Sara Lebow, Jeremy Goldman, and Zak Stambor

Reimagining Retail: Which brands are teetering on, coming back from, or going over the edge

Audio

On today's episode, in our "Retail Me This, Retail Me That" segment, we discuss brands that are losing their edge, approaching the edge, on the edge, and over the edge—and how they got there. Then for "Pop-Up Rankings," we rank the top four brands that came back from the edge, and how they did it. Join our analyst Sara Lebow as she hosts director of Briefings Jeremy Goldman and analyst Zak Stambor.

Subscribe to the "Behind the Numbers: Reimagining Retail" podcast on Apple Podcasts, Spotify, Pandora, Stitcher, Podbean or wherever you listen to podcasts. Follow us on Instagram

EPISODE TRANSCRIPT:

Sara Lebow:

Hello, listeners. Today is Wednesday, February 22nd. Welcome to Behind the Numbers: Reimagining Retail, an eMarketer podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow.

Today's topic is brands teetering on the edge.

Joining me for today's episode, we have two of our analysts from the briefings team. First up is Zak Stambor. Hey, Zach.

Zak Stambor:

Hey, Sara.

Sara Lebow:

And also, here with Zach and I is Jeremy Goldman. What's up Jeremy?

Jeremy Goldman:

Great to be with you again. Sarah. How's it going?

Sara Lebow:

Going well. All right. Let's get started with our first segment, news and reviews. Where I give the news and our guests tell me their reviews.

Today's story is a February 15th story from CNBC titled retail sales jump 3% in January, smashing expectations despite inflation increase that rise of 3% easily beat the 1.9% Dow Jones estimate as reported by the commerce department.

Zak, your review of this story in 60 seconds is...

Zak Stambor:

I think it's a really good sign and I don't think it's entirely surprising. I called that retail sales were picking up a few days before the report hit because you could see a number of signs, whether it was data from Bank of America or MasterCard. You saw consumer sentiment pick up, and despite the sluggish end to the year overall, the arc of consumer strength has been there pretty much throughout the past year. Even as inflation has continued to endure, consumer spending has largely kept pace. Particularly when you look at the year-over-year figures rather than the month-over-month figures.

Sara Lebow:

Sure. I think it's interesting you bring up consumer sentiment because that story came out the day before this one, and I almost overlooked this story because I thought it was the same one because we're seeing such a similar trend.

Jeremy, your review of this story in 60 seconds is...

Jeremy Goldman:

Yeah, I think it's a lot of really good information for people to wake up to. Obviously, the story is a few days old, but when you think about the fact that a lot of people are looking at tech layoffs and thinking that the sky is falling, well, that's obviously significant. We can't downplay that. But also, Zak mentioned the year-over-year basis, right? I mean, retail sales increased 6.4% in that regard, which isn't so bad. That's exactly in line with the CPI, the Consumer Price Index, and ultimately, it means that consumers are not really being scared and I think it is going to take a while for our companies to realize that consumers aren't being scared unless of course they listen to this podcast, in which case they now know it.

Sara Lebow:

Unless they listen to this podcast, yeah. Now, it's time for our next segment, Retail Me This, Retail Me That where we discuss an interesting retail topic.

Today's topic is brands teetering on the edge. Brands teetering on the edge are those troubled brands facing make or break moments. Those brands that need to determine their path to viability or risk going under completely. To depict this further, let's look at two brands that have recently gone over the edge, Revlon and Party City. Zak, why are these brands over the edge?

Zak Stambor:

So, both of them are over the edge pretty much due to the pandemic. Now, Revlon was not in a great spot even before the pandemic. Its sales were stalling in part because they hadn't adapted in the wake of growing competition from younger skewing upstarts like Glossier or Kylie Cosmetics. And things got worse early in the pandemic when people stopped buying beauty products because they were stuck at home or they were wearing a mask. But the thing that really did them in was supply chain challenges. When they filed for bankruptcy protection in June, they said that they couldn't fulfill like a third of consumer demand for products because they couldn't get the raw materials they need to produce their products. That said, it's worth noting that they are said to emerge from bankruptcy sometime in April, I believe.

Sara Lebow:

It's funny you bring up Kylie Cosmetics. I saw something that said that fenty searches were up massively after the Super Bowl just from Rihanna blotting at her makeup. So, yeah, clearly Revlon is taking a different approach.

Zak Stambor:

Absolutely. Party City also is largely due to the pandemic and people weren't having parties particularly early on in the pandemic. And then, they had a very unique challenge as well. In that there was a big helium shortage and that was a big problem for them. And another big problem for them in particular is that they're a specialty store and it isn't clear that there's a need for Party City or a store like that that type of specialty store to exist.

