



CONSUMER AND RETAIL GROUP

A TALE OF TWO CITIES IN THE HOME GOODS SECTOR:

WHY DEFINING A CONSUMER-LED VALUE
PROPOSITION IS CRITICAL TO BUSINESS SUCCESS

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COVID-19 drastically upended the corporate landscape of the U.S., affecting businesses for years to come. Certain industries thrived during the pandemic, like digital servicesⁱ, while others, like U.S. tourism, lost revenue across the board.ⁱⁱ Despite the disruption COVID brought, it acted more as an accelerant of consumer behavior and retail shifts versus the creation of new forces, exposing fault lines in retailers that had already existed. The result? A “Tale of Two Cities” in many industries like home goods where, some retailers, had COVID tailwinds and thrived, whereas others failed.

The home goods industry saw success for companies at either end of the spectrum- “low-cost scaled” (mass specialty and mass merchant) or higher end “lifestyle,” while those companies in the “messy middle,” failing to operate cleanly in one of these lanes, got squeezed. Without clear top-to-bottom lane definition, these “messy middle” companies failed to drive home an *intriguing consumer-led value proposition* in the face of growing industry competition, and thus crumbled.

COVID-19 exposed the underlying fault line that lay dormant in many companies throughout the industry - that they must first determine where they are going to compete, aiming to win either in areas of high-cost, specialized lifestyle or within the mass specialty spaces of price, convenience, and breadth of assortment. Then, once a lane is chosen, in order to win, retailers need to execute against a differentiated consumer-led value proposition through critical levers like assortment strategy, omni-channel and digital investments, and targeted value-add products/services.

Growth of Mass Merchants in the Home Goods Space

The introduction of mass merchant giants into home goods, driven by the growth of Amazon, Target and Walmartⁱⁱⁱ^{iv}, both increased the sector’s low-cost competition and exposed underlying business faults throughout the industry. Primarily-brick-and-mortar home goods companies stuck in the “messy middle,” such as Pier 1 Imports^v^{vi} and Tuesday Morning^{vii}, felt this squeeze from mass merchants and other competitors who, for a similar assortment, could offer a more convenient and comprehensive shopping experience^{viii}.

This disruption forced home goods competitors to better align with their core customers and carve out their own unique consumer value proposition in the market, in order to either compete with new low-cost offerings or differentiate their values from those based solely on price. While it had always been important for retailers to decide both how and to whom they market themselves (in other words “pick a lane”), the need to adjust corporate strategy on an industry level never depended on a single “make or break” moment, reducing firms’ sense of urgency to make these hard decisions. It was not until COVID-19, when sudden brick-and-mortar closures made it even harder for “messy middle” brands to reach customers, that these pre-COVID fault lines became even larger. “Picking a lane” became wholly critical for companies to connect to their core consumer during COVID-19, and thus essentially defined who was to succeed in the market, and who was to fail.

ⁱ Zoom, DoorDash, Peloton led fastest-growing tech companies in 2020 (cnbc.com)

ⁱⁱ The Covid-19 Pandemic Has Cost The Global Tourism Industry \$935 Billion (forbes.com)

ⁱⁱⁱ In challenge to Wayfair, Amazon, Target up the ante in furniture | Retail Dive

^{iv} Walmart launches a new home shopping site for furniture and home décor | TechCrunch

^v Pier 1 to close nearly half its stores as bankruptcy rumors persist (cnbc.com)

^{vi} Pier 1 relaunches as online store | Retail Dive

^{vii} How Tuesday Morning went bankrupt | Retail Dive

^{viii} The 2019 Home Furnishings Retail Industry Trend Guide | STORIS



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COVID-19 Polarization

Unsurprisingly, the transmission of COVID-19 to U.S. soil sent major shockwaves throughout retail. Store closings, heightened unemployment and GDP decline all came together to drive an overall recessionary economy. Combining value, convenience and a heightened demand for home goods products allowed mass merchants like Walmart and Target to achieve even higher growth within the home goods industry.^{ix x xi xii}

These mass merchants were not alone either in successfully capturing industry demand. Select retailers across the industry, from higher-end home goods companies like Williams-Sonoma, West Elm, Pottery Barn (all owned by the Williams-Sonoma, Inc. parent company), Restoration Hardware (RH), and Crate & Barrel to lower-end giant Wayfair, all met success throughout the pandemic. Williams-Sonoma and similar competitors saw double digit gross profit improvement in FY 2020 compared to 2019, as they continued to capture topline growth in the pandemic and furthered strategic expansion^{xiii xiv xv}. Unsurprisingly, Wayfair, the low-cost home goods giant, also saw surging revenue and high double-digit growth across its products as customers looked for convenience and competitive prices. Although operating at different ends of the market, these tranches of companies all shared one critical trait- they each identified how and where they would win, either on cost / convenience / breadth of assortment or experience / lifestyle / product differentiation, and consistently executed against this strategy.



