

Advanced Retail Strategy

Session 1: May 30th, 2019

My Background



Session Objectives

- Develop a contextual lens for viewing company performance
- Reckon with the so-called “Retail Apocalypse”
- Understand how we might use the lessons from the past to build in the future

Brief Aside

Amazon is:

1. Developing an insurance brand
2. Buying a brokerage house
3. Buying a residential real estate company

*Back to our regularly schedule
programming.*
Meet Our Hero

GIMBELS

Miracle on 34th St

GIMBELS

- Was once the largest department store chain in the country
- In business for 100 years
- First department store with a parade (Philadelphia)
- First department store that used escalators
- And oh that Flagship store...

The Shopping Mecca

- 1,176,000 sq ft, including 27 acres of selling space
- 10 stories + balcony and basement



So why don't we talk about it more?

A (Very) Abbreviated History of Retail



Major Moments, Turn of the Century

Because Retail is so core to everyone's needs the story of US Retail is, at its core, the story of America.

A Model for Retail Innovation

Customer's Reality

Technological Progress

1886 Sears, Mail Order Catalog
1886 John Pemberton makes "medicine"

1916 Piggly Wiggly

A Model for Retail Innovation

Customer's Reality

*Country is expanding, more rural customers,
agricultural-driven economy*

Technological Progress

*Second Industrial Revolution
(75,000 miles of railroad,
mass production of steel,
electrification)*

1886 Sears, Mail Order Catalog

1886 John Pemberton makes "medicine"

Urbanization

*Development and adoption of
trucks for transport*

1916 Piggly Wiggly

A Model for Retail Innovation

Because Retail is so core to everyone's needs the story of US Retail is, at its core, the story of America.

Successful new formats frequently arrived via an innovators identifying cultural shifts and socio-economic-driven needs and combining those with technology that had been unlocked.

Early Urban America

WWI

- 1916 Piggly Wiggly "combined stores" & "self-service"

1920's see both Prohibition and a great deal of anti-chain store legislation

- Woolworth's counter as hangout
- 1923 Gimbel's buys Saks, makes it into a national brand "Select Don't Settle"
- 1929 Kroger's

The Great Depression

- Far fewer independent grocers and retailers survive vs chains

Coupons explode

- 1930 King Kullen, the first U.S. supermarket.
 - Its founder, grocery veteran Michael J. Cullen, had proposed his idea to two of his former employers — Kroger and A&P — but they turned him down. Cullen's plan called for the following: Sell 300 items at cost, 200 at plus 5 percent, 300 at plus 15 percent and 30 at plus 20 percent, and establish a low-rent location, night hours, cash-and-carry, self-service and aggressive advertising.

1938: the Food, Drug and Cosmetic Act, which required that beverages, foods, drugs, and cosmetics be proved safe

What happens next?

Format Change in the History of US Retail

Customer Reality:

Post WW2, GI Bill dramatically increases education & wealth → suburbanization of America, Advertising

Technological Unlock:

WW2 is the ultimate war of mass-production, US masters it. Supply chain and transport mechanisms continue to improve



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Mall & Specialty Stores

ONLY LIMITED.

"The Golden Age of Capitalism"

WW2

- Mass production
- Suburbanization
- Car ownership (60% ownership by 1929)
- 1946 Convenient Stores (7/11)
- 1950 Malls & Specialty Stores (Northgate Shopping Center)
- 1954 Price Clubs (Fedmart)
- 1956 "Mill Stores" -> Zayre (TJX)

Gimbel's Basement & "Nobody but nobody undersells Gimbel's!"

What happens next?