Jeremy Goldman:

Yeah. I just want to build on that for a second. I think that is such an important thing to note because you have a lot of multipurpose retailers that in order to eke out more growth, they say, "Well, where else can I go?" And they find other sectors to go into and they don't really care if there is a niche player like Party City in there that doesn't really matter to them. So, because of that, they'll get in, they'll start taking a little bit of market share away and what does Party City do in response. There's not really a great response because you're so branded as a niche player, you can't really go anywhere else from there. So, that's a part of their problem.

Sara Lebow:

Absolutely. If I'm planning a party and I need paper napkins, cups, pinata, the kind of things I'll find at Party City, but I also need appetizers and drinks, I'm going to head to Walmart that has both and probably for lower prices rather than in Party City.

Zak Stambor:

Absolutely. There's Target, there's the Dollar stores, there's all of different places you can go for the very same things.

Sara Lebow:

Now, let's move on to a brand that is on the edge. I feel like Bed Bath & Beyond has been on the edge forever at this point. Jeremy, can Bed Bath & Beyond come back?

Jeremy Goldman:

I mean, obviously anything's possible, but I think some of the challenges that we just talked about with Party City to some extent are true for them. I mean, they had this identity, but it hasn't been an identity that anybody from a consumer based standpoint has really wanted for a while, right? If you want to go somewhere more niche or more upscale, you're going to go there instead of a Bed Bath & Beyond. And there's also been a number of troubling signs. Obviously, the fact that they're shrinking their footprint, I mean, that's good and bad. Obviously, they're trying to focus more on being just more profitable on a per square foot basis. And I think that that's something interesting to watch. But they are shuttering a lot of stores that were lower performing and ultimately, I think that they're trying to solve for their mistakes but not giving a lot of, and here's why you should be hopeful about this retailer.

Zak Stambor:

They also had just the most unfortunate timing. So, right before the pandemic, they set upon the strategy of focusing on private label products to distinguish their offerings from what you can get elsewhere and cutting back on name brands like Calphalon or whatnot. And as soon as the supply chain challenges that the pandemic hit, they weren't able to get those products in stock. And because they were cutting back on name brand products, they just were out of stuff. And that really not only was bad within that moment, but it gave consumers a bad taste for the Bed Bath & Beyond experience that they are still digging out from.

Sara Lebow:

Yeah, this is what few weeks ago, Jared Schreiber on one of our episodes said it was one of the most important parts of the brand Flywheel is being available. And if brands can't see themselves as available in a Bed Bath & Beyond and consumers aren't seeing them that way, then, why would you go to a Bed Bath & Beyond as a brand or as a consumer? Now, I want to focus on two brands that we feel are losing their edge, Gap and J. Crew. Why do we think these brands are struggling and what can be done, Jeremy?

Jeremy Goldman:

Yeah, I think it's really tricky for Gap because again, it's been come a bit of a catchall and lost a bit of its identity and cool factor, if you will. I think that Old Navy has obviously underneath that umbrella has had a few missteps. They have this really great idea in terms of inclusive sizing, which is great from a PR perspective, but we keep coming back to this idea of supply and demand and you have to be able to forecast demand adequately, and they did a really bad job of that. So, I mean, a lot of these things are clearly identifiable problems that can be rectified. But of course part of the challenge is when the consumer starts to think of a brand as a little bit over and passe, it does take a while. You can solve all your problems and the consumer doesn't necessarily come back.

Sara Lebow:

Yeah. I feel like Old Navy often is one of those silly brands people make memes about. You grew up with the Old Navy flip-flops and the 4th of July shirt, it's hard to overcome that.

Jeremy Goldman:

And J. Crew I think that there's some interesting parallels there. You're right, they even tried to get younger recently with a decent amount of success. So, I think I'm probably a bit more optimistic there. I mean, they still obviously have a bit of a hole to dig out of from 2020, but Zak, I don't know, please tell me I'm wrong.

Zak Stambor:

I think that's absolutely right. It's just both companies have failed to clearly define who they are, what they are, and who their target customer is. And that's really hard. When people don't know what it is that you stand for, then, you ultimately stand for nothing and that's when your sales suffer.

Sara Lebow:

What's interesting is the styles of both companies. I think, basics, that's really on trend but the companies can't seem to capitalize.

Jeremy Goldman:

I think part of the issue though with that is that you can't really be perceived as just following the consumer because it comes across as inauthentic. And building on what Zak said, it's ultimately about, do you have a perspective as a large retailer that's making your own stuff? And the answer is I think not so much for both of those. I think about like Vans shoes, which I have 13 pairs of, and it's like what are the things that are iconic about those shoes that feel like, of course, it's a Vans and Gap does not feel like that anymore, where you look at it and you're like, "Is that Gap? I don't know. I don't care."

