Channel Mastery Podcast, Episode #104: Kristin Carpenter Interviews

Wes Allen, Specialty Retailer and Outdoor Industry Icon

www.channelmastery.com

Kristin: Welcome everyone to another episode of the Channel Mastery Podcast. So, so excited today to reintroduce VIP friend of the Channel Mastery Podcast, Wes Allen, who is the founder of Argot Agency, principal of Sunlight Sports and industry speaker and adventure retail expert. I love that because boy retail is quite an adventure. Welcome to the show Wes.

Wes: Well hi, Kristin. Thanks for having me. It's really great to be back!

Kristin: It is. I've been looking forward to this. We've been intending to do this for some time and obviously we both are just sprinting in lots of directions. Before we drop into our topic today, which is the evolving equation of retail math and the air war and ground war that supports successful retail math today, which I think is going to be an incredibly powerful episode, I would love it if you would give us an update because you have a new, basically, tagline, I think. What I just read there. Tell us about your company, Argot Agency.

Wes: So, Argot is a very exciting thing that we've been working on over the last about a year. Argot is an agency that is focused on helping brands maximize the benefits they get from working with really quality specialty outdoor stores and specialty retailers. What we do is partner with premium brands and their best retailers to develop programs that maximize benefits of both partners. We go in, produce content and do a bunch of other things but what we do in the end is help brands build demand and help them utilize the great things that happen when you partner with the top specialty accounts to maximize everyone's business. That's a little nebulous, but it's really flexible and dependent on the brand, their goals, and what their retailers do.

Kristin: Well I have to say it's not nebulous at all, to be honest, because number one it's focused on brick and mortar. And it's focused on aligning all the arrows, all of the brand assets, brand equity to create adhesion, that's your word and I love that, between the consumer who's online researching and the store that they ultimately want to go to because 90% of retail purchases, so purchases, I guess, are made in brick and mortar retail. Thank the good Lord Baby Jesus, right, that that's still true.

Wes: Yep and you know, I think even as retail and everything else evolves, we really focus on the connective tissue in the omnichannel experience. There are always going to be and will continue to be a growth in the online component of what goes on, whether it's content delivery or whatever else, but a true quality brand that really blows up and has an omni-channel experience utilizes a great brick and mortar experience, good content and finding a way to express their brand voice in such a way that it matters to the consumers they want to attract. And that's what we help people do. We actually act as an extension of their marketing structure to help them tie that omni channel piece all together where it fits perfectly.

Kristin: Could there be a more perfect company to be aligned with Channel Mastery? I think not.

Wes: I don't think so either. We love what you do, obviously. I came into the Argot offices to record this and one of my co-workers was listening to the Channel Mastery podcast with Mark Satkiewicz.

Kristin: Oh awesome. That was a great show and he totally gets it because we did a version of this around his event and I'll put links to that episode. But there's so much to explore around this, which we're going to get into today. We're going to fold in Argot in several places because it is actually important to the air war and ground war that we're going to be discussing here. And this is super important as you head into holiday 2019 and as you're planning for 2020. So it's perfecting timing having you here today.

Kristin: I'm going to just preface this question, please don't check out when I ask this because it sounds so boring and so 1985. We are literally using this as a foundational jumping off point to get into the stratosphere around what is going to work to engage today's connected consumer. What you're going to hear on this show today is literally going to teach you how to win the attention of a consumer who is completely overwhelmed with information and noise online, and drive them into a brand experience that you're co presenting with your trusted retail partners.

Kristin: So I'm going to ask the question now with that preface. So Wes, why is retail math more important than ever today?

Wes: Yes, well I would tell you that retail math is more important than ever today because the competitive environment is sharper and faster than it has ever been and competitive pressures come from a lot of different directions.

The importance of retail math is this – it enables you to be as profitable as you can, however you're approaching it and enables you to withstand some of those competitive pressures and gives you the space to adapt to them and then to fit into the new environment you find yourself in. We find ourselves in new environments daily in the outdoor space, no matter how you're trying to retail your product, the specialty retailer, online or the combination of both.

Kristin: So I'm going to bring in a little bit of ... This is from episode 99 when I had Richard Kestenbaum, another VIP Channel Mastery friend. And I'll put this link in there as well. But we talked about broader retail, Richard and I in that program. So please don't think that I'm talking about our specialty retail ecosystem when I bring up a couple points here.

