GNS Consulting Company Focus Proposal: Payless ShoeSource

Situational Analysis:

Company Background Information

Payless ShoeSource was founded in 1956 in Topeka, Kansas by two cousins, Louis and Shaoi Pozes. The founders opened a self-service budget footwear store under the name Pay-Less National. The shoe retailer had various names throughout the years, such as Pay-Less Self Service, National Self Service, Gambles Discount Shoes, Shopper's City, Volume Distributors, Volume Shoe Corporation and, lastly, Payless ShoeSource. According to research, "The Payless ShoeSource name was adopted in 1978 for the bulk of Volume Shoe retail outlets and the company logo was changed to the now familiar yellow, orange and brown" (Funding Universe). In 1979, Volume Shoe was acquired by the number one retailer in the U.S., May Department Stores Company, with annual sales of \$3 billion (Funding Universe). Through this acquisition, Volume Shoe was able to expand and open several new stores in throughout the Sunbelt states; by 1981 there were 1,089 Payless outlets in 34 states. Because of the company's rapid growth, they were able to open 200 new stores and introduce Payless Kids stores. As a result, sales rose from \$700 million to \$1.5 billion (Funding Universe).

Although the numbers were looking great for the company, "return on sales failed to keep pace with the company's earlier performance or with May's core department store holdings. Payless, whose contribution to May's overall sales shrank from 20 to 14 percent from 1993 to 1996, was no longer considered a key part of May's long-term strategy for growth, and in 1996 May spun off Payless ShoeSource to shareholders" (Funding Universe). The company realized that it needed to make some changes to improve their performance. Those changes included closing or relocating struggling stores that were not bringing in enough revenue. In 1997, Payless acquired a struggling shoe-based company; Parade of Shoes from J. Baker, Inc. Parade of Shoes was located in 14 states with 186 shoe stores (Funding Universe).

Since the United States was saturated with Payless store locations in all 50 states, they decided to go into international markets, starting with Canada. By October 1997, the first store opened in the Toronto area. The international expansion was such a success that it continued to open more stores throughout the years, and by 2000 they expanded to a total of 236 international stores (Funding Universe).

The company ventured into the e-commerce trend and launched its website in 1999. In addition, Payless entered into a joint venture with ShopKo Stores Inc., a discount retailer based in Green Bay, Wisconsin. Payless began operating shoe departments inside ShopKo stores under the Payless ShoeSource name. "After the first such stores-within-a-store opened successfully in the later months of 1999, the entire 160-unit ShopKo chain was outfitted by the end of 2000" (Funding Universe). The independent, publicly traded company was experiencing tremendous growth and success. They certainly did not settle for less and wanted to keep expanding in order to stay ahead of their competition. After focusing on the Canada market, Payless decided it was time to test out new ones in Central America, such as Costa Rica, Guatemala, El Salvador, the

Dominican Republic, Honduras, Nicaragua, Panama, Trinidad and Tobago. They successfully achieved to open 150 stores by the end of 2004. They also explored the South American and Asian markets.

At the time it seemed that Payless was ahead of its competitors, but retailers were watching Payless's every move to hopefully discover their key strategies to launch within their own stores. Eventually competitors such as Wal-Mart and Target put a halt on the Payless success of revenues and profits starting in the late 1990s. "Payless closed 104 underperforming stores (67 Parade units and 37 Payless ShoeSource outlets), cut 230 positions from the payroll, and took a \$43 million after-tax restructuring charge. The operations of Parade also were consolidated with those of the flagship chain" (Funding Universe). In the U.S. alone, Payless had an approximately 5,100 store locations and by 2004 they dropped to 4,700. In 2006, Payless ShoeSource revamped its company with a new logo and announced to the public the logo will reflect its new and modern Payless look. They wanted to take a turn for the best and that included repositioning the company to a more "hip and trendy" feel. Matt Rubel, CEO and president of Payless ShoeSource said, "This new logo is designed to amplify the new Payless brand position - to inspire fun fashion possibilities for the family. We know that great fashion and design don't have to cost a lot, and we are making the latest footwear and accessory trends available at a great price for all to enjoy" (just-style, 2006).

