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Sourcing Has Been Disrupted—Now What?

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It may be easy to blame e-commerce for turning traditional retail upside down, but that's only a fraction of the problem.

"Disruptive forces are impacting all sectors, the way people shop will continue to change and companies must move toward where things are going," XCEL Brands chairman and CEO Robert D'Loren said during a Sourcing at Magic panel Tuesday, adding, though, that "E-commerce is only 20 percent of the problem. At the root of the problem is consumer behavior."

Consumers have taken over trends, timing and price, dictating when they want each and what they're willing to pay for it. But sometimes it seems consumers are from Mars and retailers are from Venus when the latter can't figure out how to sate the former.

The underlying problem, according to D'Loren, is that there's an over-distribution of every major U.S. brand, and what's adding insult to injury, is that much of that distribution still misses the mark with consumers who know what they want. And what they want, in short, is everything. All the time.

"The only way you can win in bricks today is by bringing something new to the store every single week," D'Loren said. And luring consumers can't be about adding an experience just for experience's sake. "How many Zara stores have a Starbucks in them? How many salons have you seen in a TJX? The reason they're winning is newness."

But that kind of constant newness means much tighter supply chains, much better decision making and far more local for local production. All things Sourcing Journal president Edward Hertzman feels will be a tough sell for many in the industry.

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“It’s really difficult for people to change,” Hertzman said on the panel. “From a supply chain perspective [companies] know what they need to do, but they’re just not doing it.”

It’s paralysis at the C-level, really, the panelists agreed.

Turning back to Zara as an example, as the store has been the beacon of success for fast fashion in a shaky landscape, Hertzman reiterated that the retailer doesn’t boast a particularly special in-store experience, there’s nothing much that adds convenience, and even online, there’s little in the way of differentiation at zara.com.

What it is, according to Hertzman, is 52 weeks of fashion.

“It’s the same thing that TJ Maxx does. They’ve created an environment that if I go in there, I have to buy now because it won’t be there the next time I go back,” Hertzman said. “At Macy’s, it’ll still be there, and if I wait long enough, they might give it to me for free with enough coupons.”

At Zara and TJX, the price is the price—the vicious markdown cycle has no place there.

“I think that the consumer feels taken with all these games and these gimmicks,” Deborah Weinswig, managing director for Coresight Research, said referring to the coupon craze and major markdowns.

The problem with pricing, Hertzman explained, is that for a long time, companies were solely focused on FOB or first cost, and finding out how to get the cheapest price possible to create that “imaginary margin on the ticket.”

But that’s not a wise risk to take when surmising what’s going to sell months down the line, based more on hunches than data.

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“Instead of maybe going and planning seven months out and committing to huge run of product and hoping it’s going to sell, maybe you spend less money, get it to the store quicker, get a read on it and make decisions from there,” Hertzman said. “We have to start thinking about margin from a different perspective.”

More than price, companies should be focused on being faster but fair, reshoring and nearshoring to get closer to their consumers, and even tapping into domestic micro-factories that are popping up and delivering on giving the consumer what they want when they want it.

Returning retail to its former relevance is going to be about an overall reeducation, both for the

retailer and the shopper, and the mindset shift isn't going to be an easy one.

"This is a process that will take three to five years...we're in for a really tough ride for the next couple of years," D'Loren said. "Time and change is a freight train coming at all of us and we have to embrace it when it comes."