too dependent upon the good-will of its creditors and their continuous generosity. If this should fail, an embarrasing situation would inevitably be precipitated. Good business judgment argues against relying upon short-time credit for that part of the working capital permanently required in the business.[3]

The temporary or current working capital includes funds needed for seasonal and cyclical fluctuations. The needs for current working

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[2] Paul D. Converse, and Fred M. Jones, Introduction to Marketing, p. 12.

[3] Maynard and Beckman, *op. cit.*, p. 468.

capital arise from fluctuation in merchandise inventory, receivables, advertising, expenses, etc. A retailer cannot afford to miscalculate in the amount of current working capital which will be needed in order for the business to be a success. Sales of retail hardware stores vary from month to month; they receive their largest sales in April, May, and June and again in October, November, and December; therefore, additional working capital will be needed to purchase additional inventory for these peak seasons. This working capital will be needed somewhat prior to the business peaks, as the goods should be on hand considerably before they are expected to move in volume.

A hardware store which caters largely to farmers is often asked to extend credit until crops are harvested; this calls for additional capital as much of the goods is sold in the spring months and the money for the goods is not collected until after the harvest in the fall.

Cyclical variation is another factor which affects the amount of working capital. Purchases by hardware stores are heavier in anticipation of rising prices and lower when prices take a downward trend.

It is important for a new retailer to establish credit with a bank and with his wholesalers. A new retailer should do this even if he does not need credit at the time. This is the best time for a retailer to establish a credit rating. To establish a good credit rating, the retailer should buy some of his goods on credit. He should pay these bills promptly when they become due or before they become due to take advantage of cash discounts. This will give the retailer a reputation for being honest; therefore, he will be able to borrow more easily when he really needs credit. Converse and Jones states,

> The best time to establish credit is when one is able to pay, that is when business is good..........When funds are needed most acutely the balance sheet probably makes the poorest showing. If the retailer establishes a regular line of credit when his financial position is strong, he is more likely to secure credit when funds are needed most.[4]

In establishing a line of credit with the bank, the retailer will get to know the banker. This can prove to be an important asset to the retailer. In dealing with the banker, the retailer should be frank and honest. He should be willing to give the banker any information that the banker wants. The banker is in a position where he will have to investigate all information and references; the retailer needs to be very honest, for any misrepresentation will go against him.

Any bank will limit a retailer to the amount of credit which its investigation shows can safely be extended. If the retailer pays his bills promptly and follows the rules, ultimately the banker will not insist on an investigation each time the retailer asks for credit.

Once a line of credit has been established with the bank, the retailer should open a checking account. He should try to build up a satisfactory balance. The banker will probably prefer that 20 per cent of any loan be left on deposit as a safety measure.

The retailer should also establish a line of credit with his suppliers. This should be easier than establishing a line of credit with a bank. Wholesalers and manufacturers usually sell goods on terms; the most usual terms quoted are 2/10, n/30, which means if cash is paid within 10 days the retailer will pay only .98 for each $1.00 of goods ordered, but if he waits over the 10-day period, he must pay the full

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[4] Converse and Jones, <u>op. cit.</u>, pp. 518-519.

amount of the bill. If the retailer will by-pass some of the cash payments and pay his bills before the 30 day period is up, he can build up his reputation and his credit rating. A good credit rating with wholesalers can be one of the retailer's most important assets.

The amount of capital needed for any particular hardware store will depend upon a number of factors. Some of the most important factors are: the size of the store, the location, stock carried, type of operations (cash or credit), and whether the building is bought or rented. The prospective dealer should have enough money on hand to pay for the opening inventory, and to make payments on salesmen's salaries, rent, insurance, and at least a part payment on equipment and fixtures, during the first few months when profits will be small or non-existent. A hardware dealer cannot hope to make maximum profits until he has been in the business from one to three years. The hardware dealer should also count on re-investing one-half of his net profits for the first two or three years.

While many successful hardware merchants have started out on far less, many hardware wholesalers are of the opinion that a prospective dealer should have at least $10,000 before opening a hardware store. These wholesalers believe it will take this amount to open a store large enough to give the retailer a sufficient income. On the other hand, some few people believe that a hardware store can be started with $5,000. While a store might be started on $5,000, this would not be a recommended procedure.

Tables V, VI, and VII will give the prospective retailer a picture of what he can expect from the amount of capital that he has to invest in the business. Table V is the average investment and profit table of

1,057 retail hardware stores. It is based upon experience of proprietorships, partnerships, and some few corporations; therefore, its average investment of $24,261 is more than most prospective dealers have to invest in a new enterprise.

Table VI is a table of the capital investment of 137 retail hardware stores which have sales of less than $25,000. Most beginning retailers would probably establish a hardware store in this class. Again, this is an average, and a prospective dealer would not be wise in following it too closely. But by studying all three of these tables and making certain allowances, the prospective dealer can learn many things that will help him.

Both Table V and VI are based on 1944 figures; in 1944, goods were hard for the retailer to get, but easy for him to sell. This caused the cash items to be much higher than they should be, and probably much higher than they would be in normal times. While the cash item is higher than it would be in normal times, both accounts receivables and accounts payables are lower than they would be under normal circumstances. Both retailers and customers had money during the war years; therefore, instead of having anything charged, both retailers and customers paid cash. The fixed assets are also listed at lower prices than they would be normally. This is because fixtures were hard or impossible to get during the war, and what fixtures were carried had depreciated for several years and they were set on the books at the depreciated price.

TABLE V

INVESTMENT AND PROFIT TABLE NO. I*
$24,261

CAPITAL INVESTED

Assets		Liabilities	
Cash	$ 8,913	Notes and accounts payable	$ 1,862
Notes and accounts receivables	2,762	Other liabilities	646
Inventory	13,336		
Delivery equipment	288		
Furniture, fixtures and tools	997		
Other assets	473	Net worth	24,261
	$26,769		$26,769

PRODUCED

Sales	$57,655	
Cost of goods sold	40,566	
Margin		$17,089
Operating Expense:		
Salaries--owner's and managers'	3,413	
Salaries--salespeople	2,537	
Salaries--office	813	
Salaries--other employees	674	
Total salaries	$ 7,437	
Office supplies and postage	144	
Advertising	271	
Donations	98	
Store supplies	115	
Telephone and telegraph	127	
Losses on notes and accounts	40	
Delivery expense	254	
Depreciation, delivery equipment	115	
Depreciation, furniture, fixtures and tools	144	
Rent	1,124	
Repairs	139	
Heat, lights, water, and power	306	
Insurance	225	
Taxes	329	
Interest on borrow money	121	
Unclassified	277	
Total expense		$11,266
Net profit		5,823
Cash discounts and other earnings		773
Total earnings on sales		$ 6,596

Profit on Investment, 27.19%
Capital Turnover, 2.26
Stock Turnover, 3.23

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* Based on 1944 Hardware Store Survey for 1,057 retail stores reporting; Released by National Retail Hardware Association.

TABLE VI*

INVESTMENT AND PROFIT NO. II*

$9,070

CAPITAL INVESTED

Assets		Liabilities	
Cash	$2,723	Notes and accounts payable	$ 699
Notes and accounts receivables.	602		
Inventory	5,548		
Delivery equipment	293		
Furniture, fixtures and tools	603	Net worth	9,070
	$9,769		$9,769

PRODUCED

Sales	$17,775	
Cost of goods sold	12,522	
Margin		$5,253
Operating expense:		
Salaries--owners' and managers'	$ 1,795	
Salaries--all other	555	
Total salaries	2,350	
Office supplies and postage	43	
Advertising	64	
Donations	35	
Store supplies	34	
Telephone and telegraph	62	
Losses on notes and accounts	4	
Delivery expense	130	
Depreciation, delivery equipment	71	
Depreciation, furniture, fixtures, tools	66	
Rent	487	
Repairs	57	
Heat, light, water and power	154	
Insurance	78	
Taxes	98	
Interest on borrow money	66	
Unclassified	76	
Total expense		$3,875
Net profit		$1,378
Cash discounts and other earnings		227
Total earnings on sales		$1,605

PROFITS ON INVESTMENTS 17.70% CAPITAL TURNOVER 1.96

STOCK TURNOVER 2.43

*Based on 1944 Hardware Store Survey for 137 stores reporting in the less than $25,000 sales volume group.

Table VII is a balance sheet for an average hardware store renting its building. This balance sheet will probably be more representative of a hardware store during normal times than the stores represented in Tables V and VI. This is another average with total assets and total liabilities shown as $100. It shows the relative importance of each asset or each liability in regards to other assets or liabilities. By comparing Table VII with V and VI, it can be readily seen that the items of cash, accounts receivables, and accounts payable are way out of line.

