

# **IMPACT OF THE WAL-MART PHENOMENON ON RURAL COMMUNITIES**

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# IMPACT OF THE WAL-MART PHENOMENON ON RURAL COMMUNITIES

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There is strong evidence that rural communities in the United States have been more adversely impacted by the discount mass merchandisers (sometimes referred to as the Wal-Mart phenomenon) than by any other factors in recent times. Studies in Iowa have shown that some small towns lose up to 47 percent of their retail trade after 10 years of Wal-Mart stores nearby (Stone 1997).

## **Overview**

The discount mass merchandisers are not the only threats that small town retailers have faced. In the more distant past, mail order catalogs distributed by Montgomery Ward and Sears Roebuck in the late 1800s caused quite a stir at the time (Mahoney). The mail order catalogs offered large selections at competitive prices. Coincidentally, a well-established railroad system provided nation-wide delivery of mail order goods within a few to several weeks. At its peak, Sears Roebuck offered over 100,000 items through its catalog and captured some sales from local merchants.

The next major threat to rural retailers was the automobile. In the 1920s and 1930s automobiles and roads developed to the point where rural residents gained considerable mobility and could more easily leave their small home towns and travel to shop at larger towns and cities. However, this trend was slowed in the 1930s because of the Great Depression and in the early 1940s because of World War II and its resultant shortage of goods. The late 1940s were boom times for retailers in both rural areas and

larger cities because of the relative prosperity and the great pent-up demand resulting from the Great Depression and World War II.

Shopping malls began to appear in larger trade centers in the 1950s and 1960s. Rural residents were strongly attracted to the new malls because of their ease of access, large selections, controlled climate, easy and free parking and their extended shopping hours. Shopping malls fundamentally changed the way Americans shopped. They drew shoppers from the downtown to the shopping center location, typically at the edge of town or in a suburb. Shopping centers caused the demise of downtown, most of which have never fully recovered.

A new format, called discount department stores, began appearing in the 1960s. In fact, K Mart, Wal-Mart and Target stores all began operations in 1962. These were not the first discount department stores, but they turned out to be the largest chains. The three companies expanded in completely different ways, however. K Mart initially located stores in relatively large communities and spread rapidly across the United States and Canada and within six or eight years had become a truly national chain (Discount Store News).

Wal-Mart, on the other hand, initially located its stores in small Southern towns. By opening a relatively large store in a small town, Wal-Mart could quickly become a dominant store (Walton). Furthermore, Wal-Mart's founder, Sam Walton, did not want to outrun his logistical support, namely his distribution centers. Consequently, Wal-Mart progressed methodically across the United States, always building stores within a days drive of its distribution centers, and taking over 30 years to become a fully national chain.

Target stores, owned by Dayton Hudson Company has selectively looked for markets of opportunity and after 35 years is still not located in all the U.S. states. They will undoubtedly establish stores in every state within a short time.

The 1980s saw a rapid expansion of the discount department stores. In addition, a new store format, called “category killer,” began appearing on the scene (Stone 1995). These were large specialty stores that featured nearly complete selections within their narrow category. Quickly these stores became dominant and consequently killed off smaller stores within the category. One of the early category killer stores was Toys R Us and it remains a dominant toy store today. The building materials category was quickly dominated by The Home Depot, but Lowes, Builders Square and Menards have also taken substantial market share. The battle within the office supply category is being fought among such stores as Office Max, Office Depot and Staples. Many other categories are being fought over by other category killer stores.

### **Impacts of Discount Mass Merchandisers**

My first study of the impact of Wal-Mart stores was conducted in 1988 to help my clients (Iowa retailers) understand the impacts so that they could better develop strategies to remain competitive (Stone 1991). These studies were updated every two years or so in the 1990s and the results seemed fairly consistent until recent years. In recent years, it became apparent that the retail situation in Wal-Mart towns was changing. This year a new study was conducted to determine the situation in Iowa small towns after 10 years of Wal-Mart stores and those results are reported below (Stone 1997).

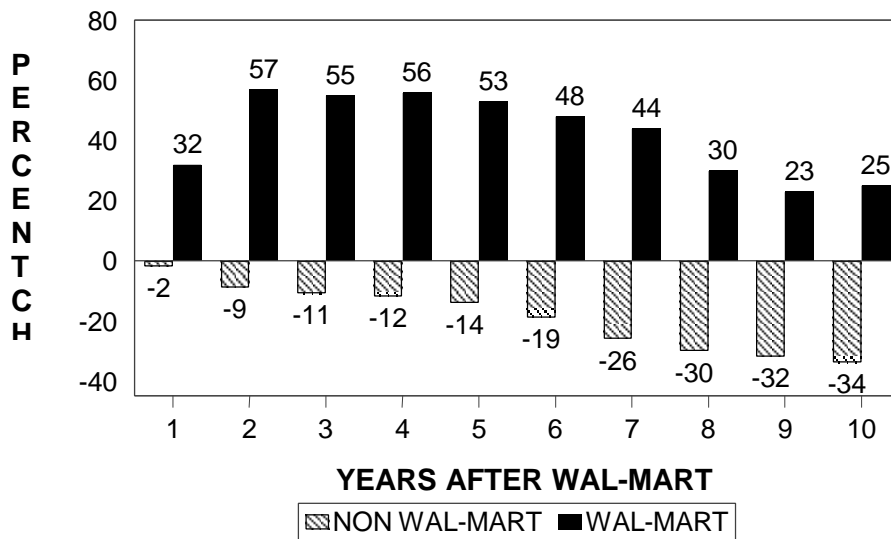
The study looked at 34 towns in Iowa that had Wal-Mart stores for at least 10 years. The retail performance of these towns was compared to 15 towns of the same

population group that did not have Wal-Mart stores. The towns ranged from 5,000 population to 40,000 population. Results for two digit Standard Industrial Classification Codes (SIC) are discussed below.