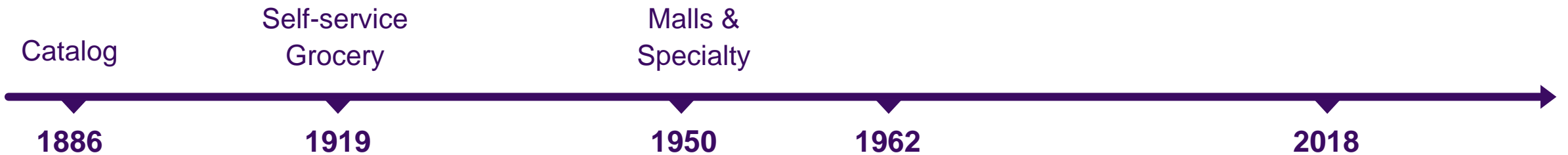
Format Change in the History of US Retail

Customer Reality:

More Wants (advertising & growth) and More Needs (baby boomers) than ever before. Meanwhile, stalling economy.

Technological Unlock:

Mass Production Economy pt 3, Interstate highway system, -> Distribution Centers, Computers, Combined Stores



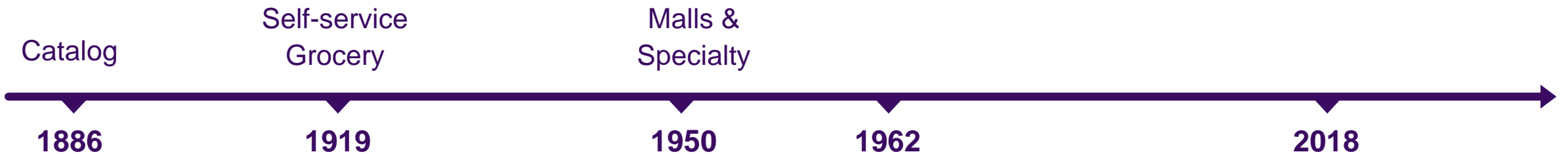
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Big Box Era

- 1962 Big Box (Walmart, Kmart, Target, & WoolCo)
- 1968 Dollar General

1972 Gimbel's opens 86th & Lex location (?)

- 1975 Price Club
- 1980's Target and Walmart [get huge](#)
- 1987 Hypermarts / Supercenters

Technology Heats Up

- 1985 TV as a Store (HSN)

1986 100 years after its founding, Gimbel's is sold (sold in part due to another technological development: junk bonds)

- 1994 eCom begins!
- 1995 A small online bookseller opens (but also... eToys, pets.com, boo.com)

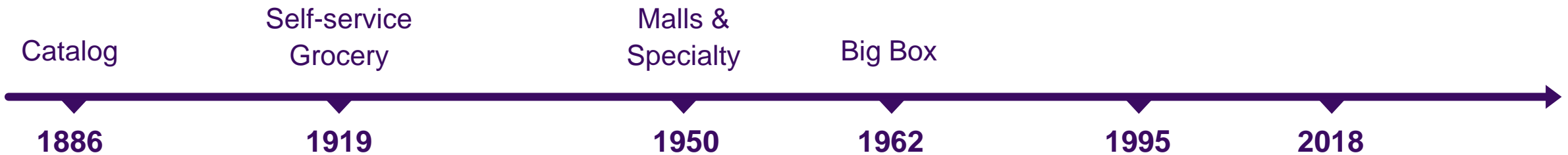
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Customer Reality:

Exposure to new communities and ideas through the digital revolution leads to emergence of long-tail economy, economic boom (but very uneven)

Technological Unlock:

The Internet



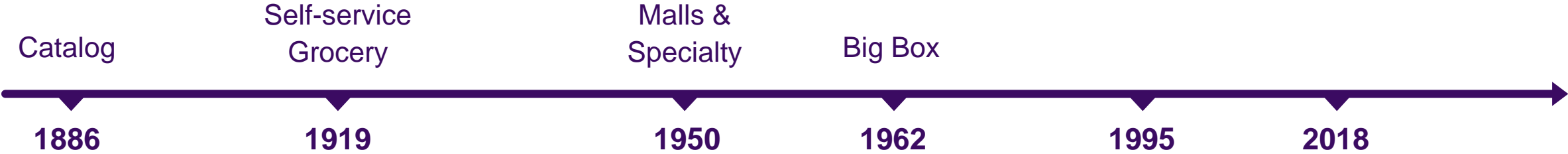
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So What?

So what can we learn from knowing a bit more about the history of our space?

