What Sports Authority And Dick's Sporting Goods Indicate About The State Of The Retail Industry

Denise Lee Yohn

3/30/2016 @ 5:30AM

A week after Sports Authority filed for bankruptcy, Dick's Sporting Goods (NYSE: DKS) announced plans to open 36 new stores. The two starkly contrasting news items send a message about the state of the retail industry today — and it doesn't look good, at least on the surface.

Sports Authority, which announced it would also be closing 140 of its 463 stores, had been saddled with debt ever since went private in a leveraged buyout nine years ago. The chain, many have said, has been losing out to Amazon and other online retailers, as well as niche players including Lululemon and Athleta.

Photographer: Ron Antonelli/Bloomberg

But Dick's Sporting Goods has faced the same pressures and is still managing to grow. Although same store sales have dipped at Dick's, it is on track to add to its 744 stores and e-commerce as a percent of sales reached a record level in 2015.

Dick's has been executing well on three smart brick-and-mortar strategies:

1. Develop Private Label: Dick's is aggressively increasing its offering of private labeled products, with plans to grow private brand sales from $730 million in 2013 to $1 billion by 2017. Like other retailers, it's found that exclusive product offerings draw people into stores and allows more pricing flexibility. But Dick's has taken some of the risk and cost out of private label development by doing licensing deals that give it exclusive rights to design and sell products under established sporting goods brands, such as using Umbro and Maxfli.

2. Include Store-Within-A-Store Shops: Dick's is partnering with major sportswear brands to offer store-within-a-store shops. Its Nike Field House and Under Armour All-American stores not only serve as destinations that increase store traffic, but also offset operating costs, as the brands pay for some of the interior design and fixtures.

The approach has proved to be so successful, Dick's has plans to test Nike Air Jordan and Polo Sport store-within-a-store concepts.

3. Open New Store Formats: To address rising real estate costs and declining appeal of big box store environments, Dick's is experimenting with smaller, specialty stores. It has opened around 20 Field & Stream stores, focused on hunting and fishing gear, next to existing Dick's locations. And last year it opened a standalone Chelsea Collective store targeting the female customer.

These strategies are leading Dick's to project a $50 to 55 million increase in earnings and full year comp store sales of flat to up 2% in 2016. It is also looking at taking over the leases of some shuttered Sports Authority locations.

Dick's growth in light of Sports Authority's decline doesn't seem surprising. Similar outcomes have resulted from other retail rivalries. When Linens 'n Things went bankrupt, its market share bolstered Bed Bath & Beyond. Best Buy executed a successful turnaround after Circuit city went bankrupt in 2008. After Borders declared Chapter 11 in 2011, Barnes and Noble was left standing.

What does this say about the state of the retail industry? A read of the tea leaves of business might suggest that, in today's retail environment, there is room for only one major player in any given sector. There might only be enough demand to sustain one brick-and-mortar retailer, while e-commerce and specialty stores grow in appeal. It's a depressing assessment of retail, but a logical one.

But perhaps these outcomes suggest a more fundamental shift in retailing. The ability of some concepts to thrive while others struggle may have less to do with prevailing market share strategies, and may reflect more who understands the changing role of a store.

Retailers who get it know that a store is shifting from a place to stock and sell goods and is becoming an experience that develops brand relationships. Retailers who offer unique, tailored experiences of the brands they carry — and of their own brands, through services, content, and community — can still attract droves of customers to their stores.

If retailers embrace their new role in customers' lives and in brands' business models, they could become even more valuable to both groups. The state of the retail industry is still strong — and the outlook could be even brighter.

Denise Lee Yohn is a brand-building expert, speaker and author of What Great Brands Do *and* Extraordinary Experiences.

RECOMMENDED BY FORBES