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Dealing with Vendors, Or

Vendors Can Be Your Best Friends or Your Worst Nightmares

In our free enterprise system, companies and industries develop and improve through competition, and a key requirement for competition is knowledge about the operations of all major competitors in the market.
Such knowledge inspires one competitor to gain or protect an edge over another and motivates lesser competitors in a market to emulate the operations of the market leaders.
—JACK LOVE, Publisher of *Internet Retailer*

LET'S FACE IT, you want to open your own retail store to be more independent, to be your own boss, to set your own hours, to make your own rules. But, as we continue our journey through the ups and downs of this world called retail, I have a feeling that you're learning, as I did, that in retailing, as in every business, compromises must be made.

One of those compromises is that, although you are your own boss, you still serve many masters. Your store hours may be set by the district, shopping center, or strip mall where your store is located. Employees need insurance, break times, and benefits both seen and unseen. Customers may ignore your lavish window display, forcing you to change it. Fads come, and fads go, and your merchandise, so carefully chosen and researched, loses value. Most telling of all, your customers demand certain products, services, and goods. And, although their demands change, to become successful you must supply them with what they want.

The question is, how can you keep up? This is where yet another contributor to your retail domain comes into play: the vendor.

Working with vendors has dramatically changed over the last decade. At one time you could count on vendors and manufacturers' reps stopping into your store with the latest and greatest items. That was before company mergers, rising gas prices, and the decline in company expense accounts.

Now, especially if your business is outside a major metropolitan area, except for your local suppliers, you hardly ever see a vendor's face.

As a result, storeowners need to be creative about how they find the right items at the right time at the right price.

Before we start dealing with vendors, let's talk about what makes a good buyer. Great buyers:

• **Understand that buying is an art, not a science.** Much as I would like to write the perfect book on how to buy, it simply can't be done. Not by me and, no matter what they tell you, not by anyone else. Buying is not black and white. It is an ever-changing, market-driven skill, forever in a state of flux.

Of course, some things are basic accounting, such as, "I sold one thousand packs of batteries last Christmas so there is a good chance that, with the same customer base, I will sell another one thousand packs this Christmas. And if my customers are growing at 10% a year, there is a good chance that this Christmas I will sell an additional 10% of batteries, so I should buy enough for 1,100 sales!"

However, the majority of what you buy is based on pulling together all of the information you have gathered from your research, readings, interaction with customers and employees; adding a dose of "gut feelings"; mixing it all up in your brain; and then making an educated guess. So take heart—even if this is your first store, you're up to speed with the best store owners in the world!

• **Understand that buying is actually selling.** You are selling your store as well as yourself to vendors to get what you want. These personal and business assets reflect your advantages and your strengths.

A great buyer makes a vendor understand that having their merchandise in your store will be an asset for the vendor. Vendors understand that new businesses and outstanding retailers are the lifeblood of their business. They understand that featuring their products in advertising and in-store displays helps build confidence in their brand. Vendors also understand that you may have an impressive database of customers who would be natural buyers of their products.

A great buyer conveys all of these messages in a concise, quick conversation. As a result, the vendor, instead of pushing his merchandise on the buyer, *helps* the buyer, providing concessions, adding merchandising support, etc. You've turned a sales call into a buying call.

• **Understand that vendors need to get as much for their money as possible.** An old retailing saying is: "Money is made in the buy." If you buy a product at the right price and under the right terms, you can sell it for a price that guarantees it will move quickly and make money. If you overpay for goods, you are going to end up trying to sell them for a higher price than they are really worth and, lo and behold, your customers will get to know this. They may not know it right away, but over time they will sense that you are overpriced. Today's customers are savvy, and comparison shopping is the name of the game. One thing you want to avoid is the reputation of being pricey. Therefore, always negotiate with the following in mind: to serve your customers well, to make sure that they will be getting the most for *their* money, you have to get the most for yours.

Pricing Your Product

Before you even talk to your first vendor, be prepared. You need a plan. In your head, or, better still, written down in your business plan, you need to have a solid, consistent philosophy on how you are going to price the products you sell.

The problem in setting the right price is that, on the one hand, to please your customers, beat your competitors, and then maximize sales, you want low prices. On the other hand, to maximize your profit margins, improve the quality of your store, provide better service, and ultimately take more money home, you want high prices. As the king in

The King and I put it, it's "a puzzlement"!

Unfortunately, there are no clear or easy answers to the pricing question. Like so much else in retailing, it comes down to a matter of your judgment. However, your judgment should be informed by a number of considerations that, taken together (and proven in the crucible of trial and error), will lead you to the right answer.

As you think about pricing, remember that while very important, price is not the only criterion you customers consider when they shop. They are also influenced by, and pay extra for, branded products, convenience, hard to find merchandise, status products, prestige, elegant surroundings, confidence in the merchandise, and much more. If you buy a diamond at Tiffany's, you pay a lot more than if you buy an identical stone on Forty-seventh Street, Manhattan's jewelry district. Therefore, you're better off buying from Forty-seventh Street, *if* you know a lot about diamonds. If you don't, you may well be cheated in the jewelry district and wind up paying far too much. So, if you are a diamond neophyte, you're well advised to buy at Tiffany's because of the safety factor. You are paying more, you could say, as insurance. And, of course, for the pretty blue box!

Do not make the mistake of thinking there is a set formula to pricing goods. Remember, it is against the law for a manufacturer to dictate what a product is sold for. This is part of the Sherman Antitrust Act, which was written long ago to protect customers from price gouging. These days a manufacturer may choose not to do business with you for any number of reasons, but although they can recommend prices, they may not dictate the price for which you sell the merchandise.

