

by RUS KINZINGER

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# IF YOU TEACH A CANNIBAL TO EAT WITH A FORK, HAVE YOU MADE PROGRESS?

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With official U.S. unemployment at 9.5 percent and climbing, expect more delinquencies, as the bills come due and homeowners no longer have regular paychecks coming.<sup>i</sup>

In the midst of the financial crisis, more and more Americans are filing for bankruptcy. And experts say the numbers are likely to get worse.<sup>ii</sup>

It's ok to say it: the economy *is* depressing! You can't help but see the ominous warnings wherever you look. And if you lead a nonprofit, you cannot help but be concerned by the serious implications of decreasing revenues for your organization. *Will donations decrease in the face of economic uncertainty? Will there be enough money to fund programs? Can we survive as an organization?* You know the questions! If you have been in leadership any length of time, you have had to deal with them before. Undoubtedly, you have also had to make tough choices that in some material way reshaped your organization as it exists today.

But what if economic recovery takes many long months, or years? Can you survive? If you lead an organization with one or more retail offerings of low-dollar goods (thrift, consignment, resale, etc.) you may be one of the fortunate ones—that is, *if* you recognize the extraordinary opportunity before you, and *if* you make the right moves. It is not the time to be risk-averse. How you respond to economic uncertainty can define the difference between thriving and closing the doors.

Fortunately, the right responses are not that difficult.

## The Discretionary Income Fundamental

Low-dollar retail stores are uniquely positioned to be very good performers irrespective of the economy's strength. This is due largely to the behavior of shoppers with respect to their *discretionary income*, i.e., income which remains after necessary (non-discretionary) expenses have been paid. When the economy is robust, there is greater

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discretionary income; therefore, more funds are available for shopping low-dollar retail stores. When the economy slows, discretionary dollars are tighter. Though this may tend naturally to *shrink* your shopper base, the questions you ask,

how quickly you ask them, and how you answer each can actually help *boost* customer numbers—and profitability.

This brings us to some questions you and your retail team should ask (and answer) first thing Monday morning:

### **Q.1. If we continue to operate our business as usual, will the economy hurt profitability?**

Asking whether you need to do *anything* is not a bad place to launch your questions *if* you have confidence that operating in business-as-usual (BAU) mode will provide a net benefit. Let's face it: if your store is doing great, then

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why change? Make sure you have relevant data, however. There is little worse—retail wise—than to discover too late, that positive trending gross revenue is actually masking falling net profit. And it easily can do so.

Whether it makes sense to continue business as usual will likely depend on how aggressively you manage your store(s) currently. It is important to know, however, that you will need to be very proactive if you are to survive a sluggish economy! Even more so, you will need to manage with *intentionality*. You must also take action at the front-side of the downswing, not at its tail-end. Protecting your business in lean times takes courage and foresight. Equally important, you must be smart about *what* your business is targeting, *whom* you are targeting as customers, and *how* you are positioning your offering for greatest attractiveness.

### **Q.2. Will we see a change to our shopper base?**

If you take the right steps, you will probably notice a change in who is shopping your store(s)—not so much from customer shrinkage, as from expansion. Remember always to think through the mental filter of discretionary income. Whenever income contracts, so do unobligated dollars. Hence, the relatively low pricing of your store offering can act as a powerful magnet for persons who find themselves in a position of needing to stretch their purchasing power. This is the shopper universe that offers the most promise for expanded revenues to your store. On the other hand, some shoppers do not need a good economy to be able to spend freely. These fortunate folks (likely already a part of your shopper mix) will continue to provide a predictable revenue stream.

So, how can you act on this information to improve business profitability? As with most good actions, there are usually excellent underlying questions. Here are a few additional that you might ask.

- **Who is shopping our store(s)?** Hopefully, you have already dealt with this question; however, you are likely to see more-and-more first-timers, so be certain to answer it again—especially if

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the economy remains sluggish. It is important to capture the demographics of these new shoppers. When you understand who is shopping your stores, you have critical information for improving overall net profitability.