TABLE VII*

AVERAGE BALANCE SHEET FOR A HARDWARE STORE
RENTING ITS BUILDING

Assets			Liabilities	
Cash ($2--$3).............	$ 2.50		Payables................	$ 15.00
Receivables...............	23.00		Net worth...............	85.00
Inventory.................	65.00			
Total Current.............		$90.50		
Furniture and fixtures....	7.50			
Delivery equipment........	2.00			
Total fixed...............		9.50		
Total assets..............		$100.00	Total liabilities....	$100.00

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* Taken from Converse and Jones, Introduction to Marketing, p. 520.

While studying these tables, the prospective retailer must keep in mind that they are averages and that individual stores will vary widely. Stores which sell for strictly cash will have no accounts receivables; on the other hand, a store which sells a large proportion of its goods on credit and is slow in making collection will have a larger per cent of its capital tied up in receivables. In either case the relative importance of other assets would change.

The rate of turnover will affect the amount of inventory which must be kept on hand. A store which has a rapid turnover will need to keep less capital tied up in inventory than one which has a slower rate of turnover. It is interesting to note that the larger stores in Table V have larger turnovers than do the smaller stores in Table VI.

A store which has paid cash for new equipment and fixtures will have a larger part of its capital tied up in fixed assets than one which has had its equipment and fixtures for several years and has written off a greater part of their value.

In establishing a store, the prospective retailer should note (Tables V and VI) that the larger the store, up to a certain limit, the larger the profits on investments, and that both capital turnover and stock turnover are larger. Therefore, if the prospective retailer has the capital, and if the location can support it, he should put in a store comparable to the average store in Table V. The average store in Table V has invested only 2.76 as much capital as the store in Table VI, but the total earnings of the store in Table V is 4.1 times as much as the one in Table VI. This one main reason why a larger store should be established.

CHAPTER VII

PURCHASING AND SOURCES OF SUPPLY

1. Sources of Supply

When, what, and how much to buy always present difficult problems to a hardware retailer. To most new hardware retailers, these will be more difficult problems than they would be to the merchant who has been in the business for some time. The new retailer must not only solve the problem of when, what, and how much to buy, but he must also locate his best source of supply and decide on how many suppliers he can use to the greatest advantage.

While the trend is toward buying more from manufacturers, the wholesalers are still by far the hardware retailer's most important source of supply. The items which are most frequently purchased from manufacturers are paints, nails, steel goods, farm equipment, and the larger household appliances, such as refrigerators, stoves, and washing machines. If manufacturers were able to furnish the services that the wholesalers furnish, they would probably be used more often; but these manufacturers are often so far removed from the retailers that they can not afford to offer these services.

There are several types of wholesalers, and they are all patronized to some extent by retailers. The retailer should patronize those wholesalers which can give him relatively the best service, best prices, best quality and quantity of goods, and who is nearest him. There is little unanimity of opinion on the subject of how many suppliers the retailer should use, but the majority of retailers believes that from two to four wholesalers should be used.

Most hardware wholesalers are of the service type. While the prices of service wholesalers are usually somewhat higher than those who do not offer these services, the value of the services that they offer to the retailer usually makes up for the differences in prices. Service wholesalers offer credit to the retailer; this is often very important to a new retailer. Service wholesalers will also help with store and window displays, advertising, and they can furnish information and aids which will help the retailer in many ways. Many service wholesalers employ specialty salesmen and supervisors to help merchants sell more goods. This supervisory service can be very helpful to a new retailer as the supervisors are in the position to offer advice on layouts, goods, window displays, advertising, selling, and the like.

Cash and carry wholesalers are seldom used by hardware retailers. They are useful to retailers in large cities, but unless the new retailer is located near a cash and carry wholesaler, it would be best for him to patronize the service wholesaler.

Hardware merchants sometime form buying clubs and retail cooperatives, but at present, they are little used in the hardware field. In buying clubs the retailers pool their orders, thereby, getting an advantage of quantity discounts. They can also buy more advantageously from manufacturers. Retail cooperatives are formed to receive the advantage of lower prices. The question the retailer should ask himself before joining a buying club or cooperative is: Does the advantage of the lower prices offered by the clubs and cooperatives offset the advantages of the service offered by the service wholesalers? Unless the prices do offset the advantages of the services offered by service wholesalers, the retailer would be better off buying from the wholesalers.

The new retailer should use as much care in selecting his sources of supply as he did in selecting his building. One way to find out what wholesalers have to offer to the retailer, is to talk to other hardware dealers in the community. The retailer will want to find out which wholesalers are honest and reliable. He will want to know if he can purchase the goods and services at prices he can afford to pay. He should also find out how wide a variety of goods each wholesaler has to offer.

The retailer in choosing his sources of supplies should choose the wholesalers which have been in business for some time and who have built up a good reputation in the business. Other things being equal, the new retailer should choose the nearest wholesalers. The near-by wholesalers can give quicker service. This means that the retailer can carry a smaller stock and can turn it more often. Transportation charges should be less. The nearer source of supply is often a better source of credit as the nearer wholesaler is in a better position to know the retailer and his credit rating. Near-by wholesalers are more likely to carry those goods which sell well in the retailers sales area. Finally, salesmen can visit the store more often; these salesmen can make up orders, check stock for shortages, and give advice much of which is beneficial to the new retailer.

After the retailer considers the merits of all available wholesalers, he should eliminate all but 2, 3, or 4 of them. Those wholesalers that are selected by the retailer should be the ones that can do the most good for the retailer. By selecting such a small group of wholesalers, the retailer will be able to concentrate his buying in such a way as to take advantage of quantity discounts, yet he will still be able to get a wide variety of goods. The retailer can also select the best bargains from each wholesaler; he could not do this if he only used one wholesaler.

2. Purchasing the Initial Inventory

After the new retailer decides where to buy, he must decide when, what, and how much to buy. For the new retailer, when to buy offers little difficulty as he wants to start his store as soon as possible. When to buy will not offer much of a problem until the retailer gets established, but what and how much to buy are problems which must be settled before the store can be opened.

In deciding how much to buy the retailer must take into consideration several things: the clientele to be served, location, lines to be carried, the number of competitors, and the amount of business in the area. Wholesalers can be a great help to the retailer in aiding him to decide what goods and how much goods to carry. The new retailer should not be overly-enthusiastic in estimating his potential sales, as a business should generally grow slowly, especially in the beginning. If the retailer over-estimates his potential sales he is likely to invest too much capital in equipment and initial inventory, and to commit himself to heavier operating expenses than his actual sales volume will justify.

The initial inventory of a new store will not need to be as large per $100 of sales as the inventory of an old established store. Table VIII, which is a survey based upon the average inventory carried by 1,126 stores, can give the retailer a fairly accurate picture of how much to buy.

TABLE VIII*

AVERAGE INVENTORY REPORTED BY SALES VOLUME

Sales Volume	Merchandise Inventory (per $10,000 sales)
All firms................................	$2,430
$25,000 to $50,000......................	3,130
$50,000 to $100,000.....................	2,555
$100,000 to $200,000....................	2,275
Over $200,000...........................	1,940

* Taken from a survey conducted by The National Retail Hardware Association covering the 1947 operations of 1,126 stores.

The initial inventory can be reduced somewhat below the averages in Table VIII. The retailer can do this by stocking a reasonable supply of major lines and filling in varieties and specialties as the demand develops for them. According to Table VIII a retailer who estimates his first years sales to be around $25,000 will need to have an initial inventory of $7,825; but a new retailer could cut this to $6,500, and still be on the safe side. A retailer who expects to do a $50,000 business could make out with an initial inventory of $12,000, but in time the inventory should be built up to the established standard. This can be done by adding goods from time to time.

Brisco and Wingate state, "The merchant's true function is that of serving his community as a purchasing agent."[1] While it is true that the merchant is acting as a purchasing agent for the community, he must keep in mind that he cannot serve in this capacity for any length of time unless he can make a profit on his purchases.

[1] Brisco and Wingate, Buying for Retail Stores, p. 85.

The old adage "goods well bought are half sold", certainly has much validity; therefore, the retailer should give much consideration to buying. When a person goes into a store to make a purchase, she has only herself to consider; this is not so with the retailer. The retailer must not buy goods just because he wants or likes them, but he must buy what his customers want, at the time they want them, at the prices they are willing to pay, and under conditions which will leave him a net profit.

