Other Voices

Views from beyond the Barron's staff ▪ *by Love Goel*

Surviving Retailing's New Age

Lars Leetaru for *Barron's*

If merchandisers don't diversify their marketing strategies, they'll die off.

Albertson's, $40 billion No. 2 grocer, sells business to avoid bankruptcy." "Netflix crushes Blockbuster in '05; takes over Wal-Mart's video rental business." "Sports Authority, nation's leading sports retailer, sold to Leonard Green." "Musicland, largest chain in 90's for music, movies and games, files for bankruptcy." "Thousands of stores to be shuttered in '06 by retailers like OfficeMax, Toys'R'Us, Mervyn's." These January 2006 headlines illustrate the seismic shift shaking the world of retail. Frustrated retailers with combined revenues in excess of $250 billion have sold out or filed for bankruptcy recently. Inept management, Wal-Mart and 9/11 are insufficient explanations for their misery. The real reason is both scary and exciting.

For most of the 20th Century, retailers flourished by focusing on product, price and brand. Today, that's no longer enough. Purveyors of everything from apparel to groceries to consumer electronics and general merchandise are battling four macro trends: Price pressure from larger-scale retailers; market share competition from innovative, low-cost rivals; product commoditization; and brand glut from an excess of specialty and private label operators.

Retailers – even those hawking goods in the earliest bazaars – have always profited by exploiting their superior knowledge of merchandise, prices and availability. The Internet, however, is rapidly shrinking this information gap; in fact, in many cases shoppers are more sophisticated than their retail counterparts in using online tools. To make money today, retailers must offer personalized solutions by bundling unique products and services, for which well-informed shoppers are willing to pay a premium.

To succeed, merchandisers should strive to become what we might call "MC3 (editor note: this 3 is cubed)," or "Multi-Channel, Customer-Centric."

Multi-channel customers are those who shop from three or more channels, such as in-store, out of a catalog and over the Internet. They spend four times as much as customers who confine themselves to one channel for all their purchases. At specialty retailers like Circuit City, Cabela's and Casual Male Big and Tall, these multi-faceted customers may spend five or six times as much as their one-dimensional comrades.

The Internet now drives 25% of all retail sales. Even if they don't buy through an electronic source, more than two out of three shoppers research products online. Given the strategic importance of this channel, it is mind-boggling that leading retailers like Target, Toys 'R' Us and TJX outsource e-commerce or do not sell online. By contrast,one-time Internet sales specialists like eBay and Amazon now mail millions of catalogs and are rumored to be mulling building stores.

"Customer-centric" is hardly a new concept to U.S. retailers, just vastly under-utilized.

Americans have dramatically changed the way they shop, consume media, communicate and access information but most merchandisers have barely altered the way they acquire, communicate, inform, sell to and serve customers. U.S. consumers now devote almost 30 minutes, on average, each day to browsing the Internet–more time than they spend with the ads in any other shopping medium. Yet retailers earmark only about 3% of their advertising and customer acquisition budgets for online purposes; and continue to fork over billions for newspaper advertising. Retailers can increase sales while reducing marketing expense 30-50% by shifting to new Internet-based platforms – where customers are.

Retailers also lose 20-25% of potential sales because they run out of a product or don't have the style, color, or brand on-hand that a customer wants to buy. Many stores could track down out-of-stock products electronically at another outlet or in a warehouse and satisfy most other customer product preferences in their much larger online and catalog offerings. Instead of losing these sales – and disappointing and inconveniencing the customer – retailers should make all inventory visible to customers online and at in-store computer terminals. Ironically, most leading retailers have already spent millions on technology and processes that make this possible. Now what's needed is a change in retailer attitudes to acknowledge the world their customers live in.

Over the past three decades, financial services, consumer products and high tech companies have embraced globalization to reduce operating costs and find new markets. World-class competitors like GE, American Express, Microsoft and Dell have led the way in outsourcing or offshoring customer service, technology, marketing, product development, accounting, HR and other functions, with tremendous savings and superior service for customers and employees. A number of consumer product makers like Coke, 3M and Procter & Gamble have explored foreign markets, where they now derive over 50% of revenues and profits. But one can count the number of truly global American retailers on the fingers of one hand.

The U.S. sales chains already do a good job of sourcing product from foreign countries and they are beginning to showcase ethnic products more effectively. For example, Target's Global Bazaar featuring European, Asian, and African wares was so successful the company repeated it a few months later. By bringing the same zeal to selling their goods in foreign markets and outsourcing, American retailers might discover a whole new world.

Advertising is just part of the Internet revolution. The opportunity for retailers is to drive traffic into stores and onto websites. Best Buy is experimenting with a number of store concepts including EQLife, where customers sign up online to attend in-store events highlighting health, beauty and consumer electronics. Wal-Mart, at its 91 German stores, uses the lure of romance to drive store traffic to Friday-night "Singles Shopping" events.

Merchandisers also should be using the power of the computer to develop more sophisticated customer profiles. Most retailers are very good at tracking what they sell, and very bad at tracking who buys it. Their loyalty clubs are a timid step in the right direction. But organizations that really get to understand their customers' shopping behavior, lifestage, lifestyle and interests have the opportunity to sell even more products and services.

Retailers with outmoded business models like Musicland and Blockbuster will shortly be extinct if they don't change. By putting the names and addresses of millions of their customers interested in music, movies and games to better use, they can still build new, innovative billion-dollar businesses with superior operating economics.

This new world of retailing can either be an ominous threat or an exhilirating opportunity. The good news is that most leading retailers still have the financial resources to adapt if they choose to. If not – well, we all know what happened to the dinosaurs.

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Barron's welcomes submissions to Other Voices. Essays should be about 1,200 words, and sent by e-mail to the Editorial Page editor at **tg.donlan@barrons.com**.