Sara Lebow:

Although Vans is an interesting example because they've pivoted somewhat. When I was growing up, Vans was a skater shoe and now, Vans is far more popular across different kinds of consumers. So, I do think that they successfully expanded their consumer.

All right. Now, let's talk about two brands approaching the edge, Kohl's and Wayfair. Zak, before we started recording, you told me you were really excited to talk about these companies. Why is that?

Zak Stambor:

Yeah. So, they're very different companies with very different challenges. So, I'll just talk about each unto themselves. Wayfair, for a very long time followed an Amazon type path of spending heavily to build and grab market share and investing in far off bets, whether it was a logistics network, building out private label brands, developing technology, all cool whiz-bang technology that they could tell investors a story, over the long term, this will help us build out a sustainable business model, but they sell furniture. And selling furniture is tough because you need a low customer acquisition cost because people only buy furniture every so often. And so their customer acquisition costs have always been too high. And as soon as interest rates started rising, their sales started slowing and it's just been a bit of a disaster because as their sales have slowed and interest rates have risen, they have been unable to write the path. Their customer acquisition costs are still too high. Furniture sales have slowed, and it's just not a great route. And so, they've started to look offline and it's a very slow path that they're taking to roll out offline retail. And I don't know, I just don't see a long-term path to sustainable business model and I never really have.

Sara Lebow:

Sure. And then, how is Kohl's different?

Zak Stambor:

Yeah. Kohl's on the other hand is another one of these companies where they need a perspective. And for a very long time, they've leaned on other brands to define why they exist, so they started taking returns from Amazon. So, they were an adjunct to Amazon's business model by offering a convenient option for you to return items. They have opened up Sephoras within Kohl's stores. So, you can buy Sephora products at Kohl's stores. That drives traffic into the store, but once you're in the store, what is going to compel you to buy something from Kohl's rather than just lean on these other brands.

Sara Lebow:

That's interesting because there's this common thread of brands needing to be certain of their identity, but then, also, with Party City, we have a brand that its identity really limited it. So, definitely a balance here, especially depending on category.

Zak Stambor:

You just need to find the right niche. That's really what it's all about. The party category is not so hot. Apparel can be hot, but you have to have the right style.

Sara Lebow:

Yeah, well, Kohl's iconically had Kohl's cash, but I'm not really sure what the retailer's known for beyond Kohl's cash.

Zak Stambor:

I think you're right.

Sara Lebow:

All right. Well, that is all we have time for in the first half. We're going to rank some brands that are teetering on the edge, but first a quick message.

Join us on Friday, March 3rd for our next virtual summit. Attention, seizing the retail media opportunity. The half day virtual event kicks off with an exciting keynote from our principal analyst, Andrew Lipsman on retail media's growth, featuring a very special guest from Walmart Connect.

The summit continues with deep discussions on topics like connected TV advertising, social advertising, and first party data featuring Insider Intelligence analysts and guests from brands like Ghirardelli chocolate, e.l.f Beauty, M&T Bank, and more.

It all wraps up with an interactive, asks the analyst's panel and a live production of Behind the Numbers: Reimagining Retail. Visit insiderintelligence.com/events and register today.

Welcome back from the break. Now, it's time for pop-up rankings where we take a look at specific examples, and we rank them. This week Zak and Jeremy will rank the top four brands that came back and how they did it. So, let's start off with a brand that came back from the depths. What brand is this, Jeremy?

Jeremy Goldman:

So, Toys R Us is an interesting one just because you've had different players behind it multiple times now. I think something about the brand that people are very nostalgic for and we were talking about being like a niche in a category. Toys R Us is not known for anything other than having a whole ton of toys basically, and being a place that you dread going to as a parent because you know that you're going to spend $130 that you didn't intend on spending. And I think that their IP has been bought and sold multiple times, but it's very clear that this brand resonates with people. And when you think about the fact that toys and hobby retail sales in the US, it's pretty mature overall number like we have for insider intelligence. We have that as 211 billion in terms of overall sales. So, it's a mature environment, but Toys R Us has an opportunity to continually eke into this if they can continue to basically perform, which is an if for them, but they can do it, hopefully.

Sara Lebow:

Yeah, for sure. Now, let's talk about our next brand. Zak, can you give us a brand that came back from the great recession?