Kristin: But basically Richard talked about that store owners would look at similar metrics, like store profitability and sales per square foot and growth and sales per square foot. And the math is important. We have to keep the lights on, we have to make responsible buys and be disciplined, we have to know how to move through the season in a profitable way. But what we're here to talk about today is how to nail that but then the plus, right? And also, engage, be remarkable too and enable a call to action that actually gets your end consumer to do something. And ultimately today that's all about experience. And they wanted to raise their hand and join up with your store and the brands that are in there.

Kristin: So I know we need to start with the basics. So let's, in our rehearsal call you talked about **GMROI**, gross margin return on investment. So let's start there and talk about any updates you have to that equation because I know you gave a presentation on this recently. And then you and I can, I think, pull that out or tease that out a little bit so that it's super, super relevant to the specialty brands and the specialty retails who tune into Channel Mastery.

Wes: Yeah, I will tell you that I did just get done doing a presentation for a brand, helping them understand how the very 1985 type of term – GMROI – is still the critical ingredient in how that moves into almost 2020 now.

So, just to back up, GMROI is an acronym for gross margin return on investment and basically what it means is this – think about the stuff you're going to sell in your store as being an investment. You've got this stuff. On average, let's say you've got a million dollars in this investment. That means it's going to cost a million dollars to put it in your retail space or online, or whatever it might be. Gross margin return on investment is simply a measurement of how many dollars are you going to get over a twelve month period if you have a million dollars you maintain in an investment in stuff to sell.

This has been a critical metric. I would put it as the critical metric in traditional retail for a long time. There are a bunch of different ways to use this, not everybody uses it and with all measurements that happen in retail, you have to know all the context – what time frame are we talking about?

Kristin: What type of product, et cetera?

Wes: What type of product are we talking about, what time frame? Are we measuring just new product? Measuring old product? There's a lot of other things you have to dial down so everyone is really speaking about the same number.

In general, let's just talk about some of the categories that you and I have come into and really engaged with historically. You know, sporting goods in general, the traditional thing is that you had to have a 2.8 GMROI in order to survive. Basically that would mean, your business is a million dollars worth of stuff, you have to sell enough of it that it gave you a 2.8 million dollars gross margin. That's a very old school way to think about it, but sometimes they say the old school is the best school. And that's still a really important way to think about it. However, we don't just put stuff out to stores and into the ether and hope that they sell to people anymore. We've got to do a lot more work, we've got to provide a great experience for people, we have to have a really compelling environment that isn't just rows and rows of stuff stacked up. So now we really need to start thinking of a new way about how does the return on investment, how does the profit we get out of our business flow from the investment we're making? That's what we're here to talk about today.

Kristin: Right. So let's talk about that. Because I think you're right. Especially with a lot of that. We have an interesting mix. We have direct-first brands, legacy brands. We have legacy retailers and we have retailers from other markets that may want to do pop up shops or tap into our specialty zone specifically. So again, that goes back to all the competition out there for the attention of our target consumer. Let's talk about when you actually take this and you make the buy, and you have to do this in a way that kind of keeps the assortment, I think, exciting, compelling, refreshed enough so that when they do actually decide to come into your store, that's a win right there. Think about all the things that have to happen before that happens. Talk about how you have to really nail this and get it right in order to have the bandwidth, I think, leftover and possibly extra investment from doing this well, to actually nurture and convert this consumer who actually walks into your store, thank goodness, right?

Wes: At a base level, we have for all of our businesses, we have so much we can spend on our businesses and we have how much money we need to make in order to still be here next year. The old school way, like I'm going to look at all my math and buy a bunch of stuff and if it all sells, I'll still be here next year. Now what we're thinking about is this engagement part because we still need to buy and sell things, we still need to provide product dev. We have to also, we cannot invest, actually quite as much in product as we used to because there's all the other things that really drive engagement – whether it's events, online content, whether it's investing and doubling down the investment in the people that are working with us. What that means is that you're going to be pulling money that you would've traditionally invested in product and hoped that it sold and maybe it sold once or twice and generated some margins, some profit you could see. We have to take money out of that investment and put it somewhere else where we're going to engaging customers.

