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D2C Brands Claim Another Victim by Accelerating Demise of Payless ShoeSource

Article

In February, Payless ShoeSource announced that it was seeking Chapter 11 bankruptcy protection, with plans to close its 2,500 locations across North America. Following bankruptcies of other retail stalwarts from a bygone era, like Sears, Toys "R" Us and Mattress Firm, Payless' demise doesn't come as a shock. Instead, it is another cautionary tale of a retailer that failed to evolve its brand.

Payless trafficked in commodity footwear with a low-price value proposition, but it committed many of the same sins as other victims of the so-called "retail apocalypse" by incurring too much debt, wielding too large a store footprint and struggling to keep pace with consumer trends.

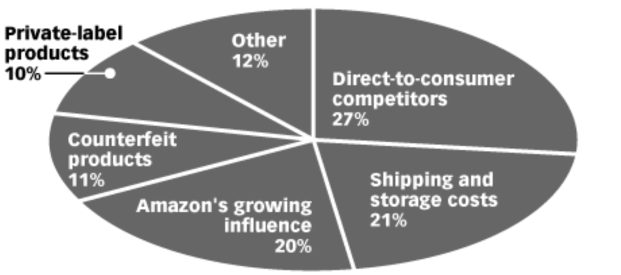
These factors were exacerbated in recent years by the rise of formidable digital competitors that squeezed the retailer from both ends. And Payless could never quite get its footing to build a functional ecommerce destination that actually attracts customers. While other brands used digital channels to grow, Payless was increasingly reliant on in-store foot traffic, which became harder and harder for a retailer known for its presence in malls.

Meanwhile, Amazon and Zappos.com began to commandeer the online shoe market—at least for nonspecialty footwear. If you needed a basic pair of sneakers, boots or Oxfords, you might start your shopping journey there.

For those with more specialized tastes, but still looking for an attractive price point, a wave of direct-to-consumer (D2C) brands—Allbirds, Bucketfeet, Greats, M.Gemi, Rothy's and Toms—has cropped up in recent years to carve out their respective niches of the footwear market. Made from recycled plastic or using limited edition artists' designs, each brand possesses a modern and differentiated take on foot fashion, a compelling brand story and ethos—and reasonable price points "to boot."

It's no wonder that, according to a study by Feedvisor and Morning Consult, D2C brands rank as the most pressing ecommerce challenge for brands (27%), even outpacing shipping costs (21%) and the threat of Amazon (20%).

What Is the Biggest Ecommerce Challenge Facing US Brands?
% of respondents, Sep 2018



Note: numbers may not add up to 100% due to rounding
Source: Feedvisor, "Brands & Amazon: Insights, Opportunities, and Concerns in the Age of E-Commerce" conducted by Morning Consult, Jan 23, 2019
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Payless took notice of the D2C invasion, and in what you could now argue was the company's final Hail Mary pass to stave off bankruptcy, tried a stunt straight from the D2C marketing playbook. Payless hosted a "pop marketing" event in the heat of the 2018 holiday season, in which the company adorned a vacated storefront in Santa Monica with the hip-sounding "Palessi" moniker, flashy displays and dozens of social media influencers in attendance, ostensibly for the launch of a hot new luxury brand.

Payless offered the same discount shoes at severely inflated prices under the fake brand to see whether customers would pay more for an experience with greater cachet—which of course they did, as some shelled out up to $600 for a pair. When "Palessi" pulled back the curtain to reveal these were the same styles that could be bought at Payless, fashion-conscious customers couldn't believe their eyes. In this instance, the legacy retail brand used a clever tactic designed to generate earned media and attract attention from the social media crowd, doing so by highlighting its value—stylish shoes at affordable prices—much like D2C brands.

Credit for trying, but it was too little too late. A long-declining brand can't be revived overnight, and while its low-cost value proposition has an audience, the competition has gotten too fierce. Product differentiation and a brand that customers care about is the likeliest path to survival in the D2C era, and Payless simply fell short.

Let this be a lesson to other legacy brands feeling the heat from digital natives. Turnarounds can happen, but they've got to start by giving the people what they want.