- 1) Where did amazing companies in the past trip up and how can we make sure we stand on the shoulders of giants?
- 2) How can we understand customers (and broadly what's happening with people in our markets and their needs) to create meaningful advantage?

A Brief Aside (reprise)

So, uh... I lied to you before.

Amazon isn't developing an insurance brand, buying a real estate company, and buying brokerage firm.

That was Sears. Allstate Insurance was a brand Sears developed, and in 1981 they bought both Coldwell Banker (real estate) and Dean Witter (brokerage) in an effort to be everything to everyone.

TIMING MATTERS

The (Shopping) Center Cannot Hold

As a result of the growth of big box, department stores focus on apparel. 75-80% of sales via clothes/shoes/bags, 40% SKU overlap

What's the problem here?

Understand what makes you different and what makes you matter

Retail Apocalypse

Confirmed: These Macy's locations are closing

Mike Timmermann | Wednesday, January 4th 2017

[Home](#) / [Shopping & Retail](#) / [Confirmed: These Macy's locations are closing](#)



STORE CLOSINGS

The Limited Is Closing All 25 Stores

Phil Wahba
Jan 08, 2017

And another bites the dust.

Women's apparel chain The Limited on Sunday began across the United States and is slashing 4,000 jobs, the shopping's move online and the growth of fast fashion

And just like Chico's, Ann Taylor and other women's with big drops in sales, The Limited has been struggling behavior and interest, a greater number of rivals and l

"In an increasingly challenging environment for mall-l apparel, we are very disappointed that the company has decision to close its retail locations," the company's pr said in a statement.

A giant wave of store closures is about to hit the US

Hayley Peterson | Dec. 31, 2016, 8:09 AM | 668,455

FACEBOOK LINKEDIN TWITTER

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irce.com/IRCE2017

Retailers are bracing for a fresh wave of store closures at the start of the new year.

The industry is heading into 2017 with a glut of store space as shopping continues to shift online and foot traffic to malls declines, according to analysts.

"If you are weaker player, it's

Sears is closing 150 stores – here's the full list

Hayley Peterson | Jan. 4, 2017, 4:31 PM | 408,102

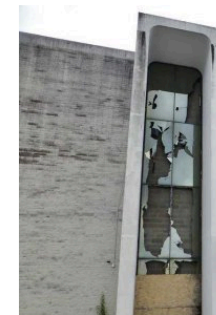
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Chief Cust. Officer Exchange