Before the retailer decides what to buy he should draw up a tentative sales plan. Nystrom states,

> Retail sales are not accidental, consumers for the most part buy such goods as they want, and stores are able to make sales by having the goods that people desire. It is not good merchandising to try to sell what they do not want or need. That such selling sometimes take place may be admitted, but this is not the way in which retail trade can be substantially and permanently developed. A retail business grows through having the right goods, at the right prices.
>
> Every merchandising plan must begin.....with an estimate on what and how much can be sold. This estimate, broken down by months, weeks, and even days by merchandising classifications, constitutes the foundation. In its further development it may show specifically what merchandise shall be offered for sale, what sales promotion methods will be used and even what personnel preparations will be required. Such detailed planning involves a great deal of preliminary work, but if properly carried out will go far towards assuring the success of the store's operation.[2]

Unless the new retailer has had quite a bit of experience in the buying field, he should ask the wholesaler to help him select his initial stock. By receiving help from the wholesaler, the retailer can avoid making purchases of slow moving goods as the wholesaler knows what goods are moving best in his sales area.

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[2] Paul H. Nystrom, Retail Store Operation, p. 41.

Most all wholesalers offer cash discounts to their retail customers. When the retailer is buying his initial inventory, he should buy from the houses that offer the best bargains. Some goods may be bought from one wholesaler, another wholesaler may offer better prices or discounts on other lines. The retailer will find that the prices of goods will vary from one wholesaler to another, but by comparing prices and cash discount he can select the cheapest houses. The retailer will not only want to compare prices, but he will want to compare terms as well. He should take advantage of all price discounts that he possibly can, unless he is establishing a credit rating.

> The retailer should usually take all cash discount. If he does not take them, it is generally assumed that he does not know his business or is short of capital and so is a poor credit risk. The reason for this assumption is based on the significance of the usual discount. If a retailer fails to pay an invoice bearing terms of 2/10, n/30, it is the equivalent technically to paying interest at the rate of 37.2 per cent per annum--usually expressed at 36 per cent.[3]

The retailer by taking advantage of all discount rates can save quite a large sum of money in a year's time. For instance, if he purchases $30,000 worth of goods a year and if he receives terms of 2/10, n/30, by taking advantage of these terms, he can save $600. This $600 can mean the difference between a profitable store and an unprofitable one.

Table IX gives some of the more usual cash discount rates which are offered by wholesalers and manufacturers, and by taking advantage of these terms, the retailer can receive the equivalent of the following annual interest rates.

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[3] Converse and Jones, <u>Introduction to Marketing</u>, pp. 328-329.

TABLE IX*

CASH DISCOUNTS OFFERED BY WHOLESALERS AND MANUFACTURERS

	Per cent
2/10, n/60	14.4
2/30, n/60	24.0
2/10 e.o.m., or prox., n/30	26.0
2/10 e.o.m., or prox., n/60	14.4
$\frac{1}{2}$/10, n/30	9.0
1/10, n/30	18.0
2/10, n/30	36.0
1/10, n/60	7.2
1/30, n/60	12.0
1$\frac{1}{2}$/10, n/60	10.8

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* Taken from U. S. Department of Commerce, Establishing and Operating A Hardware Store, p. 100.

By looking at Table IX, it is easy to see why the retailer should take advantage of all possible discount rates. If the retailer does not have the cash on hand to take advantage of these terms, it would be wise for him to borrow the money from the bank. Take for example a situation where the retailer buys a bill of goods for $1,000 from his wholesaler, quoted 2/10, n/30, by paying cash within 10 days he can have the goods for $980, a saving of $20, but he must pay $1,000 if he waits over 10 days. He can borrow $1,000 at the bank for approximately 6 per cent interest. The interest on $1,000 at 6 per cent for 20 days is only $3.33; therefore, by borrowing the money from the bank the retailer can save $16.67. This is one reason why it is so important that the retailer should establish a credit rating with a bank.

In building up his stocks, the retailer should build up a department at a time, such as sporting goods, paints, tools, houseware, and the like, rather than select a few items from each and every department found in the larger stores. The retailer will be better off if he puts in a few complete departments at a time than he would be if he put in many incomplete departments. The retailer should be recognized for certain departmental selection of merchandise, rather than items. By having fewer but more complete departments, the retailer will be more successful in meeting the prices of his competitors.

CHAPTER VII

CERTAIN MERCHANDISING PROCEDURES

1. Stock Turn

Stock turn or stock turnover is a measure of how long goods are kept in stock before they are sold. Stock turn is an average. A store may have a stock turn of 2 which means that the goods are turned 2 times a year. This does not mean that everything is moved twice a year. Some goods may move only once a year or once every two years; on the other hand, some goods may move several times a year.

Stock turn may be based on the store as a whole, or it may be based on a single department. The retailer can find his average inventory by taking his opening inventory at cost, adding it to the closing inventory at cost, and dividing the results by two. Retail price can be substituted for cost price. The stock turn will be more accurate if the monthly average inventories are used. Stock turn based on a monthly average is computed by taking the average inventory for each month adding them together and dividing the results by 12.

The average stock turn (Tables V and VI) for 1,057 stores reporting to the National Retail Hardware Association in 1944 was 3.24, while the 137 stores reporting in the less than $25,000 sales class had an average stock turn of only 2.43, almost a full turn below the average of the larger stores. The new retailer, with an initial inventory of new merchandise properly selected, should be able to turn his stock as much as three times the first year. The new retailer should turn his stock as often as possible as the rate of stock turn is highly significant to the success of a retail hardware store. Nystrom states, A high turnover usually means a lower expense rate for overhead items such as rent, taxes, interest on capital invested, insurance, administrative expenses and so on. A high turnover also usually means a continual inflow of new merchandise affording the opportunity to present fresher goods, a greater degree of novelty and perhaps closer approximations to consumer's demands. A high-turnover rate should mean fewer markdowns because goods are carried in stock for shorter periods of time and are therefore less subject to becoming soiled, damaged, shopworn or out-of-date.[1]

Table X shows three ways that stock turn can be computed.

TABLE X*

Computing Stock Turn

1.	Opening inventory at cost............................	$2,000
	Closing inventory at cost............................	960
		2/$2,960
	Average inventory at cost............................	$1,480
	Cost of goods sold....................................	$6,660

$$\frac{\$6,660}{\$1,480} = 4.50 = \text{Stock turn rate}$$

2.	Opening inventory at retail..........................	$3,000
	Closing inventory at retail..........................	1,440
		2/ $4,440
	Average inventory at retail..........................	$2,220
	Net sales..	$9,990

$$\frac{\$9,990}{\$2,220} = 4.50 = \text{Stock turn rate}$$

3.	Opening inventory in units...........................	$ 100
	Closing inventory in units...........................	60
		2/ $ 160
	Average inventory in units...........................	$ 80
	Net sales in units...................................	$ 360

$$\frac{\$360}{\$80} = 4.50 = \text{Stock turn rate}$$

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* Duncan, D. J., and Phillips, C. F., Retailing Principles and Methods, p. 291.

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[1] Paul H. Nystrom, Retail Store Operation, p. 47.

The first and second methods of computing stock turn are the most typical ways of figuring stock turn for hardware stores. The third method might never be used in computing stock turn in a hardware store, but it could be used easily in some departments where the units are large. For example, it could be used advantageously in a department which handles refrigerators, stoves, and washing machines.

There are advantages to a rapid rate of stock turn, but these advantages are often exaggerated by retailers. A fast stock turn will cut down on operating expenses. It will reduce the amount of capital which must be tied up in inventory. When a store has a high stock turn fewer goods are soiled, broken, shopworn, or damaged; this brings about a reduction in depreciation and obsolescence. Finally, it may enhance a retailers credit rating, for with a faster turnover in merchandise, the retailer can meet his bills more promptly.

Increasing the rate of stock turn may, however, be advantageous only up to a certain point. Maynard and Beckman state,

> While the advantages of rapid stock-turn are substantial, there is a danger that the policy may be carried too far. If stocks are pared down too severely, shortages will occur and much trade may be lost as a consequence. There are also times, as at the beginning of a season, when unusually large stocks must be made available for selection by customers. Orders must frequently be placed in advance for such goods and in large quantities. Then there are the quantity discounts and savings in freight rates which must be set up against the economies effected through a more rapid stock turn in order to determine its desirability in any given case.[2]

It can be seen from the previous statement by Maynard and Beckman that a mere increase in stock turn is not what the retailer wants; he wants increased profits. The retailer by correct merchandising and by

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[2] Harold H. Maynard and Theodore N. Beckman, Principles of Marketing, p. 697.

eliminating slow-moving goods, and "shelf warmers" can increase his turnover. Adequate stock turn is a result of good merchandising, but good merchandising may not be the result of adequate turn over.