**General Merchandise.** General merchandise stores are department stores and variety stores and include stores such as Wal-Mart, K Mart and Target. Figure 1 shows the average change in pull factors (trade area size) for the 10 years following the opening of a Wal-Mart store.

Figure 1

**IOWA NON WAL-MART TOWNS vs. WAL-MART TOWNS  
GENERAL MERCHANDISE - AFTER 10 YEARS**



As can be seen, the average growth in general merchandise sales for the Wal-Mart towns was spectacular for the first few years, averaging approximately 50 percent growth (most of which was obviously Wal-Mart's). However, after about five years, sales began declining and after 10 years were 25 percent higher than before the Wal-Mart store

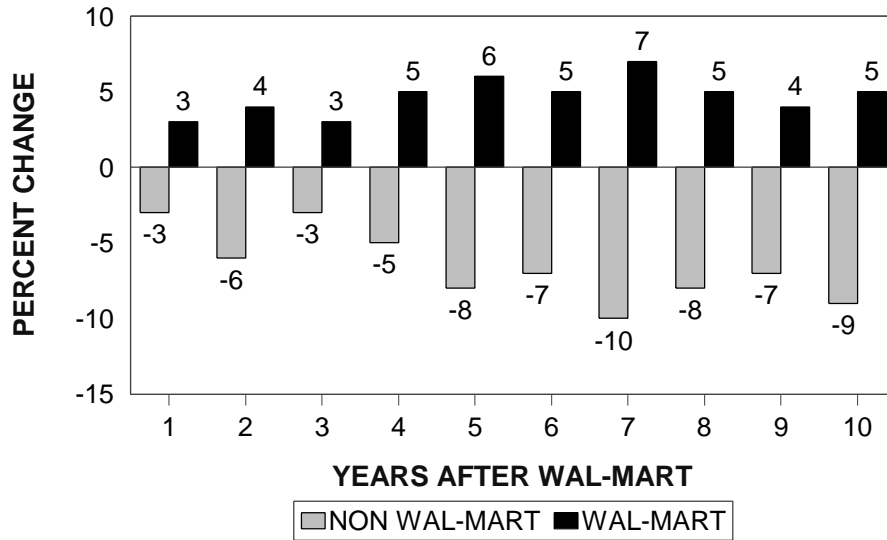
opened. It is believed that this decline in sales happened because Wal-Mart placed its own stores too close together, causing a predatory effect. At the same time, the build-up of large stores in bigger towns and cities captured some sales from even the Wal-Mart towns.

The general merchandise stores in the non Wal-Mart towns began declining immediately after the Wal-Mart stores opened. Their sales declined by two percent after the first year and continued declining to a cumulative 34 percent after 10 years. A few of these towns had a K Mart store (typically an older, smaller store), and all of them had one or more regional discount store, such as Pamida, Alco or Place's. It is believed that people in the towns without Wal-Mart stores migrated to the towns with Wal-Mart stores to shop for general merchandise.

**Eating and Drinking Places.** This category includes restaurants of all types and

Figure 2

**IOWA NON WAL-MART TOWNS vs. WAL-MART TOWNS  
EATING & DRINKING PLACES - AFTER 10 YEARS**



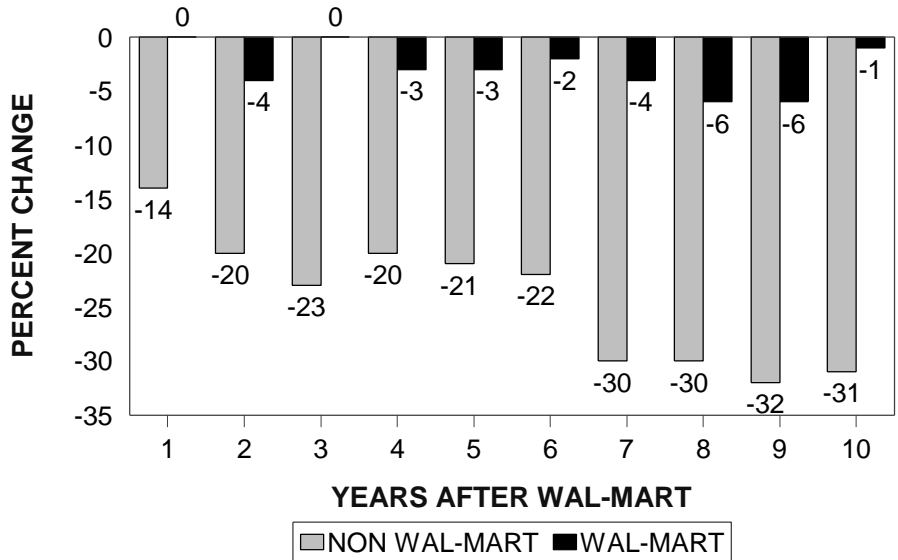
various types of drinking establishments such as taverns and cocktail lounges. Most of the sales occur in the eating places and they continue to grow. The changes in sales of eating and drinking places are shown in figure 2.

