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## Carpets and Rugs Part 10

By Leslie Stroh

It has occurred to me that last month, and this month, I am writing about the same subject: selling a rug without a sales associate. And that was the starting point of this series—selling a rug in a carpet store where the sales associates knew everything about broadloom carpet and next to nothing about rugs.

Ann Nusbaum of CCA Global said that selling rugs is all about color, color, and color. Khorroosh Yaraghi, principal at RugsUSA.com, said the online customer wants color, color and color.

So here we have the perfect analogy: selling rugs in a carpet store is like selling rugs on line.

So why are the online rug retailers making money and growing, and the bricks and mortar carpet stores appear to be struggling? We have talked to two online retailers—Rug Direct and RugsUSA—that we understand are tops in the field.

Khorroosh Yaraghi said he got into the online retailing business because several years ago, Yahoo offered a free store front, and he signed up. He put some Oriental Weavers of America rugs on his store front, and nothing happened. He didn't get one single sale for four or five months, so he left for Brazil. While there he sold a rug and came back to deliver it.

The business shall we say has grown from those days. He now carries about one hundred vendors on his site and has expanded beyond rugs.

Because he was so early in the field, when people searched for rugs, they would turn up his site. And his storefront existed before Shaw Mohawk and Milliken had their own Websites, so then and even now, dealers would turn to his site to get information about those company's products. As he says, by 1998/1999 RugsUSA was the de facto Website for those companies.

And because he had the brand before the manufacturer, consumers looking for Shaw Living, Mohawk, Oriental Weavers of America or Milliken would find his Website before the manufacturer's own site itself. And even today he says he is still the number two or number three listing when looking for those sites. On the internet, for free, RugsUSA established the early days of online brand recognition for those companies.

RugsUSA doesn't hide the brand, they identify by brand every rug they carry. Yaraghi points out that most catalogs don't give the manufacturers name, but RugsUSA does. He says that it makes sense to give the consumer as much information as

possible, and let the consumer look into the product, learn about it, and make their own decision.

If a consumer wants to call the manufacturer and ask where they can buy the product from a brick and mortar store, they can, and the manufacturer can redirect them to a brick and mortar store. Yaraghi feels that by giving the manufacturer's name, he creates legitimacy for the online product.

And as he points out, with an average ticket between \$299 and \$399, he is at the high end of online retailing. The price points below \$299 are typically the price points in a brick and mortar store where the customer has to look through the rack, read the silent salesman, and choose the rug themselves.

From looking at our earlier articles, and our two on internet retailing, it is possible that the internet retailers create a more responsive selling environment than the average rack-em-up and neglect- them selling opportunity.

RugsUSA uses a standard mark-up over cost, instead of a merchandising mark-up, or a multiple mark-up. This, plus a full description, pictures of the product and room settings, lets each manufacturer have an equal opportunity for the retail consumer's dollar. From his perspective, online retailing of rugs presents a value opportunity across lots of different products.

Khorroosh Yaraghi pointed out that retailing today, in any product, in any format, has to contend with three new retailing facts of life:

The China effect

The WalMart effect, and

The e-commerce effect.

The China effect is cheap manufacturing in China.

The WalMart effect is cheap distribution through the major chains.

The e-commerce effect is the universal availability of information via the internet.

This is the new reality, and I have heard no one put it better or more succinctly than this.

From his perspective, online selling is not discounting, but not overly marking up. His objective is to give the consumer value in his competitive market place, by passing along the value to the consumer.

We know the argument that online retailers don't have the costs of brick and mortar stores. But they do have a back office with people on the telephone talking all day to potential customers.

And they do advertise to drive customers to their Website. In

season, which Yaraghi says is the middle of October to the middle of December, he is spending \$6,500 to \$7,500 a day—a day—on paid advertising to bring in customers. When he started up, he asked manufacturers how much they expected him to spend to open an account, and he says they typically said 25 \$200 rugs, or \$5,000. And that is less than his daily advertising budget.

On Google, with paid links, Yaraghi notes that RugsUSA comes up generally first on the list, simply because the Google system responds to the retailer who pays the most and gets the most hits. In season, about 150,000 unique visitors visit RugsUSA every ten days. (He noted correctly my error in thinking hits were unique visitors in an earlier article.) I would observe that there are not too many bricks and mortar retailers seeing 15,000 visitors a day.

Since I expected some problems with color selling rugs on the internet, I asked about returns, and Yaraghi said that in peak periods, returns would average 9-10% of sales. He sells some returns to retailers, some go back to the manufacturer if not what was ordered, and some go to his online clearance department. It is part of the cost of doing business.

RugsUSA drops a print catalog twice a year to potential and past customers who meet certain marketing criterion, and while it is not a big mailing, is about 500,000 copies. This is part of another advertising budget, since its purpose is to both sell product and push people to the online site. His marketing goal is to be sure that 80% of consumers, who look online for rugs will find their way to RugsUSA one way or the other.

With over 100 vendors, including vendors of wall mirrors, clocks and paintings, RugsUSA success is dependent upon the manufacturers ability to drop ship promptly and correctly, according to their promise. In the continental US RugsUSA absorbs the shipping charge in their price.

The problems are simple. Getting accurate information about what is in inventory. When the inventory information is accurate, then most companies can drop ship within two days. There is no time to confirm inventory by phone. The difference between good and bad information is good information means that the goods are shipped in two days, and bad information means the goods are shipped in two weeks.

Khorroosh Yaraghi was explicit in saying that the inability to get inventory information on line was a drawback to the consumer. The consumer might wait two weeks or two months, but he felt that the consumer should have that choice. He was talking about word of mouth benefits from the consumer having a satisfactory buying experience.

He also said that OWA and now Sphinx were responsible vendors, and he added that Shaw Rugs was also good both because they shipped promptly and they had a standardized retail price in the market.

Yaraghi went on to say that one of the advantages of the internet is that a small company who takes the internet seriously can present themselves as effectively as a big company like any of the majors.

He used as an example Surya, who he said was not organized for the internet two years ago. Then, with a new person looking after sales, they came back with all the information, all of the graphics, and a commitment to ship, and he now considers them a good internet vendor. They got it, and now they look just like a major on the RugsUSA Website—there is no difference to the consumer between Surya and a major brand name on the internet, and by delivering well, the consumer has a satisfactory buying experience.

From his perspective the internet business and the catalog business are pretty much the same thing, but the internet moves much more quickly. He sees the number of buyers increasing, but the average price per 5x8 that is sold decreasing.

RugsUSA will be releasing a new Website in the spring with the goal of increasing value to the consumer without reducing prices—that is looking at more services they can offer the consumer.

They already have domestic free shipping, because they want the consumer to see the product; and while they now have a 30 day return policy, they would like to move it to 60 days if that will enhance the buying experience.

Getting back to the silent salesman where the consumer does all the work. Only about 15 % of their rugs are sold through a phone call to the customer service department, (except when a print catalog hits, and most people call in their orders from the catalog).

Rug News concludes that a rack and the internet are pretty much the same, they both require a silent salesman with all of the information, ease of ordering, prompt delivery, and of course inventory and inventory information. On the internet, the dead inventory belongs to the vendor not the retailer.

Three differences stand out:

On the internet the vendors own the dead inventory not the retailer.

The internet retailers have significant advertising budgets to drive traffic.

Internet retailers see thousands of potential customers per day.

And one limiting factor—the retail price point tops out at \$399 for all volume purposes.

This is a new reality. ❁

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