There are several factors to noodle around in your head as you are thinking of what products you want to sell, and at what price. The goal here is to balance maximum sales (i.e., turnover) with maximum margins on every item you sell. Well, not quite every item. You will make mistakes when you buy. Some items won't move. So, when you set your overall pricing policy, remember that you will have to markdown or adjust your pricing on slow-moving goods.

Here is a story I particularly like that sums up a prevailing attitude about pricing: Two butchers are located across the street from one another. One day a lady walks into one of the stores and sees that New York steaks are priced at $9 a pound. She says to the butcher, "You know, across the street, steaks are $8 a pound."

"So why don't you buy them there?" asks the butcher.

"Because," she says, "they are out of stock."

"Oh, well," he replies, deadpan, "when I'm out of stock, mine are $7 a pound."

As this anecdote implies, prices shouldn't be written in stone.

Along those lines, here are some critical factors to consider when pricing the merchandise:

• **Price comparisons.** Just as your customers compare prices and quality between you and your competitors, so you should compare these qualities between your vendors. Don't be fooled by the charming salesperson or the impressive sell sheet. Really investigate competitive products and decide which ones will give your customers the best value.

"Sell" your vendors by convincing them they *need* their merchandise in your store—and that they should give you a price break to get it in there! Remember, there are always other vendors out there; perhaps one of them will give you a better deal. Keep searching. Effective buying is a never-ending task.

• **Brand value.** Does the brand you are thinking of buying justify a prestige price? Look at the complete value of the item, including quality, durability, and function, not just the name on the package. Does adding the name to the package make it worth more than another name? Don't forget to keep up with the latest trends. Some brands have less value in the marketplace than others. This is often due to customers' perceptions. If you don't know which brands are hot and which ones are not, it will be hard to price them correctly.

• **Perceived value.** How does the item look compared to its price? If customers worry that there must be something wrong with a product because it is too cheap for the way it looks, then you have under-priced the item. On the other hand, if you overhear customers complaining that a price is too high, that message is clear as well.

• **Competition.** If the item you are selling is carried in a lot of stores, then you will need to price it at or below the going retail rate. As we've already discussed, customers comparison shop, and so should you. Know your competitors' prices for similar items. On the other hand, if your item is unique, or at least can't be found in stores close to yours, then you can grab some extra markup.

• **The fine art of loss leadership.** If you are running a store where low prices are a major factor, then one of your goals is to give customers the impression that you are very low priced— lower than your competitors. The problem is if you price everything below your competition, chances are you won't make enough profit to stay in business. After all, even though you're a good buyer, you can't pay *that* much less for your merchandise.

So, how do you demonstrate to your customers that you are the lowest-priced store in town? The answer is to keep most of your merchandise at competitive levels, that is, at the same price as your competitors, or sometimes at slightly more. You accumulate all these small extra profits into a war chest. Then, you choose a popular item whose price is well known to most of your customers, and you offer it at a drastically low price. You may even lose money on it. But that's okay because you've covered your loss with your war chest.

And what do your customers think? "My, did you see that his store's selling steaks at two bucks less per pound than anyone else? Boy, does that store have hot prices!"

• **Merchandise department.** Every merchandise category has different parameters defining what customers are willing to pay. And every type of store engenders a different pricing mindset in its customers. A woman willing to pay $100 for a treatment cream at Neiman Marcus, would balk at paying $19.95 for a jar of cream at her supermarket. Thus, you need to understand your customers' price limits by type of store and by each product category.

My wife and I were just in Nordstrom Rack, which is where Nordstrom moves their markdowns when they are done with them in their main stores. We were there to find my wife a dress for a wedding. We walked into the designer room and in a mere five minutes she walked right back out. When I asked her why, she said the dresses were too expensive even though they were only 25% of the original selling price. So I went back in to check it out in more detail. Dresses that were originally $1,000 were now selling for $250. What a deal, I thought. But my wife was not about to buy a $250 dress from a markdown store. At *that* location, they were outside her category comfort level.

Customers know what something *should* cost in a specific type of store and in a specific merchandise category. So should you.

• **Store ambiance.** The way your store looks will also influence your pricing. Does your store feel like a warehouse, where only bare-bones pricing is expected? Does it look like a luxury store, where customers expect to pay more because the perception of the goods' value will be higher? Prices that don't reflect the décor, and vice versa, will give customers mixed feelings as to your sincerity as a merchant. Not a good feeling!

• **Employee input.** Don't be ashamed to ask your employees (or even some of the customers you trust) what an item should sell for. Don't tell them what you are paying for it, of course; just ask what they *think* it should sell for. You may be surprised that they feel you can sell it for more than you thought. A side effect of this exercise is that they really do appreciate your asking them for their opinion. You may also recruit certain employees (especially one from a generation different than yours) to shop the competition, keeping their eyes, in addition to your own, on those trends, fads, brands, and prices that are so important for your staying at the cutting edge.

• **Merchandise look and feel.** We've already discussed how customers treat shopping as a tactile experience. This should go for retailers as well. Case in point: sometimes you should not price a product until it actually arrives at your store. Samples or pictures you buy from are sometimes better, and sometimes worse, than the actual merchandise.

• **Market value.** The cliché, "Get what the market will bear," always applies. Of course, you should consider what you paid for the merchandise but the real decision on pricing doesn't depend on cost. If what you paid determined what you can sell it for, I wouldn't be sitting here with a bunch of worthless dot-com stocks! The decision whether to buy an item at the best price at which it is offered depends on the price at which you believe you can sell it. On some items you can take a large margin; on others your margin will be small.

The problem, of course, arises when your competitor is "lowballing" a must-have item. Competitors know about loss leaders just as you do! One answer is to take a deep breath, match your competitor, and take your loss with the best grace you can muster. Another is to keep the item in stock at a reasonable price, but deemphasize it. Feature and display something else, ideally something your competitor is selling at a slightly elevated price.