As can be seen the sales of eating and drinking establishments increased from three to seven percent over the state-wide average for the Wal-Mart towns. Conversely, the sales of eating and drinking places in the non Wal-Mart towns immediately declined and after 10 years were still nine percent below the statewide average. These results indicate that people leave the non Wal-Mart towns to shop in the Wal-Mart towns and while there, patronize the eating and drinking places.

**Home Furnishings.** Home furnishings stores consist of furniture stores, major appliance stores, drapery stores, etc. Early studies in Iowa showed that these types of

Figure 3

**IOWA NON WAL-MART TOWNS vs. WAL-MART TOWNS  
HOME FURNISHINGS - AFTER 10 YEARS**



stores benefited from having a Wal-Mart store in town with its large drawing power.

Figure 3 shows the 10-year results.

The initial spill-over benefit enjoyed by home furnishings stores in the Wal-Mart towns eventually eroded somewhat as several later towns had stores so weak that they could not capture this trade. As can be seen in figure 3, however, home furnishings sales in the Wal-Mart towns declined only slightly, compared to the sales in the non Wal-Mart towns which ended up declining by 31 percent after 10 years. It is believed that when consumers leave the non Wal-Mart towns to out-shop for one or more items, they probably also use these occasions to shop for home furnishings.

**Building Materials.** The building materials category consists of lumberyards, home improvement centers, hardware stores, and paint and glass stores. Figure 4 shows the changes in sales after 10 years of Wal-Mart stores.

Figure 4

**IOWA NON WAL-MART TOWNS vs. WAL-MART TOWNS  
BUILDING MATERIALS STORES - AFTER 10 YEARS**

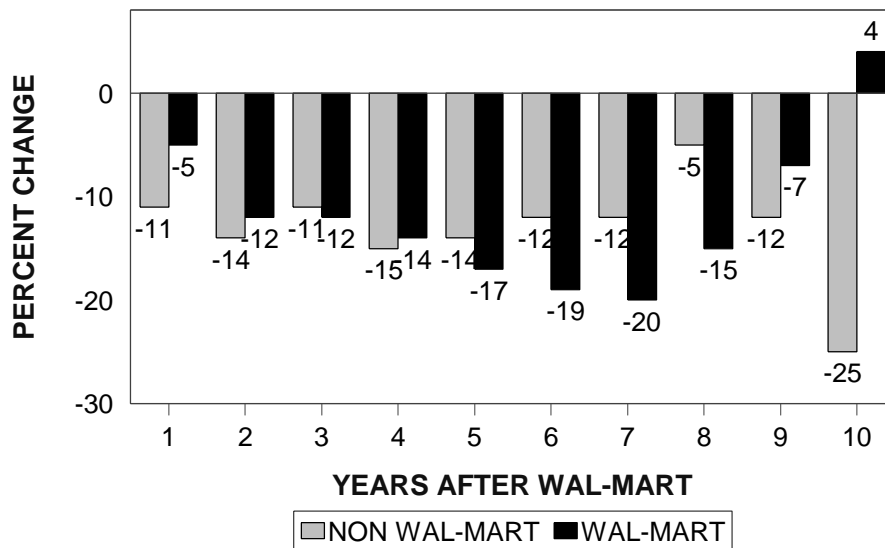


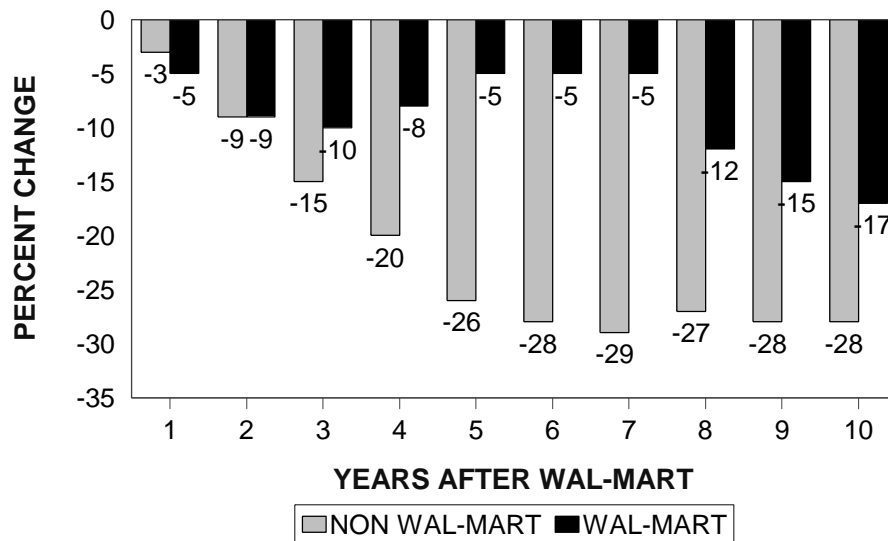


Figure 4 shows that building materials stores in both Wal-Mart and non Wal-Mart towns experienced immediate and moderate losses of sales for the first few years after the opening of the Wal-Mart stores. The situation grew progressively worse, especially in the Wal-Mart towns, which showed a 20 percent decline after seven years. However, starting in about year eight, the sales of building materials stores started improving rapidly and 10 years after the fact, sales were four percent above the pre-Wal-Mart level. Anecdotal evidence indicated that a few of the category killer building materials stores located in some of the Wal-Mart towns, thus improving these towns' sales, while causing the non Wal-Mart towns to experience a decline of 25 percent after 10 years.