2. Stock Control

Stock control will be of little importance to the new retailer until he gets his store well established and it begins to grow. Stock control means merchandising in such a way as to have a balanced stock. This does not necessarily mean a large stock; it means having stock that has the right proportion of all articles carried and an assortment of all sizes and colors. Duncan and Phillips state,

> In retail stores, effective methods of merchandise control must be adopted to insure the prompt reorder of merchandise that is selling, to prevent the reorder of goods which are not selling, and to minimize the investment in merchandise consistent with the satisfactory fulfillment of customers' wants. In small stores the desired relationship between stocks and sales is sought through close and constant supervision by the proprietor who studies his records and inspects his stocks at various periods. As stores grow in size, however, and as the assortments of merchandise they handle become greater, the maintenance of a balanced relationship between stocks and sales becomes increasingly difficult. Consequently, personal inspection becomes less practicable and more written merchandise records of various types are required as aids to the judgment of the buyer. These records constitute an important phase of merchandise control.[3]

There are three practical methods of stock control: inspection, frequent physical inventory, and perpetual or running inventory. The perpetual inventory will rarely be used by a small retailer; therefore, it will only be mentioned here.

Physical inventory if it is to be used as a method of stock control

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[3] D. J. Duncan, and C. F. Phillips, Retailing Principles and Methods, p. 268.

should be taken at the first or last of each month. Physical inventory is an accurate count of all merchandise on hand. Small items such as nails, screws and the like will be weighted instead of counted. The inventory is taken and each item is listed at cost or market price, which ever is lower. The value of all items are totaled up to give the inventory value.

Even if physical inventory is not to be used as a means of stock control it will need to be taken at the end of each year in order to prepare a profit and loss statement and for income tax purposes.

Special forms to be used for taking inventory can be purchased from any supply company. A retailer can take inventory without special forms, but these forms certainly make the taking of an inventory easier and faster.

When a physical inventory is made, the retailer should watch for and list all soiled, rusty, shopworn, cracked, or obsolete merchandise. This list of damaged merchandise should be disposed of by mark downs, special sale, or some other means. A physical inventory can help bring to light surpluses, and it can be used to compile the seasonal sales of the store.

The second method of stock control, the inspection system is a systematic check of the stock from time to time in order to find items which should be reordered. The retailer should work out a specific time to make inspections. He should pick a slack time when he will have time to make a thorough and accurate check. He should check both reserve and display stocks. This list should be spot checked in order to locate any inaccuracies. This system is no better than the retailer carrying it out, unless it is carried out in the right way, it is little better than no system at all. Converse and Jones had this to say about stock control,

> A retailer who knows his stock intimately, who knows local demand, and who inspects his stocks frequently and carefully can do a pretty fair job of stock control. To do a good job, the retailer needs model stock figures and a good method of stock arrangement.[4]

Under the inspection system, the retailer should assign a definite space to each item. If a definite space is assigned for each item, the retailer can tell at a glance whether the item needs to be reordered or not. This procedure should be followed in the stock room as well as on displayed goods.

A minimum and maximum list of items to be kept on hand at all times should be drawn up. To quote from a manual released by the United States Department of Commerce:

> You should establish minimum and maximum quantities for each item. On fast-moving goods you may consider the forward stocks on the shelves in the store as "sold" and concentrate on your reserve stock. Thus, when the reserves of such merchandise are reduced to a certain number of cases, you know it is time to reorder.
>
> You may, however, have your entire stock of slow-moving items on the shelves in the store. Here you will have to watch the decrease in number on the shelf. For instance, if one-half, one-third, or some other fraction of a given item's shelf space is empty, you have the signal to reorder.....you should order only enough to fill the vacant space.
>
> As regards merchandise that moves normally, keep in mind both the quantities on the shelves and the number of cases in your store room. If you have more than a certain number of cases of any item in reserve, you will be oversupplied. A simple way to recognize this condition is to provide a space just large enough to hold the desired maximum of each article. If all the stock on hand does not fit into its assigned location, you can easily see tha amount of overstock.[5]

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[4] Paul D. Converse and Fred M. Jones, Introduction to Marketing, p. 495.

[5] United States Department of Commerce, Establishing and Operating A Retail Hardware Store, pp. 109-110.

The primary purpose of a minimum and maximum list is to insure sufficient stock is on hand and to avoid being out of stock before new goods are received. Therefore, the retailer should keep in mind when he is drawing up this list just how much time will lapse between the ordering and receiving the goods. In drawing up this list the wholesaler can be of great assistance to the retailer. From time to time, changes will have to be made in the minimum standard list in order to keep it up to date, but if inspection is carried on properly it can be a great help to the retailer.

3. Pricing

The primary aim of the hardware retailer, for being in business, is to make a profit. The profits of a retailer are made up of what is left over from the difference between what the goods cost and what they can be sold for, less all expenses of operating the store; therefore, the retailer should use great care in computing his selling prices.

The retailer should decide upon the general price policy of his store even before he opens it to the public. The retailer has a choice of three price policies: selling below the market or market minus, selling at the market, and selling above the market or market plus.

In selling below the market the retailer depends upon lower prices to increase sales and to attract customers, thereby building up volume. It is not advisable for a new retailer, unless he has unlimited capital, to cut prices too far below the market price of his competitors. If the old established retailers see that they are losing sales to the new retailer on account of the lower prices of the new store, they will cut their prices also. The old established firms are in a better position to cut selling prices than is the new retailer; therefore, in selling below the market price, the new retailer should make sure that he does not antagonize the old established retailers.

Sometimes a retailer may be forced to sell above the market price. He may be situated in the high rent district where expenses are high. To quote Converse and Jones,

> The store which sells at prices somewhat higher than those of competitors bases its appeal on quality, variety of merchandise, and service. Such stores carry a wide selection of goods and will have some that sell very slowly. These stores make their appeal by having goods not available elsewhere or by having goods of high quality. The consumer may say: "You can get it at Blanks," or "You can be sure of the merchandise you get at Blanks." When such a reputation is well established in a community, the store will usually have a sufficient sales volume to make business profitable. These stores usually offer more services than do their competitors. Just what services to offer, and whether to attempt to charge higher prices because of the fact that these services are offered is a decision that should be made only after a survey of the market and the activities of competitors.[6]

The majority of retailers try to keep their prices in line with the prices of competitor's. Some goods may be marked above the market price, and some may be marked below this price. The new retailer can find out his competitors prices by visiting their stores and by noticing their prices, and by studying their advertisments. Visiting salesmen can also supply the retailer information on competitors prices.

Several factors must be taken into consideration in determinig the selling price of an individual article. Some of these factors are: operating expense, prices charged by competitors, the value of the article to the customer, the use of the article as a price leader, and the cost of the article.

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[6] Converse and Jones, op. cit., pp. 335-336.

Before the retailer can price his goods, he will have to estimate his sales for the coming year. He will have to do this in order to figure the per cent of gross margin, expenses on sales and the like. The new retailer can get much useful information from Tables II and III as these tables give average operating ratios for 1,164 stores. Although the expenses of hardware stores vary from store to store, the retailer can get much essential information from these tables.

The retailer can compare his estimated sales with Table III and see what the average margin and expenses are for a store that is reasonably similar in sales to the store that he is establishing.

There is some difference of opinion on the question of how cash discounts should be handled, but the majority of retailers who pay cash within the discount period deduct the discount from the invoice price. But if the cash discount is not taken it should not be deducted from the invoice price.

