*Updated and adapted from the book "1,001 Things They Won't Tell You: An Insider's Guide to Spending, Saving, and Living Wisely," by Jonathan Dahl and the editors of SmartMoney.*

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Published January 30, 2010

# 10 Things Retailers Won't Tell You

**1. "Forget commissions. Our staff gets kickbacks."**

Next time a salesperson gets overly pushy when promoting a product to you, think twice about their motives. Sometimes clerks have hidden agendas you might not know about.

Consider the "promotion incentive fee," which is a selling incentive that leads sales staff to heavily favor one brand over another. This is typically a direct commission from the retailer, and it rewards sales associates for selling certain products – usually those with the highest point margin, says Jeff Green, president of Jeff Green Partners, a Mill Valley, Calif.-based retail consulting firm. It is increasingly popular with retailers, especially in the home furnishing and consumer electronics sectors. Customers who are unaware of this fee just think the salesperson is focusing on the product they believe is best. "Consumers should beware if they're being oversold on a certain piece of merchandise," says Green. "They have to ask themselves why this is."

How can you distinguish good advice from a commission-driven sales pitch? "When you're making a large purchase, make sure you're communicating to the salesperson what it is you need," says Daniel Butler, vice president of retail operations at the National Retail Federation (NRF). "If you feel they're steering you toward something that doesn't meet your needs, find someone else in the store to help you."

**2. "That salesman doesn't actually work here."**

In some cases, the salesperson helping you isn't always employed by that store.

Companies such as Hewlett-Packard, for example, sometimes provide their own employees or hire marketing firms or sales-training firms to be present in stores to offer information about a specific brand or product. An HP spokeswoman says her company's reps "help customers identify the best solution for their needs" and wear shirts with identifying logos.

Depending on the store and the companies involved, these people may or may not identify themselves as such, says Steve Frenda, managing director at the In-Store Marketing Institute, a retail marketing strategy association. While they're knowledgeable about a specific product line, they may be too aggressive about their employer's brand, he says. How to spot the company man? "If somebody seems too aggressive about one brand, ask him who he's working for," says Frenda.

**3. "If you knew our return policy, you might not shop here."**

Next time you try to make a return, don't be surprised if you can't get all your money back. Many retailers – particularly those in electronics - now charge "restocking fees" on returned or exchanged items, and oftentimes they downplay such policies, including them only in their fine print.

Stores justify restocking fees by saying they deter customers who use products before returning them. With a restocking fee, a store keeps a percentage – often 10% but as high as 20% – of the item's cost, says Gail Cunningham, a spokeswoman for the National Foundation for Credit Counseling. Some stores enforce this fee when the packaging is opened while others charge it on all returns.

Target, for example, sometimes charges 15% on items like camcorders, digital cameras, portable DVD players and portable electronics. Sonja Pothen, a Target spokeswoman, says that the store does not charge a restocking fee on 99% of its current electronic inventory.

Consumers are best off asking about return policies and restocking fees before making a purchase. In some cases, "there might be a sign at the return counter," says Brad Ashwell, director of the Florida Public Interest Research Group. "Other stores print it on the back of your receipt, but by the time you see it, you've already paid."

**4. "Outlets are a front for cheaper goods."**

Discount clothing outlets used to be primarily a source where chain stores would unload lingering items, but they've become so popular that these days designers often create secondary lines – with, say, cheaper fabrics – specifically for the outlets.

"This is a huge source of business for wholesalers," says Claudia Sagan, a San Francisco-based consultant and advisor to retailers and shopping center developers. In some cases, the designer will manufacture clothing specifically for the outlet, and they'll go straight there rather than to the designer's boutique or the department stores. This clothing will often have a slightly different label or name that's only meant for the outlets, she says.

In other cases, designers will take excess fabric that's left over after creating their boutique clothing and use it to manufacture clothing for the outlets. "They're going to use a combination of factors, like lesser quality fabric or sewing, fewer fine details and leftover fabric," says Sagan. In this case, it's hard to tell the difference unless you're able to spot the lower-quality fabrics.

Often times such clothing will get mixed with what consumers expect to find at outlets: last season's leftovers and pieces with slight defects.

**5. "We'll say anything to lure you inside."**

Nobody expects retailers' advertising to be completely straightforward, but sometimes they're just straight up deceitful.

In September 2009, CVS/pharmacy paid nearly $2.8 million to settle FTC charges that it was making misleading claims that its "AirShield" product can prevent colds, fight germs and boost immune systems. Mike DeAngelis, a CVS/pharmacy spokesman, says the payment to the FTC was to cover the costs of a refund program for customers who purchased CVS's AirShield from July 2005 through Nov. 2008.

How leery should consumers be when it comes to retail advertising? "Most retailers don't want to risk their good reputation with customers over an ad," says the NRF's Butler. "But if something looks too good to be true, do some research and comparative shopping."