**Specialty Stores.** This category includes several types of stores, such as sporting goods, jewelry, card and gift, druggists, florists, etc. Many of these stores sell merchandise that is competing directly with the discount mass merchandiser and

Figure 5

**IOWA NON WAL-MART TOWNS vs. WAL-MART TOWNS  
SPECIALTY STORES - AFTER 10 YEARS**



consequently suffer losses of sales. Figure 5 shows the change in sales for specialty stores in the 10 years following the opening of a Wal-Mart store.

Specialty store sales in the Wal-Mart towns declined by 10 percent after three years of a Wal-Mart store, but then the situation improved to only a five percent decline until year eight when the decline became 12 percent, then further declined to 17 percent by the end of year 10. This illustrates that stores selling the same merchandise as a Wal-Mart store will most probably lose sales after a Wal-Mart store opens in their town.

In the non Wal-Mart towns specialty store sales steadily declined after the introduction of Wal-Mart stores in nearby towns, to a low of 29 percent by the end of year 7. This level of sales held fairly steady and year 10 showed a cumulative 28 percent decline. Compared to the year before the Wal-Mart store opened. It seems obvious that residents of the Wal-Mart towns were leaving their towns to shop either in the Wal-Mart towns or other larger trade centers.

**Apparel Stores.** Apparel stores include clothing stores for men, women and children plus shoe stores. Figure 6 shows the changes in apparel stores in Iowa towns after the introduction of Wal-Mart stores.

Apparel store sales dropped fairly steadily in the Wal-Mart towns in the years following the opening of a Wal-Mart store, ending at 28 percent below the pre-Wal-Mart level after 10 years. This probably means that primarily the stores selling low-end apparel that competed directly with the apparel sold at a Wal-Mart store suffered these losses.

The apparel stores in non Wal-Mart towns also suffered a steady decline in sales in the years after a nearby Wal-Mart opening, ending year 10 at the same level as apparel

Figure 6

**IOWA NON WAL-MART TOWNS vs. WAL-MART TOWNS  
APPAREL STORES - AFTER 10 YEARS**

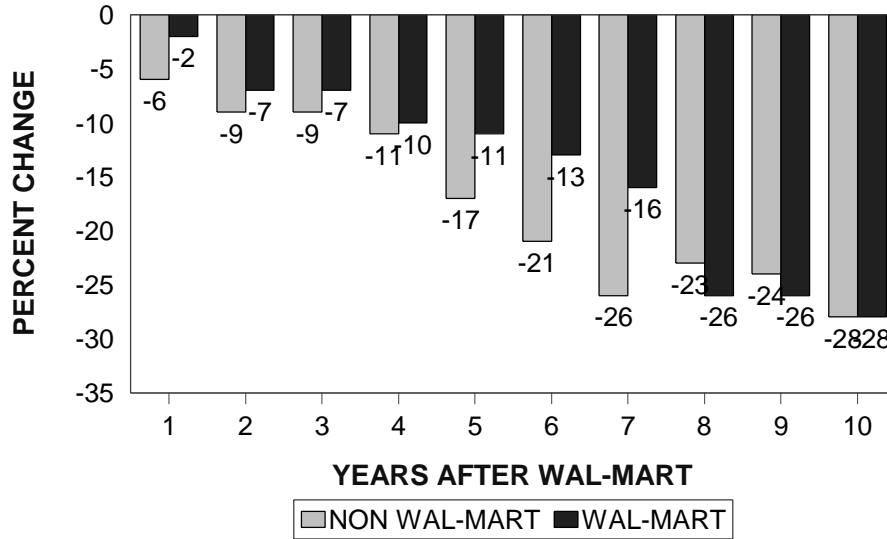
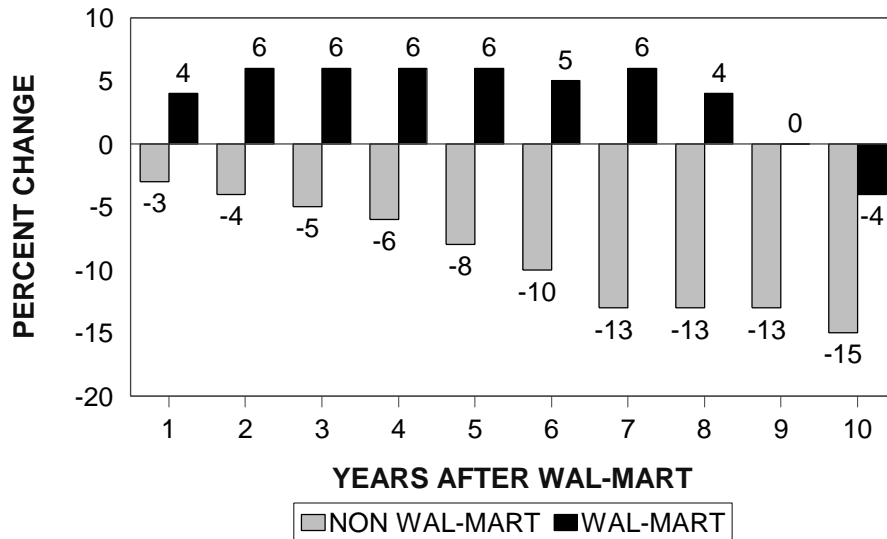