Jeremy Goldman:

Yeah. Best Buy. Best Buy is in an interesting space because it's consumer electronics which early in the pandemic was a very hot category, but over the last year has been a tough category because everyone bought their TVs and once you bought your TV, you don't need to buy another TV because you only have so many places to put a TV. But they've actually navigated the challenges fairly well. They've managed their inventory much better than many other retailers, and that's enabled them to gain some market share. So, yeah, they're in a decent spot. They're not in a great spot, but they're in a decent spot and they're the last retailer standing in the category, which is similar to Toys R Us. When there were lots of toy retailers or lots of consumer electronics companies out there, it was a little bit more competitive, but once there's only one, it helps.

Sara Lebow:

Yeah. I bought my TV from Costco. Thank you, Costco. But Best Buy and Toys R Us are similar. In that, they're a place you go spend a couple hours and feel a lot of products and obviously, consumer electronics and toys are different, but you're going for a brick and mortar experience for both of them.

Okay. Speaking of stores that give you a good brick and mortar experience, what is our next brand that came back, Jeremy?

Jeremy Goldman:

Yeah. So, this one came back from not selling books and it's Barnes & Noble. I wanted to just quickly ask you, Sarah, you said about some of your consumption habits. So, you open the door counselor, so where do you buy your blankets?

Sara Lebow:

Where do I buy my blankets for my bed?

Jeremy Goldman:

Yeah, or couch. I don't know.

Sara Lebow:

My grandma made a lot of them.

Jeremy Goldman:

Okay. So, a lot of people get them from their grandma and very few people turns out wanted to get them from Barnes & Noble. That was one of the things that James Daunt, their CEO, pointed out that Barnes & Noble was selling and started to question, "Why are we selling these things? Maybe we should sell books. Maybe we should sell things that are print and reading related in general." They're also in the process of revamping their gift offerings and it's really a major difference from a few years ago where it was just becoming this mass merchant that was the worst of all worlds, and that's giving people a little bit more hope. It's feeling a little bit more vibrant. They said that they're opening a few new stores, I believe 30 new stores this year, and they're also releasing some new nook devices. And obviously, consumer tech is a good place to play if you can obviously deliver some consumer value.

Zak Stambor:

It's really interesting an experience has significantly changed over the past few years. It was a mess. It looked like some random mass merchant that didn't make any sense. You could find lots of toys there, which was helpful when you needed to go pick up a birthday present, but not when you were looking for a book, which is why you would go to Barnes & Noble. The other interesting thing is that they've localized the selection and the look and feel of the store, so every store doesn't feel exactly the same.

Sara Lebow:

100%. I completely agree with that last point. I think that's one of the strongest things Barnes & Noble has done recently. I live in New York. I'm really fortunate I can go to a lot of small book retailers, but in most parts of the country, you can't do that. And Barnes & Noble has replicated that feel while still having the familiarity of the children's section in the back. I think that's the reason Barnes & Noble has a really good reputation on TikTok and on Book Talk right now. All right, and then, our final brand, a brand that's come back from a really bad year. Zak, what brand is this?

Zak Stambor:

So, I will caveat this and say, it is not fully back yet, but Peloton, which is a brand that I really love. I love my Peloton. But they are now doing a lot of experimentation. You can rent the equipment, they have different pricing tiers for the Peloton app, and they're also embarking on some cost saving measures that make a lot of sense like outsourcing the final mile delivery just to protect that bottom line. And while they're still struggling, they are on track to generate positive cash flow by the end of the fiscal year. And they have a very, very loyal customer base, people like me who love the Peloton, and that is valuable, particularly when you have a recurring revenue model via a subscription. And so, I think they can figure it out. They haven't fully figured it out yet. They're throwing a lot of spaghetti at the wall, but I think some of that spaghetti will end up sticking.

Sara Lebow:

Peloton spaghetti will stick that sock stick. I got a lot of flak for going on the podcast last week and saying that I don't run. I also don't own a Peloton, but I would, a lot of that has to do with the pricing. So, I am curious as to how things like renting equipment or different pricing, I don't know, make Peloton more available to someone like me. That said, I'm also in a really limited space. Like I said, I live in New York, so we'll see if Peloton has an offering for someone like me. All right. That is all we have time for today. So, thank you, Zak.

Zak Stambor:

Thank you.

Sara Lebow:

And thanks, Jeremy.

Jeremy Goldman:

Thanks for having me.

Sara Lebow:

Please give us a rating and a review wherever you listen to podcasts and follow us on Instagram at behindthenumbers_podcast. Thank you, listeners, and to our producer Victoria, who is always there teetering on the edge of our recording in case anything goes wrong.

We'll be back next Wednesday with another episode of Reimagining Retail, an eMarketer podcast. And tomorrow, you can join Marcus for another episode of the Behind the Numbers Daily.