How these previous factors enter into the pricing of an article may be illustrated better by a specific example. Suppose the retailer estimates his expenses to be 26%, his mark-downs to be 3%, and he wants to make 4% profits on sales, over and above, cash discounts. In this case, the cash discount will not be deducted from the invoice, but the 3% and the 4% will be added to the 26% making a total of 33%. The retailer must mark his goods up 33% on selling price to make a profit of 4% on sales. Thirty-three per cent on cost will not give 33% on retail prices; it will give only 25%. If the retailer makes a mistake and marks his goods up 33% on cost, he will lose 4% on each dollar of sales as expenses and margin are both figured on selling price. The retailer will have to mark-up his goods almost 50% on cost to receive

TABLE XI*

MARK-UP TABLE

Markup Per cent of Selling Price	Markup Per cent of Cost	Markup Per cent of Selling Price	Markup Per cent of Cost
4.8	5.0	25.0	33.3
5.0	5.3	26.0	35.0
6.0	6.4	27.0	37.0
7.0	7.5	27.3	37.5
8.0	8.7	28.0	39.0
9.0	10.0	28.5	40.0
10.0	11.1	29.0	40.9
10.7	12.0	30.0	42.9
11.0	12.4	31.0	45.0
11.1	12.5	32.0	47.1
12.0	13.6	33.3	50.0
12.5	14.3	34.0	51.5
13.0	15.0	35.0	53.9
14.0	16.3	35.5	55.0
15.0	17.7	36.0	56.3
16.0	19.1	37.0	58.8
16.7	20.0	37.5	60.0
17.0	20.5	38.0	61.3
17.5	21.2	39.0	64.0
18.0	22.0	39.5	65.5
18.5	22.7	40.0	66.7
19.0	23.5	41.0	70.0
20.0	25.0	42.0	72.4
21.0	26.6	42.8	75.0
22.0	28.2	44.4	80.0
22.5	29.0	46.1	85.0
23.0	29.9	47.5	90.0
23.1	30.0	48.7	95.0
24.0	31.6	50.0	100.0

* Duncan, Delbert J. and Phillips, Charles F., <u>Retailing Principles and Methods</u>, p. 334.

To read this table, the retailer should find his desired mark-up in the left-hand column. Then he should multiply the cost of the article by the corresponding figure in the right-hand column to find his correct selling price.

33% on selling price.

Most wholesalers will furnish the retailer with a mark-up chart such as Table IX. The retailer can see at a glance at the table how much he will have to mark-up his goods on cost to receive the desired mark-up.

The retailer will not want to apply a straight percentage mark-up to all items. Some goods may be marked up higher than the average mark-up, and some goods will have to be priced below the average mark-up in order for the retailer to sell them.

Sometimes the retailer may set his prices on the basis of what his customers will pay for an article. Frequently the retailer will make a bad purchase, and the customer may not be willing to pay a price that will allow the retailer to break even. In such a case, the retailer should forget cost and sell the goods for what he can get for them. On the other hand, goods may sell for a price somewhat above the average markup.

> There are instances of merchandise which did not sell because the prices appeared too low to the consumer. The application of the normal markup percentage yielded a price lower than the consumer desired to pay or caused him to be suspicious of quality. This may happen when a good quality product is obtained which can be sold profitably for much less than a similar product under a popular brand. Cases are known where it was necessary to raise price several times until the price that appeared right to the consumer was found.[7]

Retailers often price goods below cost in order to bring customers into the store. Goods of this type are known as loss-leaders. However, before using loss-leaders the retailer should check the State laws as

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[7] Converse and Jones, _op. cit._, p. 345.

many states prohibit retailers from selling goods below invoice cost.

In 45 States manufacturers are allowed to set minimum re-sale prices below which the retailer cannot sell an article. Generally, only those manufacturers which produce goods of wide acceptance insist on setting minimum re-sale prices. The retailer may have to decide between observing these prices or giving up the lines that have wide customer approval.

A retailer should formulate some policy in regard to mark-downs. No retailer is infallible in his buying and sooner or later he will make a bad buy. When he does make a bad buy he should mark the goods down to a price where they will sell. He should do this as soon as he recognizes the fact that he has made a bad buy. Some retailers advocate holding goods which must be marked down until sometime later when a clearance sale can be held. The better policy would be to mark-down the goods at once in order to free the capital that is tied up in the goods.

4. Accounting

Accounting records are more essential to the hardware retailer of today than ever before. This is partially due to Federal and State laws, but there are other reasons just as important.

The lack of adequate accounting records has caused the downfall of many retailers. Inadequate bookkeeping is high up on the list of causes of failure within retail stores; therefore, records are essential and necessary for any hardware store, no matter how small. Yet many small retailers believe that they know enough about their own business to make the keeping of formal records unnecessary. These retailers work on the theory that if there is any money left over after expenses are paid, they have made a profit. These optimistic retailers are usually the first ones to "go down" in failure.

The records of a retail hardware store need not be elaborate nor complicated, but these records should be complete enough to measure the effectiveness of the business. It should also be complete enough to furnish all the information necessary for income tax, sales tax, and social security tax reports which are required by Federal and State laws.

According to Duncan and Phillips the main purposes of retail accounting include the following:

> (1) They make it possible to determine the financial results of past operations; (2) they provide operations upon which past results may be analyzed, current activities controlled, and future operations planned; (3) they supply the necessary data which may be used in establishing lines of credit with banks, vendors, and others; (4) they aid in safe-guarding the retailers assets; (5) they furnish the facts upon which various forms of reports are made to state and federal governments; and (6) they enable the retailer to compare his results with a standard and to exchange comparable information on operating and merchandising results with other stores.[8]

The number of records to be kept will depend upon the preferences and needs of the retailer. However, there are certain basic records which should be kept by retailers. The minimum records should provide information on net sales, accounts receivables, accounts payable, purchases of merchandise, inventory, expenses, profit and loss, and net worth. According to the United States Department of Commerce all this information can be combined in five basic records. "The five basic forms which make up the better business are the daily record; expense distribution sheet; general ledger; monthly and annual summary; and profit-and-loss statement, and financial statement.[9]

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[8] D. J. Duncan and C. F. Phillips, Retailing Principles and Methods, p. 562-563.

[9] United States Department of Commerce, op. cit., p. 79.

The retailer, if he has a checking account at a bank, should pay all of his bills by check, except the very small ones and for these small expenses he should set up a petty cash fund. If any bills are paid with cash a paid-out-slip should be made out for the amount and under no circumstances should cash be taken out of the cash register without a paid-out-slip being made out for it unless it is used to pay a bill which can be used for a receipt. The retailer should also develop the habit of depositing his cash in the bank every day, or at least every two days.

Unless the retailer or his accountant knows all about keeping books, he should have an accounting expert come in about every three months and check on the books. This will cost him money, but he will be better off in the long-run.

CHAPTER IX

ADVERTISING, DISPLAY, AND SELLING

Advertising, display, and selling have all been combined in this chapter because they are closely related, and because their primary objective is to increase sales. Brewster and Palmer state,

> The oft-quoted definition of advertising as "salesmanship in print" may not be the best definition, but it emphasizes the fact that there is considerable similarity between personal selling and selling through advertising. Both must secure from the prospect the following: interest, desire, decision, and action.[1]

The retailer should not try to make either advertising, display, or selling carry the burden alone, but he should promote each factor in such a way that it will supplement the others in maximizing sales. It is only by this means that the retailer can hope to make a success of his business.

1. Advertising

The retailer should draw up an advertising budget before he opens his store for business. He should allocate an amount of money somewhere in the neighborhood of one per cent of his estimated sales to his advertising budget. One per cent of sales is a somewhat larger amount than the average retailer spends on advertising, but the new retailer should plan to spend at least this much the first year as he has to announce to the public the presence of a new store. This will cause his first year's advertising expense to be some higher percentage-wise than it should be after he gets well established.

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[1] Arthur J. Brewster and Herbert H. Palmer, Introduction to Advertising, p. 78.

The new retailer, if his capital will permit it, should publish at least a half-page advertisement in the main newspaper in his sales area announcing the opening of his store. Usually an advertisement of this type does not promote prices, but it usually announces the opening of a new store, the name of the store, the management, the place and date of opening, and some of the stores policies. It should also extend an invitation to the public to come to the opening. Some retailers offer door prizes at the opening; this can be very effective if used in the right manner.

The new retailer can use post cards and letters, and the telephone very effectively in his pre-opening advertising. These two means of advertising have been neglected by small retailers. Either cards and letters, or the telephone if used correctly can be one of the cheapest means of reaching a select group. In small towns which send mail out on rural routes, mail addressed to boxholder has proved to be fairly effective as rural groups are more prone to read advertisements of this type than people who live in cities and large towns.

As the new retailer will be, more or less, limited in the amount of money that he can spend for advertising, he should operate his store in such a way that he will receive free advertising from his customers. "Word-of-mouth" advertising can be very important to a retailer, or it can be his downfall. To quote from a manual released by the United States Department of Commerce:

> Ten people telling their friends and acquaintances that yours is a fine store to trade in will start a chain of new customers coming to you. The same number of people advising against trading with you will have the opposite effect.[2]

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[2] United States Department of Commerce, Establishing and Operating A Hardware Store, p. 154.

Retailers in small and medium-size towns can use both daily and weekly newspapers for advertising very satisfactorly as there is little waste circulation; however, newspapers are not as effective as a medium of advertising in the larger cities as there is too much waste circulation to make such efforts profitable, unless the store is a very large one and has a very large budget to spend.