Figure 7

**IOWA NON WAL-MART TOWNS vs. WAL-MART TOWNS  
TOTAL SALES - AFTER 10 YEARS**



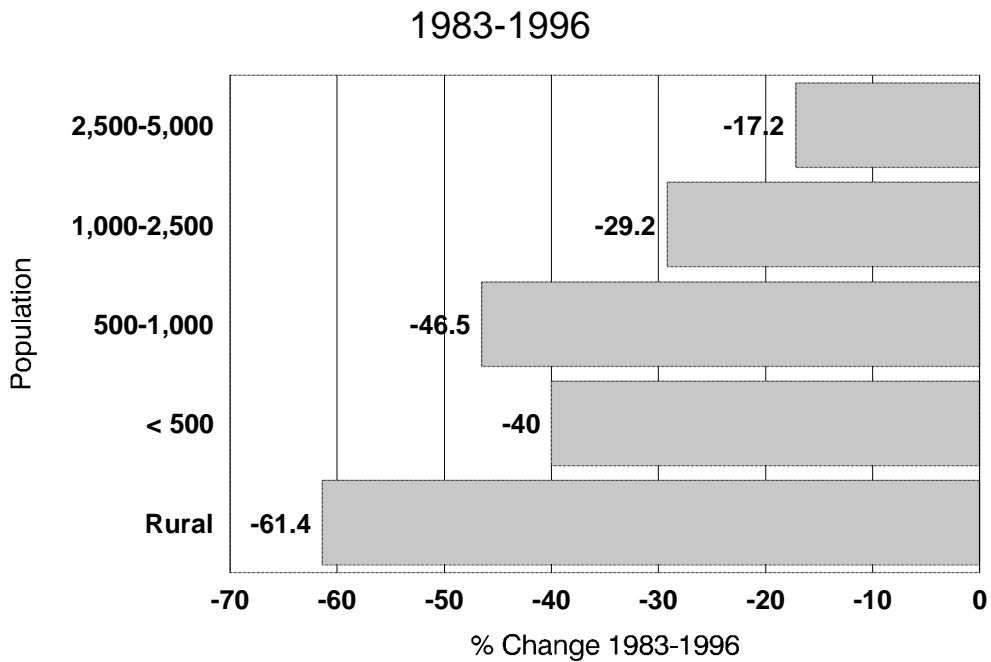
stores in Wal-Mart towns, 28 percent. Again, it is assumed that most of these sales losses were from stores that handled competing low-end apparel.

**Total Sales.** Figure 7 shows the change in total retail sales for the 10 years following the opening of a Wal-Mart store.

Total sales for Wal-Mart towns increased by six percent by the second year and held nearly steady through year seven. However, by year eight a decline began and by year 10 sales were four percent below the pre-Wal-Mart level. This probably reflects the opening of several mass merchandiser stores in the major trade centers in the last few years, that in turn captured trade from outlying areas, including Wal-Mart towns.

Figure 8

PERCENT CHANGE IN SALES OF IOWA SMALL TOWNS



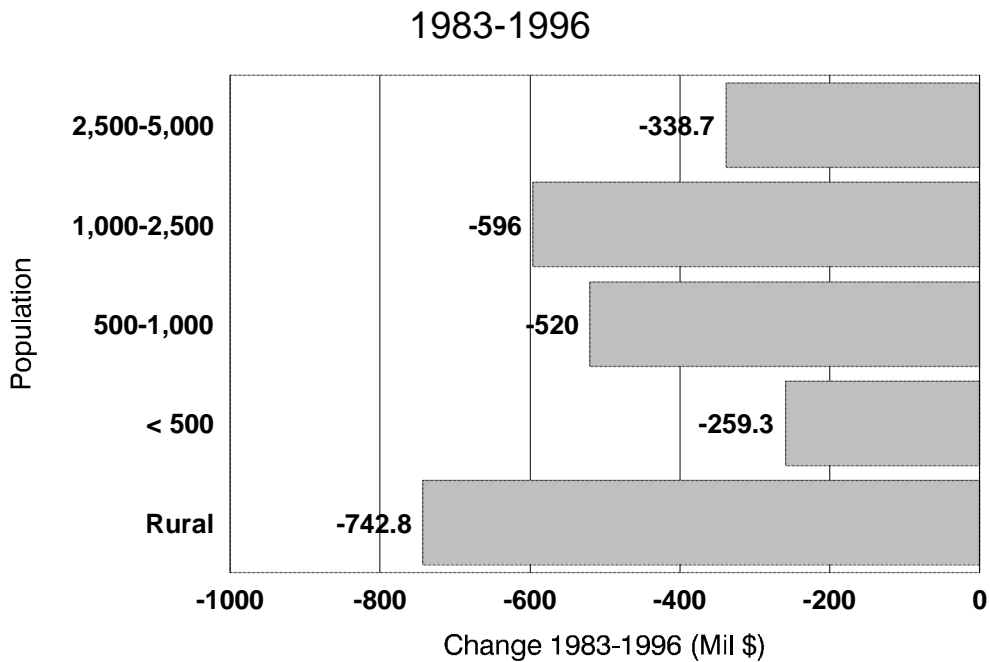
The non Wal-Mart towns, however, suffered a worse fate than the Wal-Mart towns as their total sales continually decreased over the 10-year period, ultimately ending 15 percent lower than the pre-Wal-Mart level.