A Few Words about Margin

There are several different ways to make money in the retail business. The first and most obvious, of course, is to sell a ton of merchandise at small margins. The second is to sell fewer products with a higher margin. The third is to sell a lot of merchandise at decent margins.

I have always believed in the third option, but to make it work, each product and category must be analyzed to maximize the difference between cost and retail without putting your retail price out of the reach or expectations of your customers.

Preparing for the Buy

The most crucial, yet most difficult aspect of retailing is managing the type and amount of merchandise in the store at any given time. Why? This is difficult because of three factors:

1. **Temptation.** As you begin dealing with several vendors in several different settings, whether in their beautiful showrooms or at booth after booth at a trade show, the temptation is always there to buy a lot more than can actually fit into your store—or your budget. Trust me, vendors know this. Always remember that you will be dealing with polished sales reps with smooth presentations and goods that scream out "choose me for your store." Knowledge (and a firm grip on your Open to Buy) is your best weapon against temptation. Be sure you know exactly what you need and what you can afford. And remember, each time you buy something, be sure that you reduce your remaining Open to Buy. When you've used it up, *stop buying.*

2. **Timing.** The timing of product coming in to your store is crucial. The problem is if you give an order to a vendor today, he may ship tomorrow or, if his delivery is delayed from overseas, in a month. In that case, the shelf where the goods normally sit in the store may be empty. In retail, as in just about everything else you do in life, timing is crucial.

3. **Planning:** Paperwork can be a comfort, or a nuisance, depending on your point of view, but planning and keeping the paperwork organized is vital to your long-term buying success. Never, and I repeat *never*, make a buying decision until you are sure it fits within your financial buying plans. It is okay to substitute one product buy for another; it is *not* okay to buy more than your Open to Buy permits. Many major chains have gone broke simply by bringing in more products than they could afford. The vendor community shares information on retailers who pay on time and those that do not. You can afford to be *somewhat* slow; however, you never want to be relegated to the "slow pay" category. It is always better to pass on a deal than to buy something you cannot afford.

Basic Steps to a Successful Negotiation

Real communication is an attitude, an environment.
It's the most interactive of all processes.
It requires countless hours of eyeball-to-eyeball back and forth.
It involves more listening than talking.
It is a constant interactive process aimed at creating consensus.
—JACK WELCH, Former CEO of General Electric

Like buying or selling, negotiating is another skill that can't be consigned to some black and white category. Often unpleasant, occasionally emotional, and *always* challenging, the art of negotiation is just that—an art.
Each vendor and each deal may be handled differently, depending on what is at stake. Some buyers think negotiating is the highlight of their job, while others dread this aspect of the retail world.
Don't get too hung up about negotiating. The more you do it, the better you'll get at it. Until then, however, if you keep the following negotiating skills and tips in the back of your mind at all times, you should fare well with all your vendors.

Be Prepared

You know your store, your customers, and your niche intimately. Your vendors, however, sell throughout your region or even across the nation. They probably don't know what is exactly right for your community or your store.
Moreover, however helpful and friendly vendors may be, remember that just like you and me, they are looking out for themselves first. As such, most vendors will try to push what is right for their business, not necessarily for yours. To counterbalance their enthusiasm for their products, you must be prepared to evaluate their products and decide, as objectively as possible, what is right for your business. Always remember, *you* are the customer. You are in the driver's seat. You *know* how much you can spend; the vendors don't. Here are six risks you face if you are *not prepared* when you sit down with a vendor who is, of course, prepared for you:

1. **Being shortsighted in evaluating issues and products.** If you are not prepared, you can't compare one vendor or product to another, thus putting yourself at the vendor's mercy.
2. **Succumbing to pressure to close the negotiation.** Without knowledge, you have no ammunition to counter a vendor's claims, inflated or not, about a particular product. Therefore, you may agree because you are in no position to disagree.

3. **Giving up too much too soon.** Whether it is price or quantity or

timeliness of delivery, if you don't know where you should be, you don't know what to ask for or what you are missing.
4. **Forgetting key details.** "Retail is detail." It's not just a catchy slogan; it's a truism. Every aspect of a successful retail business blends together when the details are known; and quite often falls apart because some detail is unknown. If you forget to document why an item did not sell last year, you may buy it again this year. Errors like this will eventually kill your business.
5. **Not considering all alternatives.** Don't be rushed into making a decision. Remember, no matter what the vendor tells you or how quickly a product is moving, the manufacturer can always make more of the product and the vendor can always get more of the product.
6. **Losing control of the negotiating process.** If you do not know what you are talking about, the other party will grab the upper hand, possibly without your even realizing. You don't have to be louder, bigger, stronger, or more successful to stay on top of a negotiation, just more knowledgeable.

Maximize the Alternatives

In most negotiations, several paths can lead to the right solution. If you have some creative ways you would like to work with your vendors, be polite but persistent in pushing your ideas. Remember, vendors are there to do business, not waste their time. They wouldn't be seeing you if they didn't need your business.

Don't let minor setbacks stop you from getting the product or product line you think is right for your store. As you explore alternative ways to work with vendors, always keep in mind that the best ways to reach your goals is to help them reach *their* goals. It's important that you don't go into the negotiation seeing the vendor as your adversary. Of course, both of you want different things; accept that and work together to get what you both want.

Negotiate with the Right Person

When buying a car, you don't want to waste your time dealing with someone who has to keep running to someone else to make a decision. As quickly as you can, make sure you are dealing with a decision maker for this vendor, not just an order taker or gatekeeper. You may be small, but you're going to grow. Convince the vendor that you are someone to watch—that it's worth the boss's while to meet you.