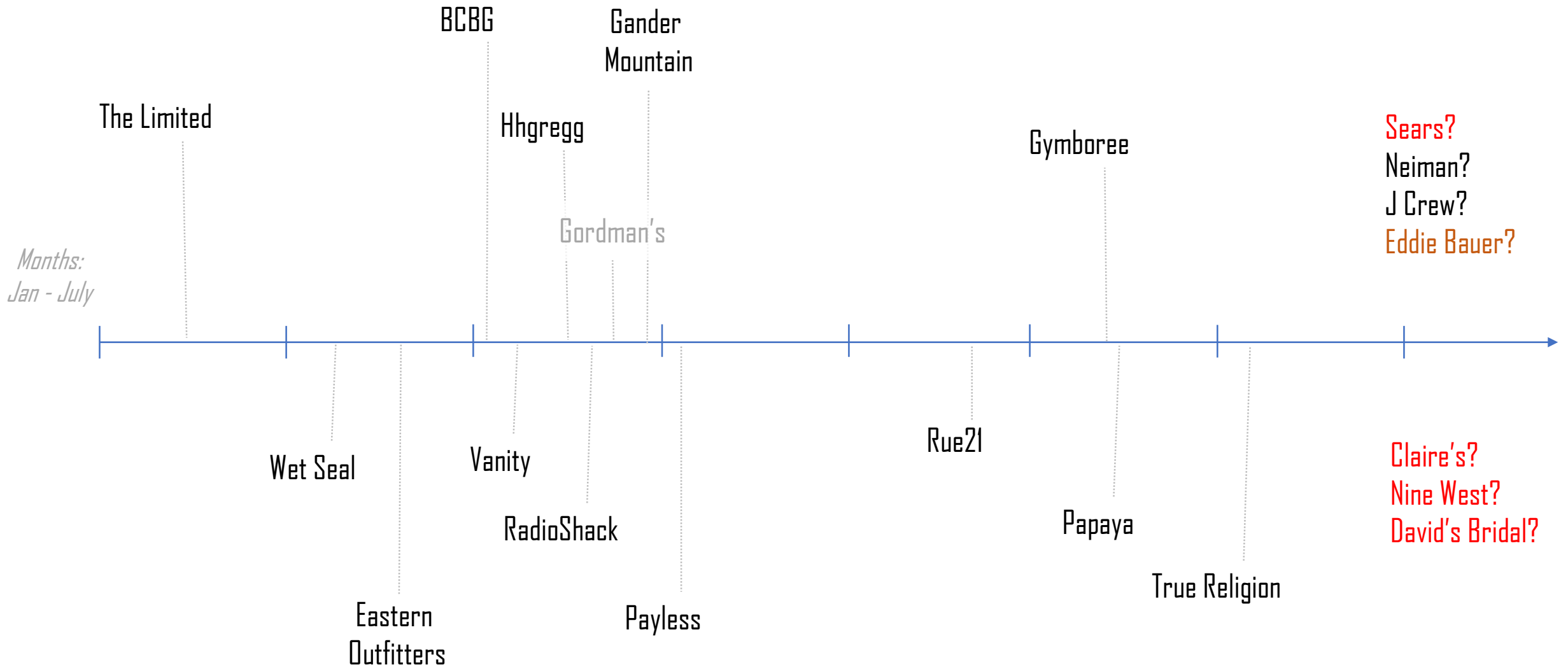
One-to-One Business Meetings for CCOs. Request an Invite to See if You Qualify! Go to chiefcustomerofficerechange.iqpc.com

Sears announced a second wave of store closures on Wednesday, bringing the total number of closures scheduled for early 2017 to 150.

The company will shut down 108 Kmart stores and 42 Sears stores by April, according to an internal document obtained by Business Insider.



Retail Bankruptcies, 2017



Wait a Minute...



Wait a Minute...