**Small Town Losses.** It is clear that among the mid-size towns discussed above, the Wal-Mart towns fared somewhat better than the non Wal-Mart towns. But what was the impact of the mass merchandiser stores on the hundreds of towns with populations of less than 5,000? Figure 8 shows the percent change in sales of these towns from 1983 (the first year that Wal-Mart stores opened in Iowa) through 1996.

It becomes clear that towns under 5,000 population bear the brunt of the discount mass merchandisers. In most cases these towns do not have a critical mass of retail stores

Figure 9

### DOLLAR CHANGE IN SALES OF IOWA SMALL TOWNS



needed to keep customers at home to shop, once newer and larger stores locate nearby.

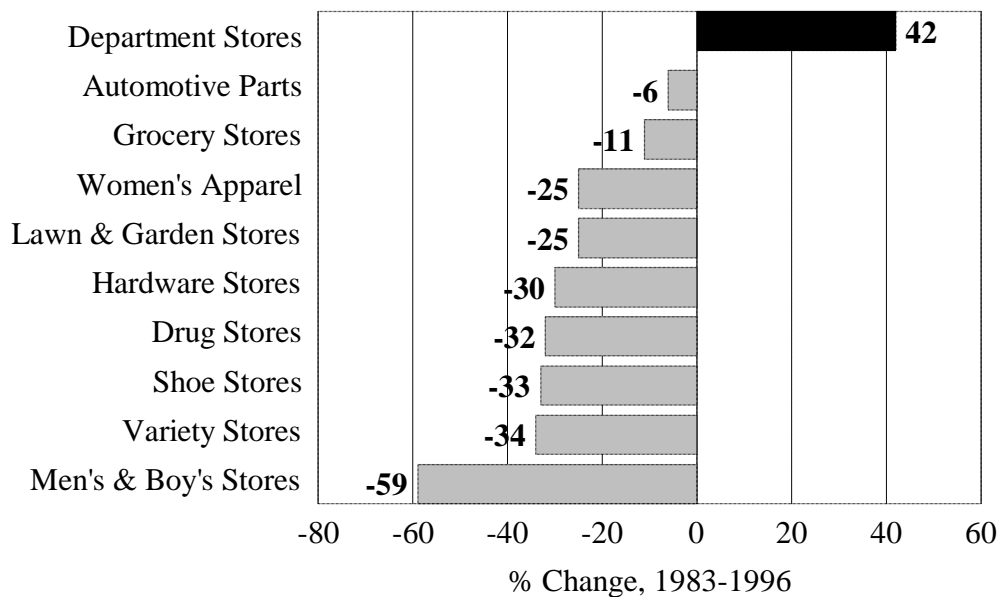
Figure 9 shows the approximate dollar loss of retail sales for these towns from 1983 to 1996. Sales for businesses in rural areas (outside of towns) declined by \$742.8 million from 1983-1996. Towns of 1,000 - 2,500 populations suffered sales losses of \$596 million during this period. In total, towns below 5,000 population plus the rural businesses, lost retail sales of \$2.46 billion during this 13-year period.

### Changes in Shopping Habits

After discount mass merchandisers operate in an area for an extended period of time, people gravitate to these stores and consequently cause losses of sales to smaller competing stores. Figure 10 shows changes in the buying habits of Iowa Consumers for

Figure 10

## PERCENT CHANGE IN SALES OF IOWA STORES, 1983-1996



selected stores.

The average Iowa consumer spent 42 percent more money in department stores (primarily discount stores) in 1996 than he or she did in 1983. At the other extreme, on average, consumers spent 59 percent less in men's & boy's clothing stores and this resulted in the loss of over 60 percent of these stores during this period.

### **Public Policy Implications**

Public officials often get involved in regulations and statutes concerning the establishment of new mass merchandiser stores. At the state level, Vermont officials attempted to keep the Wal-Mart Company from establishing stores in that state. The policy was well intended and was meant to protect the predominantly small merchants in a small state. However, as time went on, it soon became obvious that the ban was having the opposite effect. As Wal-Mart built stores on the New Hampshire (a no sales tax state) border and on the New York border, it soon began to suck the trade out of Vermont. It is not possible to put fences around a state to keep residents from out-shopping.

Organizations within many municipalities have attempted to prevent mass merchandisers from locating in their areas. Most often, this resistance is organized and supported by local merchants who fear the competition. However, in more and more cases, people who are genuinely concerned about preservation of historic sites and natural resources, organize the resistance. A complicating factor in these local debates are growth oriented local officials such as mayors, city administrators, city council members, county council members, etc. Quite often they look at the short-term benefits of more employment, and increased tax base. But in the long term, the situation often results in the loss of local businesses, which reduces employment and tax base. In more and more cases local officials are actively recruiting the mass merchandisers to their communities

and offering attractive incentives. Representatives from the outlying smaller towns have the least representation in this decision-making process and consequently they suffer the greatest losses.

### **Conclusions and Recommendations**

Rural communities have been losing retail sales to larger towns ever since Montgomery Ward and Sears Roebuck started their mail order businesses. However, the leakage of retail trade from small towns has accelerated in the last two decades with the rapid proliferation of discount mass merchandiser stores in the larger towns and cities. Studies in Iowa have shown that some towns below 5,000 population have lost nearly half their retail trade in the last 13 years. Public officials are placed in difficult situations as they decide whether to recruit and/or approve the establishment of new mass merchandiser stores. There is a need for an educational program aimed at public officials, to help them make better decisions regarding this problem.



## How Local Merchants Can Compete

The following tips have proven effective in competing with the retail giants.

