Success Guides

Successful Retailing for Smaller Museums

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Retail Matters

Front cover picture: Does your shop look inviting? This is Dundee Heritage Trust’s shop at Discovery Point.
Successful Retailing for Smaller Museums

Retailing is often seen as the easiest way to generate additional income for a museum but it is surprising how often the appearance of the shop and the stock that it carries actually detract from the quality of the museum’s collections, its exhibitions and very obvious levels of curatorial care. A good shop has the ability to complement other facets of a museum’s work whilst enhancing the visitors’ enjoyment of their day. It is therefore vital that it demonstrates the same level of professionalism that is apparent in the rest of the museum.

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This paper is not intended as a definitive guide to museum retailing but a way of pointing those who are new to retailing in the right direction. It has been written for smaller museums, although it will have a wider application. If nothing else, it should give them an insight into some of the complexities of retailing and to understand why it is sometimes necessary to seek professional advice.

Why Have a Shop?

If you are thinking about opening a shop or a sales point in your museum, or you already have one and are unsure about how you should develop it, the first thing you need to do is to decide why you actually want one.

The most common reasons are:

- To provide an additional source of income.
- To provide an outlet for educational material relating to the museum’s collection and activities.
- To contribute towards the visitors’ enjoyment of the museum by providing a place for them to buy a souvenir of their visit.

Most of the successful museum shops combine the last two and, as a result, satisfy the first by generating a substantial amount of additional income. If, however, it has been decided that the principal reason for having a shop in your museum is to sell subsidised educational literature, everyone connected with the museum should understand that the shop is unlikely to be profitable and will probably not live up to most visitors’ expectations of a museum shop.

Regardless of what type of shop you decide to have, there are certain basic elements of good retail practice that need to be looked at if the enterprise is to be a success. These are:

1. Setting Objectives

It is important to remember that if you have not agreed objectives for the shop before you begin, you will have nothing against which you can subsequently measure its performance.

Regardless of whether your objectives include making a profit, it is essential that financial budgets are established at the outset and are compared with actual results on a regular basis.
2. Staffing

A shop in a small museum is unlikely to be profitable if it is run entirely by paid staff. The most efficient way to run a shop is therefore to staff it either with volunteers or with paid staff who work in it in addition to their other duties.

Regardless of whether the staff are paid or unpaid, the golden rules for a successful shop are:

- Only one person can be responsible for the day to day running of the shop – the ordering, the maintenance of the stock control system and other records, the standard of display and the cleanliness of the stock and fittings.
- The ‘responsible’ person could be either full-time or part-time, but must actually work in the shop for part of their week and not merely run it from an office.
- Small museums very rarely require more than one person to be in the shop/at the admissions desk at any one time. Two people are often less productive than one!
- All staff, paid or unpaid, need to be trained in the tasks they are expected to undertake and standards should be set for acceptable levels of performance, e.g. tills should balance at the end of each day regardless of who is using them.

3. Shop Location

If you are forced to make a choice, it is generally better to place the shop at the end of the visitor route rather than at the beginning. As it is very unusual for a small museum to have a separate entrance and exit, the question of whether to site it at one or the other very rarely arises and the best solution is often forced upon you – to have it visible at the beginning of the route and have visitors pass through it at the end.

There are, however, three additional questions that need to be asked when siting a shop, particularly if one of your objectives is to generate income for the museum, and they are:

- Is the shop visible from the outside? You may not be able to alter the structure of the building but, with a little thought, a shop can often present a very attractive introduction to a museum and, at the same time, let passers-by know of the shop’s existence.
• Is it well signposted?
   Even if it seems obvious to you that the museum has a shop, make sure it is well signposted.
• Can customers use the shop easily and without charge if they do not wish to visit the museum?
• Museum shops, even in very small museums, can attract a large number of regular customers, particularly at Christmas when people are looking for something ‘different’ to give as presents.

4. Shop Size

Unless a shop is contained within a defined area it tends to grow.