Give Yourself Room to Maneuver

Without appearing to be too coy, don't back yourself into a corner by being too black and white in dealing with people. Always have a back-up plan if you really want a certain product but you cannot get it at the right price or for the right deal. If one approach does not work, be ready to try others.

Don't Give Away Too Much Too Soon

Vendors can sense when a buyer is overanxious for a product. When this happens, buyers lose the leverage they had when they started negotiating. As successful gamblers maintain their "poker faces," the retail buyer's "game face" has to be on in all dealings with vendors. Of course, that doesn't mean you have to be stern or dour; by all means, be warm and pleasant. It never hurts to have a good laugh. Vendors who like you are more prone to give you a break. Just don't let them see what you are really feeling behind that smile.

Be Prepared to Say No

Saying no is the hardest, and yet most essential, skill for a buyer to learn. You should come prepared; you know what will work in your store and you are determined to find it. But if the price isn't right, and you can't make enough money to warrant the outlay, you have to be prepared to

say no and walk away. Often the vendor will come back to you with the right deal. I call this "buyer chicken." Who will blink first?

Know Your "Walk Away" Point

Saying no and "buyer chicken" only work if you're prepared to back these tactics up by walking away. If the vendor calls your bluff by refusing to come down in price and you come crawling back to accept their existing deal, you lose all credibility and have a lot of trouble winning any future negotiations.

So my message is clear: when you decide on the highest price you can afford, you must be willing to stick by it. As the form of the offer changes and as the negotiation process continues, you must weigh the pros and cons to see where you stand compared to your internal maximum. Use a calculator if that helps, and don't be afraid to slow vendors down if they go too fast (a common vendor tactic).

Make Your Word Your Bond

In retailing, as in life, ethics make the man or woman. Your word is your bond. If you commit and give your word, make sure you follow up and execute what you say you are going to do. If you say no, stick to it. If you say yes, don't deviate. Such reliability and honesty will pay dividends. Vendors, knowing they can count on you, will help you in many unexpected ways.

Negotiating Tactics Used by Vendors

Vendor negotiating tactics all have one thing in common: they rely on some form of pressure—on you!

However, there is a big difference in how that pressure is applied. Some vendors still base their philosophies on the old-school style of high pressure, we-win/you-lose selling. If possible, avoid them. You're not there to be hustled; you're there to do business.

Fortunately, most modern vendors prefer to pressure you in more pleasant, refined ways. Keep in mind that pressure derives from one, or all, of the following: position, power, knowledge, or time. Not even the most refined vendor is above explaining that, if you do not buy at once, the stock may run out, the price may rise, or some other disaster is likely to occur. If you would prefer not to buy right away, but you know you need the product, your job will be to determine whether or not the vendor is bluffing. To be prepared to successfully negotiate, watch out for the following vendor tactics.

I Want It All

This type of negotiator starts high and then gives away a series of small concessions to persuade you to buy more than you need. The idea is that you will be so relieved not to have to buy a carload, that you are happy to buy two-thirds of a load—when you really needed only a half. If you fall for this play, you participated in a clear win-lose situation. You will wake up in the morning realizing that you have been had, that the agreement is inherently unfair. Probably, there's no way out. The vendor has erred, however—any chance for a long-term relationship has been jeopardized. The approach is often effective in the short run, but hard-sell vendors eventually go out of business. The most effective counter to this technique is to have a very clear understanding of your goals and objectives. Know when to walk away.

Good Cop, Bad Cop

Vendors often use this tactic to save on freight, advertising, etc. Usually a senior executive will talk about how they lost money on your account because sales were so low. Then the executive closer to your account will try to calm down the situation by making a compromise offer "so we can

continue to work with you." The offer is never as good. If you need the vendor, this tactic is hard to resist.

The best strategy against this tactic is knowledge: know what the competition is doing, know your store, know what sells, know what doesn't, know what your employees can push, and what they can't. That way, you can't overpay or over-promise.

Team Tactics

Vendors often negotiate with a team approach, pulling together accounting, marketing, manufacturing, and sales specialists and throwing them all at you at once. When your store is confronted with team tactics, unless you are uncommonly well prepared, it is hard not to be overwhelmed by all the facts and figures at the team's fingertips. However, there are a couple of effective ways to counter this tactic:

• **Form a team of your own.** Pull together people from the different specialties in your organization to aggressively challenge the vendor's team and support the goals you want to achieve. Make sure your team is as prepared as theirs.

• **Face the team alone.** You must be well prepared in all aspects of the negotiation. Take a deliberate and methodical approach and refuse to be stampeded by the team. By being firm, knowledgeable, and able to stand your ground, you will effectively counter the other team's tactics and reach your goals.

Approval Authority

Everyone you deal with in business (from the company who leases you the building to the vendor who supplies the goods) has some limitations on their authority or power. Approval authority, or rather the lack thereof, can be a very effective tool in the negotiation process.

When you are not dealing directly with the owner or president of a company, you leave yourself open for the person you are dealing with to say he or she does not have the authority to make a decision and must get the boss's approval first. Think how many times you have settled for something less than you wanted because the person had limited authority.

Do not assume that when someone says he or she has limited authority, that this is truly the case. Often, the vendor is using these tactics to test if you are willing to make a concession in order to avoid the prolonged process of getting a decision from a superior. So, be patient. If you do not cave in, if you do not allow yourself to be pressured by need or time, you may find your vendor is suddenly able to make a decision after all and conclude the agreement in very short order.