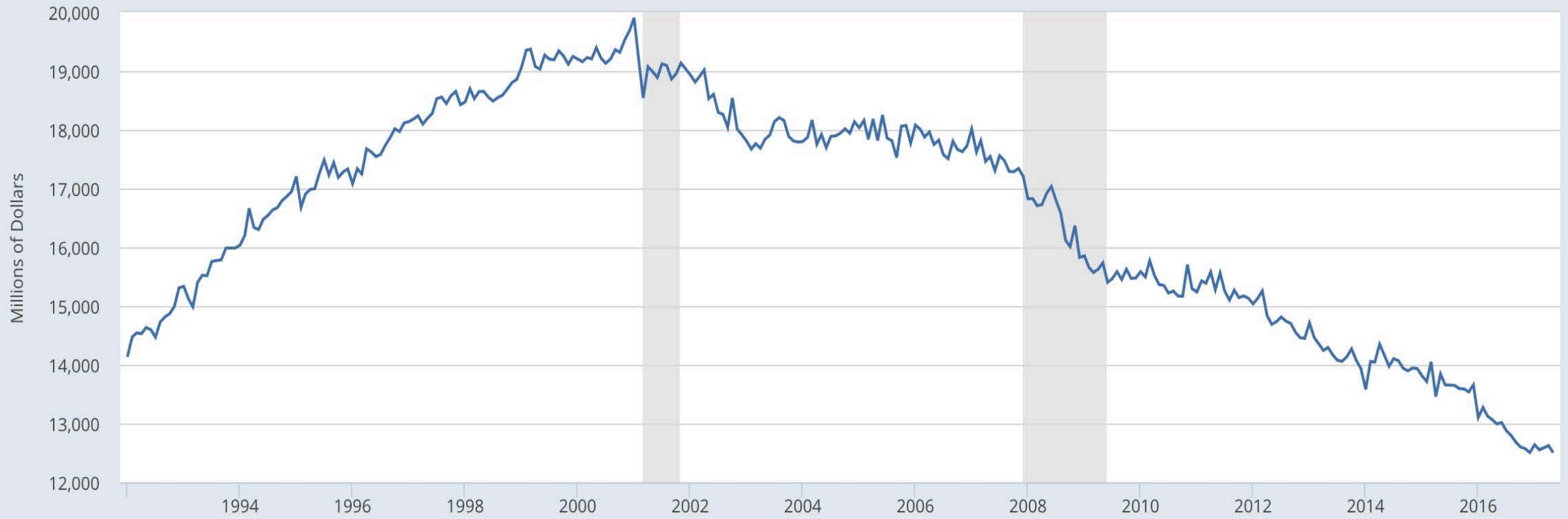


Oh.

FRED



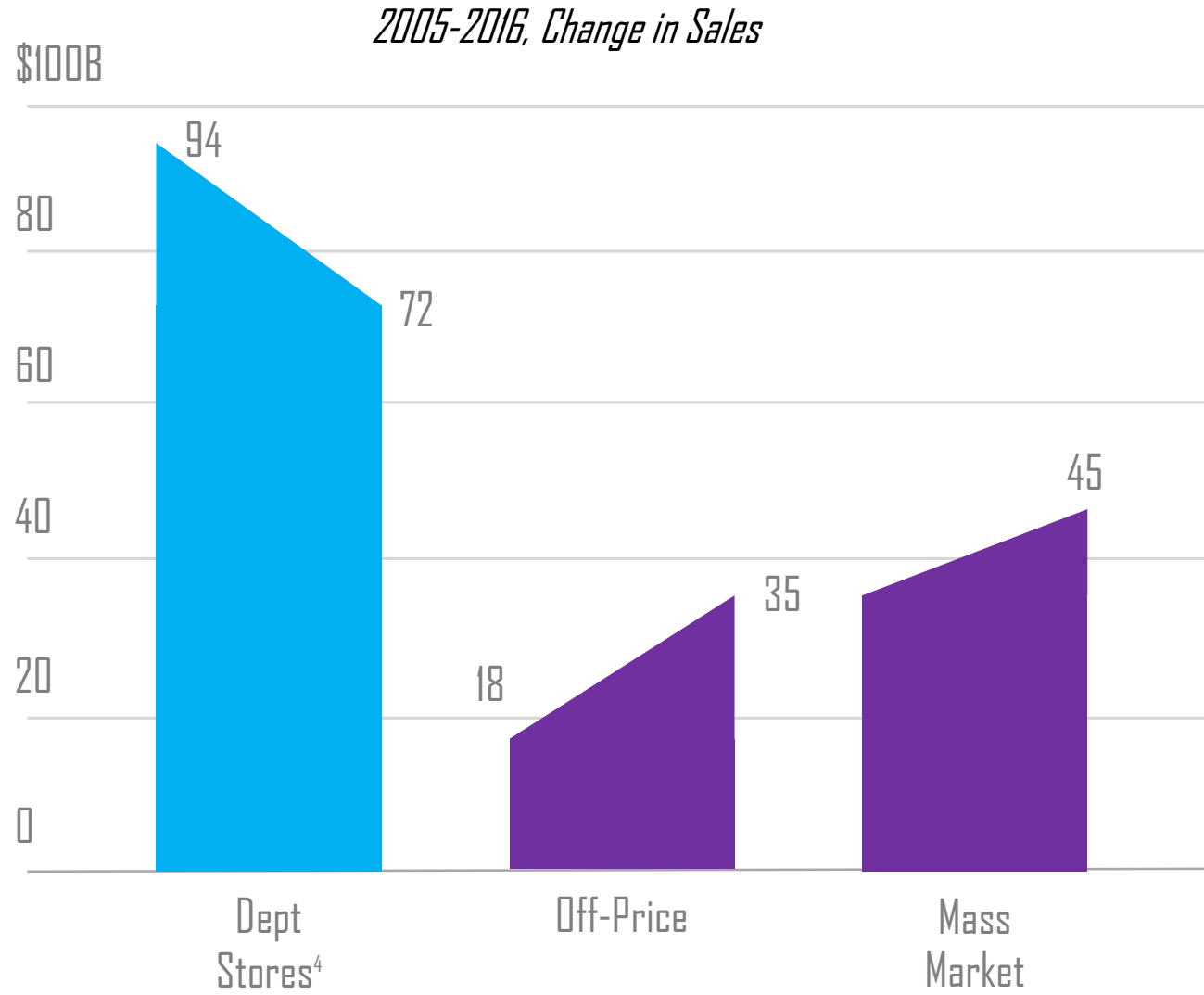
Retail Trade: Department Stores (Excluding Leased Departments)