Many of the shops in small museums are in rooms that are also used for museum displays and, where this is the case, it is essential that the area of the shop is clearly defined. A shop that has developed (or started life) as a sprawl, needs to be controlled because:

• It confuses the customer. In general, people like to know whether they are in a museum or a shop because of the different attitudes towards handling the ‘merchandise’.
• It poses a security risk. If the merchandise is on open display away from the main shop area it can usually be stolen fairly easily. If it is put under glass to protect it, it will not sell as well as it should and this defeats the object of expansion.

What is the right size for a shop? In most cases, the maximum size will be determined by the physical constraints of the building. The optimum size is more difficult to assess and is dependent upon:

• The number of visitors – customers will not spend money if they are packed into a confined space or have to crowd around the admission desk/shop display. Nor will they be attracted to the merchandise if the shop is obviously too big and the stock is spread so thinly around it that it looks as though it is going out of business.
• The range of merchandise to be stocked – if one of the reasons for having a shop is that it should become a major stockist of publications on a particular subject, it will require far more space than if the objective had been different.
• If a museum can only afford, or only wishes to stock a limited number of products, the shop will be more appealing if it is kept fairly small so that the merchandise does not become too spread out.

5. Fittings

If a shop is to be successful, regardless of the objectives that have been set for it, it must have appropriate fittings.

They need to be appropriate for:

• The museum. There is nothing worse than seeing fittings in a museum shop that would be entirely at home in a supermarket. These can be very functional, but are not necessarily complementary to the atmosphere of the museum.

• The shop. Redundant museum display cases invariably make very poor retail units.

• The merchandise. The type of merchandise to be sold should have a major influence on the design of the fittings.

Good shop fittings need not be expensive but they must be suitable for the purpose for which they will be used. Whenever possible, they should have:

• Shelves that are adjustable in height.

• Angled shelves for books – if books are to be displayed ‘face out’ (for greater sales), they cannot be displayed successfully on flat shelves.

• Shelves that are of a standard size and therefore interchangeable between all the fittings in the shop.

• Cupboard bases beneath the shelves to accommodate stock.

• Only the minimum amount of ‘secure’ display space. Generally, there are far too many lockable display cases in museum shops. With careful siting of merchandise, most shops could do without any – and sales would improve significantly without any appreciable increase in stock losses.

• Their own lighting system. This greatly enhances the appearance of merchandise without raising the overall level of light in a shop to an unacceptable extent.

No matter how small your museum, try to avoid having the ‘shop’ on a single counter with the staff on one side and customers on the other. This severely reduces the potential for sales because:

• Customers are not normally at ease if they feel they are being closely watched (and they need to be at ease if they are going to spend money).

• A counter is a very inefficient method of displaying a wide selection of stock – it is normally only equivalent to a single shelf!

• If a queue forms (for admission tickets or shop sales), the shop disappears!

Even in quite large shops there is a tendency to place all the children’s merchandise on the counter because of a fear that it will get stolen if it is not constantly watched. This is unnecessary and often results in the counter being completely inaccessible for admissions or other shop sales if it is surrounded by a school party.

If your budget allows, purpose-built shop fittings can represent a very good investment. To be efficient, they need to be well designed by someone who understands both the demands of retailing and the needs of the museum. Museum exhibition designers or architects are often not, therefore, the best people to choose to do this for you although they can give you valuable advice on colour schemes and the materials to be used.

A good shopfitter is often the best bet but try to find one who has had experience of fitting out museum shops and go and see examples of his work. Explain about the types of merchandise you are proposing to sell and say how much space you would
What sells in the high street might not be appropriate in a museum shop.

like to allocate to each category. If you then specify the colours and materials to be used for the fittings, you should get exactly the shop you need.

Ready-made fittings are often a cheaper alternative to purpose-built units and, providing you know exactly what you want, they can also produce excellent results.

6. Merchandise Selection

a. Who buys for the shop?

