SOME BRICK-AND-MORTAR SPECIALTY STORES ARE THRIVING!

How are They Doing It?

ABSTRACT

Is brick and mortar retailing fading into the past with the growth of e-commerce? This paper explores what some specialty store retailers that are thriving have in common which is driving their results above and apart from their competition.

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Photo by
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How Are They Doing It?

Over the past 16 years of our consulting practice, we have been fortunate to work with specialty retailers having operations crossing the US, Canada and Europe. During this time, we have ridden waves of economic ups and downs with our clients, moved with the birth of the digital age, experienced the changing complexion and demands of consumers, and adapted to the educational needs of each new wave of the retail workforce.

We've all read and heard much about the proliferation of digital retailing and the demise of brick-and-mortar stores. Indeed, our industry is undergoing a profound change, much like the "malling of America" back in the 1970s, which took the Baby Boomers away from the downtown shopping of their parents and into the cookie cutter environment of shopping malls. This generation perfected the store-based shopping experience which was clustered together under one roof. We are now experiencing the "digitalizing of America" and like the retail revolution of the 1970s, once again this is forever changing the shopping experience.

Malls are closing now, but there are still a lot of specialty store retailers who are thriving with their brick-and-mortar locations. Many of these retailers continue to have a strong comping brick-and-mortar business while managing explosive e-commerce growth. How do they do it?

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It's in the DNA

We have learned during our work that while the general methods for doing business are similar, the details of each specialty store retail operation are unique. It is this uniqueness that sets each retailer apart from its competition. We like to refer to this uniqueness as the DNA of a company, and it is something we respect and don't try to change in our work. We believe, after all, that a company's DNA is what made the business successful. Having a well-defined brand position to which customers can identify; a directional mission statement; first-tier and second-tier leadership that is intelligent, strong, visionary, and steady; clear and frequent internal communications; customer-oriented customer service; and product that customers want to purchase are the overarching needs for success and all part of this DNA. But, equally integral in this DNA is how companies manage their single largest asset: their inventory. As retailers, we all know that this single largest asset can quickly become the "single largest liability."

We have recognized several commonalities in the DNA of inventory management among the retailers with whom we have worked and which have continuing successful brick-and-mortar businesses while growing e-commerce.

They Treat E-Commerce as Another Store

First and perhaps foremost, successful retailers with which we have worked have a common, unified approach to managing their brick-and-mortar and e-commerce inventories. Their e-commerce business started as another store location and not as a separate "channel"; it was an outgrowth of an already established brick-and-mortar base. It continues to be treated as such and in many instances, treated as another flagship location. Their e-commerce business was an extension of what was already working, not

a new invention or re-invention. E-commerce simply became another avenue for their customers to shop in order to gain the same satisfaction that their existing stores and catalogs provided.

As **Andrea Weiss**, founder of The O Alliance, has so clearly described in her white papers, the customer shopping experience is now circular, where initiation can start online or in a store or via a social media connection, and can end in either a package delivery, an instore package pick up or a brick-and-mortar shopping experience, or all of the above! Customers now enter at one of several doors, either virtual or physical, then exit with purchases in hand in any one of several locations. To a customer, the artificial walls of "company, region, district, or store number or e-commerce location" that retailers use to define their selling locations are invisible. They only see the product and the ability to purchase it in several ways. The ***circular method of retailing*** was identified and embraced early by these successful specialty stores with the emergence of their e-commerce business. This path has remained strong for them. Their inventory management leaders recognized the dissolving of these walls in their customers' shopping patterns and adjusted their processes and systems to meet them.

They Have Tri-Part Inventory Management

A second commonality we have recognized is that these successful retailers manage their inventories in a tri-part method: A brick-and-mortar stream and an e-commerce stream, both of which are fed from one, common replenishment location. The reason for managing inventories with this approach is simple: to monitor inventory weeks of supply (productivity) on a weekly and monthly basis ***simultaneously and in tandem*** for both brick-and-mortar locations and for e-commerce, and to monitor inventory turn on a seasonal and annual basis for these locations.

Providing that the product is "spot on" with the customer, we often see a profound difference in weeks of supply and turn performance between e-commerce and brick-and-mortar. This is mostly due to the need for selling floor presentation quantities required for brick-and-mortar that are not required for e-commerce. But, we also see customer demand being much different on e-commerce. This is due to the ability of e-commerce to reach a wider audience base at any one point in time than brick-and-mortar locations can achieve. Providing the product is desirable, this difference in e-commerce performance can be positive: an increased demand due to this audience base; or negative: a decreased demand due to the poor imaging and/or poor placement of the item on the website.

