



## DEATH BY DISCOUNT

RETAILER JULIA GRIEVE FIGURED OUT THAT MOVING MERCHANDISE WAS EASY—JUST SLASH PRICES UNTIL THE SHELVES ARE EMPTY. BUT WITH THE BLOWOUTS WENT HER PROFITS

Julia Grieve remembers the day a pack of women flooded into Preloved, her clothing shop on Toronto's Queen Street West. Drawn by an e-mail proclaiming discounts of up to 70%, they thumbed through the appliquéd skirts and patchwork hoodies with lightning speed. No one bothered with change rooms—or manners. As the racks emptied, customers tried on clothes in the aisles, and Grieve joyfully considered her fistful of cash.

It was 1995, and the onetime model had been in business just a few months. "In those days," Grieve says, "I was so new, I'd be like, 'Whee, we made \$2,000! We're rich!'" Then she tried to pay her bills, and suddenly

her fistful of cash didn't seem as impressive. Like many rookie retailers, Grieve had opted for an instant fix. Sure, she'd lured in customers, but she'd also gutted her margins.

Knowing when to stage a sale is tricky business, even for a seasoned seller. Hold them too often and your customers get addicted to cheap goods (just ask the Bay); forgo them altogether and you'll have a hard time drawing new shoppers.

Today Grieve owns two Preloved outlets, one in Toronto, the other in Montreal. A third is set to open in Vancouver in April. Plus, Holt Renfrew and other boutiques across Canada and the U.S. sell Preloved gear.

When Grieve and designer

Peter Friesen started selling their uniquely designed bedsheets-turned-skirts and trenchcoat dresses in 1995, Torontonians were intrigued, but confused. "People would come in and go, 'I don't really get it,'" says Grieve. Shoppers were reluctant to shell out \$70 for a sweater that had been worn by someone else, even if it was actually three cashmere sweaters hand-cut and sewn back together in an original design. With zero business training, she was panicked by the state of her bottom line. Aside from slashing her margins, Grieve worried her monthly markdowns were incubating penny-pinchers.

There are two main reasons stuff goes on sale.

The first, obviously, is to unload merchandise that isn't moving. Kari Baker, a consultant with Vancouver's Sixth Line Solutions, says retailers should be willing to sacrifice about 20% of their gross margins to markdowns. But people often get so emotionally attached to their stock, they can't let it go, she says. "They think, 'Someone will buy it when the weather turns.' That's a mistake. There's a huge cost to having your money tied up in inventory. If it's not selling, it's not selling—get rid of it and get something new."

Then there's the buzz factor that comes with a good blowout. This is where things get tricky. It's much easier for big retailers to escape a

### Off the rack and in your pocket

- ➔ Learn from the big chains. Never get sentimental about slicing the price when something isn't selling
- ➔ "A fast nickel is worth more than a slow dime," says Toronto retail consultant Len Kubas. Bite the bullet and start at 20%. Walk away from the revenue if something refuses to move
- ➔ Remember: Shoppers now expect big discounts before school starts and after Christmas season
- ➔ Kick off sales at the beginning of the month, on a weekday, so you can iron out any snags before the weekend hordes descend
- ➔ Monitor your competitors, but don't let them dictate your actions. The more unique your stock, the less chance it will be cheaper down the block

massive sale with profits intact than it is for a small outfit like Preloved. The average retail markup is 100% over cost, but major players often tack on even more and work incremental markdowns into their annual plans. Streetwear seller Urban Outfitters, which sells Preloved designs across the U.S., adds a huge markup on the few wholesale items it carries—just over 125%.

Here's how it works: Urban Outfitters buys a T-shirt for \$30 and puts it on the rack at \$70. A customer likes the design, but thinks it's overpriced. The next time he comes in, it's 10% off, or \$63—still too high. A week or two later, it's marked down by 40%, and the customer's willing to fork over \$42. The chain makes a \$12 profit—a respectable 33% margin.

The selling game used to be simpler. Once upon a time, stores turned over their inventory two to four times a year. July was the time to discount spring and summer lines; January was for offloading fall and winter wear. Then came the Gap and H&M, which changed the business by turning over their cheap-and-trendy inventory six to eight times a year with massive blowouts. Smaller players rushed to compete, and Boxing Day morphed into Boxing Week. Now, all of December is a blur of slashed prices, and smaller retailers are forced to follow suit.

This past December, Preloved staged weekly sales just to keep up with rivals. "Huge companies have teams of merchandise planners whose entire job is to figure out the math," says Grieve.

"I'm trying to put one of my kids to bed and feed the other one, and at the same time figure out if this is the right time to have a sale or not."

Grieve knows that, ultimately, she can't compete on price. So instead, she's playing up Preloved's quality clothing. Her one-of-a-kind pieces are made locally, and she believes they're worth what she prices them at. The challenge now is to solidify Preloved's rep as a premium retailer. Both the Montreal and Toronto stores have been overhauled for spring, with a more urban design. Grieve and Friesen are also unrolling a new line they hope will attract new shoppers without sacrificing profits. For years, their most inexpensive pieces were reworked T-shirts for \$50. Now, they're offering cheaper items to encourage walk-ins to start buying.

The idea is that a cozy pair of mittens might just push a buyer into picking up a matching sweater, too. "Loss leaders," says Grieve. "This is something I've just learned in the past two years."

That doesn't mean Preloved fans have seen the end of crazy sales. Even Harry Rosen and Holt Renfrew, which zealously safeguard their high-end status, stage blowouts. But now Grieve has a strategy, and the discipline to stick to it. "From now on, we hope we'll only have three sales a year, two for end-of-season and one for Boxing Week," she says. "But you won't come to the store and see one little rack for 10% off. Thirty to 70% off everything, from stuff that's been sitting there to things that just came in today. It's hard-core, man." —DENISE BALKISSOON

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