

AGILITY AND ADAPTABILITY:

REMOVING BOUNDARIES AND REVOLUTIONIZING RETAIL

Will Heywood (00:09):

Welcome to “All Business. No Boundaries.” a collection of supply chain stories by DHL Supply Chain, the North American leader in contract logistics. I’m your host, Will Heywood. This is a place for in-depth discussions on the supply chain challenges keeping you up at night. We’re breaking beyond the boundaries that are limiting your supply chain. Let’s dive in. Today’s episode is “Agility and Adaptability: Removing Boundaries and Revolutionizing Retail.” My guest is Steve Dennis, who is currently president and founder of SageBerry Consulting and the author of the book “Remarkable Retail: How to Win and Keep Customers in the Age of Disruption.” Welcome, Steve. It’s great to be with you today. Great to meet with you.

Steve Dennis (00:49):

Thanks for inviting me on.

Will Heywood (00:51):

Good. So, I know you have a consulting business now and are an author, but preceding this, I know you had a long career in leadership positions across the retail landscape. I wondered if you might briefly take us through your resume, some of the organizations you’ve worked for, and then tell us a little bit about what SageBerry does and what you’re up to these days.

Steve Dennis (01:12):

Sure. Well, I think that’s a nice way of saying I’m old. I’ve been around in retail for a while. I’ve actually spent most of my career in retail. After I got out of business school, I spent a couple of years at a large consulting firm. It was in the consumer packaged goods industry, but way back in the early nineties, I joined Sears Roebuck and Company and was there for some time. People ask me how long I was at Sears, and the honest answer is too long, but the chronological answer is about 12 years, and I had like 10 different jobs there in 12 years. I worked my way up through the ladder, bouncing back and forth from strategy and marketing, ran a large division there. I kicked off, this was like 1999 Sears, early efforts in multichannel integration, I guess what we’d call omnichannel, today. And then I worked in strategy, worked on the Land’s End acquisition. So pretty diverse role across a lot of different categories of merchandise in a lot of different formats. And then I moved down to Dallas where I am now to be the Chief Strategy Officer and head of multichannel marketing for the Neiman Marcus group. So that added a whole other layer of different kinds of customers, different sort of formats. And then for, I guess it’s about 12 years now, I’ve been off on my own doing strategy and innovation consulting for retail. So we work with retail brands, we work for suppliers, tech companies, you know, kind of anybody in the broader, or not anybody, but a wide wide range of folks in the broader retail ecosystem. And then the consulting business evolved over the last five or six years. I also started writing for Forbes, and I started to do a lot more speaking and workshops and that sort of stuff. So it’s a pretty broad portfolio of things, but it’s been pretty interesting to have the opportunity to work across a really wide spectrum of formats, customer types, and categories.

Will Heywood (03:11):

Great. So I know we’ll touch on a lot of the great stuff that you have in your book, but I want to kick us off here with something that you recently wrote as part of your Forbes gig and ask you to kind of explain and react to it. So I’ll quote you here: “If recent earnings announcements and conference presentations by less than remarkable retailers are any indication, we have entered a moment of high-fiving ourselves for our innovation and agility during ‘unprecedented times’ and celebrating that “the consumer is back!” Call me skeptical. What’s much more likely, from where I sit anyway, is that once the dust begins to settle,

it will be glaringly obvious that the mediocre retailers that embarked on a timid transformation will continue to lose market share and deliver unimpressive investment returns. Conversely, those that accept the profound shift that the hybridization of retail represents will embark on a path of creative destruction that will not only solidify their competitive advantages but unleash many exciting new growth opportunities.” So there’s a lot in there. And I’d just like to ask you to unpack that a little bit for us and talk about it. I think needs the conclusion of a much longer article, but what do you mean by that?