Time Warp

Time may be money, but if you allow yourself to be pressured by a lack of time, the money it costs may be your own! Using time as a weapon is another classic vendor negotiation technique. Time tactics can be used in a couple of different ways:

1. **Limit time.** Time limitations are used by vendors to force a decision. The best way to ensure that you are not taken advantage of by being forced to move faster than you want is to call the bluff. While some time limits *are* real, most are not. When you test the vendor, what seemed like a real deadline suddenly becomes fuzzy and soon seems to evaporate altogether. On the other hand, if you have no good reason to delay, you shouldn't. Always remember that being helpful to a vendor will get you better deals in the long run than being a pain.

2. **Delay time.** This technique is just the opposite because, instead of using deadlines to apply pressure, the negotiator uses delays to achieve the same result. Once you realize the vendor is stalling, you know this method is being deployed. The approach is usually used to get you to

commit at a higher price because you are duped into thinking the vendor

is about to sell the goods elsewhere. If you know what you want, the maximum you can afford to pay, and when you need the goods, the technique won't work. State what you want; provide a deadline; walk away if it passes. Once vendors know you mean what you say, they won't delay you unnecessarily again.

Turn about is fair play. Don't lose sight of the fact that delay may also be a great tactic for you as a buyer. Most vendors have quarterly budgets they need to meet. If you can afford to delay your order until the last minute before the end of a budget period, the vendor, possibly hard pressed to make his numbers, may offer any number of concessions.

Power Plays

In some negotiations between two parties, one reaches a winning conclusion merely by exerting power over the other. People who are sufficiently authoritarian use this technique most frequently and often with success. Perhaps it is simply another way of saying, "I wish to be respected."

Many vendors use this tactic on buyers who are not owners by implying or sometimes boldly stating that they are intimately related to the owner, intimidating the buyer by warning that you'd "better do what I say." A classic old school negotiating style, injecting fear of being fired into the sales pitch, is how this type of vendor tries to secure the order.

If anyone in your store ever encounters this tactic, make sure everyone in your organizations knows that no vendor will tell you, or them, what to do. Then, take the vendor aside and explain that, if anyone is going to lose their job, it's going to be him!

Money Crunch

Vendors use the "money crunch" excuse when they insist that they cannot accommodate your promotional needs due to financial constraints.

The excuses flow thick and fast: the budget won't allow additional expenditures, funds are already committed to other projects, or, worst of all because it's such a weaselly cop-out and rarely true, "any discount I give you comes out of my own pocket."

Don't ever forget that, as the buyer, you have "the power of the pen." The easiest way to tell if someone is using the money crunch ploy is to call their bluff. Communicate your offer, be firm, and stand by it. If necessary, use the walk away tactic. If the other party is bluffing, you'll soon know. If not, you'll lose the purchase. But you shouldn't castigate yourself—the product was simply not available at the price you could afford to pay.

Ultimatums

Ultimatums only work against targets with no options. Therefore, to negotiate a purchase successfully, you must make sure that you have options. The key to avoid having to succumb to ultimatums is to know your alternatives. As always, knowing your store and planning ahead leaves you prepared. There is almost never a circumstance where no option exists. Therefore, as long as you are properly prepared, you will hardly ever have to give in to an ultimatum. And when you resist successfully once or, at most, twice, you'll never face an ultimatum again (at least from that vendor).

Retail is a "trial by fire" business. Good merchants know all of the above, and a hundred more things. After only a few months in business, so will you.

Finding the Right Suppliers

Many manufacturers sell their goods directly to retailers. Most smaller retailers, though, buy from wholesalers for a number of reasons: the wholesaler carries a wider assortment of items, thus making stocking the

whole store (a time-consuming chore) easier and faster; the wholesaler gives excellent *local* service and cuts down on the number of vendors the dealer has to buy from; and the wholesaler delivers items in smaller lots. On the other hand, wholesalers charge a lot more than do manufacturers. It's a trade off.

As you know if you've read my résumé, I am a cofounder, President, and COO of DollarDays International. The reason I helped found this company and now run it is that I saw a need for a wholesaler who can supply the lower quantity you need at manufacturer (not wholesaler) prices. In the old days, this would have been impossible because the cost of contacting you would be too high relative to the amount of product you could afford to buy. However, today, we can contact you via the Internet or an inexpensive phone call and so we can provide a service that never existed before. So (and here comes my shameless plug) check out our DollarDays.com Web site. You'll find that we carry a huge assortment of products (far bigger than your local wholesaler); we FedEx or UPS the goods right to your door; we are always there if something goes wrong; and we're impressively inexpensive compared to what you're paying now.

Whether you use it or not, when you set up your vendor network, here are some points to keep in mind:

1. **Limit the number of vendors in each category.** You want to become important to your vendor and your vendor wants to become important to you. The more volume you do with a resource, the better pricing you will get. You will also participate in more promotional programs. Thus, you don't want to split your purchases among too many vendors.
2. **Comparison shop.** Every manufacturer or wholesaler has their own way of doing business, so compare their benefits to make sure they fit in well with your strategy. We often have to work with vendors or manufacturers with whom we are less than compatible, but the goal is to whittle these vendors and manufacturers out and concentrate on those who are compatible.
3. **Be aware of the distribution solution.** Each supplier needs to be evaluated for their distribution pattern in your marketplace. How common are their goods in your trading area, and, in that context, what margins can you expect to achieve on their products?
4. **Maintain personal standards.** Ultimately, the relationship between you and your vendors is based on how well their products are accepted by your customers. Therefore, you must make sure that your vendors' service, warranty, and return policies reflect the standards your customers expect.
5. **Conduct ongoing evaluation.** Remember, vendors (like all human organizations) change and evolve—and not always for the better. So, even though you are satisfied with the group of vendors you have chosen, never stop evaluating their products, service, and distribution methods. Don't allow them to become complacent. If their services fall below what you need to run a successful business, do not hesitate to eliminate them from your supplier group and go elsewhere.