What that means really is we've got less inventory, we've got less things to sell so those things have to sell better and have to be chosen better. They have to be so curated and efficiently costed and everything else. Your engine got smaller so it has to go faster to get you to the same place.

Kristin: I love it. Totally. And I think one of the first conversations we had, probably two years ago, and this was not on record, we were just chatting about something. But I'm going to go ahead and throw it out there now. When a retailer just crushes it in this regard, they can actually have things on their own terms because they become, almost a platform in and of themselves that the brands need to be on. Period, the end.

Wes: That's exactly right! When you start thinking about the businesses that gets done, there's a bigger piece where maybe there isn't separation and animosity between a manufacturer of a product and someone who is representing it in a physical space, but both parties think about it as a partnership. You think – okay, we've got X amount of product, how are we going to maximize the income that comes off of that product? What are we going to do? How are we going to invest in it? Well, as a retailer, you would know that you need to buy stuff that will engage people but will also sell fairly quickly. This gets into thinking a little bit differently because in the past, for these retailers, they would say, oh boy, there are always these things that I knew would sell quickly and those are the only things I'm going to buy in my store, but having that aged product and the same stuff you had in the store two years ago is not a good way to make money.

For brands and manufacturers when we sit on that side, often times, we're trying to move our brand into a good spot, we're trying to engage a new consumer, we're trying to bring something fresh to the market and so we put a lot of money into PV. We spend all this time with samples, everything else, marketing bandwidth, we provide this new experience and this really cool innovative piece and we want it to be put in stores, but because the stores have to be very efficient, they're less likely to pull it up and so, the store makes less money and the brand may have just wasted some money. So we need to think about - how do we make that new product become an efficient part of a retailer's inventory that they're going to make a lot of money on, and still return our investment on the product design we did, the marketing that we did and the shows we went to push this product.

And so we have to think about the GMROI that we get out of that product in a whole new way, which means that our investment in some ways needs to go to a really smart spend where we're engaging people through events, through brand bunkouts, whatever it might be. At the end of the day though, if we want to have good partners and we want to stay in business no matter which section we're in, we have to have this engine that spins off of cash. And the amount of cash that spins off that engine is measured in something called GMROI. We can talk about how people can move some of that around in a new environment to really maximize the profit off of the things we can buy and sell.

Kristin: I would love to talk about that. But first I have to ask, I had something pop into my head. Larger format retailers who kind of wield the heavy hammer with us, and I don't have to mention names, might recover some of this in slap fees, their version of slot fees, right? Right.

Wes: Yep, they definitely can. The end cap tax or whatever you want to call it, where brands are actually paying money to be represented. What we're talking about with slot fees is – you're pay for play. You're showing up on a piece, you're showing up on a certain rack, you're showing up at a certain time or place in a store. Larger retailers sometimes will recover lost opportunities, lost profitability that way.

Kristin: Right. And that's not, obviously, what we're here to talk about today but I just wanted to point it out because I've been doing a lot of strategic planning meetings with Verde's clients and that is something that comes up as a cost of doing business that seems to be going up year over year. Which is interesting because if we're looking to our larger retailers as we always have, I'm just going to say it, the REI's and MEC's of our world, right? They are doing this because they're basically deploying a larger version of what Wes and I are talking about here today, the retail success equation, which again is air war and ground war.

So let's talk about a few ways, I'm going to go ahead and tee one up for you here. So let's say we're trying to promote a directional product. Obviously marketing, that's me and now you. Obviously you've always been a brand guy but you have a channel marketing agency, it's not the right way to call it, but we see that it's really important to have that directional product that sometimes buyers, or even reps in sales meetings, would be like, "Hell no. No one's going to buy that." You know? I know what sells and there's a little bit of a bottle neck there.

But I think what you're saying is if we're able to create a brand retail cohesive partnership and we have something like a directional brand that we could feature, it creates lift for the brand itself and all the other products the brand sells within that store. So can you talk a little bit about some of your first hand experience with that in the past couple of seasons at Sunlight but also now with Argot?