Steve Dennis (04:24):

Well, I think there are a couple of fundamental ideas in there. Part of that is the thesis behind my book and a lot of my speaking for the last few years. “Remarkable Retail,” which is this idea that the fundamental basis for competition and retail has really changed largely by virtue of this kind of almost infinite access to products and information. And so where you could get away with being even, you know, pretty mediocre in some cases because you had a unique location or set of products that were hard to access. A lot of those advantages have gone away primarily by virtue of the internet and e-commerce and so forth. So there’s been this raising of the bar in terms of what retailers need to do to be successful. It’s also led to what I talk about in the book as the collapse of the middle, which means it’s very hard to carve out a position being a little bit of everything to everybody. So those retailers that watched a lot of this happen and haven’t really reinvented themselves to get to a place of being remarkable. We’ve seen most of them either go out of business or continue closing stores or find themselves in trouble. This is the second idea, which I kind of touch on a little bit in the book, but I’ve really been exploring in the last year or so is this idea of what I call the hybridization of retail across a pretty wide spectrum. So the idea of that’s probably familiar to people, even though I maybe use a little bit different language is how the consumer shopping behavior and a lot of retailers’ business models have become hybrid in nature by being this blend of digital and physical. And I think by now most retailers understand that digital drives physical and vice versa, but COVID particularly accelerated that. But even more, I think we’re seeing the supply chain and even some retailers go to market strategies become more hybrid in nature. Where kind of a one size fits all model is starting to evaporate. So that’s the shift I’m not sure people appreciate as much, but a lot of this is just the kind of constantly shifting of consumer behavior and what it takes to be successful in retail.

Will Heywood (06:50):

Gotcha. So, you know, another myth that’s sort of out there is the notion of brick and mortar stores slowly dying, maybe more rapid because of the pandemic. Just as a consumer, I know I’ve seen some interesting stores move from online to brick and mortar, and I kind of wonder what that’s all about. What’s your take on how some of these retailers are moving across the spectrum?

Steve Dennis (07:17):

Well, unfortunately, the facts don’t really line up with the retail apocalypse narrative. It’s definitely true that we’ve seen a lot of store closings and a fair number of bankruptcies across the last few years. A big part of that has really very little to do with eCommerce or the pandemic, it has to do with the US in particular, it’s not quite as true in some other markets, but the US has been really building to this point of big misalignment between supply and demand like retail space, particularly like in malls and among department stores grew at like three times the population growth. So this misalignment has been building for many years and there was going to be a reckoning. But if you look at what’s actually happened to physical retail in total, most of the store closings are concentrated among a very few number of retailers that kind of got stuck in the boring middle, as I talk about it. And we’ve seen, and I think what you’re alluding to, is both some of these new digitally native vertical brands like Warby Parker that once raised money basically on this idea that they don’t need stores, we’re seeing dozens of them opening hundreds of stores. And that’s because, for certain occasions, that physical retail really adds a lot of value. And we’re also seeing everyone from Target to At Home, Five Below, I mean, there’s a large number of quite sizable retailers that are opening many stores as well. So what’s really happening is kind of a re-shifting of the balance where, going back to what I was saying before if you don’t have this remarkable value proposition, it’s very hard for you to be successful. And if you’re really over-invested in physical retail, that’s very unremarkable. So for example, in a lot of the modern department store space, especially apparel players, it was very difficult to continue your business. And then of course COVID, in some cases just accelerated what was not a very optimistic path they were already on.

Will Heywood (09:26):

I mean, back to the comment about age earlier, it took a physical store for Warby Parker, for me to buy glasses from them and take that experience on being able to kind of physically walk in and try things on in the store. So I guess it expanded their demographics at least by one. It sounds to me like there’s a lot of complexity as you start to introduce more and more variables. And I wonder as you’re advising customers or you’re writing for audiences, how you help them think through the

various layers of complexity? I mean, do they fully grip sort of all of the different variables at work, and if they do, how do they align their thinking so that they can work through it in a logical way and make progress and not get lost in all of the weeds?

Steve Dennis (10:10):