Ten Basic Questions to Ask Potential Vendors

As we have seen, gathering information is part of making the right buying decision. Don't be afraid to ask your vendor the following questions before you decide whether or not to buy:

1. **Who else does well with your line?** You have a right to know the answer to this question because if these are competitive retailers in your marketplace, you need to decide whether you are going to enter the fray or walk away. Moreover, if there are other stockists, you will

want to see how fully they present the line.

2. **What are your order minimums?** This is an important opening question because many companies refuse to open an account if the dollar amount of the order is too small. If you have your heart set on doing business with this vendor but cannot meet their minimums, you can try a couple of tactics. First, write the order for what you really want, explain to the salesperson that you expect to grow rapidly and, if the company helps you now, you will be a large and loyal customer in the future, and then leave it with the salesperson to try to take care of you. Your order may be close enough, or your future business may be important enough, to secure the order despite the minimum. Second, go ahead and mail the order to the company with a professional letter saying you would like to try this order as a starter and, if it works out, you will be happy to meet their minimums for your next buy. You would be surprised how often this works. As I always say, "The worst they can say is no."
3. **Can I buy any promotional or off-price merchandise to help maintain a good margin on your goods?** This is a question to ask every time you work with a company because, just as you do in your store, vendors frequently mark down their goods. Why not reap the benefits of these discounts? This is an exemplary case of "if you don't ask, you won't get."
4. **Can I reorder these goods?** You also need to know this, and communicate it with your staff so everyone knows how to merchandise the product. If it's a one-time sale and the price and margin is right, go ahead and "blow it out." Most of your business comes from repeat purchases, however, either make sure you can get more when you need it, or make sure your customers know this is a once-only opportunity!
5. **Do you have a catalog or color photos?** This is helpful if you decide to advertise the vendor's goods in a flyer or in the local paper. It is also good to have them lying around the store to share with employees and possibly even customers. Many companies these days can e-mail you pictures for use around the store, in advertising, or on your store's Web site.
6. **Do you have a Web site?** Many companies are now able to get new information and products up on a Web site quicker than communicating through "snail mail."
7. **Do you offer co-op advertising monies?** Co-op advertising (short for *cooperative*) is advertising for which vendors pay for part or all of the ads you run for their products. Co-op applies to newspaper, magazine, television, or radio ads and in some cases, even in-store displays. Typically, the advertising schedule and reimbursement are agreed on ahead of time.

The rules with most co-op advertising are very strict. For instance, when I owned a chain of hair salons, one of my major suppliers of shampoos and hair coloring helped pay for local magazine ads that included their line. The details of the program would be agreed on at least three months in advance. The suppliers would send me the latest fashion head shots and, to be reimbursed, I would show that the product name and picture was in at least 65% of the ad. Once, an ad accidentally slipped through in which 50% of the space was used for the supplier's line. They paid nothing!

So, as part of your purchase decision, find out what marketing money the vendor will tap into, and what rules attach to it. Co-op advertising helps stretch your advertising dollar, but read the fine print. If you don't, as happened to me, you may find yourself with a bill to pay. Assuming the deal is fair, you are well advised to run as much advertising as the vendor will pay for, even though the time and paperwork involved can be annoying. Advertising gets your store name known. You're on the map.

8. **Can I exchange goods that are not selling?** If you are dealing with

quality vendors who want to develop a long-term business with you and not just make a quick buck from a one-time sale, they will usually help you out if you are stuck with goods. Naturally, you cannot take advantage of this privilege very often. Except in a few categories of product, books being one of the biggest where you can return anything you want any time, returns and exchanges are no substitute for buying right in the first place.

9. **When will the goods be delivered?** You need to know when to expect goods in your store, not just in general, but specifically. Don't let a vendor get away with telling you two to four weeks when you really need them in three weeks. In most cases, you should be able to get a date that is accurate within two to three days. Also, make sure you have automatic cancellation dates on all your orders. If each order specifies "cancel if not shipped by ______," you won't end up with Christmas goods arriving in January.

10. **What are the terms of payment?** Do I need to pay for goods up front before they even arrive in my store? Am I going to have to pay with my company credit card (which may not be a bad deal since you usually have thirty days to pay off the balance before interest payments kick in—and you might even get airline miles for airfare, hotels, and various products)? Will I get thirty day dating, meaning that I don't have to pay for thirty days after I receive the vendors invoice—and I may be able to stretch that to forty-five or even sixty days? If I bring in Christmas goods in August, can I delay payment until November? (Some vendors grant this sort of dating privilege.) Can I take any of the vendor's slower moving goods into my store on consignment, that is, not pay for them until I sell them, and return them if they won't sell? Can I get a guaranteed sale, which means I have to buy the goods (unlike goods I take on consignment), but I can send back everything that doesn't sell?

All of this information is key input into your spending and cash flow plans. Certainly this litany of questions sounds intimidating now, but, trust me, practice makes perfect and you will soon be rattling off these questions by rote!

Ten Guidelines to Buying Wisely

Never lose sight of the fact that when you are making buying decisions, your job is to see the product through your customer's eyes. Don't buy based only on your own personal tastes; you are buying for the hundreds of customers who will be in your store checking out these products. Also, keep in mind that you always have the power of the pen. No order gets written unless you *choose* to write it. So the mind game you need to play with yourself is to really believe that *you* have the power, not the vendor, because he gets nothing until you say okay with your pen.

Knowing that you have that power, you can take all your meetings with a positive mindset, and thus, achieve positive results. You will do even better if you understand that your aim is to create a personal relationship with your vendors and make win-win deals. With this in mind, here are some proven buying guidelines to follow:

1. **Do your buying in your own store whenever possible.** Like a sports team with home field advantage, if you are comfortable and in familiar surroundings it will help reinforce the feeling of power you'll need to buy wisely. If the vendor is in your store, you can show him what you are talking about. Even if you're phoning in an order, being in your own store still gives you the advantage of being totally prepared and placing the call at your convenience.