Currently, the Payless ShoeSource retailer is part of Collective Brands. "Collective Brands was formed in 2007, creating a unique "hybrid" business model. [They] have built a powerful portfolio of brands, reaching a broad range of consumer segments at multiple price points and through multiple selling channels including retail, wholesale, ecommerce and licensing" (Collective Brands). These brands include: Saucony, Sperry Top-Sider, Stride Rite, Keds and Airwalk. According to the company's annual report for last year (2010), their domestic marketplace did not do as well as expected due to the economy.

The company recognizes that it lacked "adequate on-trend styles that resonated with consumers" (Annual Report, 2010). Even though the company is launching mainstream designer footwear, such as the Fall 2011 collection for Christian Siriano or the Brash teenager footwear, they have a long way to successfully build an image to convince their target market they can provide trendy footwear and accessories. In order for Payless ShoeSource to implement and reach its mission of "democratizing fashion and design in footwear and accessories to the world and inspiring fun fashion possibilities for the family," they will have to attract consumers with more than mainstream designer partnerships (Collective Brands, 2011).

Current Marketing Plan and Target Market

Currently, Payless targets women between the ages of 18 and 44 with household incomes of less than \$75,000 (Funding Universe). In the summer of 2005, Matthew E. Rubel took over the Payless ShoeSource Company as the new president and CEO with a plan to reposition the company in the minds of their current target market. Rubel did not want the Payless consumers to only think of it as store full of cheap shoes. He wanted to incorporate high-end designs seen on runways but sold for under \$40. Rubel started by changing the company's logo and a few other "out-dated" elements within the store. This marketing strategy earned Payless

recognition as "Marketer of the Year by Footwear News" (Hooper, 2006). They are currently trying to reach out to the target market by implementing a designer collaboration program, such as Lela Rose, Christian Siriano, Isabel Toledo, Zoe&Zac, Silvia Tcherassi, and more.

SWOT

The SWOT analysis, strengths, weaknesses, opportunities and threats tool, allows a company to assess its needs, create goals and then create a plan to accomplish its needs and goals. A SWOT analysis should be done every few years since the variables that comprise a SWOT are constantly changing. The following is a SWOT analysis of Payless Shoe Source.

Payless Shoe Source has four major strengths with their most prominent being a presence of nearly 4,500 stores nationwide(Payless Shoe Source, 2011). Their overwhelming manifestation across the nation allows for market domination over other value-based competitors. A second major strength is Payless's use of designer collaborative products, such as Lela Rose, Christian Siriano and Isabel Toledo(Payless Shoe Source, 2011). These collaborations allow for products to be exclusive, bringing a new, fresh edge to the company. Collaborations are a very popular way to draw in consumers who would not otherwise shop at Payless. The third major strength is Payless's variety of products. The retailer sells products that range from causal, formal, kids and adult footwear. A broader variety of products mean a broader target market. When a company, such as Payless, has a large target market they get a competitive advantage of possibly earning greater profit. Payless's fourth and final major strength is their inexpensive footwear, with prices ranging from 19.99 to 69.99. These prices make Payless a value-priced footwear retailer, attracting many consumers who are watching their budget. All four strengths have helped Payless remain in the market as a value-priced retailer, but have harmed their brand image and been pulled down by their weaknesses.

Payless's weaknesses result from their unorganized stores, hard to find merchandise, a limited product assortment and a lack of motivation from their employees. When you walk into a Payless store it is divided by kids, men's and women's footwear, then on one wall are accessories. Then, they subdivide all the shoes by size, and therein lay the problem. While the aisles are organized by size, within that aisle is a clutter of casual and formal shoes, which contains a limited assortment of products. This unorganized, limited assortment of clutter only confuses and frustrates consumers. Along with the confusion of shoes, the most prominent weakness for Payless is their lack of employee motivation. Payless usually has only one or two employees per store, which have claimed, "This Company [Payless] works the piss out of you and doesn't appreciate employees, nor customers. They're only interested in your wallet and keeping the store staffed at bare minimum, which means employees are working hard to meet deadlines and usually working alone" (Glitterbug, 2011). Employees are a key instrument in how well a company performs, how it is perceived and how successful it is. Yet for each weakness there is an opportunity to be had.