Well, it certainly is. I think retail's, as long as I've been in, it's been a pretty complex business, but it's certainly gotten more complex over the last however many years. You know, a lot of times what I advise folks to do is, and some of this sounds like really obvious advice I think, but is to really understand who's at the center of the bullseye for their customer base and the purchase occasions they're trying to serve and try to dissect the customer journey in a pretty in-depth way and really to try to do three things. One is to identify those sources of friction or pain points or whatever you want to call them that may be causing customers to drop out of that customer journey with you. And, you know, that could be something you're doing in-store, that could be something you're doing online or in search. I mean, there's a lot of different layers to that, but because so many more customer journeys have become digitally driven. Typically I think what I find companies that are at least established often miss is they don't understand the degree to which digital and mobile have changed the nature of the customer journey. So you're looking for pain points or friction points that perhaps you can address. Then there's also just understanding what is kind of the cost of entry or table stakes. And this is another place where I think many retailers assume that by doing something they've really differentiated themselves when in many cases they're just catching up to what's become a new expectation. And then the third thing is, and this is really the ultimately the more important thing, is to try to find those things, might be one big thing, might be a set of small things that really differentiate yourself. And so understanding how customer behaviors and the customer journeys have shifted is often where retailers get behind, where they don't realize that they've got to really up the ante on the customer experience to have a chance of even getting the customer's attention in the first place. What I think is also gotten more complex is, you know, on the one hand, because of the internet, the ability to access products from almost anywhere, or get reviews, pricing information, understanding different delivery times, that's so much more efficient today than it was in the past. So you really got to understand just how to stay in the game because of all this digital information that's available. The flip side of that, particularly if you're a bigger company, is you've got competition most likely from all sorts of newer players, whether that's online-only players, whether it's these digitally native brands that are maybe going after a particular customer type or particular product category in a little bit different way. So yeah, that's a lot of complexity, but there's no choice, you got to do that work, unfortunately, or you're likely to be falling behind.

Will Heywood (13:08):

Right. And, you know, because we are on a supply chain podcast, I'll ask the same question, but sort of through the supply chain lens. What implications do you see today and on the horizon from supply chain capabilities that retailers either need to have, or need to get, and how are they coping with this current environment?

Steve Dennis (13:30):

Well, that's another place where I think there's been this increasing hybridization. What I mean by that is if you go back 20 years or so, again I'm not saying the supply chain was ever easy, but it was pretty straightforward. If you were talking about direct to consumer, it was the mail order catalog or the early stages of eCommerce. And for the most part, that was a pick pack and ship automated distribution center, and you were sending it through the mail. And then the other 95, 96, 97% of the business was picked up in a store. And so your shipping was designed to serve a physical location. You had some home delivery, certainly, but that was mostly big-ticket. So you had a pretty straightforward supply chain and the last mile to the consumer where most of it, the consumer was doing the work themselves by going to the store to get it. As eCommerce has grown and home delivery of all sorts of things has grown, it's become much more complicated. And folks like Target and Best Buy that are, and others certainly, doing curbside pickup buy online pick up in-store, fulfillment of eCommerce orders through the mail, but from the store stock, the local home delivery, which may be coming from a micro fulfillment center or larger distribution center, but it might involve somebody, a company or runner go into a store to get it. So this evolving nature of customer demand, the kind of escalating battle, particularly for the last mile, I think is really complicated. And it's hard I think, I mean, it's hard anyway, but COVID caused some real amplification of things like curbside pickup, which I suspect will persist, though I don't think in anywhere near the level we saw during 2020. So it's kind of a moving target to understand where we're going to sort out, but I think the fulfillment and the consumer expectations and the competitive demands just keep ratcheting up and there's the ultimate question of what's really the most low-cost way of doing it, but at the same time meeting customer demands and meeting the rising expectations on a competitive scale. So I think it's a particularly interesting area. I don't think the dust hasn't settled because there are lots of automation opportunities and it remains to be seen really how stores might get reconfigured if they're going to continue to do a very large number of or a large amount of eCommerce fulfillment from their stores as opposed to kind of the traditional role of stores.

Will Heywood (16:20):

Sure, sure. And from the cost standpoint with all of these different fulfillment models being experimented with, or tried out, whether you're in COVID or not, even if you just go to the simple example of most consumers now expect things to be shipped to home for free, there is cost there. Who's bearing it? I mean is it cutting into bottom lines? Is it being sort of masked somewhere else in the sale price? Where do you see that today and how do you see that playing out in the near future?