One of the cheapest means of advertising is hand-bills. Hand-bills can be used more or less effectively in announcing special sales, seasonal goods, and new lines. These hand-bills are delivered from door to door by carriers. There are two limitations to hand-bills: getting them delivered properly and getting the people to read them.

A properly-displayed sign in front of the store can do about as much in attracting people to the store as anything else. If the store is large enough to warrant it, the sign should be large and well lighted. If the store is small a printed sign may have to be employed.

In small and medium size towns which have radio stations, spot announcements can be used very successfully by hardware dealers. The morning and afternoon hours are the cheapest for spot announcements as radio time is sold on the basis of time and the time of day it goes over the air. The day-light hours are always much cheaper than the evening hours. In choosing the time of day for the broadcast the retailer should take into consideration the type and size of audience that he can reach at the various hours.

While there are two principal kinds of advertising--institutional and merchandise, the new retailer should devote most of his time and money toward merchandise advertising. In merchandise advertising, the merchandise is to be promoted should be selected with care. No amount of advertising can sell goods which people do not want. Neither can advertising sell goods without the backing of the other divisions of the store.

Many appeals can be used effectively in advertising, but the new retailer would do well to use only a few of the different appeals such as price, quality, and service. The retailer should make his advertising copy brief, but he should give specific and accurate facts about his merchandise. He should also remember that an illustrated advertisement is more effective than one which does not show the goods.

The writing of advertising copy requires considerable skill; therefore, the new retailer should seek expert advice. Wholesalers will often be able to help the retailer with his advertising copy, as will newspaper solicitors.

No matter what type of advertisements and media are used, the results will not be satisfactory unless advertising is timely. Advertising must also be carried on consistently to reap the best results. "Many advertising experts advise advertising frequently even if it means that the simplest forms of direct mail, or small newspaper space must be used."[3] Advertising should also be tied in with store and window displays. Brewster and Palmer state,

> It is important to remember that advertising alone cannot bring success to any business. It is one of several links in a chain, the breaking of any one of which may bring failure. A good product, good executive and administrative management, good salesmen, good dealers, good retail salesmen, all are necessary. Advertising is a help, but it cannot pull the entire load.[4]

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[3] Ibid., p. 163.

[4] Brewster and Palmer, op. cit., p. 13.

2. Displays

Many small retailers fail to realize the importance of window displays and therefore fail to plan and arrange them properly. Many of these disinterested retailers will not spend money on window displays or fixtures; others turn the display work over to clerks who often are not interested in the work. Others fail to change their displays as often as they should. The inevitable result of these mal-practices is that sales are lost because the store is looked upon as being out-of-date and unprogressive.

Displays are of two kinds; window and interior displays. Each plays an important part in successful development of a retail store. While there is no set basis for alloting expense to window space, many stores charge from one-tenth to one-half of the first floor's total advertising expense to the window displays. The majority of retailers probably charge in the neighborhood of one-sixth to one-fourth to this space. This shows that the retailer cannot afford to disregard or mis-manage his window displays. It has been said that the fundamental purpose of window displays is to keep passers-by from passing by.

The actual worth of a retailer's display will depend upon, first, the retailer. The retailer, to attract the attention of people passing, must have a window that is eye-catching. Second, the location has much to do with the value of window displays. If the retailer is situated on a little used side street, his window displays will not be worth as much to him as will the displays of stores which are situated in the main shopping district. Third, the number of people passing by is significant. "Some merchandising experts estimate that one store window properly arranged is worth $1.11 per 1,000 people passing by it."[5]

The trend of hardware window displays is toward open-back windows so that people can see into the store. In windows of this type the windows become displays for the entire store. However, it will be some time before the majority of windows will be changed over to the open-back display type. Therefore, the new retailer should not spend needed capital to change his windows over to the "new look".

Each retailer will have to decide for himself what goods he will feature in his window displays. He can display his regular goods or he can arrange his displays from low-price goods and feature his bargains. No matter what type of goods the retailer features, he should choose them well as these goods are "silent salesmen" for the store.

To receive the most effective results, the retailer should plan his window displays ahead of time. Some retailers draw up display calendars and plan their displays for as much as a year at a time. The following plan suggested in a manual published by the United States Department of Commerce is one which can be followed in most localities.

> January--Inventory sale; any staple goods, such as tools.
> February--Dollar day; any staple goods, such as houseware.
> March--Lawn and garden tools, household and building tools, garden hose and accessories, seeds, paint, pest control, ranges (new and used), washers, ironers, houseware, screens, garbage receivers, builders' hardware, roller skates, bicycles, roofing, fencing.
> Easter--Grass and flower seeds, bulbs, nursery stock, toys and games for children.
> April--Same goods as March. Also sporting goods for baseball, golf, tennis, and fishing; automobile goods.
> May--Same goods as March and April. Also vacation goods, lawn furniture, picnic goods, luggage, gifts for high school and college graduates and June brides.

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[5] United States Department of Commerce, Establishing and Operating A Hardware Store, p. 139.

June--Gift goods, such as silver sets, glassware, china, electrical appliances, cutlery. Vacation goods, picnic goods, insecticides, fans, ice cream freezers, thermos jugs and bottles, fishing tackle.

July and August--Canning supplies. Hot weather goods, such as fans, freezers, and picnic goods. In late August, school supplies and autumn goods may be shown.

September--School supplies, luggage, bicycles, football goods, paint, stoves, furnace repairs, stokers, incinerators, garbage cans, tools, electrical goods, builders' hardware, electrical appliances and supplies, guns, weather strips.

October--Most of goods listed for September. Guns, ammunition, other hunters' goods. Woodcutting tools, such as saws, axes, chains. Roofing, electric and oil heaters, basketball goods, rakes.

Halloween--Brooms, vacuum cleaners, clothes hampers, irons, cooking utensils, electric heaters, washing machines, rakes.

November--Fireplace goods and fixtures, snow shovels, snowshoes, skis, sleds, basket ball goods, heaters skates, roasters cooking utensils. Thanksgiving goods, dishes, butchering supplies. In the last week of the month, gift goods may be displayed.

December--Gift goods of all kinds, toys of all kinds, skates, sleds, electrical appliances, china novelties, carpenters' tools, power tools.

December 26-31--Suggestions for spending Christmas money: Gifts of all kinds, guns, toys, tools. Any appropriate gift article which the store has in stock. This may be an opportunity to move left-over Christmas toys and other goods at cut prices to avoid carrying stock a year.[6]

A retailer can spend a large sum of money on displays to no avail; unless he can get people to notice his displays, his money is wasted. There are certain techniques which can be followed to make people notice the displays.

The first technique to be used in getting more people to notice displays is proper lighting. A retailer should not try to economize on his light bill when it involves displays. This does not mean that the retailer should use flood lights, but the displays should receive enough light to show the merchandise to the best advantage. Window displays can continue to be "silent salesmen" after the store is closed; there-

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[6] *Ibid.*, pp. 149-150.

fore, the lights should be left burning after the store is closed in the evening.

Colors can be used very satisfactorily in displays to attract attention. Some colors are more "eye-catching" than others. Colors should harmonize with the goods and be appropriate for the season. "Summer displays.......call for such cool colors as white, green, or blue, whereas red, yellow, and orange give a feeling of warmth and are ideal for fall or winter."[7] Different colors absorb different amounts of light; the lighter colors absorb more light than the darker ones. This should be taken into consideration when displays are lighted. If the retailer has dark colors on one end of the display and light colors on the other, the dark colors should receive more light than the lighter colors to show them properly.

Motion is a great device for attracting attention. The small retailer should not attempt to carry out any elaborate motion scheme as it is too costly to justify it on such a small scale.

In arranging window displays only highly saleable merchandise should be used. Displays are a costly proposition; therefore, the retailer should select goods to be displayed with care. The retailer should select for display goods which carry a high rather than a low margin.

The display should be in balance. Balance as used here means that goods should be in equilibrium with respect to the optical center. If a line is drawn through the center of the display each side should have the same relative weight.

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[7] Ibid., p. 142.

One of the easiest ways to achieve balance in window displays is to arrange items that are to be featured in the center of the window. This spot should dominate the entire window. Therefore, if a small item is chosen, enough items will have to be used to make them stand out from the other goods shown.

When larger articles are shown with smaller ones, the larger goods should be placed in the center and the smaller items should be arranged in natural steps from the center outward, or the larger merchandise should be balanced on each end and the smaller goods arranged in graduated steps toward the center.