Payless has over 4000 stores with a presence in the United States, South America, Canada and Central America(Lachapelle, 2011). With this much market saturation, Payless has the opportunity to dominate the value-priced shoe segment. Creating an exclusive line by collaborating with different designers gives Payless an edge over competitors, such as Target who use a similar tactic. The limited quantity and time these products are offered generates a sense of urgency for the consumer to purchase the product. Also, in an economy that is currently in a recession, value is the main goal when purchasing a product. When value is paired with a low pricing strategy it creates a bargain that would drive up sales and reinforce Payless's brand image. Payless has an opportunity, with their price points and range of products, to have a large target market in this downturn economy. If taken advantage of, these opportunities could aid Payless in improving their market share, brand image and positioning within the consumers' mind.

Payless's major competitors and threats are Wal-Mart, Target, Kmart, Sears, Kohl's and J.C. Penney(Funding Universe). These retailers sell inexpensive footwear, but also provide the convenience of a grocery store or additional household items. Not only do these brick and mortar stores provide a threat, but also online retailers. Zappos and Amazon have a vast assortment and easy returns, plus they provide the ease of at home shopping. The downfall of Payless's brand image has caused them to close 475 stores and report a loss, this past quarter, of \$35 million, including an \$83.6 million one-time charge, which mainly reflects the declining of value in Payless stores(Connelly, 2011). This has been a major hit to the company and its brand equity.

Industry Trends

There have been some major changes in how footwear retailers conduct their business. Recent trends include recycling shoes/ reusing the original materials for new end uses, partnering with designers who are eco-friendly or becoming eco-friendly themselves. Companies such as Nike and Converse recycle shoes by putting them to use in other ways. Many companies also donate shoes to those who do not have the luxury of purchasing them on their own. Souls 4 Souls is an example of a recycling shoe company that receives donations from manufacturers and the general public then distributes the shoes all across the world to people in need. Nike is another example of how a company can recycle a shoe with a program called ReUse a Shoe. Nike receives shoes from the general public and their factories, then breaks them down to their basic components, called a grind, then uses the grind to make athletic surfaces, such as playgrounds(Nike, 2008). Consumers are becoming increasingly aware of the consequences of their purchases, and not only want the best product at the best price, but also one that is environmentally friendly. For that reason, many companies have been pairing up with ecofriendly designers or becoming eco-friendly themselves. Veja Shoe Company is the epitome of an eco-friendly company. They are based on three main ideals: "using ecological inputs, using fair trade cotton and latex, respecting workers' dignity"(Veja). The company uses these principles create an eco-friendly product and a sustainable life/environment for their employees. Companies are realizing they must do more than sell a product to consumers. They must also sell a story or way of life.

The consumer behavior within the industry is reflected in the 2010 release of NDP Group's annual sales for fashion footwear. The footwear industry posted an increase of 7.2 percent(NPD Group, Inc, 2011). After posting a decline in 2009, 2010 proved to be a new year with the total dollar amount adding up to \$34,610,991 (total fashion footwear)(NPD Group, Inc, 2011). Women's was the largest dollar volume of sales with \$20,690,562 in 2010. Categories that mainly contributed to this growth were performance, work and outdoor footwear.(NPD Group, Inc, 2011). This growth in footwear from the consumers is an opportunity for Payless to take advantage of.

Competitor Analysis

Since the opening of Payless, in 1956, the discount shoe store has acquired many competitors, specifically Brown Shoe, DSW, Target and J.C. Penney. A look into these competitor companies will allow the Payless Collective Brand to better understand how to compete in today's ever-changing market.

Brown Shoe Company has been in the footwear business now for 130 years. Their mission statement claims, "To inspire people to feel good and live better... feet first" (Brown Shoe Company). They are headquartered in Saint Louis, Missouri, New York, New York and Alisio Vieio, California. Brown Shoe manufactures a variety of footwear brands distributed to high-grade department stores all the way down to successful mass merchants and is selling on the stock exchange at \$6.39. Within the Brown Shoe Company are a variety of stores: Famous Footwear, Shoes.com and Brown Shoe International. Their portfolio contains popular, well-known brands, such as Famous Footwear, Naturalizer, Lifestride, Dr. Scholl's and many more. Through Brown Shoe's multi-channel approach, they are able to make a large number of consumer connections (Brownshoe Company, 2011).

