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Retail's Six-Week Turnaround Plan

By PYMNTS

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It's not easy being a traditional department store these days.

Consumers walk in as if they own the place – if they walk in at all. Supercomputers in their pockets for price checking — and checking out their social networks for the latest trends — margin is no longer in the retailer's control — nor is getting the consumer to buy what's hanging on increasingly sparse racks.

And while it's easy to blame "Amazon," the problem is much bigger: Buying online is often just a better experience. Even if the House that Bezos built were suddenly to disappear in a puff of smoke tomorrow, physical retailers would still have to convince customers that driving to a store gives them a better experience then shopping the endless aisles of the web for the latest fashion at the best prices.

That creates a pretty steep hill for physical retailers to climb in the age of digital commerce. But maybe that's the good news. According to XCEL CEO Bob D'Loren, retail hasn't quite gotten to the end of its worry list just yet. Department store retail isn't just marching up a steep hill at present

— it's doing so with an additional weight strapped to its ankle called "the production cycle." Said simply, goods are getting to market too slowly, lingering on the shelves too long, getting marked down too much and failing to produce any value for either the merchant or the consumer.

"[Retail] has to learn to do it faster, because inventory management is critical. To the extent [retail] can deliver in real time what people what when people want it – we can manage the supply chain better and actually create the in-store experience customers are telling us they want. From designer on down, we all need to figure this out," D'Loren told Karen Webster in a recent interview.

XCEL is all about figuring it out and comes to market with a fairly direct vision: create for department stores the capability to act a bit more like fast fashion leader, Zara — to both draw consumers and better protect retailer's precious shrinking margin.

The Consumer/Brand Mismatch

Consumers — trained by social media — have rather short attention spans. They see it, they want it, they expect to be able to buy it and then wear it – right now. The ability to rapidly gin up that kind of brand and product enthusiasm should be good news for apparel retailers, notes D'Loren, since social media continually creates a class of motivated customers ready to convert impulse to owned item — but at this point, that fails to hit that mark.

Department stores aren't designed to be rapidly responsive to consumer demand. The supply chain — plus the design and production schedule — is based on a long lead time. From stitch to store, department stores look at 4 to 9 month window. The stuff that is shown on the runway or in the designers collections in February makes it to the stores in September — and then sticks around on the shelves far too long to hold a consumer's interest. Finally it's discounted to make room for the next batch of stuff that will also stick around.

"When the consumers sees things, they want to buy and wear them immediately because trends are short — month to month," D'Loren explained. "We as an industry have to really evolve into this because that is what the customer is telling us they want."

XCEL's goal, notes D'Loren, is to help retail partners deliver on that consumer desire — by shrinking the production and delivery window of exclusive merchandise from 4 to 9 months to 4 to 6 weeks. That, he said, will enable department stores to host "zones" where this current, trendy merchandise is shown. If D'Loren has his say, these specialized zones would offer 52 exclusive fashion seasons a year – or one a week.

What also comes with this approach, D'Loren said, is the ability for the retailer to react and respond to what is winning with consumers by testing in smaller batches and then making decisions on what might move from fashion — to fashion core — to core based on consumer preferences.

XCEL makes this possible by using factory partners with redesigned supply chains capable of turning inventory faster and cheaper while maintaining a more than acceptable level of quality. Those factory partners then work with designers to produce items exclusive to those department stores. XCEL's goal is draw consumers back into the department store by giving them something new — and exclusive — to discover and buy.

Rewriting Retail DNA

Much of XCEL does today they credit with what they learned from the fast fashion retailer Zara, whose production tactics and supply chain were an inspiration for their business model.

This, D'Loren notes, is not a small feat — because trying to move up the door-to-door time in a supply chain means actually really micromanaging production to make sure that the big pick-up in speed has not been accomplished by a nosedive in quality.

"If you've ever walked production lines — and I just have for the last two weeks in China — the concept of quality control is not embedded in apparel manufacturing. Items are made and inspected. If they fail they are rejected or fixed, and if you are working on long lead that is okay — you can take two weeks to fix scratched buttons."

In a faster turnaround world, however, two weeks is two fashion seasons wasted — which means quality control must become an embedded part of the production process.

But that's just the start. Retailers will need to fundamentally require a sea change in how merchants think about their products and their pricing.

Right now, D'Loren notes, price is the favored lever retailers use for moving consumer behavior — drop the cost, bring in the customers. That can work, he notes, but it is a blunt tool, and there are only so many times goods can be reduced.

Retailers, D'Loren says, have to think of all these things from a merchandising perspective. Fashion – the stuff consumers see on mannequins – gets marked down the fastest, because if it is not working, retailers just want it out of the store. Fashion core – the stuff that is on hangers that retailers really want consumers to buy that season — gets put on a normal seasonal discounting schedule. The core — wardrobe staples — D'Loren says, has to be left at a fixed price for six months.

That last one, he notes, has been the hardest for the department store partners he's worked with (Hudson Bay Company being one of them) because their customers are so trained to look for discounts that retailers have become trained to reflexively give them out.

The problem, he notes, is that playing with price as the main incentive is a losing proposition for all parties — stores lose margin, and customers are paying less, but not getting goods they really want.

When it comes to getting goods to market in fashion retail, D'Loren noted, there is a holy trinity of values to keep in mind: price/quality/speed. The balance between those goods can vary — shoppers on the floor at Zara paying $29 for a dress have very different quality expectations than a consumer on the floor at Saks buying a $10,000 evening gown — but outside the very highest level of couture buying, speed is simply no longer an optional element of the trinity. If consumers want it — department store operators are going to have to learn to assume they probably want it now — not 9 months from now when the supply chain can accommodate it.

Building a win-win around that holy trinity is hard, D'Loren notes, and though he is confident in what his firm can do, he doesn't think they alone can do the job.

"The key to all of this is we need critical mass. We can't be the lone wolf out there to create something that is a zone within a store that customers want to walk into — because there has to be enough there for the customer to get excited about. What has to happen is wholesalers and firms like ours really need to be driving creating those zones — and creating the production and delivery capacity to make it possible to deliver consumers real options for 52 separate shopping seasons."

Getting to there will take work — and a lot of change that retailers may find hard to embrace. But, given the state of department store commerce in the U.S. right now — bad and getting worse — trying something different probably looks a whole lot better now than the alternative.

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