Compounding (lack of) Interest

- In the 90's and 00's Department Stores are under attack: 45% of women say they won't go to a store unless they are promising 40%+ off on items. As a result, much of their inventory needs to be liquidated...
- Subsequently, off-price rivals start gutting them, TJ Maxx and Marshall's take their products and sell them for pennies on the dollar. Meanwhile Dress for Less, Zara, and H&M are successful and cheap, with super high turnover.
- Low turnover at dept stores mean even more discounts required to clear inventory. Meanwhile, eCom is growing rapidly – as gas prices rise to dizzying heights, young people don't want to drive.

Ouch



Today

- TJ Maxx's revenue has surpassed Macy's
- Walmart today does \$24B in apparel sales, becoming the world's largest apparel seller, just \$2B less than Macy's sales on all products.

Threats Abound

- Macy's median fragrance shopper is in the their 60's
- Sears median women's clothing shopper is 55

Change with your targeted customers or die with them

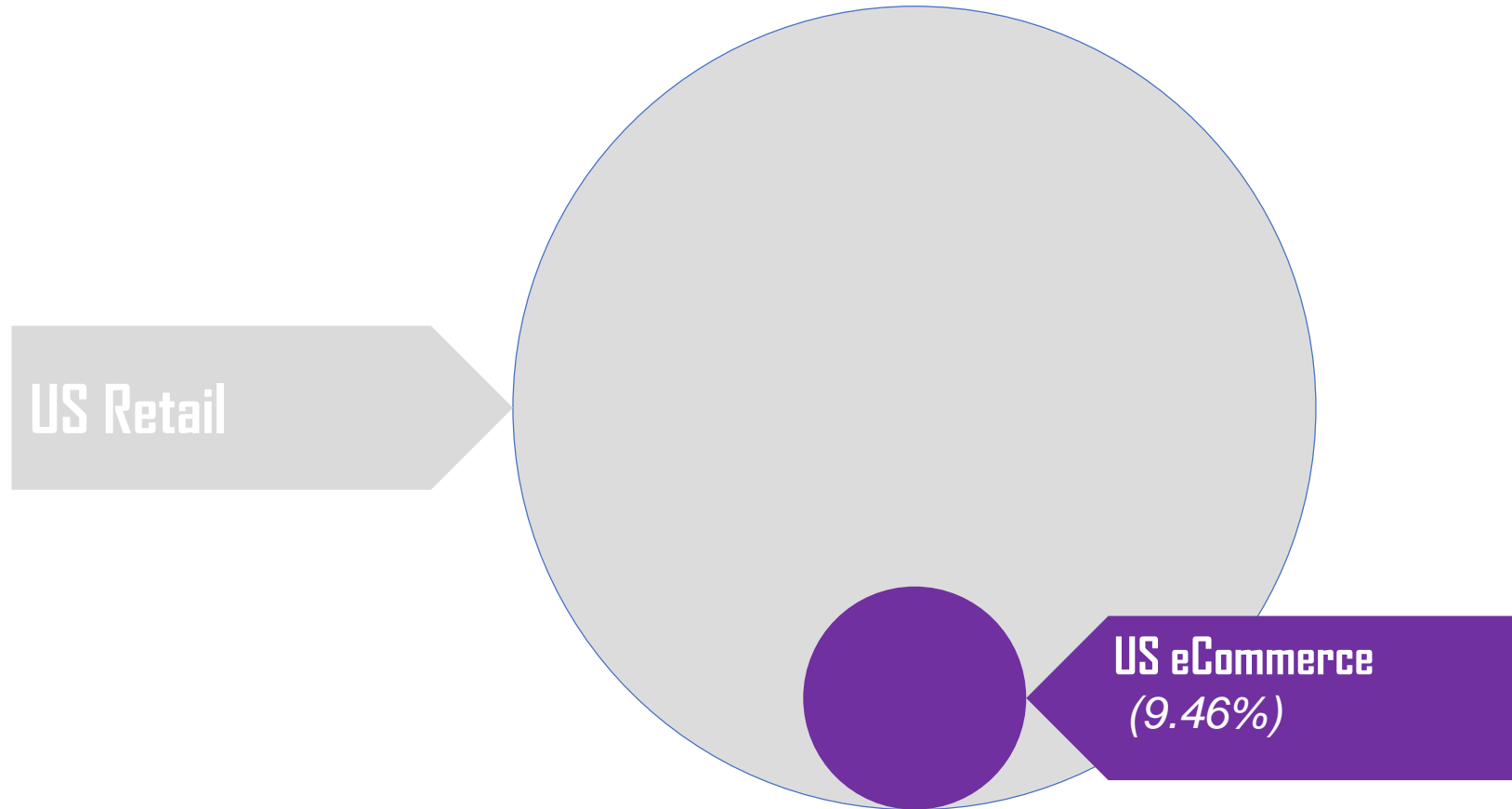
Real Risks

- 1.27M Department Store Jobs⁷
- Retail Sales up 5% but industry is still bleeding
- Stores going out of business produce problematic second order effects:
 - Unpaid debts: suppliers and landlords
 - Reduced foot traffic to neighboring stores
 - Crime – “Eyes on the Street”

What About eCom?

Wait a second, isn't the problem really eCom?
75% of Macy's shoppers also shopped at Amazon!

eCom, 2017



Soon...



Back to Today

- J Crew
- Sephora
- Toys R Us

How Do You Fit In?

- “The Fedex guy judges me when I get too many packages. It’s like I’m outsourcing my job in my family.”



How Do You Fit In?

App:

- Virtual Artist