Wes: Sure, Yeah. I've seen it both at Sunlight and with some of the partners we've worked with at Argot. We can promote a directional product and we can build a program, we can build an in-store presence and content and to utilize all of these tools, to promote that product and maybe see some success with that product, enough to keep it going, but then we see growth otherwise. As a matter of fact, right before we came in here, I was looking at the feedback from one of our retailers that we partnered with. It was a retailer that one of our brands shared and we have them fill out a survey. We ask them specifically about the performance of a particular product and then we ask about performance and brand overall, and what their takeaways were. The takeaway from this report particularly was clear. That is, the item we were pushing, the thing we built, the directional product that we built the campaign around did pretty well. It sold like you would expect a product in that category, in that store to sell. The brand doubled its sales in that particular retailer during the time we had the campaign going. All of the other stuff, all the other things the brand had been known for, had old much better than they had experienced before. And that's the thing that you hope directional product will do. You'll sell some to people that would've discovered it either way, but it also helps elevate the whole brand. I think this ties back to the slot fees in that, in a way, slot fees – investing in property marketing campaigns, investing in specifically driving new customers to these directional products through great partners – it's an investment. You can spend money on slot fees, but no matter how you do this, you're reducing the risk for one of your partners. Slot fees just makes the stuff cost less, right? Investment in a more holistic brand experience reduces the chance that stuff is not going to sell. It's how you want to invest it, so a retailer can ask for a pay to play, or a brand can also offer an innovative way to attract people to that product and grow brand adhesion. Either way, you're having to put money in to reduce the risk because the retailer can't risk their GMROI engine slowing down.

K. Carpenter: Right and the brands need that outpost and they need it to do an exceptional job as a brand partner with the local dialect in that community.

Wes: Yeah, absolutely. One of the other things we talked about, just to kind of give this a little more form, we had a conversation about how efficient it is to have used and recycled gear.

K. Carpenter: Yep, let's go there. That was right in my next question so perfect.

Wes: So, used and recycled gear is awesome from a sustainability standpoint. It fits in with a lot of consumer ethic that's going on right now and it seems through what we see through studies, to really appeal to a demographic that people find desirable and really want to interact with their business. There's a very conscious consumer that's coming that's going to be valuable for everybody to have.

Well, at the end of the day, talking with brands that do this and other retailers that do it – bringing in second hand gear – in and of itself if you just look at the GMROI on that particular product, it's not very high. First and foremost, there's a lot of associated costs with getting that type of stuff, you're at a reduced price point already, and you're not going to be able to sell it for as much as you would new. That's one of the things that attracts people. However, when you make that investment in maybe living your brand promise or adding to your brand promise by showing you're invested in sustainability and feasibility, you get some return on that investment, but what it does, is also makes your GMROI engine on the other stuff you own, spin faster. It's not just about – how much money are we going to make off of selling used stuff, it's about how effectively are we going to engage consumers in our overall brand? The great thing about the things like the used gear and the sustainability thing is that it's a joint win. You are doing something good for the environment, you're doing something good from a sustainability perspective, but you're also increasing the worth of the rest of your business. And that's a new way to think about GMROI, right? It's not just about the stuff you sell, it's about how much you're spending over here, to make that smaller pie you and I have – sell even faster.

Kristin: Right. Right and I think accentuate your brand, as you were saying with this second hand stuff. It makes the new inventory more profitable because it brings in traffic that appeals to a very specific consumer, and again we always have to keep our target consumer in our cross hairs going deeper with brands that share that same target consumer, that makes sense for your region, your community, for your store and the brand experience they expect when they come there. You're essentially giving them more value by saying we have this over here, it can be multiple brands, right? You can carry lots of brands if you're carrying used product but at the same time you're accentuating sustainability, approachability with that assortment and it brings in the type of consumer who is interested in the other house of brands that you have.

Wes: Yep, and then it's a cyclical process because let's say that you're somebody who is invested in this used gear and sustainability thing. So let's bring those folks in, but then we have the opportunity and ability to go in and say, "I'm working really hard to bring this demographic in. What other experiences do they want here? Should I take a little bit more money out of my inventory, should I not buy the fourth place style of bike shoe, and I'm going to take that money and I'm going to develop a little bit more content so when the people are invested in that sustainability piece, what else am I going to do to engage them? What are the things I believe in?