With the tri-part method of inventory management, Allocators are no longer considered entry-level positions in these companies. ***These companies recognized that Allocators are allocating and moving the company's cash investment to maximize its return.*** An experienced, informed and watchful Allocator will constantly review and react to numerous analyses and circumstances, often using multiple formats and monitors. They do this too, while keeping a keen eye on item margin performance through a very tight partnership with their Planners. And it is important to remember: As for their expertise and workload, these Allocators are working at the item and size level by store!

They Use Both Push and Pull Replenishment

For the successful retailers we are discussing, initial brick-and-mortar allocations have remained much the same as in the past: a presentation quantity plus coverage for two weeks of an estimated sales quantity based on each store's selling history at the item and class levels. E-commerce initial allocation is similar, without the need for a presentation quantity to sit on a selling floor. Historically, replenishment takes place after a given period of time of monitoring the sales performance.

We are now witnessing that replenishment has taken on a new approach and discipline however. Successful retailers are using both a "push" and a "pull" method of replenishment and doing so more frequently. Often, e-commerce is permitted to pull product from the common fulfillment location immediately, ensuring stock remains available on the website at all times. The goal of many of our clients is to achieve an average of a 92% initial fill rate on orders at the item level, and a 98% final fill rate, for the first two to three weeks of the life of an item. These rates can often be achieved only by allowing e-commerce to pull stock.

At the same time, e-commerce continues to receive replenishment that is pushed to them by Allocators monitoring item sales and determining trend curves for both brick-and-mortar and e-commerce locations. Product is pushed based on each location's "potential to sell" given the Allocator's analyses. Historically, this process was done every week or every two weeks. Now, we are seeing it completed at a minimum of twice each week. In the end, the response to sales is quicker and the product is both pulled and pushed to anywhere customers are shopping.

And, the practice of sacrificing inventory to protect the stock levels of certain stores is no longer used. ***The more you sell, the more you receive; the less you sell, the less you receive. Sell nothing; get nothing. Case closed!***

Customer Service is a Verb, Not a Noun

The CEO knows that they are there to serve the shareholders, the board, their organization and their customers; the Design, Production and Sourcing Divisions know that they are there to serve their customers and the Merchants; the Merchants, Planners, Allocators and Store Organizations know that they are there to serve their customers. It is all made very clear that customer service is an action verb that courses through the arteries of the company.

Since the funnel of service ultimately feeds toward serving the customers, the focus of all activities is toward the customer. The successful companies which we are discussing go to great lengths to keep their store associates and call-center customer service teams educated on customer service. Critical to this training is ongoing education on product, whether it is via monthly documents introducing new products and their features and benefits or weekly newsletters discussing how to accessorize and wardrobe the new products with both their respective assortment and with the prior month's assortment. While these efforts are an added expense to the companies we are discussing, they clearly result in sales and margin dollars.

But, critical to these efforts too, is the understanding that inventory must be made available for selling to occur. And, the Sales Associates have the knowledge that it is available to sell if not from the selling floor, then from another channel. ***These organizations have trained their Sales Associates to sell both from their own store's inventory and from mobile devices and desktop kiosks*** on which the company's website can be accessed. Mobile is very much a part of doing business in these stores; it is not unusual to see customers entering the stores with their iPads in hand, items marked that they want to try on, and showing a Sales Associate what to pull and place in a fitting room for them.

We all know that not all product fits into all stores due to store size and store footprint constraints, but to customers, they only understand that the entire assortment is available to them as they see it on the company's website or in a catalog. That is, customers come into stores expecting to see what they find in their catalogs or on the website. No longer though, do customers need to leave a store unhappy due being told that the store did not receive the item they wanted or that the store did not have their size. The website can meet this need. And, since e-commerce is equipped to pull, package and ship product, it is a much easier transaction to complete than calling another store, having that store pull a Sales Associate off selling duty to find the item, and then take time in the back room to package and send it.

These efforts though, have added a new and a very recognized dimension to the responsibilities of Allocation in these companies. Customer service is very much in their realm of responsibility to ensure that product is available in ***all*** channels so that sale transactions can be consummated and customers leave their stores happy. And, we all know too, that happy customers are the best form of marketing!

