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## Carpets and Rugs Part 6

### Carpet Store Best Practices

By Leslie Stroh

**W**ith the help of Ann Nusbaum of CCA Global, we contacted five carpet stores identified by her as successful rug stores. My understanding of the interviews follows. I was also pleased to find that most of the respondents had read the previous articles in this series.

#### THE RUG GALLERY

Sam Presnell of The Rug Gallery in Cincinnati, Ohio, probably sees as many or more vendors at the Atlanta Market than I do. He aggressively shops the market. And this is not the first time we have talked. His fundamental comment was that the market conditions that you see today are the market conditions that you will have to live with for years to come. Don't assume that the market conditions will get easier. As a business person, the retailer can be either an optimist, or a realist. As Sam noted, describing comments made about the Hanoi Hilton, the realists survived, the optimists died.

Sam Presnell also said that the single biggest change in the rug industry was the development of the tufted rug, particularly Noury2000 which turned the industry on its ear, both as a product, and as a service to retailers.

Presnell also said that he never thought he would advertise a rug as "buy one, get one free", but he does and it works as a way to move his overstock. And he matches prices on the internet, even though he is a full service retailer with educated and motivated sales associates.

Presnell is strictly a soft surface seller—as he acknowledges, he took on hard surfaces a number of years ago, didn't master it, and dropped it. He is now looking at ceramics, stone and tile as they require more service than does wood, which he sees as virtually a do-it-yourself product.

Since Presnell knows rugs and carpets, I asked him why carpet dealers had such a tough time with rugs. He responded that rugs are a totally different animal than carpets, and while they are profitable, they are time consuming. For many carpet stores, he thought rugs required 90% of the time, for 10% of the business. For example, not reordering the best sellers, until

the slow sellers go, a trait attributed to carpet stores, results, according to Presnell to demotivating the sales staff, making a difficult sell even worse.

Ultimately I asked Presnell the obvious question; "Since you know virtually every rug vendor, and virtually every rug line, why do you belong to a buying group?" And he was blunt in that he didn't need them for buying, but it was all the other things, little things, intangibles, exciting things about the details of running his business—cutting his insurance in half, interviewing in depth 25 designers from across the country, market research, talking to other rug dealers from a common framework within the organization. "It made me a better business person."

#### FLOORING AMERICAN OF MICHIGAN

Tom Benkert of Flooring America of Michigan, pointed out that they operated in one of the most depressed economic areas of the country, auto manufacturing dependent, and had a Lowe's and a Home Depot within half a mile. He like some others thought that if the big boxes ever educated and paid their sales people they would be a competitive factor. He did note however that with 200 cars in the parking lot on Sunday morning, the big boxes were bound to sell product.

Benkert says that he sells middle to low end product, that there is no high end market in his area—the two that tried closed after about a year—and the few that want high end travel to a metro market to buy. Flooring America got him to diversify into light fixtures years back and then rugs. He started with a few 6'x 9's and now generally has racks for 8'x 10'-9'x 12' in his three stores. He sells blinds as well as paint—his customers are renovating their homes, and new blinds are as much a part of the process as a new rug. Average ticket is \$499 for a 6' x 9'. Handmades were once 35% of his inventory but now are less than 5%.

For him, machine makes represent real value. Although customers ask for contemporary, his customers buy traditional patterns, but he finds that if he doesn't carry contemporary he doesn't sell traditional as well. He is displaying about 200 to 300 rugs on racks (now mostly 8'x 10', 9'x 12') depending on location, carrying inventory rather than relying on special

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order. He likes ShawRugs, particularly their internet site, which he finds educates consumers and supports retailers.

Any one ad does not pay for itself but is a necessary part of the business. He has to advertise and stay in the local media. He does have a stable sales force. His employees tend to stay until retirement, and he likes the certificate program for carpet run by Flooring America and does bring in sales reps to train on rugs. But he notes that Flooring America's online training is more technical than sales oriented. Benkert said that price-on-price the boxes are real competition; but if the product has value, the sales people see the value, and they can present the value to the customer. Then the product will sell.

## **LEWIS CARPET ONE**

Steve Lewis of Lewis Carpet One says that fabricated and pre-made rugs account for about 12% of their business in Northbrook. The good news is the margin, the bad news is the inventory commitment. In the Northbrook store they carry about 400 rugs, but the new city store that they just acquired, rugs will account for about 30% of the business.

According to Lewis, the toughest part of the rug business is dead inventory. The dog's price is never too low. He looks at return on total inventory. Managed correctly, the inventory return is acceptable; managed incorrectly it can bring you down. He says that you make your money on the buy, not on the sell. His advice is to fully understand your customer and make a commitment to inventory.

The problem is proper inventory control. He uses the RFMS broadloom software which he has customized to handle rugs by the piece. He has the same problems with hard surface, every style has issues and every style has sku's associated. He is working with \$500,000 at cost, and his rug buyer looks at every piece, every turnover ratio, the consignment inventory, the one of a kind inventory, etc. They made an investment in full sized Galt racks to display 80 9x12's.

He says that to make carpet salespeople into rug salespeople you have to train the heck out of them, incentivize (sic) them more—50% more at times—train weekly, train weekly and train weekly.

