

The New Business Model

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When it comes to making money in a down economy, everyone's an expert. (But is anyone making money?)

We've heard it all before: lower sales need not preclude higher profits if we simply cut expenses and better manage our businesses. Cut to the bone, the experts tell us. Don't carry excess inventory, negotiate everything, work with fewer vendor partners who give better terms, cut back on advertising, T&E, payroll, turn off the AC... Obviously, this is making most of us crazy, especially with too few customers walking through the door to cheer us up. Here, some good advice from several experts to help get us through the next season or two. (And while we're waiting for a turnaround that might or might not happen, why not start working on a drastically new business model for the years ahead?)

“Offer more specialized, unique, compelling product.”

Bill Pearson, ex-menswear retailer and contributing editor for several retail publications

My company interacts monthly with independent retailers. A big part of our relationship with these store owners is to assist them in navigating what we are all going through. Dating back to the middle of 2008, the following observations are consistent: 1) The higher-end a store's product mix, the more challenging the sales decline. 2) Dressy and special occasion are really struggling. 3) All men's, especially tailored men's, is off more than women's. 4) Short duration, category or vendor-specific price promotions have value. 5) Trunk shows, off-site events, sidewalk and warehouse sales all have value. 6) Season-long VIP discount programs show promise. 7) Many retailers are seeking more moderate inventory; new inventory priced below “what's typical” is appreciated.

Evidence to date indicates that the most effective way for apparel independents to combat this downturn and prepare for its aftermath is to offer even more specialized (unique, compelling) merchandise and demonstrate a sincere effort by offering more affordable pricepoints. Admittedly, this is a much tougher task in some segments than others. Maybe tough is the new normal?

“Learning to communicate via social networks is critical; retailers need to get involved now!”

Steve Pruitt, Blacks Retail Analysis

We've been working on a major research project that we're about to market. It confirms that the apparel industry has just concluded a 25-year-cycle and is about to embark on a new one. Those stores that prospered in the first cycle won't necessarily be around for the next one unless they make some dramatic changes.

The financial crisis last fall was a tipping point; a large percentage of men will never again shop the way they used to. Most of the older (60+) Baby Boomers are simply opting out of the process so retailers must reach Gen X and (especially) Gen Y customers to survive. But relating to 20-and 30-year-olds is a whole different ballgame: they live in social networks and will continue to do so. Learning to communicate with them in their language via their media is critical; retailers need to get involved now!

In terms of actual product, the main message has to be lower prices. The new \$1,800 suit is a \$1,200 suit. The new \$2,500 is a \$1,500 suit. Inflation in some segments of the apparel business has been absurd these past few years and with deflation in the economy these days, we have to get back to reality.

As for new stores to replace the old ones going out of business, Baby Boomers will do more consuming in resort areas so for at least the early part of the next cycle, resort stores make far more sense than mall stores.

“Don't be a snob: promotions drive traffic and revenues.”

Danny Paul, retail consultant

Although the climate remains tough, the good news is that a bottom has been reached and, for most stores, the revenue level has stabilized. In other words, look at your level of business these past eight months and that's where you'll probably be for the next year. So the trick is to carve out new rent and payroll levels to fit this new normal, and then focus on increasing turnover and buying off-price goods for promotions.

The problem is largely that few retailers can look at their business objectively; it's such an emotional thing for them, but unless they look at it objectively, they can't begin to make adjustments.

So here are some new parameters:

- Rent should be no more than 7 percent of sales (7.5 percent tops). In the past year, at least 25 percent of the stores I work with have lowered their rent so the trick is to talk to your landlords and tell them what a business like yours can afford to pay. A mall owner losing tenants is likely to listen; city rents have also been highly negotiable these days.
- Payroll must be kept under 22 percent. Many retailers have cut their own pay, saying it's easier than cutting their employee's (if it's a commission structure, it takes care of itself...)
- Merchandise needs to turn at least twice a year or else you have cash flow problems.
- Advertising expenses should be from 2 to 4 percent; if you tilt toward e-mail, you can do it for less.
- Off-price goods should be about 20 to 40 percent of the mix. (It should be merchandise they can sell at 30 or 40 percent off and still make money.) Few independents are good at buying off-price goods but in today's environment, they have to get good at it. They should be promoting every month; it's the only thing driving sales. And whether it's markdowns or value-priced, make sure you have sportshirts under \$100 and suits under \$500. (Promotional suit events are working: two for \$750 is an attractive sale to many men.)

Consider buying from vendors you never used before. (It's harder to buy off-price from existing vendors since they too are cutting back and might have less available.) Of course you still need beautiful product: the customer still wants to look good and own nice things. But stores should not be afraid to promote: Do it with class and dignity until the customer is more at ease with spending money again. Then you can go back to regular price.

Upscale stores catering to such a small percentage of the population might want to broaden their base. By targeting the \$75,000/yr. guy and not just the \$200,000/yr. guy, you're also likely to get in younger guys. So bottom line: a reasonable net profit goal was 6 to 8 percent; now, if you can make 2 percent, God Bless You!

“Make sure selling floors are fresh with the least amount of inventory.”

Ron Wince, CEO, Guidon Performance Solutions

Speed to market and shorter lead times are the critical change retailers need to make; even Target has found a way by featuring small select product offerings that are always relevant and fresh. Retailers need to work with suppliers to make sure their selling floors are fresh with the least amount of inventory.

I also think retailers should focus more on the entire in-store experience. It's been said that if you want to be a great golfer, you've got to “be the ball.” Similarly, retailers have to “be the customer”: most men want to find what they're looking for quickly without pushy sellers. How many stores allow this experience? It's like getting a haircut: guys used to go to barber shops, then the chain salons came along, then a firm called SportClips created the perfect haircut experience for men: a basic haircut, sports on TV and a free touchup with your receipt. It's the perfect experience and something men's apparel stores should consider.

So another key suggestion: look outside the industry for ideas: bankers, doctors, car dealers are all fine-tuning their client relationships in innovative ways. A lot of viable ideas are already out there but you've got to look outside your four walls.

“Don't cut back on marketing.”

Lee Leonard, DLS

It's not as bad as you think. There's a definite upside to downsizing: landlords are willing to negotiate rent and renovations are now much cheaper.

In general, our stores are down 20 to 25 percent after a year of economic turmoil and of course it's depressing. (Some

are down only 7-12 percent so with a little belt-tightening, they're fine!) But most are adjusting and many are coming out stronger for the adjustments. They're buying less merchandise but it's all compelling fashion at higher margins. Yes clothing has hit a wall but MTM requires no inventory and is working well.

A final suggestion: don't cut back on marketing! We instituted an aggressive advertising plan at our Clothing Broker stores (billboards, radio, BET awards) and we made every target. I think this is the time to experiment with different kinds of media rather than one big thing. But don't cut back on marketing: this is the time your ads are most likely to get noticed!

"Maintain a healthy indifference."

George Ludwig, consultant

There's a story about Babe Ruth that talks about how he'd always smile at the plate, even after striking out. When someone asked him about it, he explained that with the law of averages, every strikeout gets him closer to a homerun. The message is that in this kind of economy, it's important to maintain a healthy indifference. Don't get too crazy; don't get emotionally attached. If you go to bat frequently enough, you'll get the hits.

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