Whilst only one person should be placing the orders and negotiating prices with suppliers, the decisions about the products to be sold in the shop are best made in consultation with colleagues. Merchandise selections based entirely upon what sells in the high street can be as unsuccessful as those made purely on aesthetic grounds ignoring commercial realities.

An agreed procedure for the selection process is therefore essential if conflicts of interest are to be avoided.

b. What to buy?

The selection of merchandise will depend very largely upon the objectives that were set for the
shop. Assuming that it is to make a profit, be educational and generally meet customers’ expectations, it needs to offer, in addition to relevant publications, a mixture of souvenir and gift merchandise across a fairly broad price band but with particular emphasis on good value for money.

There is a great temptation for small museums to start their trading activities by only stocking merchandise that they have commissioned themselves. If you only have a limited budget, the only exclusive (unique to you) merchandise that you should stock are postcards and a guide book. The balance should be non-exclusive merchandise related to your collection, e.g. model Roman soldiers, model dinosaurs, or stationery lines depicting objects similar to those in the collection. Some of this could be ‘personalised’ to your museum (by getting the supplier to add your logo to the packaging) fairly inexpensively and without the need to commit yourself to ordering large quantities.

A small museum can put together a very interesting selection of appropriate merchandise for a few thousand pounds. The turnover would be fairly fast and profits would be generated quite quickly. As the profits grow, some of this money can then be used to finance the occasional exclusive line which, almost by definition, will involve a substantial investment.

The really successful museum shops are those that have a core of exclusive lines, complemented by a much larger number of products that are generally available to every gift shop in the country. What makes the successful shop stand out from all the others is the way that this ‘general’ merchandise has been selected. It is a unique selection of appropriate merchandise.

If merchandise is to be ‘appropriate’, it should not only be appropriate to the museum and its collection, it should also be appropriate to the type of visitor who is attracted to the museum. If the merchandise in a museum visited predominately by young children is aimed primarily at middle-aged, middle-class women, it cannot be said to be appropriate.

c. Where to buy?

The best way to become aware of the range of merchandise available to museum shops is to attend gift fairs. There are a large number of these held throughout the year but you only really need to visit a few of these – the International Spring Fair is the most important and it is held every year at the NEC in Birmingham in the first week of February. In addition to this major fair, you should try to visit a local one that has a distinct regional bias.

Before you visit a gift fair, however, you should always know:

- How much money you have to spend.
- What product groups you are looking for – stationery; personalised confectionery; children’s lines?
- What you are prepared to drop from your present ranges if you find something new (unless your shop is still growing).
- How much space you will be able to give to the new merchandise.

When you find something new that you are sure will sell, think about how you are going to display it and how it will look in your shop – if the packaging is only suitable for hanging, do you have the right fixtures? If it needs to be lit from the back (stained glass), can you do it?
In addition to visiting gift fairs it is always a good idea to visit other museum shops. Ask the staff about the things they are selling that would also be appropriate to your museum. You do not want your shop to look the same as anyone else’s but you can often get good ideas from seeing what they are selling.

Improving the standard of merchandising is always cheaper and easier than changing the shop fittings and can have a dramatic effect on the level of sales.

8. Systems

You need to have systems if you are going to operate efficiently, monitor your results and stick to your budgets.

Systems are essential in the following areas:

a. Buying control

• You need to set a budget for the amount of money that can be spent on purchases.
• The budget should be related to the expected level of sales – it must be capable of being increased if sales are better than expected or reduced if they are poorer.
• The budget should be spread over the year in line with budgeted sales – if you are asking a supplier to produce something exclusive for your museum, you may have to buy and take delivery of a year’s stock (or even two years’ stock) in one go, but that is the exception to the rule.

b. Stock control

This tells you:

• The rate of sale of each item of merchandise.
• The correct quantities to order.
• Which products to drop because of poor sales.
• How much space to allocate to each product (space should relate to sales).

A stock control system does not have to be computerised or complicated (or both!) to be effective. A simple manual system will suffice until your shop is taking many hundreds of thousands of pounds!
c. Cash control

Systems should be in place to ensure that all monies received are accounted for. This is not just to protect the museum against losses but is important to protect staff from the suspicion of carelessness or worse if the profits at the end of the year are below expectations.