Kristin: Oh I was just going to go here so perfect. Perfect timing. Go. No, I was going to say you should go. Keep going on your riff because that's the next thing I was going to ask you. I mean, we are in the business of playing up humanization of brands. Especially as we're competing more and more with the algorithm training that is happening every day to our target consumer. I mean they have to buy their commodity items, they're getting used to getting two hour pickup if they're in cities, et cetera. But what we have is a relationship. We have a human, ideally, manning the helm, womaning the helm, in specialty. And this is also something that cannot be legacy thinking anymore.

Kristin: We used to tie this to GMROI. This was part of a cost of doing business. And think about yourself in a year. Think about the experiences you want to go, think about the brands you want to go deeper with and then think of your front line people. Do you want to have somebody who is looking at their watch because they're making minimum wage and can't wait to get out on the river or whatever it is? Well that's going to happen no matter how much you pay them in our world, of course. But what I'm saying is pay them so that they feel like they're worth being the brand conduit. They are literally a connector. As you say the connective tissue, we talk about that too. And it's the connective tissue between the brand, the retailer and the consumer. It's the triangulation piece right there.

Wes: Yeah, all of those people that form that connective tissue, all of the people that are consumer-facing in our brands, the old school methodology at looking at this would be looking payroll percentages. What percentages of my sales are in my payroll and asking if the payroll percentage is too high? The question we should ask ourselves is – looking at that – and seeing if the payroll percentage is too low to be profitable. Am I spending enough money to actually get the experience that makes the rest of my business work? Doubling down on the investment in your employees and maybe it’s wages, it’s probably training opportunities, it’s all of the other things that you pour into your employees, the questions we should probably be asking in the new economy when we’re talking about these types of brands is – Is our payroll percentage high enough?

Kristin: Yep. Because people, the continuity of that person, they are literally going to be creating that emotional connection by sharing that stoke. Period, the end.

Wes: I will tell you, anytime you walk into a new retailer, anytime you engage with a new brand…let’s just say that it’s like a brand that sponsored a festival and you walk up to their pavilion. The first thing you see is the sign and the second thing you see that matters are the people that are there.

Kristin: Mm-hmm.

Wes: I think you need to think about that spend that you have on those as part of your investment that makes your GMROI turn faster. It's not separate, it's all tied together. When I say to people who make those first contacts, I'm not just talking about the people working in your neighborhood bike shop or outdoor store, it's people that answer your phones if you're a brand, it's people that monitor your social media context. If you're a store or a brand, or whatever it is, having those people be good is a cost of doing business that you should probably spend more on and at the end of the day, there's a direct line into the retail math, into making sure your inventory is turning as fast as you need it to turn in order to stay in business. Those people have all the things that turn the engine.

Kristin: Absolutely. Especially in our world. So I think that's fantastic. Ultimately, what I think we're talking about here together, again, every show we've done, is focusing on the consumer experience. Not focusing on how you've historically made money. We see that within the brands, we see it in retail. We all love to go back to what we're comfortable with or an equation that works during a very trying time in terms of not having a blueprint or a blueprint that's always changing. But ultimately, as we say, the north star is the end consumer and as you're looking at brands that match up with your target consumer and how you can engage them in the before, during and after, that's going to give you, I think, so much new IP on your business, number one. As you say, the new economy, that's what it's all about. It's the journey and what does the brand play in that journey and then where does the retail star in that journey?

Wes: Yeah, I think so. I think the thing to remember from strictly a business perspective, as you talk about how that journey works is this – at the end of the day, all of these businesses that we're working with, we're working with these enthusiast products that are supposed to be fun and they stock our stores, but they do have a downside and it's a downside they have to overcome. And that is that as an industry, pretty much all consumer industries, make a rapidly depreciating product. We can't do business in such a way that we can let things sit around and hope it takes off because the cycle is now. No matter where you're involved in this ecosystem, you're making things that you spend two years developing, retailers order 9 months in advance, if you're a brand you're paying factories, you're going people to go back and forth and look at the factories, retailers are paying to go to shows and look at samples, you're investing a ton of stuff and when they deliver, you've got about 60 days for them to be really profitable before mark downs, promotions, and black Friday completely devalue the worth of your investment.

That’s one of the reasons that being on top of the math is really important and it’s also one of the reasons that understanding that it’s a rapidly depreciating thing that you have to build a lot of support through your employees, through your marketing, through your partnerships with the other half of the equation. You’ve got to overcome that rapid depreciation to just get that stuff to turn and again, it’s not about the turn, it’s about the gross margin you can produce in a very short window of time. Where are you going to invest to make that wheel spin faster?