2. **When going out of town to buy, don't overload your schedule.** Obviously, when you go out of town, you give up your home field

advantage. To compensate, make sure you have plenty of time to

think, plan, and shop for the right products. If you are going to a show, give yourself plenty of time to see what vendors you don't know are doing. If you are going to a different city, give yourself time to shop in their retail stores to learn what you may be missing.

3. **Never leave home without your Open to Buy.** A profitable retail business is an organized business, and at all times you need to know your inventory position and how much you have to spend. That is especially important when you are out of your element and on the vendor's turf.

4. **Never buy an item the first time you see it.** Take some time to consider not only how the product will fit into your store's goals, its "big picture," but also the price for which the vendor's competitors are selling their products. Remember, the product you are considering isn't going anywhere. It'll be there, along with the vendor, when you get back.

5. **Buy a digital camera and every time you see something you want to buy, take a picture of it.** Pictures help you keep what you have bought straight in your head. That way you'll avoid buying the same thing twice. The photos are also a great training tool for your salespeople back at the store.

6. **Always be honest and ethical with your suppliers.** This goes a long way in building a long-term, win-win relationship. Keep in mind that your personal reputation as a business owner and as an individual is something you should always protect, defend, and enhance. In this respect, vendors are no different from customers.

7. **Before you sign a purchase order, confirm the agreement with the supplier.** Restate what you are planning to buy, what the terms are, what the vendor is going to do, what you are going do, etc. You do not want any misunderstandings. Far from begrudging this step, vendors worth their salt will appreciate the attention to detail.

8. **Keep a supplier notebook for your top vendors.** This need not be fancy. It is merely a journal to keep track of meetings, phone calls, and deals. Over time, this notebook becomes a valuable resource and you will be surprised how often you refer back to it.

9. **Print your own purchase order instead of using the vendor's.** Purchase orders (PO) are not expensive to print and this gives you the edge of professionalism that vendors rarely see in independent stores. Your purchase order should include your terms and conditions. This will avoid later misunderstandings.

10. **Realize that the terms you negotiate with a supplier can become more important than the price.** We are all focused on the cost of goods, but do not lose sight of how the total package of a deal can drive additional dollars to your bottom line. Remember, "Retail is detail." And details don't get any bigger than the terms you negotiate with a supplier. Terms of a deal may include:

• Who pays the freight to get goods to your store?
• The number of days you have to pay for the goods. Can you get additional dating if you accept the goods ahead of the actual selling season?
• Allowances and rebates tied to the size of your order.
• Money available for co-op advertising.
• Returns policy, including who pays the freight on damaged goods.
• Markdown money if the goods are not moving.
• Fixtures to display the goods, such as a free mannequin or other vendor-supplied fixture like sunglass holders or revolving book racks.
• Selling aids, such as sheets, tags, videos, promotional bag stuffers, etc.
• Samples for demonstrations.

• Product knowledge training for the staff.

• Vendor paid trip to their showroom.

How to Find the Goods

You are now ready to deal with just about anything a vendor can throw your way. There is still a key question to consider before we wrap up this vital chapter: How do you find the type of merchandise you want to carry? Where do you go to buy it and from whom?

Keep in mind that buying today is completely different than it was just ten years ago, so make sure your research is up to date. The Internet has brought together buyers and sellers who could not have found each other in the past. During the past decade, manufacturers and wholesalers have cut way back on the sales personnel who used to visit stores all over the country. They no longer do so today because the cost is too high, and because business has become more concentrated. If you have to spend half your life visiting Wal-Mart in Bentonville, you don't have time or money left to cover the country.

Of course, this isolation from vendors is even more of a problem for stores not near metropolitan areas. So remember, this is not the buying world of our parents' generation. The following are different ways to find goods and, like most successful entrepreneurs, I am sure you will add your own resources as you continue to learn, grow, and succeed in retail.

Buying from the Manufacturer

The manufacturer is the company that creates the product being sold. However, it may do little more than assemble parts made by subcontractors, often in foreign countries. Where you find this to be the case, you can sometimes discover that the "subs" make the same product under their own name. Since their names are not well known, they sell their products for much less. By stocking both the brand name product and the identical, cheaper "no-name" product, you can offer your customers a great bargain.

If you know the name of the manufacturer you want to do business with, search the Internet for the company's Web site. This should tell you who to contact, what minimum orders are required, and all other information you need to do business.

Even though you have found the manufacturer, you may not be able to buy direct because the minimum orders may be too high, or because the manufacturer is saturated with accounts in your area. In that case, the manufacturer will put you in touch with the appropriate wholesaler.

If you can buy direct, you can do so in several locations:

• **In their showroom.** Many manufacturers have permanent showrooms, either at their district offices or in major cities.

• **In your store.** If the manufacturer has a sales person in your area, you can get them to stop into the store. These "direct manufacturers' salespeople" work exclusively for one vendor and are generally paid a salary augmented with a performance-based commission or bonus. They usually have company cars and benefits. Their interest, of course, is to sell you their products whether you need them or not.

• **At a trade show.** All industries have trade shows where you can meet most vendors.

• **On their Web site.** More and more buying is being conducted over the Internet because of the convenience that this new distribution method offers both the vendor and the store. That is how most customers buy from DollarDays. Don't ignore this new outlet. You can often get better deals via the Internet than in any other venue. And it's not hard. However old-fashioned you may consider yourself, after just a few hours of practice you'll have no trouble navigating the Net.

Buying from Independent Reps

These are independent contractors working for more than one vendor strictly on commission. They can meet with you the same way a manufacturer does: in your store, at a permanent showroom, or at a trade show.