- Loyalty angle: app-specific freebies and promos
- In-store companion

Store:

- Consistent commitment to experience w/App

Search

SEPHORA

Hi, Beautiful
Sign In or Register



SHOP

NEW

BRANDS

GIFTS

COMMUNITY

HOW-TOS

STORES & SERVICES

Make Beauty Mobile

Download the Sephora app for instant, on-the-go access to daily inspiration,

Tell Your Story

“What worries fashion houses the most is the loss of control and influence and hence the loss of sales. In 2015, **Neiman Marcus** blamed bloggers for making their merchandise prominent on social media that by the time the product hits the store shelves the interest of the customer has waned.”



TYS (cont'd)

- Hard to stay on top of the wave in masstail
- Understand your exogenous risks
- Need to keep telling the story



There is only one Boss.

“There is only one boss: the customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.” – Sam Walton

There is only one Boss.

"[Toys R Us] debt was downgraded to junk bond status in January of 2005, at a time when Amazon's sales were just 4% of their current level." *-Chris Isidore*

In 2006 they took on \$5.3B in debt as KKR, Bain, and Vornado took them public

By 2017 they were spending \$400M per year *just to pay off the debt.*



Commit

"As we exit 2016, our e-commerce business has revenue of over \$1 billion, has grown over 30% compounded over the last three years, and we expect will more than double and grow by over \$1 billion by 2020 as we extend our capabilities across our categories and around the world," Polk said on the call. "2016 has been the most transformative year in our history, and we're very pleased with the scope, speed, and impact of the transformation."¹¹