A cash register should be used for all transactions. The cash in it at the end of each day should be compared with the amount registered and reasons sought and recorded for any discrepancies.

9. Retail Benchmarks

Is your shop doing as well as it should? The following should give you an idea of the levels of performance that are being achieved by small museum shops. If yours varies greatly from these (without good reason), you will probably need to look at the operation in some detail.

A themed collection of appropriate merchandise does not have to contain any exclusive products.
a. Level of sales

This depends very much upon the size of the shop and the number of visitors the museum attracts but, as a rough guide, in a museum that charges for admission you should be aiming for shop sales (also referred to as the ‘turnover’) equivalent to at least £2.00 (excluding VAT) for each visitor. If you have 30,000 visitors, you should expect to take approximately £60,000.

This is much more difficult to achieve in a very small museum where you have less (say) 10,000 visitors a year than in a large one because, assuming that you are controlling the amount of money being spent on stock purchases (and keeping it in proportion to the expected sales), there is unlikely to be a sufficiently wide selection of merchandise in the shop to generate the sales.

b. Profitability

**Gross Profit** is the difference between the Cost Price of an item and its Selling Price. If you are VAT registered (see later for details of registration) and are liable for the tax, the Cost and Selling Prices in the calculation must exclude VAT. If you are not VAT registered, the Cost Price in the calculation must include the VAT you have paid to your supplier.
Example:-

<table>
<thead>
<tr>
<th></th>
<th>VAT Registered</th>
<th>Not VAT Registered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Price (£2.50+VAT)</td>
<td>£2.50</td>
<td>£3.00</td>
</tr>
<tr>
<td>Selling Price (excl. VAT)</td>
<td>£4.96</td>
<td>£5.95</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>£2.46</td>
<td>£2.95</td>
</tr>
<tr>
<td>Gross Profit %(^1)</td>
<td>49.6%</td>
<td>49.6%</td>
</tr>
<tr>
<td>Selling Price in the shop</td>
<td>£5.95(^2)</td>
<td>£5.95</td>
</tr>
</tbody>
</table>

\(^1\) See next page for method of calculation
\(^2\) includes 99p VAT

On souvenir lines and general gift merchandise, a museum shop should normally aim to make a Gross Profit equivalent to 50% of sales (excl. VAT). It is unlikely that you will achieve this level of gross profit on your total shop sales, however, because you are probably selling books on which there is a much lower profit margin (normally around 35%) and other publications on which a policy decision may have been taken to sell at a partially subsidised rate.

The gross profit will therefore be lower than 50% and it is quite normal for it to average in the region of 45%. If you are making very much less than this, you need to look at what you are doing very closely unless there are extenuating circumstances about which you are already aware (such as 80% of your sales coming from books).

Net Profit is what is left of your Gross Profit once all your overheads (wages, rent, rates, heating, lighting etc.) have been deducted – see Overheads below.

Gross Profit %

There is confusion in the minds of many people working in retailing about the difference between Gross Profit % and Mark Up %. To mistake one for the other can have a disastrous effect on a business!

The Gross Profit % (sometimes referred to as the % Margin) is the percentage of the Selling Price which is retained as Profit.

\[
\text{Gross Profit} \times \frac{100}{\text{Selling Price}} = \text{Gross Profit %}
\]

*Always excludes VAT

Example:-

\[
\frac{\£1.60 \times 100}{\£4.00} = 40\% \text{ Gross Profit}
\]

The Mark Up % is the percentage by which the Cost Price is increased to produce the Selling Price (excluding VAT).