### Attitudes and Actions

In general, it is best to take a positive attitude toward the opening of a new mass merchandise store in your area. The following thoughts are offered in this regard.

- **In a free enterprise economy, all firms are free to compete.** However, local officials should be careful not to offer unduly generous incentives to large firms that could place smaller firms at a disadvantage.
- **Recognize that a discount mass merchandise store will probably enlarge your town's retail trade area size.** Try to figure out ways to capitalize on the increased volume of traffic in your town.
- **It is possible to co-exist and even thrive in this type of environment.**
- **You may need to change your methods of operations as described below.**

### Merchandise Tips

The following suggestions are offered with regard to merchandise mix.

- **Try to handle different merchandise.** If you sell the same brand, variety or style of merchandise as the mass merchandisers, you will be compared on price. If you can hold your price within 10 to 15 percent of theirs', you are probably okay. However, if you allow your prices to rise, say 50 percent higher than they do', then you are in trouble as consumers will perceive that everything else you sell is higher priced also. The solution is to handle different brands, varieties, styles, etc. Many merchants are finding that private label merchandise works well when available.
- **Try to handle complementary merchandise.** In many areas, the mass merchandisers handle only fast moving items. For example some of the mass merchandise garden centers handle only two or three varieties of hostas. Hosta fans soon learn they will not find selection at these stores. However, if you fill out your lines with new and different hostas, you can gain the reputation of being the hosta center.
- **Look for voids in the mass merchandiser's inventory.** Most mass merchandisers do not carry a very good selection of plumbing supplies. It would behoove local hardware owners to carry a complete line of plumbing supplies to fill these voids, if it fits their operation and the market.
- **Consider upscale merchandise.** Not all customers desire or demand lower priced merchandise. For example, most mass merchandisers handle low-end apparel. Clothing dealers who serve middle-to-upper income households might want to handle more upscale apparel.
- **Get rid of the "dogs."** Nearly all businesses end up with some merchandise that does not sell and ends up cluttering the sales space. This is bad for at least two reasons, 1) merchandise must turn to generate a profit, and 2) old

merchandise tarnishes the image of your store. Merchants should identify the “dogs” and clear them out by whatever means possible.

- **Buy well.** From time to time, nearly all merchants have an opportunity to purchase merchandise at exceptional prices. If the merchandise is something you know you can sell, you should take advantage of the good buys. With good buys you can enhance your pricing image while making better profit margins. Storeowners should also be on the lookout for opportunities to purchase cooperatively with other local merchants or through a larger buying cooperative.

### Marketing Tips.

There are always ways of improving marketing practices. The following tips are offered to merchants regardless of their competition.

- **Know your customers.** It is important to know the demographics of your trade area in order to have the optimal merchandise mix. The breakdown of the population by income, age, occupation, etc. is available from census data, which can be found at most libraries. In addition, several marketing firms can quickly generate a detailed report, tailored to your specific trade area for a nominal fee. One such company is CACI Marketing Systems at (800) 292-CACI. You may also want to conduct customer focus groups where diverse groups of customers under the direction of a third party moderator, discuss what they like and dislike about your business. These can be done by community colleges, other colleges and universities and by private consultants.
- **Extended opening hours is a necessity!** Lifestyles have changed dramatically in the last generation. Now it is quite common for a household to have multiple wage earners working outside the household. Most of these people simply cannot get to local stores to shop if they stay open only from 8:00 a.m. to 5:00 p.m., and by necessity, they shop at mass merchandisers and shopping malls where the opening hours are in tune with today’s societal needs. Downtown merchants and other independent merchants can not seriously compete in this environment unless they cooperate and offer similar convenient opening hours.
- **Adopt a “no hassle” returns policy.** Most mass merchandisers have very liberal return policies and they have shaped consumer’s expectations. Unfortunately, some independent merchants have more restrictive policies, which frustrate and anger customers. Studies have shown that angry customers typically tell 10 to 20 other people about their bad experience and this can be disastrous for your store. It is essential that independent merchants adopt returns policies similar to those of the mass merchandisers. This policy should be stated on signs at the checkout station, as well as on receipts and shopping bags, so that there is no doubt in the customer’s mind about the policy. Signs such as “All sales final!” have little place in today’s retail stores.
- **Sharpen your pricing skills.** Most customers judge the pricing structure of your store on the few things they know of price of. Consequently, if you are selling a popular brand of soft-white incandescent light bulbs for 200 percent

more than the mass merchandisers, they declare your store to be high priced, when in fact, most of your other products may be competitively priced. The solution is variable markup, where you identify several “price sensitive” items and mark them down to be competitive with the mass merchandisers. Furthermore these price sensitive items should be prominently displayed on end caps and other conspicuous places. Conversely, on unique items or items where you are the sole source, you can take higher markups.

- **Focus your advertising.** Stress your competitive advantage. Every business must have one or more competitive advantages, in the eyes of the customer, in order to succeed. For example Sears established a huge competitive advantage many years ago when it adopted “Satisfaction Guaranteed.” With Wal-Mart, “Everyday Low Prices,” is a strong competitive advantage. Smart firms incorporate these competitive advantage mottoes into nearly every advertisement. Unfortunately, many smaller merchants do not get their full money’s worth from their ads because they often fail to promote their competitive advantages. For example, a nursery that offers free landscape planning or free delivery ought to incorporate these facts into every ad. After a period of repetition, customers will automatically know your competitive advantages and may patronize your store when the need arises.