Another footwear competitor, DSW, Inc. began in 1991 in Dublin, Ohio. They are a leading footwear brand and accessories retailer that offers a wide selection of brand name designer footwear and accessories for men, women and children. As of this year, DSW operated 319 stores in 39 states and 352 leased departments for four other retailers. They also sell their products on an e-commerce site and through a mobile retail site. The company's core focus, "is to create a distinctive shopping experience that satisfies both the rational and emotional shopping needs of our DSW customers by offering them a vast, exciting assortment of in-season styles combined with the convenience and value they desire" (DSW Inc, 2011). DSW claims to average around 24, 000 pair of shoes per store and contributes their vast product assortment to their success and differentiation from the competitors. DSW has a present stock exchange rate at \$44.77. They strive to appeal to the consumers from a broad range of socioeconomic and demographic backgrounds (DSW Inc, 2011).

Although not a footwear specialty store, Target Corp. is a major competitor to the Payless brand. Opening its first store in 1962 in Roseville, Minnesota, Target began with roots that trace back to the early 1900's. Target claims their success began when they changed their department stores, the business model they started out with, to be "discount-store savvy" (Target Corp, 2011). Target sells a variety of products from their different key businesses: Target.com, Target Commercial Interiors and Target India. Their mission is to, "make Target the preferred shopping destination for our guests by delivering outstanding value, continuous innovation and an exceptional guest experience by consistently fulfilling our Expect More. Pay Less.[®] brand promise" (Target.com, 2011). They are selling on the stock exchange at \$49.09 and contribute their innovation as a company to their value, community, diversity and the environment (Target.com, 2011).

The final major competitor to the Payless brand is J.C. Penney Inc. J.C. Penney is another non-specialty footwear store, but still holds a major influence, as a discount department store, for the Payless Collective Brand's target market. As one of the top retailers in America, J.C. Penney has over 1,100 stores throughout the United States and Puerto Rico, and an online retail presence. The J.C. Penney Company offers a wide array of products from private, exclusive and

national known brands. These products and brands reflect the company's vision to be, "America's shopping destination for discovering great styles at compelling prices" (JC Penney, 2011). Traded as "JCP" on the stock exchange, the \$17.8 billion company is implementing a new sustainability plan to differentiate them from competitors. (JC Penney, 2011)

Problems with Payless

Payless has three main issues to be addressed before it can move forward. First, Payless's store layout/visual merchandising strategy second is their product assortment/development and, lastly, is Payless's brand building. Payless has used the same strategy for years to build its brand, sale, sale and sale. Payless has established itself as a retailer that carries a wide variety of products, which are inexpensive. On top of their inexpensive strategy, Payless always has a BOGO sale going on. This ongoing sale does not help create any sort of urgency for consumers to buy their product. When an item or, in the Payless's case, an entire store is constantly on sale the image of that store starts to decline. An example of this is Wal-Mart versus Target. Wal-Mart advertises low prices every day, while Target's slogan is 'life is a moving target'. Both stores sell items that are competitively priced; yet Target has a better position in most consumers' mind. At an early start, Target established a brand image that promoted quality at affordable prices. This helped to bolster their image when it came to the competition. Payless has the same image problem as Wal-Mart; its brand image does not translate as affordable, quality to their consumers.

Proposed Solutions

"Payless ShoeSource is dedicated to democratizing fashion and design in footwear and accessories to the world and inspiring fun fashion possibilities for the family" (Payless Shoesource, 2011) The Payless mission to offer ever-changing style at low prices for a well-rounded, family consumer is a feasible one for their target market. However, an article written by Women's Wear Daily in August states, "The company...will shutter about 475 underperforming Payless ShoeSource and Stride Rite stores over the next three years, with at least 300 of those closings completed by the end of fiscal 2011" (WWD, 2011). The need to streamline Payless brand stores make it clear that consumers are wanting more.

For Payless to change their brand image they must use a new marketing/advertising strategy, create a better visual layout of their product assortment and lessen the occurrence of their BOGO sales. If Payless wants to stay with their family-oriented mission, they must effectively advertise and market all segments within their target market. They need to target men, women, boys and girls equally and specifically so consumers feel as if Payless is for everyone. Their store layout issues, which create a cluttered feeling that can overwhelm consumers, are another improvement to be made. In order for Payless to correct its brand image, their store must completely restructure the layout. Payless needs to showcase their shoes by gender, casual and formal footwear. And, since only one pair of each style will be shown on the selling floor it will clear up space for the stores to carry a better product assortment.