A confusion between Gross Profit % and Mark Up % could (and often does!) result in the following type of error:--

Aim: To achieve 40% Gross Profit.

\[
\begin{align*}
\text{Cost Price} &= £2.40 \\
\text{Add 40% of £2.40} &= 96p^* \\
\text{Selling Price} &= £3.36
\end{align*}
\]

*Only 29% Gross Profit

Listed below are examples of how the Gross Profit % and the Mark Up % vary from each other. From it you will see that a Mark Up of 25% only produces a 20% Gross Profit whilst a 50% Gross Profit requires a 100% Mark Up. This table assumes that VAT will be added to the marked up price to arrive at the final Selling Price.
A smiling assistant helps sales and provides a 'feel-good' factor for the museum. This is the shop at *ss Great Britain*, Bristol.

<table>
<thead>
<tr>
<th>Mark Up %</th>
<th>Gross Profit %</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>33.3%</td>
<td>25%</td>
</tr>
<tr>
<td>50%</td>
<td>33.3%</td>
</tr>
<tr>
<td>100%</td>
<td>50%</td>
</tr>
<tr>
<td>200%</td>
<td>66.6%</td>
</tr>
<tr>
<td>300%</td>
<td>75%</td>
</tr>
<tr>
<td>400%</td>
<td>80%</td>
</tr>
<tr>
<td>500%</td>
<td>83.3%</td>
</tr>
<tr>
<td>1000%</td>
<td>90.1%</td>
</tr>
</tbody>
</table>

**Remember.** The **ONLY** way to achieve a Gross Profit of 100% is if you do not have to pay for the stock!

**Mark Up Multiplier**

This is the number by which the cost price is multiplied to arrive at the Selling Price (normally *including* VAT).

For gift merchandise (not books or foods) a multiplier of 2.4 is used (assuming the standard rate of VAT is 20%) to obtain a gross profit of 50%.

**Example:** To achieve a Gross Profit of 50% (100% Mark Up + VAT)

- **Cost Price** = £3.28
- **Mark Up by 100%** = £3.28
- **Selling Price (ex VAT)** = £6.56
- **VAT** = £1.31
- **Selling Price (inc VAT)** = £7.87

The simple way would have been to multiply £3.35 by 2.4 to achieve the same result.

*£7.87 would be a very unusual retail price. Once a theoretical selling price has been established, an actual selling needs to be agreed. Depending upon your own retail policy, this could be £7.75, £7.79, £7.85, £7.89, £7.95 or £7.99*

**c. Overheads**

The largest overhead cost in retailing is usually the cost of the staff and, for those of you fortunate enough to have volunteers in your shops, this obviously does not apply. If you are paying your staff, however, the wage bill should be equivalent to between 12% and 15% of your sales (after deducting VAT). This also becomes more difficult to achieve with very small shops (hence the necessity for volunteers) but it can be substantially less than 12% once you start taking very large amounts of money.

If you want to know whether your shop is truly profitable in commercial terms, you should also set against it a charge for the cost of the heating and lighting and a
notional rent for the space it occupies. Small museums do not often do this but, if you do, it is often easier to use a percentage of the sales, say 10%, to cover these costs.

d. Stock levels

Over-stocking is one of the biggest problems in small museums (and many large ones) and often results in a severe financial strain on a museum’s resources. In retailing, stock levels are controlled by monitoring the stockturn. Stockturn is calculated by dividing the estimated annual sales figure (according to the latest predictions) by the average (monthly) value of the stock (at selling prices). A small shop should aim for a stockturn of 4 but this can be difficult to achieve and it is more likely that the stockturn will be closer to 2 if the shop is holding large stocks of specially commissioned merchandise (especially postcards).

Example:-

\[
\begin{align*}
\text{Annual Sales*} & \quad \text{£15,000} \\
\text{Average Stockholding*} & \quad \text{£4,500} \\
\text{Stockturn (Sales/Stockholding)} & \quad = 3.3 \\
\end{align*}
\]

*Sales and Stockholding figures at retail prices (inc VAT)

To ensure that stock levels do not grow unnecessarily because of the accumulation of slow selling merchandise, action needs to be taken at regular intervals (at least twice a year) to reduce the prices to the level at which this stock will be cleared. It is far better to get just the cost price back (in the worst case) rather than have large amounts of money tied up in unsaleable stock.

e. Stock losses

Some shops are more prone to losses than others but, as a general rule, you should expect to lose an amount

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Top Tips for Success

1. Be very clear about why you want to have a shop and be realistic about the level of income that it can generate. If you think that your lack of knowledge about how to set one up might result in something that detracts from the professional standards demonstrated elsewhere in the museum, seek advice from colleagues or from an external consultant.

