"Best Practices" Aren't All They're Cracked Up To Be

Quincy Jones once said there was no "formula" for creating a hit record. The legendary composer and producer was obviously speaking of his experience racking up a record 79 Grammy nominations, although he might just as well have been describing the challenge of building a viable retail business. Like great music, retail requires originality and a creative spark. In an era when vast selection and competitive pricing are readily available online, the creative spark is probably more important than ever. The buying public still enjoys visiting stores to buy stuff—especially the kind of enthusiasts who make up the core of the m.i. market—but it now takes more than a good price to get them to put down the iPad and get off the couch. Some kind of in-store experience is required.

This isn't even a remotely original idea. However, we do see that efforts to create an alluring store experience are being undermined by the current affinity for "best practices management"—that is, seeking out exceptional operational procedures from other companies, and then implementing them at home. CEO's of Fortune 500 companies gush about best practices in their annual reports, m.i. retailers discuss them at industry gatherings, and Amazon lists several thousand books with the phrase in the title. There's even cottage industry of "best practice" gurus who tout it as the surefire path to success. In theory, it's an unimpeachable idea. Is there anyone who is against searching far and wide for great ideas to enhance a business? Are there any best-selling titles advocating "worst practices," or even "mediocre practices"? Even the construction of the phrase makes "best practices" unassailable. In practice, however, the approach risks a few pitfalls that are particularly hazardous in an industry like ours that revolves around an art form.

The best practices approach involves precisely quantifying an exemplary approach to customer service, superlative product quality, sales practices, or slick inventory management. The effort assumes that these operations can be distilled down to a readily reproduced formula. It also runs the risk of stripping a retail setting of the distinctive character that creates an inviting environment. This is worth pondering especially as m.i. retailers face increasing competition from the likes of Amazon.com, a company that is driven almost entirely by formulas—algorithms that make purchasing decisions, set prices, and decide what products to present.

A retailer we recently spoke to said that after three years of subpar results, he was on the verge of shutting down a branch store. With six months to go before the lease expired, and little to lose, he took a chance hiring an untried but enthusiastic new store manager. The vetting process probably wouldn't have passed best practices muster; nor would the candidate's thin résumé. However, the retailer picked up on a level of energy and charisma—impossible to quantify, but real nonetheless. It was a subjective call, not entirely unlike a musician's approach to phrasing a melody, but it paid off. Within months the new manager had doubled sales, pushing the location solidly back into the black.

Bringing a similar level of informed intuition to the process of inventory management is also worth pondering. "Best practices" call for assessing every SKU on the basis of gross margin and turnover (gross margin return on investment). Low-margin, slow-moving items are to be jettisoned in favor of high-turn, high-margin goods to achieve the optimal product mix. Sounds good on paper. However, followed to its logical conclusion, it yields a store filled with a narrow offering of well-known accessories and popular brands at mid-range price points. Good and valid products to be sure, but hardly of sufficient interest to inspire a potential customer to visit.

Stores that draw traffic invariably have unusual or unique items on display: products that might not pass a GMROI test but reflect the owner's musical interest, provide a window on some overlooked corner of the music world, or simply have a "gee whiz" quality. Rolls Royce sold 4,000 new cars in America last year, a pittance in a market of 17 million vehicles. Yet, organizers of the recent New York Auto Show gave Rolls Royce a prominent spot because it enlivened a sea of nondescript SUVs, and drew traffic. It's worth taking a similar approach to m.i. inventory. Some unique gear has value that goes beyond its immediate contribution to gross profit.

Carefully monitoring margins and turnover rates is absolutely vital for retail survival. And there's a lot to be learned from observing how other retailers, in and out of the industry, operate. But, trying to run an m.i. store strictly by formula runs the risk of reducing the quality of the customer experience, perhaps the single most important thing a brick-and-mortar store can offer. Even the biggest brick-and-mortar retailers can't beat the selection available online, or even consistently win on price, so they have to make the store visit worthwhile, by either providing value-added service, offering an inviting environment, or letting people experience unusual products. There are nearly limitless ways to provide a quality experience, but there's no ready formula.

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