Rugs are supposed to be a profit center, but getting rid of dogs means that the salespeople have to be paid a real commission on the dogs, to move the dogs out. Rugs have to be part of a full service floor covering store so the customer doesn't go elsewhere. In a price sensitive market like Chicago he is looking for vendors with products that can support and protect margins.

From Lewis's perspective the disposable diaper business can go elsewhere. They run an upper end store where he reckons that they sell more wool rugs than 98% of other rug stores. He tries to stay away from gun tufted and knows he can't compete with discounters on machine made rugs. His salespeople can sell rugs if they are educated and can explain the rug and the rug value.

## **KEPPLE CARPET**

Doug Kepple of Kepple Carpet has three stores—two sell rugs, the third is the clearance center. Rugs are his single biggest inventory investment, although they account for 15-20% of the overall business.

Keeping the rug racks organized by price with price and then style within price is one of their biggest challenges. Every week they take time to bring the warehouse people in to work with the manager to get the rugs back on the racks. The rug area is a very active area. If they don't stay on top of it, the organization of the area can get out of whack.

Surprisingly, Kepple has eliminated silent salesmen staring the customer in the face, although he acknowledges that they are an important selling tool. The problem he finds is that in an active area, particularly on stacks, they come off, get mutilated, require a lot of maintenance, and interfere with the customer looking at the rug itself. In other words, not properly maintained which is labor intensive, the silent salesman can be a distraction.

He has created an inventory tag, that is on the same bottom corner of each rug which carries the price and inventory sku of the rug itself and all of the other sizes that are available in that rug. They have an internal website that is accessible to sales people. But it is the inventory tag as part of the clearance process that is most interesting. Each rug is coded with a start date, not unlike the old oriental rug merchants that used to code each rug with its cost price. When a rug is sold, that portion of the tag is attached to the sales slip. Either Kepple or his buyer goes through those slips twice a week. Those that are selling well get re-ordered. Those that are older and have no sales history don't get reordered. When they go through piles or the rack, they can see on each rug how long it has been there, and after two years, unless it has been continually special ordered, it heads for the clearance center. They feel that everything in the clearance center sells in time. The clearance center inventory is stable, so the process is working. The question that they are asking themselves in real terms is: if the rug is a sample, or clearance center inventory? I like this approach because it is hands on, and the decision is made not from a computer printout but by looking at the rug in the context of the inventory around it.

When it comes to education and training sales people, Kepple commented that from his perspective, the bigger names like Nourison and Karastan, got there for a reason.

## **WORLD OF CARPETS**

Arnie Carston from World of Carpets says that they have training sessions every Tuesday morning and that they have salespeople who have been working for them for ten to twenty years go to training every Tuesday morning. New people and people with gaps in their knowledge go to a second session every week as well.

Since these salespeople get paid for what they do, they want to learn. World of Carpets carries 1200 rugs, and part of what the salespeople do is to have patience with the customer. The tough part is knowing when to leave the customer alone, rather than when the salesperson gets bored and jumps for the next up. Putting the customer's wants with the inventory is important when there are 1200 choices.

Carston says that they do use silent salesmen on the rugs but put the alternative sizes without prices on the back; because with all the different sizes available, it is a nightmare to correct the tags when prices change.

Those 1200 choices range from \$399 to \$3999, and it takes product knowledge to up-sell. They are not particularly happy

with tufted which he feels gets old and shopworn real fast—and has variable quality. He makes an exception for Noury2000 which is consistent and looks the same over time, as he brings in goods to match the samples.

Because customer service is an important part of his business, he feels that the internet can't provide the service, and that some buyers for the big boxes are color blind. This gets us to ugly rugs—which are by definition, the ones that don't sell. He just drops the price, and holds the commission at the original rate, and his salespeople move the goods. It is a combination of sales from sample and how aged the goods are that determines his drop policy.

When a sales rep walks in his door, they hand the rep a print out of every rug they have from that or those vendors and ask the rep to identify what is missing and what needs to be dropped. They are less than pleased with the communication with most mills who stall until they finally get around to saying the rug has been dropped—and disappoint the person who has been patiently waiting. They have a large selection of rugs, not a lot of knotted, and dhurries don't sell, but they promote the idea that the customer has choice.

For retailers without the space he has, he would be perfectly happy with selling from a catalog and thinks more new carpet dealers could, with a simple guarantee to the customer that if the customer doesn't like it, the retailer will keep it. He expects that 80% would stick and 20% would come back, and except for the truly, truly unsaleable, which should have been identified when they were ordered, it is not a bad way to add inventory.

We then got talking about how more carpet retailers could get into the business. This is an idea I liked. A retailer wanting to get into the business, goes to five suppliers and ask for 10 rugs each, obviously their best sellers, and organize them around what the retailer thinks is their retail price point sweet spot, with one step up and one step down. This is 50 rugs, not a large investment, and coming from a variety of vendors. I can't see how a retailer would lose. Sure there are going to be mistakes, but the professionals all know that dealing with mistakes—dogs—is the heart of the business.

I have said in this publication that I thought that the minimum rug investment should be not one 40-arm rack, but two. Alex Peykar has been quoted as saying that 50 rugs was enough to get started. Most of the people interviewed started with about 50 rugs and built successful businesses from there, based on two key principles: training, and close-outs. Sam Presnell's reality is that dead inventory is worthless, and everybody needs new rugs to sell. ❁

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