- **What are the specific needs of our shopper base?** Now that you have meaningfully identified your shopper, how well you anticipate—and market specifically to—their wants and desires will have everything to do with whether they return to shop again. Make no mistake about it: moving a visitor from

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**The economy will drive shoppers to your store . . . but you must earn the next visit.**

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*shopper to customer* takes purposeful action. It is not a guessing game. For example, have you carefully linked your store’s background music to your shopper? Music that appeals to a young mother will do little to motivate the shopping pattern of a senior customer. Are your products easy to access? For all shopper groups? What gets marketed in your prime retailing space? By the way, what *is* your store’s prime retailing area?

Whether you, or your *competitor(s)*, get the shopper’s patronage will have everything to do with who best recognizes that the shopper is someone to be (a) identified specifically, and (b) cared for accordingly. The economy will drive shoppers to your store . . . but *you* must earn the next visit.

- **Have we positioned our store to succeed?** You have now identified your shoppers demographically and determined their specific shopping needs. But do you deliver consistently and in a way that matters to the shopper? It is very easy to be so consumed with what you’re *trying* to do as a store that you lose sight of how customers actually see you. The gap between the two realities can greatly affect profitability. Your goal is to

place a psychological anchor in the minds of prospects so that they come to choose your business over a competitor

*Positioning* creates that anchor, or store identity in the minds of your target market. It is the “relative competitive comparison” you occupy in the minds of the individuals you want to shop your store. Proper positioning distinguishes your offering in such a way that no other business evokes the same sentiment. If shoppers think all stores that sell the same products as yours are alike—lower prices, lots of stuff, good customer service—you are NOT sufficiently differentiated. Your likelihood of getting a shopper visit is no more than a function of the number of your competitors. For example, if you have one store and there are twelve equivalent competitors, the probability that a new shopper will visit *your* business is  $1 \div 12$ , or slightly more than 8 percent. You are beginning to differentiate when the probability of a visit exceeds 8 percent.

(If you would like to know how your customers see you now, ask them to tell

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you the first thing that comes to mind when they hear your business name. No coaching. You want the raw truth—totally unscripted. A resale store that happened to be located next to a bakery recently asked their customers to say the first thing that comes to their mind when the store’s name is mentioned. You guessed it. Great smells! It’s what store leadership *needed* to hear, but it is not what they *wanted* to hear.)

### Q.3. Will we recognize success if we see it?

This question goes to the heart of whether or not you capture the key retail indicators that tell you if you are succeeding, or failing as a business. Retailing is both an art and a science. To do it well, you need much more than intuition alone and much more than comparisons of gross revenue—but that’s the subject of another article. Good metrics are the tools a skilled worker uses to craft careful decisions. If you *have* them . . . *use* them. If you don’t have them . . . *develop* them!

### A Closing Thought

There are many more questions that can and perhaps should be part of your Monday morning agenda. These will get you started. What is important is that you seize the

opportunities that a skittish economy presents. Admittedly, taking aggressive steps will expose you to risk. If you *fail* to move purposively, however, you risk more.

### Back to Our Cannibal

Running a successful retail business is not unlike teaching a cannibal to eat with a fork. You have to start with the right premise. For our cannibal, that premise is: Don’t eat the teacher! Miss this one and you could be consumed with delight (and not your own). In a retail store, the right premise acknowledges that shoppers *are* the main fare. The more you know about them, the more prosperous you will be. And remember this: they love to be served with relish!

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<sup>i</sup> [http://voices.washingtonpost.com/economy-watch/2009/07/delinquencies\\_on\\_home-equity\\_1.html](http://voices.washingtonpost.com/economy-watch/2009/07/delinquencies_on_home-equity_1.html)

<sup>ii</sup> <http://www.economyincrisis.org/articles/show/1999>

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