Steve Dennis (16:49):

My co-host on my podcast "Remarkable Retail Podcast," Michael LeBlanc, often says that there are different perspectives to how you think about store fulfillment of eCommerce orders. You can think about it as an expensive way to do eCommerce, or you can think about it as a cheap way for customers to get a product. And my general belief is that home delivery of things other than big-ticket, which has sort of been set up for one particular model, is generally not very profitable for most retailers. And right now a lot of retailers are not charging because to your point, free delivery's sort of become table stakes, or maybe there's a minimum order value, but if you're tending to do frozen, refrigerated, smaller orders, you're probably losing money on every one you're delivering. Now robotics and some other things will maybe make that better, but I think there's to be a push to either raise prices to try to get back some of that additional cost or create incentives for the consumer to come to the store to get it because it's always going to be cheaper for the customer to go get it as opposed to paying somebody to take it to the customer. So I think it remains to be seen how this will all sort out and how retailers and the supply chain partners and everybody will develop a more efficient system. But I do think the train's left the station so to speak in terms of just this expectation of faster local delivery, more curbside, more buy online pick up in-store, but the economics of that, in general, is not terrific. So I think everybody's going to have to try to work to try to make that fundamentally more profitable, or at least not lose as much money as some folks are right now.

Will Heywood (18:42):

Right. And I know you have certain clients that you can talk about and others that you can't, but if you could think through a couple of examples of retailers who are on the leading edge in terms of working through some of these challenges and some of the ones that, in your article will be left standing and delivering returns and innovations for the foreseeable future, who would those be?

Steve Dennis (19:05):

Well, I think there are quite a few. I think if you think about larger retailers, Target, Walmart, Best Buy, Tractor Supply Company, I think they're some of the companies that have really...just to back up for a second. There was this narrative that goes along with the retail apocalypse narrative that it's not worth investing in stores because everything is moving online. But I think all four of the retailers I named realize that stores can add value, but you just need to number one-up your digital and eCommerce capabilities. But more than that, you have to up your, I call it harmonized, other people called seamless integration or omnichannel or whatever, but this blending of activity on the part of the consumers and what's needed to be worked out in terms of the supply chain into the integration between stores and digital like that was really where there was the potential to serve customers better and even create a competitive advantage. So all of these retailers have been investing very heavily in technology and supply chain and redefining the role of their stores from the traditional role of I go there and I pick out stuff and pay for it and take it home, to also playing a critical role in fulfillment. So that's really served them well. I mean, I think one of the reasons why not the only reason, but one of the reasons why many of those retailers did very well in COVID, was when the customers started to shift their behavior to more buying online, more curbside pickup, and more demand for fast fulfillment, they had their stores and their supply chain positioned to do that a lot better than most retailers. What I think is still to be worked out, going back to what I was saying a little bit earlier, is Target talks about 90 to 95% of their eCommerce orders being fulfilled in some way, shape, or form from a store. I have a client in the apparel business that saw a huge shift to fulfilling orders from stores, but it's not a, to my earlier point, it's not clear where that's going to settle out in terms of what customers want. It's not clear what's going to be economic long-term from a competitive dynamic. And one of the reasons why I think this hybridization is really important is you're probably going to have to reconfigure your stores as well as the way your supply chain is configured to really deal with this shift, assuming it continues at a high level, maybe not as high as it's been during the peak of COVID, but I think, again, you know, we're moving in this direction where last-mile delivery and convenience and consumers expecting to get either product sent to them very quickly or being able to go to the store and pick it up very quickly, how to flex your operations and your physical plant, really to do that over the long-term is not easy to figure out. And, you know, it's potentially pretty capital intensive, which is why I think you're seeing folks like Walmart and Target put billions of dollars into their stores. It's not just to change the carpet or paint the walls or put up some new signage.

Will Heywood (22:27):

Right, right. So plenty of challenges to keep us all busy for the foreseeable future.

Steve Dennis (22:32):

I always say, never even way back when, when I first started in retail, it was always pretty dynamic and it just keeps seeming to get ever more dynamic.

Will Heywood (22:43):

Yeah, indeed. Well, thanks very much, Steve. I mean, this has been quite interesting to hear sort of an insider perspective on the retailer market and set it in sort of the longer view that you have, because I know it's been all COVID COVID COVID, but there's obviously a longer thread here that I think is important to recognize.

Steve Dennis (23:02):

Well, I'll certainly be happy to not be talking about COVID much in the future, but we'll see when that actually happens.

Will Heywood (23:08):

Yes. We all look forward to that day, so. Okay. Well again, thanks very much for your time today. Really enjoyed meeting you and having the discussion.

Steve Dennis (23:19):

Likewise, thanks very much.

Will Heywood (23:22):

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