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# *Supporting Brand Changes in the Brick and Mortar Footprint: A CFO's Guide*

## 1 THE SCENARIO

Over the past decade, we have found that retailers with large "brick and mortar" store footprints can be placed into one of four business cycle categories, based on their financial condition, initiatives and investments, and the experience they are seeking to provide to consumers. We call these four categories: Expanders, Contractors, Optimizers and Innovators.

**Expanders**

"Expanders" are companies which are growing their overall footprint by adding new stores every year. Some companies simply follow a proven store model and open a set number of homogeneous locations every year. Others may expand using different configurations, such as kiosks or "store within a store" models. But the objective of the Expander is simple: grow the number of locations to reach more consumers.

Examples of Expanders include: Dollar General, which expects to add 2,000 stores by then end of 2017 and TJX Companies, which is planning to increase its store footprint by 50%.

**Contractors**

These are companies which are closing stores in order to reset their market footprint or improve profitability. Contractors are typically well established brands that grew rapidly in a previous business cycle or trend, and which are now reacting to the impact of a new business cycle or competitive pressures from on line giants like Amazon.com.

Contractor Examples include: Office Depot, which will close a total of 700 stores in 2016 and 2017; American Eagle, which is targeting 154 stores for closure in 2017; and Children's Place, which will close 200 stores by the end of 2017.

**Optimizers**

Optimizers are generally maintaining their store footprint, but are seeking to drive profititability by either increasing "in store sales" or by reducing the cost to serve customers, in order to drive shareholder value.

The best example of an Optimizer is Nordstrom, which is maintaining a relatively flat "full line" store footprint, but is driving 2016 and 2017 capital expenditures and initiatives which are squarely focused on driving cost out of the system. They are carefully expanding their off brand Nordstrom Rack store footprint, but the bulk of their intitatives are focused on replatforming the merchandising and cross channel ecommerce processes to support its on line business and compete with Amazon. In the next year, the company will spend 20% of its capital on store remodeling and maintenance.

**Innovators**

These organizations are traditional "brick and mortar" retailers that are trying to disrupt the "in store" experience and create something new for the consumer. According to Maria Sicola in her summer, 2016 NAIOP article "The Rise of Experiential Retail":

> "As consumers purchase more goods online, traditional, and online retailers alike are struggling with the integration of online and brick-and-mortar commerce… while most "stuff" can be bought online, people will still go to brick-and-mortar locations to have 'experiences.' These experiences can be wide-ranging, and include the following:
>
> - Personal services such as nail and beauty salons.
> - Health and fitness facilities such as yoga, massage, and meditation studios, as well as traditional gyms.
> - Restaurants.
> - Cinemas and theaters that present plays, concerts, comedy shows, lectures and more.
> - Art galleries and stores."

Although real estate developers are driving much of the experiential innovation today (creating mixed use complexes that combine entertainment, shopping, and residential units), individual brands are also focusing on the consumer experience. Innovators include: Whole Foods – which provides a unique mix of organic and local food offerings; and Starbucks – with their Reserve Roastery concept - incorporating small batch coffees matched with food pairings. Target, a well-established "brick and mortar" retailer, has opened 32 "small footprint" stores in 2016 and will open 16 more in 2017

# 2 THE ISSUE: CAN YOUR RESOURCES SUPPORT YOUR CHANGING BUSINESS CYCLE?

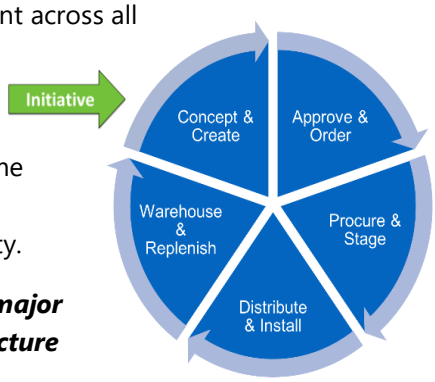
So what do all four business cycle categories have in common? *Change*. All retailers need a support structure and resources that can react quickly in order to meet the requirements of their current initiatives. Whether the objective is to open new stores or consolidate them; repurpose real estate or rebrand the footprint; squeeze dollars out of the process; or integrate online experience with brick and mortar operations – all retailers need to be able to move as efficiently as possible ***and with pace.***

**The Brick and Mortar "Experience" Support Structure**

Supporting the brick and mortar brand experience is typically an area of significant expense for most retailers, regardless of their current business cycle. Mid market and larger chains often have annual store support expenditures in the millions or tens of millions of dollars.