The advantage of dealing with them as compared to dealing with a direct salesperson is that they usually carry several different lines appropriate to your business. Thus, they save you time and allow you to exercise more clout. Moreover, because they are independent, these reps are more flexible; they often go to bat for you with a manufacturer by explaining, “This is a good customer for me in my other lines. You are missing the boat if you do not help me build him up. By giving him a price concession now, he’ll become as important for you in the future.”

Distributors

These are companies that purchase merchandise from manufacturers in large quantities at discounted prices and sell them in smaller quantities at higher prices to smaller businesses. Since they typically carry many lines, they can consolidate shipping so stores receive goods from several manufacturers in one shipment. Unless you can buy in large quantities, the price you will pay the distributor will be about the same as you would pay if you bought direct.

Dealing with distributors can fill a major void because of the onestop shopping they provide. Distributors work hard at developing a consistent and long-term relationship with the stores they service. They have to, because small retailers are the lifeblood of their business. Networking with other retailers usually helps find the best distributors in your area.

Jobbers

They are often called *wagon jobbers* because they go from store to store with their products in the back of their van ready to be bought on the spot. Whereas such jobbers are usually much smaller than distributors, they nonetheless fill the same role and usually have routes they work every week. Dealing with jobbers can be a great convenience. However, convenience is not free; generally the jobbers’ prices are on the high side.

Buying Groups

These are associations of retailers who have joined together to buy as a unit in order to get better deals directly from manufacturers. “All for one” is a good slogan to describe these buying groups.

You must pay dues to belong to such a group, but the savings could be huge even considering the initial price of joining. Before you join, however, estimate how much you can expect to buy through the group. If you don’t expect to buy very much, the dues may not be worthwhile.

Belonging to a group gives you the added advantage of having an inside track on what is happening in your industry. There is power in working with a group of like-minded individuals. As they say, two heads are better than one.

Buying Services

These services function in a similar way to buying groups. Rather than being owned by its members, however, buying services are independently owned and need to make a profit. You pay a monthly fee and, in return, the buying service tells you about hot deals, helps find specific items you may want, shares vital industry trends with you, and often helps negotiate group discounts. If they have a good reputation, your association with them may also enhance your credibility.

Trade Shows

Your first buying experience should be at a trade show. This is where all the players in your industry come together. You can go online to find out where the trade shows for your industry are located, or just contact a large manufacturer who will clue you in on the upcoming schedule.

Fair warning: Be prepared to be overwhelmed. Many of these shows are huge and confusing. After walking around one all day, a friend

of mine complained that his feet hurt so much he was sure he was two inches shorter.

To get a sense of what is going on, you should spend the first day just looking around. Figure out who is selling what and for how much. Find the busiest booths and try to figure out why they are so busy. Don't buy anything yet. I trust we have hit home throughout this chapter that knowledge is power and the more you have before you actually visit a booth to buy, the better off you will be.

To become a respected buyer in the vendor's eyes, you need to know what is going on in your own marketplace. When you can tell a vendor what your competition is doing and at what price, you immediately gain their respect and give them a focal point around which to build your individual order.

Keep in mind that you will be exhausted from walking around the huge exhibit rooms on this first day, so don't make any major evening plans. On the second day, you are ready to start work with a few of the key vendors you scoped out the day before. Remember not to leave home without your buying plan.

Introduce yourself to these key vendors and don't pretend you know more than you really do or are a bigger buyer than you really are. Then start to put into place all of the information from this chapter to build the order you need.

Buying from Catalogs

Many companies print a complimentary catalog showing the merchandise they will gladly sell you. Without even talking with a rep, thus avoiding the uncertainty of a negotiation if you still find yourself uncomfortable with this hard-earned skill, you can place an order over the phone with a customer service person or just fax or mail in an order. But beware: the catalogue you are looking at was printed a while ago. You never know what is in stock and what is out. Moreover, the prices in the catalogue are fixed. It is hard to negotiate lower prices when buying directly from a company catalog.

Over the Internet

Before we begin, you must realize that I am very biased in favor of this newest method of wholesale distribution because www.dollardays.com is the largest business-to-business wholesale Web site selling products to independent businesses. Do check us out! Just like you, my job is selling!

That being said, the Internet truly is an efficient way to communicate and conduct wholesale buying. First, it is convenient. After a long hard day at the store, you can come home and relax in front of your computer with no salesperson telling you what to do. All by yourself, you can find what you think is the best product for your store, in the best quantity, at the best price.

Second, you can be pretty sure that the prices you are paying when you buy on the Internet are the lowest going. That is because you can so quickly compare various companies' products, prices, and attributes. Within minutes, you can compare every product there is. Of course, you'll only buy the ones that offer you, and your customers, the best deal. Only a few years ago, it would have taken days to do this kind of comparison shopping.

Third, communicating via the Internet is so much more efficient than the downtime experienced while playing "phone tag" with live sales reps. You can send an informed, well-thought-out, and explanatory email and you never get an answering machine, or a busy signal. And you're never put on hold.

Fourth, in today's world, buying over the Internet is as secure as placing an order over the phone. Particularly with the more advanced sites, you do not need to worry about fraud.

And, finally, you can use the Internet to keep yourself informed about the latest news affecting your business by subscribing to various trusted retail newsletters, e-zines, and newsgroups.

Summary

Buying goods from the right resources is the very heartbeat of retailing. No matter how dynamic you make the store look, or how good the location of your store, if you have the wrong goods at the wrong price, you just won't make it in the highly competitive world of retailing. There are plenty of resources out there to make your store successful. Because buying is both an art and a science, throw all the information available in this chapter together and find your niche. After all, you are an entrepreneur and that is what entrepreneurs do!

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