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Learning from the other side: Pier 1's contraction: What is next?

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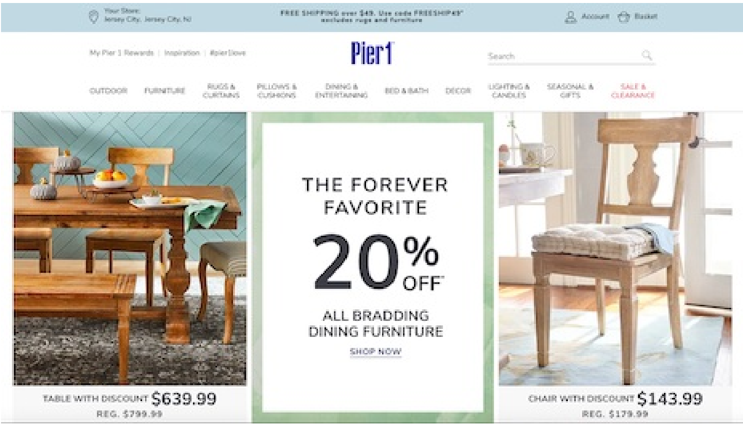

Pier 1 is closing half its stores. Image credit: Pier 1

By Kelly Lynch

Another set of shockwaves was recently sent through the traditional retail space as home goods retail giant Pier 1 Imports announced plans to shutter half of its store locations in the United States.

And much like with earlier contractions or bankruptcies within the retail space, speculation has begun about how competitors such as Target, Houzz, HomeGoods and others will capitalize on the void left behind by Pier 1, and if the home goods power player can fix itself and get back on track.

With that in mind, here are a few things to keep a lookout for in the evolving home goods space:

Market share fight

Despite fighting years of slumping sales figures, Pier 1 remains one of the most recognizable home goods brands within the United States, so a sizable reduction in operations leaves a very appealing opportunity for other players.

But what is the best way to take advantage of it and fill the space previously occupied by Pier 1, and who will be most successful?

To gain market share, current players need to keep leaning into their distinguished ethos and price structures while making sure their shopping experience is convenient for consumers who are conditioned to expect one click to buy, and one-day shipping.

There may also be some opportunity for vendor renegotiations if retailers have suppliers that overlap with Pier 1, they may want to try and revisit margin and stock terms in exchange for increased volume of purchases, as well.

The competitors that are able to navigate this complicated environment most astutely stand to benefit the most.

Can Pier 1 solve its strategy problem?

To get back on the right path, Pier 1 needs to fix its selling cost structure and strategy immediately.

Simply put, Pier 1 is selling merchandise like a cost competitor, but spends like a luxury competitor which is putting its net income in the negative.

For example, while Pier 1's gross margin looks to be in line with other competitors, according to the 10-Q it filed this month, the company's Selling, General and Administrative Expenses (SG&A) consistently rings in at a hefty 40 percent of net sales.

By comparison, Target, TJX and Ross all have SG&As that hover around 20 percent of net sales.

This is sinking the Pier 1 brand.

To turn around the ship, these principles need to be aligned.

It is critical that Pier 1 lowers its SG&A, but the question remains whether it might be too late for the company to try and compete as a luxury player and increase the customer's willingness to pay subsequently increasing gross margin because its customers expect discounts.

In addition, a rebrand of that scale amid store closures and bankruptcy rumors would be incredibly difficult, so the company really needs to tread lightly and make the right decisions from here on out.

Can Pier 1 solve its merchandise problem?

The second huge issue Pier 1 needs to resolve is related to its merchandising.

In retail, success is often tied directly to brand identity, price-image and a centralized narrative when it comes to merchandise.

For example, in the home goods space, West Elm is known for a modern city vibe, Anthropologie Home is boho chic, TJX is trendy at a sharp price point, and Restoration Hardware (RH) is industrial clean luxury.

Unfortunately, Pier 1 lacks any kind of distinct vision or ethos.

Pier 1 has long struggled to convey any image to which a customer can relate or aspire.

Moreover, the retailer assorts products that are sellable, but unexciting at a price that is not motivating unless it is deeply discounted.

In addition to aligning its selling cost structure, Pier 1 needs a stylistic ethos to propel the ship further.

WHAT WE ARE seeing with store closures and bankruptcy filings for retailers is a sort of "retail brushfire."

The weak players who soared in the late 1990s and early 2000s are paying for their lack of attention to changing market conditions. Pier 1 is certainly one of those cases.

However, by focusing on the key flaws in its business model and making sensible decisions about the best way to proceed, Pier 1 can begin a methodical rebound.

If not, there is no shortage of competitors waiting to peel off additional business from the brand.


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