With domestic and designer labels, the large Payless brand portfolio can be offered to an array of consumers; however, it's important that they expand their reach through new, everchanging lines of footwear and accessories based on the original mission, democratization. Opening the communication lines between Payless and their family consumers will allow for a

renewed interest, from the public, in the Payless brand. The new Payless strategy will have a constant assortment of basic women, men and children's footwear and accessories in domestic brands, and then to differentiate/ diversify the Payless name by offering a new line of designer footwear and accessories for the entire family each season, such as Brian Atwood for Payless. A change in the Payless brand portfolio each season with exciting and fun, affordable styles for everyone in the family will keep the consumer on their toes (pun intended) as to not miss out on each great new line. The excitement of a consistent change in designer collaborations will also help Payless build back their consumer base and differentiate themselves from the competitors. The idea is to rebuild the Payless name of, "democratizing fashion and design in footwear and accessories to the world and inspiring fun fashion possibilities for the family" (Payless ShoeSource, 2011).

There will also be more equity put into the Payless employee along with a new training program put into place. The employee motivation will create an environment that caters to customers' needs and will provide an enjoyable experience for all.

Lastly, Payless must lessen the occurrence of their BOGO sales. If a store constantly has a sale (i.e. Wal-Mart's always low prices) the brand image will decline in the consumer's mind. The everyday low price strategy does not translate the same for every retailer; Payless must consider their product as well. By having a sale once a month instead of once a week they can boost their brand image. The additional costs of adding product assortment, layout corrections and employee training to the company's business model is an investment for the Payless ShoeSource brand to incur and take seriously before the profits and other benefits will take place.

Executive Summary

Payless ShoeSource was founded in 1956 in Topeka, Kansas by two cousins, Louis and Shaoi Pozes. The founders opened a self-service budget footwear store under the name Pay-Less National. The shoe retailer had various names throughout the years, such as Pay-Less Self Service, National Self Service, Gambles Discount Shoes, Shopper's City, Volume Distributors, Volume Shoe Corporation and, lastly, Payless ShoeSource. According to research, "The Payless ShoeSource name was adopted in 1978 for the bulk of Volume Shoe retail outlets and the company logo was changed to the now familiar yellow, orange and brown" (Funding Universe). In 1979, Volume Shoe was acquired by the number one retailer in the U.S., May Department Stores Company, with annual sales of \$3 billion (Funding Universe). Through this acquisition, Volume Shoe was able to expand and open several new stores in throughout the Sunbelt states; by 1981 there were 1,089 Payless outlets in 34 states. Because of the company's rapid growth, they were able to open 200 new stores and introduce Payless Kids stores. As a result, sales rose from \$700 million to \$1.5 billion (Funding Universe).

Although the numbers were looking great for the company, "return on sales failed to keep pace with the company's earlier performance or with May's core department store holdings. Payless, whose contribution to May's overall sales shrank from 20 to 14 percent from 1993 to 1996, was no longer considered a key part of May's long-term strategy for growth, and in 1996 May spun off Payless ShoeSource to shareholders" (Funding Universe). The company realized that it needed to make some changes to improve their performance. Those changes included

closing or relocating struggling stores that were not bringing in enough revenue. In 1997, Payless acquired a struggling shoe-based company; Parade of Shoes from J. Baker, Inc. Parade of Shoes was located in 14 states with 186 shoe stores (Funding Universe).

Since the United States was saturated with Payless store locations in all 50 states, they decided to go into international markets, starting with Canada. By October 1997, the first store opened in the Toronto area. The international expansion was such a success that it continued to open more stores throughout the years, and by 2000 they expanded to a total of 236 international stores (Funding Universe).

The company ventured into the e-commerce trend and launched its website in 1999. In addition, Payless entered into a joint venture with ShopKo Stores Inc., a discount retailer based in Green Bay, Wisconsin. Payless began operating shoe departments inside ShopKo stores under the Payless ShoeSource name. "After the first such stores-within-a-store opened successfully in the later months of 1999, the entire 160-unit ShopKo chain was outfitted by the end of 2000" (Funding Universe). The independent, publicly traded company was experiencing tremendous growth and success. They certainly did not settle for less and wanted to keep expanding in order to stay ahead of their competition. After focusing on the Canada market, Payless decided it was time to test out new ones in Central America, such as Costa Rica, Guatemala, El Salvador, the Dominican Republic, Honduras, Nicaragua, Panama, Trinidad and Tobago. They successfully achieved to open 150 stores by the end of 2004. They also explored the South American and Asian markets.