Wayfair, which saw over five billion dollars in net revenue growth 2019 to 2020, acquired a massive supplier base and robust supply chain to get customer products when they needed them. This massive supplier base allowed the mass retailer to compete with mass merchants for in-stock availability. At the other end of the spectrum were retailers like Williams-Sonoma and RH. Williams-Sonoma decidedly marketed itself off of ideas that resonated with core customers, not just generic product. According to Laura Alber, CEO of Williams-Sonoma, the company's mission has always been focused on how their brand and company as a whole, not just their product, can benefit their core customers^{xvi}. This plays out in the company's online merchandising strategy, which is organized upfront by lifestyle events centered around themes such as "Party Central" and "Hosting a BBQ?" instead of solely by product departments.



^{ix} With Sales Of Home Furnishings On The Rise, Retailers Like Article See 200% Growth (forbes.com)

^x Amazon, Walmart, and Target reap the rewards of Covid restrictions - Vox

^{xi} Target 2020 Annual Report, Target 2019 Annual Report

^{xii} Walmart 2021 Annual Report

^{xiii} Williams-Sonoma FY 2020 Annual Report

^{xiv} Restoration Hardware FY 2020 Annual Report

^{xv} Crate and Barrel to invest \$38.5 million and create 150 jobs in Newton Corporate Center - Catawba EDC

^{xvi} Why Home Goods Retailer Williams-Sonoma Is Thriving In the Pandemic - Bloomberg

Similarly, RH marketed its products by grouping complementary items together on the same floors, building up a lifestyle resonance that consumers can see with their own eyes. Within its larger galleries, the company extended this holistic image through expansion into home-adjacent services, such as rooftop restaurants and bar service, which furthered the sense of comfort and lifestyle fit that the brand is built upon. Both business cases, whether high end or mass specialty, served to fulfill specific consumer demands and therefore continued to carve out their own unique consumer value proposition within the market.

Left in the wake, however, were those home goods companies in the aforementioned “messy middle: - retailers who failed to successfully “pick a lane” both in relation to their core customers and their industry peers, and further failed to adapt their business strategy to ongoing market dynamics. These companies include household names like Sur La Table, which had been losing foot traffic for years despite its strong online presence,^{xvii} and Tuesday Morning, a struggling brick-and-mortar retailer that took in practically zero sales once lockdown measures were initiated.^{xviii}

Sur La Table, the kitchenware supplier, promoted virtually the same products available on Amazon, but without the shipping speed and breadth of assortment to compete with the mass merchant. Tuesday Morning, which sought to create an off-price “treasure hunt” experience in its stores, ended up stockpiling an uninspired assortment of goods that lacked differentiation compared to what was expected in the industry. Neither company successfully aligned their services to core customers within the changing market, whether they lacked the specific pre-existing infrastructure to fit within a lane or lacked the willpower to make the tough investments and fully pivot into a lane. By operating as a complacent jack of all trades within the value spectrum, these companies became a master of none, and thus became destined to fail.

Retailers that were Fast Followers and Pivoted to One Direction or Another

For those remaining companies still in the “messy middle,” hope is not lost. A company can *pivot* to a “specific lane” after the fact. Some big box specialty retailers, such as Big Lots and Bed Bath & Beyond, both shifted quickly to deliver against a price / value customer proposition and have begun to see results from their initiatives. Big Lots, the Columbus-based off-price retailer, grew over 16 percent in 2020, primarily through massive gains in e-commerce sales.^{xix} But it was not until 2019, to compete with increased competition from Amazon, Target, and Walmart, that Big Lots made major investments in its e-commerce business, specifically Buy Online, Pick-up In Store (BOPIS), to eventually turn a profit.^{xx}

For Bed Bath & Beyond (BBBY), after overall revenue decreased by 2.6 percent in 2018^{xxi} and 7 percent in 2019^{xxii}, the company launched a new turnaround plan involving footprint rationalization and store brand innovation.^{xxiii} As part of this plan, BBBY has continued to operate in the low-cost channel, but at the same time has planned to launch 10 new store brand lines throughout 2021-2022, all centered around five key archetypes in its core customer base.^{xxiv} While still competing with mass merchants on assortment and price, BBBY has shifted recently to differentiate itself through targeted private brand offering.

