

Does Size Matter? Specialty Stores Go Up Against Retail Giants

By Joyce Kauf

In a market dominated by consolidations and big-box retailers, specialty stores are dotting the landscape and gaining market share. But can they survive against the retail giants? In its fall retail symposium, FGI examined “The Great Divide: How Do the Davids Succeed in a World of Goliaths?” The panel included Charles L. Nesbit, Jr., executive vice president and chief operating officer for Chico’s FAS, Inc.; Carl Barbato, vice president of retail, David Yurman; Stefani Greenfield, owner of Scoop; and Rebecca Matthias, president and founder of Mothers Work, Inc. **Dr. Carl Steidtmann** served a dual role as keynote speaker and moderator.

Dr. Steidtmann, director and chief economist, Deloitte Research, set the tone for the September 15 event, declaring that “we have reached the tipping point.” A nationally recognized expert on consumer trends and retail activity, Dr. Steidtmann expounded upon his theory that “economies of scale have given way to economies of scope.” Consolidation—the model for the industrial age—is over because it is no longer viable in our current information and service-based economy. To prove the end of consolidation, he cited the:

- changing face of the American consumer. The middle segment of 25 to 45 year olds is shrinking, with growth at the top and bottom
- enormous growth of ethnic populations
- move from suburbia back to the inner city and ex-urban areas
- shrinking middle class, with tremendous growth at the higher end
- slowing growth of Wal-Mart, with billion dollar sales but no net shareholder value.

Deconsolidation is replacing consolidation. Dr. Steidtmann predicted that this “long tail market” will create economies of scope and promote growth in smaller, diversified businesses that serve niche markets. These businesses are marked by innovation, and as examples, he pointed to eBay, NetFlix and Zipcar that lets you rent a car for as little as an hour.

What does it take to start a niche business? Assuming his role as moderator, Dr. Steidtmann asked the panel if they had a strategy or did they “stumble into the business?”

Stefani Greenfield was always asked by friends if they could shop in her closet. At Scoop, customers can get “the look of the moment without being a fashion victim.” Her impetus—she was looking for a job and seized this opportunity to create a “new retail vision” that would incorporate the best fashion items from the best designers.

It was obvious too for Rebecca Matthias who was pregnant and needed clothes appropriate for work. Mothers Work, Inc. grew into a publicly traded \$500 million company that manufactures and sells maternity apparel through 1,500 locations in the United States and Canada. Her brands include Motherhood® Maternity, Mimi Maternity®, A Pea in the Pod®, and Destination™ Maternity.

It was a bit of stumbling for Chico’s, explained Charles L. Nesbitt, Jr. The founders originally owned a store selling folk art. On a buying trip, they bought some sweaters that sold out—to baby boomers.

Carl Barbato admitted to an “element of stumbling.” David Yurman originally created jewelry for his wife Sybil. They started selling at craft stores. As their business grew to include department stores, they realized they needed a “controlled environment” to best represent their products.

Dr. Steidtmann's hypothesized that deconsolidation allows consumers to bond physically, through location, and emotionally through the product. So he asked the panelists to describe their community and their efforts at creating that bond.

"It's evolutionary, not revolutionary," declared Greenfield. Her sales associates are "wardrobe builders" who focus on the customers' needs and help them understand the trends. "You have to be interested rather than interesting."

Chico's celebrates "fun, energy, and being alive" according to Nesbit so that it becomes the "store of choice." He explained their advantage over the big box stores is their ability to know "what her needs are at *any point* in time." Their extensive research reveals that customers shop 8.6 times per year. With no mirrors in the dressing rooms, customers bond with the sales associates and interact with other customers at the same time.

"You have to go narrow and deep, but focusing on the consumer can be a double-edged sword," admitted Matthias. Even if she does a billion dollars in sales, her focus always centers on maternity clothes. While expansion into baby clothes and career fashions were not successful, Matthias sees potential growth in related products such as a maternity spa, a learning center and even financial services geared to new mothers.

"David Yurman represents casual American luxury," said Barbato. For women who want to wear jewelry every day, David Yurman's glamorous mix of product is an affordable option.

R&D is critical to mega-businesses. But Dr. Steidtmann asked the panelists "Is it gut vs. intuition?"

"It's not rocket science," explained Matthias who hold degrees from M.I.T., Columbia University and the University of Pennsylvania. Her advice: "start out intuitively and then go to people and systems."

"Research only tells you what she liked yesterday—not what she will like in six months," explained Nesbitt, adding that creative minds have to "sense" where the customer wants to go.

"Follow your internal compass," advised Greenfield. She advocated taking a risk—using "reality-based intuition."

"It's an evolution of past successes, but it's gut" said Barbato.

To the Davids on the panel, Dr. Steidtmann wanted to know, "Who is your Goliath?"

"If you focus on the competition you take your eye off the ball. You stop leading and start following," declared Nesbit. He didn't identify any special Goliath hovering over Chico's. He emphasized the passion that drives them to continually evolve the brand experience so that Chico's does not become "yesterday's news."

"They're all Goliaths," exclaimed Greenfield. But she advised, "Don't look right or left." Focus on loyalty, product and experienced. "Make them shop you first!"

The Big 3—Target, J.C. Penney's and Old Navy—pose the biggest threat to Matthias. Yet she can compete because she offers three distinct brands with corresponding price points, distinguishing them from just a department within a department.

Barbato explained that they are part of the luxury market and the jewelry market. As such, they share a wallet with Gucci, LVMH, and Jimmy Choo. However, he named Tiffany as their Goliath, but noted that David Yurman offers an "artisan quality" and greater selection with over 40,000 SKUs.

For all their differences, specialty and department stores still pay attention to the bottom line. Stepping back into his economist's shoes, Dr. Steidtmann predicted that the holiday season would be more promotional, with retail sales increasing about 4 to 4 ½ percent over last year. He expressed concern that the "cultural *zeitgeist*" after Katrina does not bode well to encourage "mass orgies of consumption." His advice—"Go out and buy something!"