**6. "Our gift cards take as much as they give."**

Whether you see them as stocking stuffers or the ultimate gift-giving copout, gift cards are everywhere, and retailers love them because they're a cash cow.

For 2009, gift card volumes brought in $87 billion, which although high is a decrease from $91 billion in 2008, according to projections from the TowerGroup, a financial research and advisory services firm. What's even better – from a retailer's perspective – is the fact that about 6% of the total value of cards purchased in 2009 went unused, mainly due to expiration dates, service fees and good old forgetfulness.

But in some cases, gift cards can lose their value even through no fault of the consumer. One common culprit is when a store files for bankruptcy. For example, in February 2008 Sharper Image announced it was suspending the acceptance of gift cards after it filed for Chapter 11 bankruptcy. The retailer backtracked a month later, saying it would continue to accept gift cards – but only as long as the total purchase was twice the value of the gift card. Sharper Image didn't return calls for comment.

"People have to realize that gift cards were never intended to be savings vehicles; they're meant to be used," says Brian Riley, a senior analyst at TowerGroup. "The best thing you can do when you get a gift card is go spend it."

**7. "Luxury brands at discount stores aren't exactly high-end."**

With the sales of luxury goods on the skids, high-end designers are looking for ways to make up their margins, and they're moving to the discount stores where sales are on the rise. But it's not all good news for bargain hunters: Shoppers should watch for differences in quality, like lower-grade fabrics, which help keep the cost down, says Sagan. And, the best stuff often disappears from the racks within hours.

In November, Jimmy Choo debuted a line of clothing, shoes and accessories at 10 H&M stores in the U.S. – most of which sold out in one weekend. A spokeswoman for H&M says that the company uses its own fabrics for the merchandise, it buys the fabrics in bulk, and it uses its own production offices for such collections. Also in November, Badgley Mischka, a label favored by Hollywood, premiered an affordable collection of apparel and accessories on the HSN. And Zac Posen is set to launch a line of clothing for Target in April.

**8. "Couture isn't exactly a surefire investment."**

Could a designer purse really have "growth potential"? That's what some salespeople would have you think. "I've heard retailers telling customers that an item might become collectible," says Cameron Silver, owner of Decades, a Los Angeles-based vintage-clothing boutique.

While it's nearly impossible to play fashion's futures market, it can happen. After all, a handful of Louis Vuitton, Gucci and Chanel bags have risen in price during the past decade or so. Looking for the next hot issue? One decent bet today is an Hermès bag, particularly the "Kelly" bag, which averages $8,000 to $10,000 but can cost more, says Sagan. In part, this handbag appreciates over time because Hermès manufactures limited quantities and there's a waiting list for it. "Twenty years from now it will definitely be worth more," says Silver.

In cases with handbag designers that comparatively mass produce, like Louis Vuitton or Gucci, they'll increase prices to see how high they can go and still sell, says Sagan. "They know it will sell at a higher price," she says.

**9. "Clothing designers often have no business making housewares."**

Just because a designer makes beautiful clothing, don't expect his skills to transfer to anything else he chooses to create. These days, fashion designers of every stripe are rolling out crossover goods trying to cash in on housewares and furniture. But not all these products are up to snuff, says Green.

In particular, Evan Lobel, proprietor of New York City's Lobel Modern antiques shop, isn't impressed with designer-affiliated furniture. "Fashionistas send their people around to shops like mine so they can see how the proportions are done on mid-century furniture, and then they copy it," Lobel says. "That may be the way fashion is done" – knocking off garments made by competitors and predecessors – "but furniture is different." The originals, even as antiques, are better made and often less expensive than these new look-alikes, he says.

**10. "We can damage your credit score."**

It's tempting to open a store credit card and get a 10% discount on a cashmere sweater. But in most cases, the consumer is ending up with a bad deal. When a consumer applies for a credit card, an inquiry is made to the credit bureau that may slightly lower their credit score. Also, most store credit cards carry low credit limits, which can increase a consumer's credit utilization (that's a consumer's outstanding debt as a percentage of their total amount of credit). And they often carry high interest rates of 20% or more.

Meanwhile, consumers shopping for furniture or big-ticket electronics or home appliances will hear sales-people touting 0% interest and no payments for months – or even years. Suddenly, that $2,000 sofa appears easier to stomach, but in most cases these "deals" are too good to be true. Consumers save on interest and don't have to pay for the entire purchase up front, but these deals can destroy your credit utilization. When a shopper buys furniture using a no interest, no payment financing deal, they often receive a line of credit that equals the amount of the purchase. The problem is now the buyer has a line of credit that is maxed out 100%. In the worst of cases, that line of credit will remain at a 100% utilization rate until the amount is paid is full.