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Carpets and Rugs Part 1

By Leslie Stroh

Carpet stores that install broadloom and hard surface can't or don't sell rugs.

There are no ugly rugs.

According to Jeff Meadows, President of Shaw Rugs, the gross margin dollars from rugs in a typical \$1.6 million dollar gross sales store that does sell rugs roughly equal the gross margin dollars of hard surface on half the volume.

In other words, if a carpet store sells rugs, it is profitable, but most don't. Meadows says that the average independent carpet store does about 9% of their turnover in rugs, but that for most carpet stores, the number is more likely to be 2%. These kinds of numbers indicate a huge range between success and failure.

CCA Global Partners (with 3,000 retail stores worldwide) has agreed to help Rug News try to understand and discuss the challenges facing carpet stores in the rug business. *Rug News* however is solely responsible for the content. A number of suppliers in the rug industry have also agreed to help *Rug News* in this endeavor. Comments on the articles should be sent to publisher@museumbooks.com.

The first three rules of rugs are: color, color, and color—but there are no ugly rugs. Some rugs sell better, and some rugs sell worse. Meadows says that their research shows that the best sellers will turn 6–7 times a year, the next group 4–5 times, and we would add your potential drops 1–2 times. Bob Lakenan, a top sales rep, says that one of the rep's jobs is to take move the slow sellers off the rack as drops, and put better sellers on the rack.

As near as I can tell from talking with lots of people in the rug industry, one thirty-arm rack doesn't cut it. You are not in the rug business with sixty rugs. The best consensus I can find is that a retailer needs three racks and 90 arms which means about two hundred rugs. And destination rugs stores often have 3,000 to 5,000 rugs to chose from.

INFORMATION OR CUSTOMER SERVICE

We don't know whether the problem is better information about what is selling and what is not, or better customer

service at all levels. A basic rule of information is that if it is not collected it does not exist. To do business by the numbers, you need the numbers.

The first job for any retailer is to get the rug in the store, and the second job is to get the rug out of the store. This is not as easy as it sounds and will occupy this series for the next several months.

Between the consumer and the manufacturer are four people: the retail sales person, the retail store buyer, the wholesale/manufacturer sales person, and the manufacturer. The consumer is typically a woman, and the other four are typically men.

If they retail carpet they probably engineer the installation, rather than match colors of rugs with drapes or sofas. The problem seems fairly obvious. The store owner is concerned with maximizing profit by selling rugs and pads with the installation, and the retail sales person is concerned with not losing the sale because they can't match a rug to the drapery or sofa in a home they haven't visited.

The consumer (a woman) is buying color. The salesperson (a man) is selling installation.

The store owner is looking for turnover. The sales rep is looking for winners. The manufacturer is looking for product placement. *Rug News* does not have an answer.

TYPES OF RUGS

Rug News thinks that there are five types of rugs in the market:

Rugs that sell themselves from a rack.

Rugs that need a facilitator/service intermediary, such as custom rugs or fabricated rugs.

Rugs that need to be sold, that is from stock (typically hand knotted), and with a one on one relationship.

Rugs that need to be found (thanks Roz) when a customer walks in and says "I wanna".

Drops or close-outs, dead inventory.

Each requires a separate strategy. Not all firms, especially carpet stores, will carry all categories, but each category has its own needs.

When we try to apply all these different sub-categories to one of many channels of distribution, it becomes easy to see why this has become a very complex industry.

CUSTOMER SERVICE

Ann Nusbaum, Corporate Area Rug Buyer, CCA Global Partners, said earlier this year, "Customer Service is a job description, not a title."

As much as good inventory management is immediately replacing any rugs sold off the rack, good customer service is shipping rugs that are ordered within 24/48/72 hours.

I know that a number of firms are proud of their fill rates which are in the 90th percentile within "X" number of hours.

I know that retailers increasingly are looking at the percentage of orders that they place that are shipped within "Y" days.

I know from an article last year that for the floor salesperson, it is three strikes (non-availability) and the vendor is out in the salesperson's mind.

I know that drops, and planned drops are a very sensitive issue for the retailer since the vendor has to have a policy of dealing with drops that allows the vendor to close them out. All the discounts on drops have to be built into the selling price of the line, and that is not an easy calculation.

If you think about the initial placement as a stock lot shipment, then the re-orders indicate the sell through of the program. If either the vendor or the retailer include the initial placement in the sales analysis, then they distort the sell through numbers. Two lines with the same reorders are not the same level of success if one line had greater placement than the other. In fact the one with less placement and the same reorders is the better seller. I am willing to bet that most vendors and retailers cannot separate the initial placements

from reorders in their sales analysis. (As always I am willing to be wrong.)

Customer service at every level is the factor that separates success from failure. Remember, there are no ugly rugs. Every line and every company has rugs that don't sell at retail. They are the ugly rugs. But as one walks around the market, one is generally struck by how good looking rugs are, at every price point.

Mohamed Farid Khamis, Chairman of Oriental Weavers, told us years ago that rugs were a fashion statement. What I don't think any of us understood, was that we were going to have four seasons a year, corresponding to the four main market seasons. Back in the good old days when there were some ugly rugs around, Oriental Weavers had twenty designers when the rest of the industry together probably did not have twenty designers. Today, everybody seems to have design teams and color teams.

The next article will look at the silent salesmen—display tags hanging on the rug on the rack in the retail store. Please address comments to "publisher@museumbooks.com".*

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