Advertising Age®

Why Retailers Need to Get Back to Basics

To Ensure Survival, Trade Trends for Tried-and-True Fundamentals

By Denise Lee Yohn

Published: February 23, 2009

Businesses in all sectors are struggling in today's tough economic climate. The retail industry looks particularly grim. AlixPartners, a Michigan turnaround-consulting firm, estimates that more than a quarter of all large retailers are at significant risk of filing for bankruptcy or facing financial distress.

Retail's suffering is not surprising if you consider that shopping accounts for 70% of the U.S. gross domestic product. Between widespread layoffs, slashed retirement accounts and house values, and the tightening of the credit markets, people simply have less to buy with. And so retailers aren't incorrect to point to macroeconomic factors beyond their control to explain their sad situation.

Two sides to every story

But there are always two sides to every story, and as unpleasant as it may be to admit, the demise of many retailers has been mostly their own doing. Many, it seems, have tossed aside the fundamentals of running a retail business in favor of gimmicks and promotions. In attempts to remain fresh and cool, retailers have tried everything from putting on concerts in their stores to making models out of their salespeople to launching Facebook pages.

RETAIL MARKETING
With the recession taking a big bite out of consumer spending, Ad Age takes a look at who is fighting back and doing so effectively.

While some of these approaches may indeed work, they will never supplant the adherence to the fundamental tenets of retailing -- that is, know thy customer, invest in your salespeople and deliver a superior in-store experience.

Take Gap, for example. The specialty-apparel retailer recently reported a 12% decrease in December's net sales, continuing the downward trend it's experienced for several years. From the chain's advertising to its merchandise selection, it is clear Gap has failed to "know thy customer." Gap's core customers have always looked to the brand for stylish casual wear at a fair price -- a selection that's more accessible than aspirational. However, the chain has been trying to serve up an image closer to the cutting edge of fashion and their customers just aren't, um, buying it.

Letting consumers lead the way

Compare this with Zara, the Spanish-owned darling of the specialty-apparel industry. The chain's success can be attributed to the customer intimacy that defines the brand. Zara has created its brand and organized its company with a singular focus on understanding the fashion items its customers want and then delivering them as quickly as possible. Rather than trying to dictate fashion trends, Zara lets its customers dictate their desires so the retailer can deliver on them.

Like Zara, Best Buy counts on its store managers and salespeople. The consumer-electronics giant subscribes to the retailing fundamental, "invest in your salespeople." Although back in the early 1990s Best Buy was criticized for making their salespeople noncommissioned, the change resulted in more educated employees who give objective recommendations, and was actually the first in a series of moves the company undertook to improve their sales force. Another way the retailer invests in its sales force? By training salespeople to understand the stores' financial information and encouraging them to make recommendations about how to merchandise or market in order to produce better store results.

Now Circuit City, previously Best Buy's nemesis, is shutting its doors. But the retailer's downfall started back in March 2007 when it notoriously fired its highest-paid salespeople and replaced them with cheaper workers. In doing so, Circuit City not only lost its most experienced and knowledgeable salespeople, it also crushed the morale of its remaining sales force. While surely other factors contributed to Circuit City's failure, this move speaks volumes on the retailer's lack of appreciation for the basics, such as investing in salespeople that drive retail success.

The most important tenet

"Deliver a superior in-store experience" is the last and arguably most important tenet of good retailing. Retailers have the advantage of having a physical space in which to bring their brand to life and yet so many fail to do so in a consistent, compelling, memorable way. Linens 'n' Things is one such short comer, and it's no surprise the chain is liquidating its stores after declaring bankruptcy last year. Even compared to its competition -- Bed, Bath & Beyond, department stores and other specialty stores, which also leave a lot to be desired -- Linens 'n' Things locations were older and smaller, and so was its selection. Stacks of merchandise were cluttered and crowded, and salespeople, when you could find them, were often unengaged or uninformed.

In attempts to avoid being one of the 73,000 closures that the International Council of Shopping Centers predicts will happen in the first half of 2009, retailers are scrambling for new programs and innovative platforms to boost their businesses, but many companies simply need to return to the basic principles of great retail.

For retail, getting "back to basics" isn't just a merchandising trend -- it's a survival tactic.