They Perform Laser-Sharp Analysis

Another commonality that we have witnessed is that the level of analysis has increased exponentially, leading to faster and better business intelligence, an area of our consulting specialty which we have helped many retailers execute. There is a heavy reliance on daily and weekly in-season analysis not only to react to what is and what is not happening at the department and class levels, but it is now being done consistently at the item level. This item information is eventually used to determine future buy quantities for similar items, so that the "buy" is based on statistics that demonstrate the unit sales curves over the first two weeks of selling and their resulting margins, the weeks of supply that the items have achieved, and which locations are the strongest performers.

Many Planners are now required to complete weekly unit selling, inventory and margin plans for most items before merchandise is purchased. These plans are rolled up and approved by management prior to issuing purchase orders to ensure that the buys are structured to achieve sales, margin and sell-thru goals, and include enough inventory by size to deliver at least one full-size run to each selling location. These plans are then used to monitor their performance post-delivery. The metric of "APS" (average units sold per store per week) is widely used and discussed in evaluating item performance and

now includes the e-commerce site. No longer are statements being made such as “Oh, that is a 5,000 unit buy” or “Let’s buy 400 of this” without the analysis to support them.

The Planner in these successful organizations has a critical analytical role and serves as an equal partner to the Merchants in the buy quantity decision. They bring to the table a wealth of knowledge about historical item performance and are an equal partner in the “valuing” of an item once it is accepted to go onto a line. ***Planners now often serve as a “gatekeeper” for item purchases, to ensure that all metrics are achieved and the ever-critical IMU% target is met prior to placing orders.*** In these organizations, Merchants, Planners, Assistant Merchants, and Allocators sit together in one designated area and perform as a unified team, rather than sitting in functional silos.

They Make Conservative Buys

Once trends are established on item performance, the final commonality we have recognized involves the buy quantities. No longer are deep buys being made in apparel and accessories with the intention that items would live longer than eight weeks (with the exception of foundations and basics). Combined with the increased frequency of buys and deliveries, sell-thru percentages on these buys are now being planned at 80–95% to keep the inventory turning and to minimize margin erosion on items that don’t perform to plan. In these companies, we often hear the phrase “It’s OK to sell out” of an item. Merchants and Planners are required to hold back 15–20% of their monthly receipt plan dollars to allow them to later react to trends once they are identified. Sourcing divisions attend the companies’ weekly best and worst seller meetings so they are constantly attuned to what is selling and constantly on alert that reorders may be needed, and needed fast. Often they can leave these meetings with a reorder quantity determined then and there by the Planner.

Coupled with this, we are seeing an increase in domestic sourcing, sacrificing initial markup for speed to market. Olson-Ng has worked with many of these successful companies to re-engineer their Integrated Calendars for Design-Product Development-Sourcing-Merchandising-Planning with the combined goal of increasing speed to market and cutting costs. Included in this re-engineering are the nuances associated with photography and site development schedules required for e-commerce, which subsequently can impact inventory turn.

In Summary

We don't really believe that brick-and-mortar specialty retailing is going away with the emergence of digital retailing. If nothing else, the Baby Boomers who were at the forefront of mall shopping will keep it alive for years to come. What we do believe is that managing brick-and-mortar specialty retail must adapt to the digital age and that both brick-and-mortar and e-commerce must merge into a unified business approach based on each company's DNA that is beyond just sharing digital assets. In addition to a strong brand identity and desirable product, there is an increasing critical need for laser-sharp inventory planning, allocation, and monitoring unified across brick-and-mortar and e-commerce to constantly react to customer demand regardless of where or how they want to shop, executed with a directed eye to increasing sales and mitigating margin erosion. After all, customers only see the product and the seamless ability to purchase it in several ways. And they want it fast.

Why not manage your inventories to seamlessly support this?

Why not emulate the winners?

Photo by Elmvilla

Olson-Ng Retail Consulting Group *is a boutique consulting practice focused on financial and operational improvements, inventory management, merchandise assortment planning and allocation strategies, strategic growth planning and execution, turnarounds, and jump-starts for specialty retailing. Founded in 2001 by Rod Olson and Kim Ng, Olson-Ng provides over 40 cumulative years of industry experience.*

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