Display-cards should be used with all displayed merchandise. Cards will be used more freely for bargain merchandise than with regular or high-priced items. Displayed merchandise should be marked with price cards. Unless merchandise is marked with price, passers-by may get the impression that the goods are high-priced, that is, higher in price than they really are.

There are many things that should be avoided in arranging displays. Some of the things that should be avoided are: dirty windows; the cluttered effect caused by trying to crowd in too much merchandise; showing unrelated goods; showing goods out of season. While these are not all of the things that should be avoided in showing goods, they are the most common errors committed by retailers.

In arranging interior displays the same general principles followed in window displays will still hold true, but the retailer should show as many goods as he possibly can in his interior displays. Many small items will lend themselves to mass display in the store, but the more costly items such as silverware, and high priced cutlery should be given more space.

Goods in heavy demand should be placed in the rear of the store so that people will have to pass the other displays to reach the goods that they want. This may cause the customer to see some article that they need before they come to the goods that they came in to get. Goods that carry heavy margins, or that are heavily stocked should be placed near the door so that the customer will see them as soon as she comes in the door.

3. Selling

Regardless of the method used to attract a person into the store--be it advertising or window display--there usually has to be personal contact between the customer and a sales person in order to consummate the sale. Therefore, the selling ability of the salesmen of the store are essential in making the store a success.

Many people have a misconception as to what the job of selling involves. There is more to selling than the personal contact between the customer and the salesman. Nixon states,

> Selling is that division of marketing which has to do with all the numerous activities whereby those individuals or firms possessing goods.....seek to influence others to trade with them. Personal selling is that in which the influence is executed directly by salesmen or saleswomen.[8]

In most small stores the salespeople will be called upon to perform duties other than the job of personal selling. They will be asked to give information, wrap packages, make change, and so on after the sale

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[8] N. K. Nixon, Principles of Selling, p. 67.

is made. Usually there are added duties such as sweeping, checking, opening, marking new merchandise, and helping with inventory. In some small stores the retailer may have to do many of these duties himself, but if as many as two or three clerks are employed by the retailer, he should deligate certain jobs, other than the job of selling, to each clerk so there will be no mistake as to what each should do.

All of the previous requirements set forth in Chapter II should be possessed by the salespeople. The average hardware store carries thousands of articles; while no salesperson can know everything about every article, he should know enough about each item to explain its quality features, how it is used, and how to properly care for it.

The number of clerks that will need to be employed by the retailer will be determined largely by his sales.

> The 1944 Hardware Store Survey shows that the sales per person in stores with annual volume under \$25,000 averaged \$10,682 per person. Stores with annual volume from \$25,001 to \$50,000 averaged \$13,717 per person. Stores with annual volume from \$50,001 to \$100,000 averaged \$14,629 per person. Stores with annual volume over \$100,000 averaged \$16,814 per person, while the United States average was \$14,271 per person.[9]

If the retailer's clerks consistently sell an amount in excess of this average, he should check to see if he is not losing sales due to an inadequate sales force.

There are various sales techniques which can be applied in personal selling to increase sales. Retailers neglected the approach technique during the war years, but in normal times it cannot be neglected. The approach is the way the salesman goes to greet an incoming customer.

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[9] The National Retail Hardware Association, <u>How to Start in The Hardware Business</u>, p. 6.

What is said in the greeting is not as important as how it is said; it is the salesperson's manner of approach, voice, and facial expression that is really important. However, the approach should vary with the customer. The clerk should stand where he is able to observe the entrance of the customers. He should vary his approach to suit the customer. The salesperson should learn the names of as many of their customers as possible. Knowing customers and greeting them by name can secure more sales for the retailer than many dollars spent on advertising.

Some customers are only "looking around" when they come into the store; while others come in for a specific article. The sales clerk should learn to detect which is which. The person who come in to "look around" should be left pretty much alone after being made welcome, but the people who come in for a specific article should be attended to as soon as possible. Besides these two types of customers, there is the customer who does not know what she really wants; this type of customer requires more selling than do the other two.

Most people who enter the store know what they want; there are a few who do not. It is sometimes hard to determine the needs of a customer who does not know what she really wants. Converse states,

> One method of determining the customer's needs is to show merchandise and to note the customers reactions. By facial expression, comment, or question he will indicate his thoughts concerning the merchandise. Proper questions will bring out additional information. Sometimes the salesman may be uncertain as to what quality of merchandise to show. In such a case a medium quality merchandise may be shown. It is usually desirable to place the merchandise in the hands of the customer. This may be delayed until certain features of the merchandise have been presented. When practical, the merchandise should be shown as it will appear in use.[10]

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[10] Paul D. Converse and Fred M. Jones, Introduction to Marketing, p. 429.

One way a salesperson can exercise real salesmanship is by suggestive selling. Suggestive selling is where the salesperson suggests other items, either related or unrelated, to the customer. For instance, if the customer buys paint, the salesman should suggest brushes, thinner and the like, or if a customer purchases a fishing rod, the clerk should suggest line, reels, lures, and other related items. This is a highly effective means of increasing sales.

Many sales are lost because the salesperson did not know how to meet the objections of the customers. To quote Nixon, "The hardest problem in selling is not to make the customer want the goods. Neither is it to convince the customer that the goods are adequate. The hardest problem is to remove the obstacle that keeps customers from buying."[11]

It is often hard to decide whether the objections of customers are valid or not. Many objections are only excuses. If the objections are not valid, this would indicate that the sales talk of the salesperson was not convincing enough. In a case of this type, the salesperson should clarify his sales talk or mention some of the other advantages of the merchandise. If the customer objects to price and the clerk feels that the objection is valid, he may suggest a cheaper item, or possibly an installment payment plan if one is available. But in either case, if the objection can be removed a sale can be made.

After the clerk has convinced the customer of the suitability of an article the sale should be consummated. Converse states,

> When merchandise has been properly presented by the salesman, there is likely to be little difficulty in bringing the sale to a close. The customer who is unable to reach a decision may be helped by being asked which of two colors, two styles, or two

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[11] Howard K. Nixon, Principles of Selling, p. 231.

> of any other product characteristics he prefers. By answering the question the customer makes a decision. The customer may be asked if he wishes to charge the article or pay cash. He may be asked if he wishes to take it with him or if he wishes to have it delivered. Whichever choice is made, the sale is closed.[12]

The retailer cannot expect to make a sale to every person who comes into the store. It is preferable not to attempt to make a sale to every person who comes in, to do so would give the store a reputation for using "high-pressure" tactics. This would be bad for the goodwill of the store.

The retailer can build up both sales and goodwill by getting out and visiting his customers. In visiting customers, the retailer should either call and make an appointment or call at a time when he knows his customers are not busy. The retailer does not need to try to make a sale on each and every visit he makes; all he needs to do to increase sales is to show his customers that he is their friend, and that he is interested in their problems or welfare.

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[12] Converse, op. cit., pp. 431-432.

CHAPTER X

CREDIT AND COLLECTION

1. Credit

The retailer should decide whether or not to grant credit to his customers before he opens his store for business. It would be preferable for a new retailer to sell strictly on a cash basis until he gets well established. Shultz states,

> The sales of a store that sells only for cash provide it with immediate funds for the financing of its further operations. The sales of a store that sells on credit terms--charge account or installment--provide it with account receivable, which mature into cash only after an interval. To cover operating cost during the interval before its accounts are paid, a credit store must have or obtain financial resources not needed by a comparable cash store.[1]

While it would be best for a new retailer to sell on a cash basis, he can hardly afford to do so for numerous reasons. First, hardware stores are highly competitive; and in towns where there are other hardware stores, competitors may force the new retailer to grant credit in order to secure sales. Other things being equal, people will trade at the store where they can receive credit.

Second, the present-day retailer handles many articles which are expensive, items such as, refrigerators, stoves, bath room fixtures, washing machines and the like. To increase his sales of these high-priced articles, the retailer must be willing to sell on credit as in normal times few people have the necessary ready-cash to purchase these costly items. Those who do have the cash are often reluctant to turn it lose, and they are willing to pay more for the privilege of buying on

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[1] William J. Shultz, Credit and Collection Management, p. 682.

installment. The retailer must take this into account when he establishes his credit policy. For if he refuses to grant credit, his competitors will do so at his expense.

Third, the trend is toward more and more credit and installment buying by retail customers. The following excerpt from Phelps shows how greatly retail credit sales have increased from 1912 to 1945.