But as we work with retailers to help manage their brick & mortar store experience, we often find that organizations are ill equipped to react to new initiatives with speed and dexterity. This is because the team structures and process mechanisms which were designed to support earlier business cycles have become ossified or outdated. In fact – as retailers move from one business cycle to the next, the skills needed for success may vary widely.

The basic functions supporting the brick and mortar store experience are consistent across all retail store networks, regardless of their current business cycle. If you look across your organization today, you will likely see a combination of internal resources and partners, which were established to support the legacy process and business cycle. In some cases, people and partners have been performing the same functions for years, or even decades. When you encounter a well entrenched organizational -parter structure, it may be a key indicator of significant opportunity.




As you look inside your organization, here's what you should consider - ***the five major cost and process driving functions of the brick and mortar retail support structure include***:

- Concept and creation of the store experience;
- Approval and ordering of in store materials;
- Procurement and staging of in store materials;
- Distribution and installation; and
- Ongoing warehousing, fulfillment & replenishment .

**When Business Initiatives Change**

When a business cycle changes -- when a retailer moves from being an Expander to an Optimizer; or when Contraction is initiated; or when Innovation becomes part of the new strategy; then ***change management becomes a critical issue for the organization. Skill sets of the existing organization may no longer be relevant, and new opportunities for process improvement can emerge.***

In order to identify whether a significant process opportunity exists for retailers that are moving from one business cycle to another, CFOs need to ask themselves these key questions:

- Do we have the skill set to effectively support our current business objectives?
- How much time and effort are we expending in the organization to support our previous business cycle structure, vs. the initiatives we have defined for the future?
- Do we have a team that is executing on the right activities?
- Can we execute initiatives in the time frame necessary to support our objectives?
- How can we significantly cut costs if we change our focus?
- Can we free up cash by outsourcing non-core processes to invest in growth or innovation?

Retailers that are undergoing business cycle change can benefit greatly from having a partner organization that is prepared and staffed to respond to any new initiatives.

# 3 THE SOLUTION

Resource flexibility is the key to success for retailers who desire brand consistency, speed to market, optimized costs, and innovation as they move from one brick and mortar business cycle to the next. Rapid adaptation to a changing business cycle requires to have the following three process structures in place:

1) Technology Infrastructure – The technology framework for optimizing the brick and mortar experience starts with a robust database of every current or planned store layout, so that local,

regional, or national branding initiatives can be executed at a detailed level, rather than "en masse". Enabling store managers to replace or reorder damaged, out of stock, or outdated materials is another key component of this infrastructure. And having a fully managed digital asset repository and vendor database streamlines the process of executing major rebranding initiatives.

2) Access to Innovative Partners – Many retailers have a legacy support structure that consists of a set pool of vendors and providers (built over time), that produce materials to provision stores based on the historic needs of the organization. When the cycle changes, it can take months to research, negotiate and onboard new suppliers who can support the innovation or expansion needs of the organization. By building a robust network of potential partners, retailers can find almost any partner to solve even the most complex needs of the new brick and mortar cycle.
3) A Flexible Team of Experts – As stated earlier, the functions of supporting a brick and mortar store footprint are relatively consistent, but the priority and scale of resources will vary widely based on the business cycle. Retailers who can tap into an existing pool of experts across the five functions of brick and mortar experience can react more quickly, drive faster market deployment, and improve the quality and cost of initiatives.

# 4 CONCLUSION

There can be great benefits to focusing on the "brick and mortar" brand distribution process in retailers who are expanding, contracting, optimizing or innovating. Retailers who are moving from one business cycle to another often find themselves resource constrained and unable to deploy strategic branding initiatives with pace.

By establishing partnerships and an infrastructure that can flexibly adapt to the current cycle, retailers can successfully deploy their initiatives at a lower cost, with faster turn times, and a higher quality result. Outsourcing the "brick and mortar" brand support infrastructure is a proven strategy that has helped many retailers optimize the entire process, gain flexibility, reduce time to market and improve the in store brand experience for the consumer.

# 5 ABOUT IMPRESSIO

Impressio, a division of Drummond Press, provides turnkey solutions for supporting the brick and mortar brand environment of retailers and franchisors. Our solutions include scenario based technology deployment, supplier management, design, production, kitting, warehousing, and fulfillment of all branded materials used in the retail environment. For more information or to schedule an assessment, visit us at www.drummondimpressio.com or call 904.460.4488