Kristin: And we like to talk about growth hacking, as you know. Look at your business because here we are, we have a reflective moment where toward the end of September 2019, obviously people are on top of their budgets. I've never seen them on top of budgets like I have this year because we have no November show and the June show was early so that's been amazing. So take the opportunity to look at, what are some of the multi-channel approaches you've taken as a brand and a retailer, so both sides, that have really worked in terms of creating turn it retail or growing your house email list or whatever it is, those spikes, that's what you need to try and hack and engineer into your future. So whether it's looking at holiday or whether it's looking at Q1 of 2020, what are some things that have worked that you want to carry over? Ask your brands for help on that and vice versa. Brands, ask your retailers to partner on some initiatives.

What can you do to point the arrows in the same direction together? Because that is actually one thing that hasn't changed, Wes. When we worked with Athleta, probably seven or eight years ago, they had multiple product drops a year, we would literally, Verde would create the awareness at the time, it was product placement and media relations we were hired for with that client. We would create the lift and get a great placement in a magazine on a specific capri. They would merchandise their storefront, their catalog, every channel they had so that when that magazine dropped, everything was pointed in that direction and they'd send out a promotion on it, it would sell out.

There's really no difference, it's just a matter of looking at the channels, looking at your partners, looking back and seeing what worked and then deciding, what do I want to be known for? What can I plug in from those brands that's going to really accentuate who I am and the brands that fit with that? It's like an orchestration of perfection when you really look at it that way.

Wes: It totally is and I know we've talked about this before, and that's why building trust with partners that allow you do this, is so important. When Athleta was able to do that, it was like this omnichannel thing that was all connected. We work with partners that are in other businesses, we have to decide who those key partners are going to be, who we're going to trust and then both halves of the equation have to work together to maximize the return and reduce the risk involved in directional product, or a commoditized product we all see.

Kristin: So let's challenge everybody, try and find a couple of things you can try between now and the end of the year that are your version of this. Brand, retailer and multiple channels driving towards an initiative.

Wes: Yeah, for retailers, the challenge is simply this – what brands are you willing to help build up for the long term health of the brand and long term health of your store?

For the brands, it's the same way. What are you going to do? How are you going to invest in the very specific way to increase the productivity of the merchandise you're sending out into the world? And when you start that conversation with people that give each other business in that type of way, you can find some real success. And I know we can, because we've seen it already and I've got real life examples of all that happening.

Kristin: Yep. And then I have to say too, this is the version, even brands that have their own storefronts, their own retail monackers, this is important when you're working with a brand that is multiple brands. I'm sorry, a retailer that sells multiple brands. So you have to really think about a diverse strategy. Boy, this has been so thought provoking. I literally feel like since we talked on record here, I've come up with like five more shows we could do together. My brain is just going like crazy. So as always, you have been an incredible, incredible guest and taught so much here. Let our people know where they can learn more about you right now and Argot. I know I want to say LinkedIn because Wes is very, very good with LinkedIn, you'll learn a lot there. But tell us about where we can learn about you…

Wes: Obviously, my Linkedin profile is a good place to start. You can learn more about Argot at argotagency.com and then if you want to get a feel for the retailer I work with, that's sunlightports.com or you can stop and see me in Cody, WY on your way to Yellowstone!

Kristin: There you go. And he's so humble, 2018 Retailer of the Year, Grassroots Outdoor Alliance.

Wes: Yeah, that was awesome. I am very proud of our retail environment and Argot is just really fun. Great partnerships there. I'm looking forward to hearing from everybody!

Kristin: And I just also want to say, can you give a shout out to the two people you work with there because they're wonderful?

Wes: Yes, my two partners – our Brand Director, Matt DeWitte, and our Creative Director, Megan Baumeister. They are highly talented people and I'm very fortunate to work with them.

Kristin: I just think the world of them and you so thank you so much for joining us here today and I'm sure we will have you back again soon. But a very sincere thank you, Wes.

Wes: Thank you so much, Kristin. It's always awesome to get to be on Channel Mastery and have a conversation with you.

Kristin: It's fun, for sure and we'll do it again soon. Thanks.