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^{xvii} Sur La Table files for bankruptcy with plan to sell itself | Retail Dive

^{xviii} How Tuesday Morning went bankrupt | Retail Dive

^{xix} Online Sales Soar 130% at Big Lots | Progressive Grocer

^{xx} How BOPIS brought Big Lots' e-commerce into the black | Supply Chain Dive

^{xxi} Bed Bath & Beyond Reports Weak Earnings, Will Comparable Sales Push Growth For The Full Year? (forbes.com)

^{xxii} BBBY | Bed Bath & Beyond Inc. Annual Income Statement - WSJ

^{xxiii} One year in: Mark Tritton's turnaround at Bed Bath & Beyond | Retail Dive

^{xxiv} Bed Bath & Beyond to launch 10 store brands | Store Brands

Post-COVID Implications

COVID accelerated the exposure and amplification of fault lines that existed at many home goods retailers due to their lack of creating a differentiated position either at the lower-end or higher-end of their industry. While we cannot predict future changes to customer behavior or shocks to the supply chain, we can learn from the pandemic about actions companies need to take to further differentiate their service offerings and mitigate share loss against mass merchants and other competitors. First, it is necessary for home goods retailers to decide which tranche of the industry they are going to compete in: lower-end / price conscientious or higher-end / lifestyle. Second, companies need to build strategies around critical initiatives like assortment, omni-channel / digital, and value-added services, that deliver against that value proposition, targeted at their core consumers.



	Deliver Differentiated Assortment Based on Value Proposition and Core Customer	Offer Robust Omnichannel and Digital Services	Create a Value-Add Service
Mass Specialty	<ul style="list-style-type: none"> ✓ Best-in-class merchandising breadth to maximize consumer “discovery” touchpoints ✓ Private label brands that align to core customer base ✓ Strong price/value proposition across quality tiers 	<ul style="list-style-type: none"> ✓ Strong on-shelf presence mixed with robust online search and product fulfillment options, and convenience across all channels ✓ Curated multi-media storytelling, purchase planning and payments options ✓ Digital tie-in of best-in-class product search, further connecting customers to unique product discovery 	<ul style="list-style-type: none"> ✓ Category experts to provide value added guidance ✓ Home installation services for big ticket furniture for enhanced convenience ✓ Expert decoration and room curation advice, specifically within the larger-ticket subcategories
High-End	<ul style="list-style-type: none"> ✓ Differentiated design and/or material product POV ✓ Commitment to subcategory niche (e.g. primary focus on kitchen, large furniture, etc.) within high-end home goods ✓ Once selected, opportunity to venture into category adjacent offerings to build out lifestyle context and elevate community / home feel 	<ul style="list-style-type: none"> ✓ Offers convenient purchase, payment and pick-up opportunities across channels ✓ Best-in-class online search function with products cross-merchandised by messaging, end-use, and category ✓ Multi-media advertising and service offerings to enhance brand relevance and value (eg designer interviews, product craftsmanship storytelling, AR room planning) 	<ul style="list-style-type: none"> ✓ “Communities of sell” to capture customer experience, i.e. rooftop bars, restaurants and cafes ✓ Include 1-on-1 consultations with designers and design experts on product selection and customer room curation ✓ Designate and segmented example showrooms with on-hand design experts for customers draw inspiration



While developing robust strategies in these critical areas, retailers also need to be thinking about how things like the role of the store, supply chain optimization, and the leverage of data and analytics can support and deliver against the value proposition.

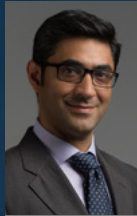
A&M's Recommendation

Beyond home goods, other industries can also benefit from the above lessons. Across industries, first decide where and how you will compete and then look at combining differentiated products and services with competent cross-channel offerings to deliver against your value proposition. We recommend relentlessly challenging the team to assess “Are those the right strategies, in assortment for example, to deliver against that value proposition? How do we measure what we are executing against that strategy? How do we adapt and change with the customer?” At A&M, we can help you build out differentiated strategies to win in the marketplace, avoid the “messy middle,” and be on the right side of the next disruption.

	Pre-COVID	COVID (2020-Spring 2021)	Post-COVID
Winners	Mass <ul style="list-style-type: none"> • Big Lots • Wayfair High-end <ul style="list-style-type: none"> • Williams-Sonoma • Crate & Barrel • Restoration Hardware 	Mass <ul style="list-style-type: none"> • Wayfair High-end <ul style="list-style-type: none"> • Williams-Sonoma • Crate & Barrel • Restoration Hardware 	Mass <ul style="list-style-type: none"> • <i>Big Lots</i> • <i>Wayfair</i> High-end <ul style="list-style-type: none"> • <i>Williams-Sonoma</i> • <i>Crate & Barrel</i> • <i>Restoration Hardware</i>
Fast Followers		Mass <ul style="list-style-type: none"> • Bed Bath & Beyond • Big Lots 	
Laggards	Mass <ul style="list-style-type: none"> • Bed Bath & Beyond Messy Middle <ul style="list-style-type: none"> • Tuesday Morning • Sur La Table • Pier 1 	Messy Middle <ul style="list-style-type: none"> • Tuesday Morning • Sur La Table • Pier 1 	Messy Middle <ul style="list-style-type: none"> • <i>Tuesday Morning</i> • <i>Sur La Table</i> • <i>Pier 1</i>

If following the above framework, current companies “caught in the middle” can mimic the strategies of fast followers and winners from COVID-19, to align better with the current market.

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