> It is estimated that 13 per cent of the 17 billion dollars of retail sales in 1912 was made on credit and 20 per cent of the 37 billion dollars of retail sales in 1920. Actual figures were first gathered by the U. S. Census in 1930 covering 1929 credit sales. These figures show for 1929 some 34 percent of the total 49 billion dollars of sales by retailers were credit sales. In 1935, according to the Census 32.2 per cent of the 33 billion dollars retail volume was credit business...... For 1939....... 34.2 per cent of the 42 billion dollar sales of retailers was on a credit basis.... The Federal Reserve System estimates that credit sales reached 36 per cent of the total of 46 billion dollars retail sales in 1940, and then, because of wartime curtailment of the use of consumer credit, declined steadily to 22 per cent of the total of 75 billion dollar volume in 1945, after which a revival began.[2]

It can be seen from the above quotation by Phelps that credit sales are important from both the standpoint of the customer and the retailer. The customer has come to expect credit sales; therefore, to make a success of the business and to increase sales, the retailer must be willing to extend some credit.

Fourth, retail credit is convenient for customers. Customers who receive their salaries at stated intervals, as for example monthly or quarterly, find it highly convenient to make their purchases of merchandise as needed but to settle their bills for them at the time of receiving their own income.

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[2] Clyde W. Phelps, Retail Credit Fundamentals, p. 10.

Fifth, the retailer who is situated in a small town and who depends largely upon farmers for his trade must be willing to sell on credit. Farmers, due to the nature of their income, require some long-term credit. The farmer buys equipment in the spring hoping to pay for it out of his crop which will not be harvested until fall. Generally speaking, farmers are good for their debts, but this long-term credit ties up capital which could be used elsewhere.

Finally, credit sales do not fluctuate as greatly as cash sales. Nystrom states,

> From the standpoint of the retail store, the charge account is usually steadier and more dependable than a cash business. Charge customers tend to become regular customers representing a stability of goodwill not always found in a cash store. A list of charge customers is a most valuable sales promotional channel through which notices may be sent of new and seasonable goods as well as clearance and special sales. Usually charge customers represent greater buying power than cash customers.[3]

While this is by no means all the reasons why a retailer should grant some credit, it will tend to show the retailer he can hardly afford not to extend credit.

A certain amount of cost as well as some risk is always encountered in selling on credit. The retailer should take this into account before he decides to grant credit; however, if the retailer decides to grant credit, he should work out his credit program in detail before he opens for business. He should adhere closely to the program once it is drawn up; if he becomes lenient and deviates from the plan, the first thing he knows he will have no workable program at all. In this plan he should set forth how much credit he can afford to grant. To quote from a bulletin released by the United States Department of Commerce

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[3] Paul H. Nystrom, <u>Retail Store Operation</u>, p. 577.

> The best method is to figure how much working capital you will have left after paying all expenses required to set up your business. Next, decide how long you can operate on your remaining funds. Your common sense tells you that you cannot count on getting any loans for several months at least. Therefore, you should set aside a substantial amount to cover any emergencies that may arise.[4]

The new retailers, especially the smaller ones, will have an advantage over the larger ones who have been in business for some time as they can keep in closer contact with their customers. By being in close contact with his customers a retailer can know more about their financial standing. The retailer cannot know too much about his credit customers and their financial standing as he wants to eliminate as much risk as possible.

In setting up his credit program, the retailer should set forth his credit terms, and other points of his program. The custom of the community will more or less govern the terms that a retailer will extend to his customers. He cannot afford to allow his competitors to be too much more lenient than he is in setting his credit terms. Neither should the retailer be too lenient in his terms as credit ties up needed capital.

Before a retailer extends credit to a customer, he should receive a satisfactory answer to what Phelps call "the five basic credit questions" which are:

1. Who is he?
2. Where is he?
3. Can he pay as agreed?
4. Will he pay as he agrees?
5. Can he be made to pay?[5]

If a customer will answer these five questions truthfully, and if

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[4] U. S. Department of Commerce, Establishing and Operating a Hardware Store, p. 184.

[5] Phelps, op. cit., p. 41.

he can give answers that are satisfactory, the retailer would have little to worry about from the standpoint of risk. But not all people are honest, therefore, the retailer should always check the potential credit customer against some credit rating.

In checking the integrity and credit standing of his customer, the retailer should seek information from a local credit bureau. If he does not hold membership in such a bureau, he can get this information for a fee. The retailer can also get information from employers, bankers, and friends of the customer, but information of this type is not always accurate or reliable.

A customer's standing in his community is often a good indicator of his ability or willingness to pay. If the customer is well thought of and takes active part in community affairs, he is generally a good credit risk. On the other hand if the person has a name of being "poor pay", or if he drinks, or gambles, the retailer should refuse to grant him credit.

The retailer should keep a file of all his credit transactions. All information on a customer should be filed for future reference.

The retailer, if he grants credit, will be called on for two types of credit: open account and installment credit. Open account credit is where the customer buys goods throughout the month but makes payment at some stated time, usually once a month on either the 1st. or 15th. of each month. Installment credit is used in buying a high-priced item such as a refrigerator, stove, and the like, or installment credit can be used to pay a large bill made up of small items. In installment sales the customer pays a like sum each week or month until the goods are fully paid for. Most retailers add a carrying charge to the price of the goods on installment sales, usually about 10 per cent of the unpaid balance.

In installment selling the retailer should collect from his customer's first and following installments a larger amount than is necessary to cover the depreciation of the merchandise. This should be done in case the retailer has to repossess the goods, he will not lose on the transaction.

Some retailers who do not have the cash necessary to finance installment sales makes arrangements with their bank, or some finance company to buy their notes and to handle the collection for them. In case any customer fails to make his payments, the retailer is still liable to the bank or to the finance house for this sum.

2. Collection

The function of collection involves more than the matter of obtaining the cash from the credit customer. Collection begins with the making out of sales checks by the salesman, and proceeds with the keeping of records of these credit sales, sending out letters, telephone calls, and does not end until the final payment is collected and receipts are sent out to the customers or until the account is marked off as uncollectible.

When the retailer is drawing up his credit program he should include procedures for the collection of his credit sales. Nystrom states,

> A good collection system is a necessary complement of good credit operations. No matter how well the retail credit system is planned, it will still fail if not supported by proper collection methods. Indeed, the secret of low credit losses, if such it may be termed, lies in highly efficient collections. Easy credit with stringent collections is the principle upon which most successful retail credit businesses are operated.[6]

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6 Nystrom, op. cit., p. 609.

While some people, as Nystrom, advocate "easy credit with stringent collection" in order to increase sales, the better plan would seem to be to screen the credit applicants more closely and make it impossible for just anyone to receive credit. This would eliminate the retailer having to be overly severe in his credit collection policy. This is borne out by Duncan and Phillips;

> The difficulty encountered in collecting accounts are related directly to the policy followed by the store in extending credit. If a store follows a policy of giving credit to practically all applicants, it must expect to spend more money in trying to collect its accounts and also suffer more credit losses than the store which gives the credit privilege to a more carefully selected group. To a lesser degree, the collection problem of a given store is also influenced by the credit policy of other stores. Even if one store tries to be fairly strict in its collection program, if other stores are lenient, a too exacting collection program will simply drive customers to other stores.[7]

Usually at the end or first of the month, bills will be sent to all credit customers. These bills are generally an itemized account of the goods which have been purchased on time during the past month. Many stores do not send out bills on installment sales unless the bills are delinquent.

These bills which are sent out are due at once, but often a 10 day period is allowed for the customer to pay his bill before it becomes delinquent. If the retailer does not receive his money within this 10 day period, he should shortly afterwards make a follow-up by letter or telephone. This should be done for the difficulty of collecting a bill increases with its age. If the follow-up is made properly, many of the delinquent customers will pay their bills, and they can be retained as

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[7] D. J. Duncan, and C. F. Phillips, Retailing Principles and Methods, p. 649.

good customers of the store.

In a follow-up the retailer should never lose his temper or be harsh with a delinquent customer, but he should be firm and business-like. Often a telephone or a personal call from the retailer will be much more effective than a personal letter. In a personal call on or a telephone call to a delinquent customer, if the customer tries to stall off the retailer, he can suggest some means of raising the money, and is more apt to get his money than he would be through a personal letter. But no matter how follow-ups are made, the retailer should count on having to write-off some bad debts.

A retailer who sells on credit will most always have a certain amount of delinquent customers, but if a too large a percentage of the total customers become delinquent, this should serve as a warning to the retailer that his credit program is too liberal and that he should tighten up on future credit extensions.

If a retailer follows-up his delinquent accounts presistently and is still unable to collect them, he should turn these accounts over to a reliable collection agency or a lawyer to collect. If the collection agent or lawyer is unable to collect the account, suit can be brought by the retailer, but this should be used only as a last resort.

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