2. The most profitable shops in very small museums are often those that are manned by staff who would have to be on duty regardless of whether the shop existed, i.e. selling admission tickets or ‘meeting and greeting’. With this type of operation, the museum does not incur any significant additional staff costs because of its shop and it is also unlikely to have any extra running costs (for heat or lighting). The net profit is therefore almost equal to the gross profit and this is an enviable position in which to be.

3. Regardless of whether the staff are paid or unpaid, they are ambassadors for the museum and the success of the shop will depend upon their pleasant, welcoming, outgoing personalities. Having someone in the shop or at the admissions desk who cannot smile naturally is a recipe for disaster!

4. Shop fittings do not have to be expensive but, if you cannot afford them at the outset, avoid using redundant museum cabinets with glass doors that prevent the customers from touching the merchandise. It would be much better to invest in an open shelving unit from IKEA or somewhere similar.

5. When selecting merchandise for a small shop, avoid commissioning exclusive products that will tie up large amounts of capital. Try to find generally available products that are appropriate to the museum’s collection and to the immediate environment (your town, city or region of the country) and which, of course, will also appeal to your visitors. Don’t fall into the trap of only buying what you personally would like to own – you might not fit the profile of your average visitor!

6. Before you embark upon putting your plans for a new shop into practice, try to visit as many of the shops in major museums as possible. The staff who run these will not see you as a threat to their businesses and will normally be able to give you very valuable advice on how they have selected their product ranges and the way they have been merchandised (displayed). Don’t just visit museums – look carefully at how retailers such as John Lewis merchandise their stores and note how, for example, you can see the price of everything on their shelves at a glance.

7. If you want your shop to be a success, you must take a very personal interest in how it looks and performs. You need to as proud of it as you are of any other part of the museum.
John Prescott began his working life in Chartered Accountancy but moved into retailing where he held senior management positions with major high street companies. In 1979 he joined the National Trust as a Regional Manager, responsible for the trust’s commercial activities in Wales. He then moved to head office in Wiltshire where, as National Retail Manager, he was responsible for the operation of the trust’s 220 shops. In 1991 he formed his own company, Retail Matters, which offers retail training and consultancy services to museums, historic houses, gardens, cathedrals and other heritage sites. In addition to his retail training and consultancy work, John is a lecturer on Heritage & Museum Management at Birmingham University and has written retail course material for the Open University.

equal to between 1% and 2% of your turnover (excluding VAT). Do not fall into the trap of locking all the stock in display cabinets so that it cannot get stolen – that only results in a drop in net income. The way to combat extraordinarily high rates of theft is by being vigilant and being careful about where the merchandise is displayed in the shop.

10. A Trading Company?

If your museum is registered as a charity, you will almost certainly need to form a trading company to run your shop if you wish to avoid paying tax on your profits. This is because HMRC currently takes the view that the profits from most of the shops in museums owned by charities are not exempt from tax in the way that some of their other trading activities are (museum catering, for example, is quite often exempt).

The advantage of operating through a trading company is that you can avoid the liability to taxation by covenantee the profits to a charity (the museum). There are, however, disadvantages and not least of these is the cost of auditing the company’s accounts. Professional advice should therefore be sought about your own particular circumstances before you build up a large tax liability.

If your museum is not registered as a charity, the tax advantage of trading through a separate company is not open to you.

11. VAT Registration

Any business (an individual, a firm or a company) is required to register for VAT if its ‘taxable turnover’ is above certain limits. The definition of ‘taxable turnover’ with regard to your museum or your trading company and the current level that it needs to reach before registration is required can be obtained from your local VAT Office (HMRC).