### Service Tips

Superior service can become an important competitive advantage for many smaller businesses. Large chain stores usually don’t have the flexibility to offer many of these services.

- **Emphasize expert technical advice.** It is difficult to find workers in discount mass merchandise stores who know the merchandise. Many smaller stores build a loyal clientele base because the owner and employees are able to help customers analyze their problems and help them to find the necessary tools, supplies and equipment.
- **Offer deliveries where appropriate.** Many customers, because of schedules or health problems, have a need for deliveries. Others have a need for delivery of certain items that are heavy or bulky. Typically mass merchandisers cannot respond to these needs. Some smaller merchants can carve out a substantial market share by offering delivery service.
- **Offer on-site installation and service of certain items.** Many people have a need for services such as professional tree planting, sod installation, tree pruning, etc. Larger discount stores cannot readily provide this service. Independent merchants can draw a substantial volume of trade by providing these and other services.
- **Develop special order capability.** It is not possible for merchants to carry every conceivable item in inventory. However, they should make arrangements with suppliers or cooperating partner stores to quickly ship out-of-stock merchandise. So rather than let a customer walk out the door when an item is not in stock, it is better to say, “I’m sorry I do not have it in stock, but I can get it for you in two days.”

- **Offer other services as appropriate.** Independent merchants can develop many loyal customers by offering “how to do it” classes, rentals of certain items that will boost sales of collateral merchandise, a branch post office, etc.

### **Customer Relations Tips**

In past years, small businesses had the reputation of excellent customer relations. However, nowadays many consumers perceive that they are treated no better in small firms than in larger ones. Research has shown that poor customer relations are the primary reason that customers quit doing business with a store. The following suggestions are offered for all businesses.

- **Make sure customers are “greeted.”** According to surveys, the primary thing that offends customers is the failure to be greeted or acknowledged when entering a store. This is particularly acute when the customer is in a buying mood. All store personnel should be trained to “greet” customers when they enter a store, determine their needs and assist them in any way possible.
- **Offer customers a smile instead of a frown.** It’s a fact that all customers prefer doing business where they are treated in a friendly manner.
- **Make employees “associates.”** Firms like J.C. Penney, Wal-Mart and The Home Depot call their employees associates and treat them as part of the team. Independent merchants can emulate this. In particular, regular store meetings should be held where everyone is apprised of the latest happenings and plans and where all problems and suggestions can be aired.
- **Solicit complaints.** Many times customers have had a bad experience in a store, but they are reluctant to complain to store personnel for various reasons. Instead, they go around complaining to other people. Good merchants would rather hear of the complaint first so they can find a remedy. They should provide an environment where customers feel comfortable complaining. This can be done by soliciting complaints through ads in the media, through signs at the checkout counter and on shopping bags. You must be prepared; however, to solve these problems when complaints are made.
- **Learn how to handle irate customers.** Dealing with irate customers is something that few people enjoy, but it is crucial to the success of the business. The worst thing store representatives can do is to argue with or be rude to an irate customer. The following process with the acronym of LEAR is recommended. (L) Listen. It is easy to become defensive and turn off the customer while you are thinking of your response, but it pays to set everything aside and listen intently. (E) Empathize. Put yourself in the shoes of the customer and think how you would like the situation resolved. (A) Ask. Ask questions to get all the facts on the table. (R) Resolve. Resolve the situation to the satisfaction of the customer. Most merchants have found that by merely asking, “What do you see as a reasonable solution?” they can achieve a win-win solution.
- **Train employees (often).** In the eyes of the customer, the employee **is** the business. Training employees can have one of the highest payoffs of any investment in the business. New employees should be trained on store policies

and in the use of any equipment or machines to be used. As they progress in the company, they should receive recurring training on new products or techniques and industry trends. There is an array of training available through educational institutions, parent companies, suppliers and others. In addition employees should be given access to trade journals, videotapes and other educational items.

### **Continually Improve the Efficiency of Your Business**

Businesses may be doing all the right things as mentioned above, but unless they are efficiently operated, they are probably doomed to failure. Some of the top mass merchandisers such as Wal-Mart and The Home Depot continually strive to improve their operating efficiency. The following are some of the things you can do to improve your efficiency.

- **Adopt modern technology.** Mass merchandisers have improved their efficiency dramatically by adopting new technology. Much of that technology is now available and affordable to the smaller merchant. For example, powerful computers are available at ever decreasing costs. Software packages to handle nearly all store functions are also available. Computers reduce the need for people, improve accuracy and provide quick analyses of the business' performance. In addition, point of sale (POS) scanner equipment is now available and affordable to all but the smallest businesses. In addition to scanning prices and speeding customers through the checkout line, they can revolutionize inventory control when tied in with the store computer and ultimately with supplier's computers.
- **Become familiar with your financial statements.** Many merchants do not like to deal with the finances of the business. If they can "farm" this operation out to a bookkeeper or accountant, they feel "out-of-sight, out-of mind", Good merchants must become intimately familiar with the finances and operations of their businesses. They should constantly monitor gross profit margins, operating expenses, net profits and the various ratios important to the business.
- **Relentlessly find ways to reduce operating costs.** One of the reasons that the mass merchandisers can lower prices and still make a profit is that they their operating costs. In addition to adopting technology, they find ways to save on utilities, insurance, transportation, etc. They are also always finding ways to reduce continually reduce "shrinkage" by reducing shoplifting, pilferage and damage to merchandise. Smaller merchants can do the same thing.

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