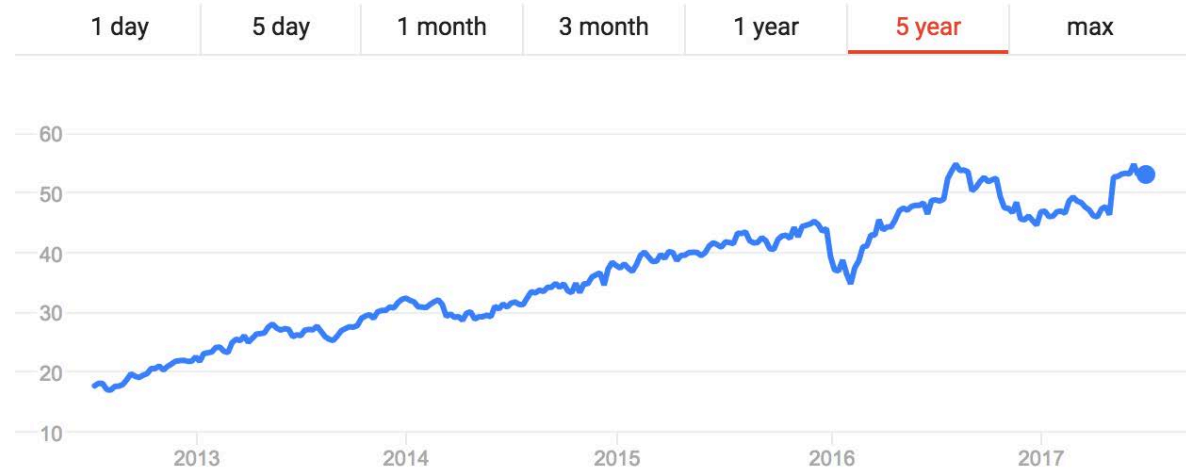
- CEO Michael Polk

Newell Brands Inc

NYSE: NWL - Jul 7, 5:49 PM EDT

53.27 USD ↑ 0.22 (0.41%)

After-hours: 53.27 0.00%



Open 53.30
High 53.75
Low 53.20

Mkt cap 25.42B
P/E ratio 22.8
Div yield 1.73%

Remember Gimbel's



What Does History Tell Us?

- Innovators know how to identify needs/trends/realities for customers and pair them with unlocking technology
- But timing matters (*Sears, pets.com*)
- Commit. Structure your business towards that objective (*Woolco, Target, Macy's*)
- Understand how you fit in your customer's (changing) life (*Sephora, Dept Stores*)
- And remember that *they are the boss* (*Toys R Us*)
- Keep telling your story (*J Crew*)
- ...consistently (*Gimbel's*)



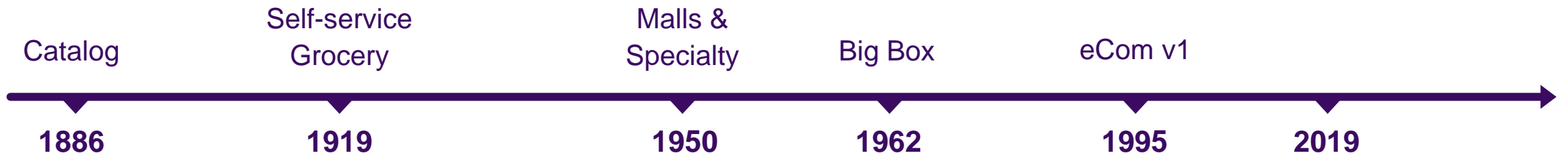
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Customer Reality:

?

Technological Unlock:

?



Long tail products/communities/celebrities (badging, community)

Corporatization, demographic changes, stagnant growth, eroding middle class, secularization & erosion of “traditional values”

City v Rural, tension, identity (voting map)

Polarization, lobbying, search for identity

=>

TRUST

Brand badging

Always-on work culture, 2 income households

Product and brand badging (all speak to experience over product alone)

=>

Types of Shopping (unformatting, B&M modeled after apps)

“Outsourcing low value” activities (waste of time vs worth my time)

Solutions vs Products (not just services, but reframing products as solutions)