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With department stores on the ropes, Neighborhood Goods reinventing business model that actually works

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Neighborhood Goods is reinventing the department store following much the same vision that former J.C. Penney CEO Ron Johnson laid out years before. Image credit: Neighborhood Goods

By Pamela N. Danziger

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Traditional department stores in the United States have been experiencing a slow and painful-to-watch death for years. The pandemic may be the final nail in their coffin.

J.C. Penney and Neiman Marcus have declared bankruptcy. Sears and Lord & Taylor are all but gone, and Macy's is hanging on by a thread.

The data detailing department stores' demise is indisputable.

From 2009 to 2019, U.S. department store sales fell 26.7 percent, from \$186.6 billion to \$135 billion, in a retail market that grew 49.2 percent, excluding gas stations, automobiles and auto parts. And through the first five months of 2020, department stores are off another 21 percent, while retail is down only 1.7 percent.

Over the last 10 years, traditional department stores have been figuratively rearranging the deck chairs on their sinking Titanics.

Now out of Texas comes a new department store, Neighborhood Goods, which is building a business model to take the department store into the future.

With three locations open in less than three years Plano, New York and, most recently, Austin Neighborhood Goods is based on fostering deep connections within its local community and being a place where brands can shine in an ever-changing rotation, so guests have something new to discover in each shopping trip. And each store is anchored by a locally tailored restaurant and event space.

And, presciently, Neighborhood Goods is reinventing the department store following much the same vision that former J.C. Penney CEO Ron Johnson laid out years before.

Department stores must evolve

Back in 2011, Mr. Johnson saw the writing on the wall for traditional department stores and set out to fix it for his company.

"Over the past 30 years, the department store has become a less relevant part of the retail infrastructure, largely because of decisions the stores have made," he said in an interview with *Harvard Business Review*. "They didn't think about the future so much as try to protect the past."

Mr. Johnson took bold steps to reinvent his department store, which he described as less risky than to keep on J.C. Penney's current path.

The executive saw the problem was not in department stores' size, location or physical capabilities, but in their "lack of imagination about the products they carry, their store environments, the way they engage customers, how they embrace the digital future. There's nothing wrong with the capability. There's a problem with the execution."

Mr. Johnson wanted to transform J.C. Penney into a "mall within a mall," arranged in "streets" with individual shops or boutiques with a central "town square" as a meeting place to congregate with friends, have refreshments, and watch a cooking demonstration or fashion show.

But Mr. Johnson "screwed up the execution," said retail visionary Robin Lewis, author of *The New Rules of Retail*. While everybody else was piling on with vocal criticism of Mr. Johnson and his ideas, Mr. Lewis remained firm in support.

"[Mr. Johnson] absolutely had the right vision, there's no question in my mind," he said, and predicted, "Quite frankly, it has to be the future of the department stores, and you will see those who succeed evolve to that model."

Neighborhood Goods brought Mr. Johnson's vision to life, but with one most important distinction. Its business model does not rely on tying capital up in acquiring massive amounts of inventory.

Rather, at its core, Neighborhood Goods operates on a consignment basis, explains cofounder/CEO Matt Alexander.

Pop-up shops on steroids

"We have physical spaces that feature all manner of different brands," Mr. Alexander shares. "Some brands pay us a fixed fee to be in the room and they make 100 percent of what they sell. Others pay a lesser fixed fee and we take a percentage of sales, which is the more common route."

But for brands that aspire to be in one or more of Neighborhood Goods' rooms, it is not enough just to pay the fee. Neighborhood Goods carefully curates brands that are right for each neighborhood.

"Each retail store has a story, and then all the products featured there have their own story," Mr. Alexander said. "So, that is where the role of curation comes in: to make sure all the stories we tell are awesome."

"Everything is bound together, so our job is to say yes' to the right brands and no' to others," he said. "The sum total of it is this intangible aspect of taste."

Once a brand is chosen, Neighborhood Goods does the rest.

"We have the physical spaces," Mr. Alexander said. "We build them, design them, and present them to the customer."

"We also deploy a huge amount of technology in the room to capture traffic demographics, behavior and more, so that we can understand how to best optimize and modify what is going on in the space," he said. "We own the space, provide the personnel and have the data."

Because of its control of granular consumer data and with staff focused on retailing and consumer engagement experiences, not inventory management and control, Neighborhood Goods is an attractive home for digitally native brands looking to cross-over into physical retail.

"Physical retail can be a remarkable important channel for them to efficiently and profitably acquire customers," Mr. Alexander said.

"Our role is be a platform where these brands can find success and opportunity," he said.

Currently, Neighborhood Goods works with more than 100 individual brands and while there is some overlap of brands across all three stores, not every brand is right for every location.

"We work to make sure that each brand is relevant and the right mix for each city or area," Mr. Alexander said.

"Our job is to establish a loyal, long-term relationship with the customers, as well as the brands we partner with," he said. "So we take care to tell those brand stories with true passion to make it a memorable experience for the customers."

The result, he shares, is very profitable for the brands featured in Neighborhood Goods stores and the company itself.

Through January and February, sales for its Plano and New York store in the trendy Chelsea Market downtown were up about 500 percent over same period last year.

Backed by investment funding of \$27.55 million to execute expansion plans, it opened an Austin store on March 13, which it promptly closed due to the coronavirus pandemic. Its other stores closed as well.

Throughout the roughly 80-day closures, Neighborhood Goods quickly adapted by offering live chat and video conferencing on its Web site and curbside and store pickup and free same-day shipping.



Interior of the Neighborhood Goods store in Plano, TX. Image credit: Neighborhood Goods

Reopening with renewed dedication to community

Neighborhood Goods Texas stores reopened in June with stringent cleansing and employee and customer safety protocols in place. It is going slower in its Chelsea Market location.

"As a general rule of thumb, don't expect us to be part of the first wave of openings," Mr. Alexander said. "We'll take our time."

During the closures, Mr. Alexander and the Neighborhood Goods' team had time to reflect on what the closures meant not just to its business and customers, but to other vital members of its local communities.

That resulted in a new nonprofit initiative called The Commons designed to help local brands, restaurateurs, musicians and artists reinvigorate their businesses.

Neighborhood Goods will provide free space in its stores and on its ecommerce Web site to brands that apply for support. It will open its kitchens to local chefs and host happy hours featuring local musicians.

In addition, it will sponsor job fairs and feature local artists' work on the walls.

To date, Mr. Alexander reports that its launched its first class of 12 brands in June with more to come.

"The idea started as a solve for brands who've had wholesale orders cancelled, revenue or logistics disrupted," Mr. Alexander said.

"The stores will continue to feature a world-class line-up of brands, while also making space for local businesses and neighbors to serve as a new space and forum in an effort to return to normalcy," he said.

Fixing what is wrong with traditional department stores

Neighborhood Goods is a refreshing respite in a retail environment overrun with sameness.

"We are trading in the currency of relevance," Mr. Alexander said. "A lot of stores have lost that with a one-size-fits-all approach to merchandising. We aim to be very special, unique, and specific to a given market."

Neighborhood Goods focuses on being "powerful consumer centers" for discovery and where relationships

between brands, customers and the local community are deepened. And that is the secret sauce that separates it from what traditional department stores have become.

"Traditional department stores, by virtue of their business model, have to be quite transactional," Mr. Alexander said. "Ultimately they are buying products at wholesale and they have to sell it to make certain margins and grow."

"Yes, we want to sell products, but our model is more rich and dense than that," he said.

"We engage with the customers by building close relationships in a very different and less transactional way. We are playing a new role that fosters and encourages a different level of customer behavior and interaction."

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