At the time it seemed that Payless was ahead of its competitors, but retailers were watching Payless's every move to hopefully discover their key strategies to launch within their own stores. Eventually competitors such as Wal-Mart and Target put a halt on the Payless success of revenues and profits starting in the late 1990s. "Payless closed 104 underperforming stores (67 Parade units and 37 Payless ShoeSource outlets), cut 230 positions from the payroll, and took a \$43 million after-tax restructuring charge. The operations of Parade also were consolidated with those of the flagship chain" (Funding Universe). In the U.S. alone, Payless had an approximately 5,100 store locations and by 2004 they dropped to 4,700. In 2006, Payless ShoeSource revamped its company with a new logo and announced to the public the logo will reflect its new and modern Payless look. They wanted to take a turn for the best and that included repositioning the company to a more "hip and trendy" feel. Matt Rubel, CEO and president of Payless ShoeSource said, "This new logo is designed to amplify the new Payless brand position - to inspire fun fashion possibilities for the family. We know that great fashion and design don't have to cost a lot, and we are making the latest footwear and accessory trends available at a great price for all to enjoy" (just-style, 2006).

Currently, the Payless ShoeSource retailer is part of Collective Brands. "Collective Brands was formed in 2007, creating a unique "hybrid" business model. [They] have built a powerful portfolio of brands, reaching a broad range of consumer segments at multiple price points and through multiple selling channels including retail, wholesale, ecommerce and licensing" (Collective Brands). These brands include: Saucony, Sperry Top-Sider, Stride Rite, Keds and Airwalk. According to the company's annual report for last year (2010), their domestic marketplace did not do as well as expected due to the economy.

Payless has had a hard year with their stocks fluctuating from almost \$24 dollars to dropping below ten dollars (InvestorGuide, 2011). Recently Payless's stock has risen to \$12 dollars. This small bump up could be because of the fast approaching holiday but Payless must do more in order to survive this year. The Payless Brand has become "dead money" says Jeff Reeves the Editor of Investor Place(Reeves, 2011). With announcements of store closings and postings of a recent "\$35 million dollar loss" Payless needs to quickly strategize to get themselves out of the hole. They have two major problems the company needs to address in order to begin the journey of recovering their brand. The first is sourcing; Payless needs to streamline their product and material sourcing to help keep costs down while also being able to keep up with current trends. The shorter the lead-time the faster Payless can cater to their consumer base. Secondly, Payless's parent company has a broad portfolio, which also lends to be a major problem.

Strategy

Payless targets women between the ages of 18 and 44 with household incomes of less than \$75,000 (Funding Universe). In the summer of 2005, Matthew E. Rubel took over the Payless ShoeSource Company as the new president and CEO with a plan to re-position the company in the minds of their current target market. Rubel did not want the Payless consumers to only think of it as store full of cheap shoes. He wanted to incorporate high-end designs seen on runways but sold for under \$40. Rubel started by changing the company's logo and a few other "out-dated" elements within the store. This marketing strategy earned Payless recognition as "Marketer of the Year by Footwear News" (Hooper, 2006). They are currently trying to reach out to the target market by implementing a designer collaboration program, such as Lela Rose, Christian Siriano, Isabel Toledo, Zoe&Zac, Silvia Tcherassi, and more. GNS Consulting will continue to target this family-oriented range of women while helping Payless solve their internal problems described below to better serve the market.

"Payless ShoeSource is dedicated to democratizing fashion and design in footwear and accessories to the world and inspiring fun fashion possibilities for the family" (Payless Shoesource, 2011). The Payless mission to offer ever-changing style at low prices for a well-rounded, family consumer is a feasible one for their target market. However, an article written by Women's Wear Daily in August states, "The company...will shutter about 475 underperforming Payless ShoeSource and Stride Rite stores over the next three years, with at least 300 of those closings completed by the end of fiscal 2011" (WWD, 2011). The need to streamline Payless brand stores makes it clear that consumers want more.

Objectives

The first objective that will improve the effectiveness of sourcing the large Payless brand portfolio is to invest in distribution efficiency by the end of the fiscal 2012 year with the goal of decreasing unnecessary spending by five percent a year through 2017. According to the *Boston Industrial Consulting Firm*, there are two main strategies to efficiently sourcing product in a large corporation such as Payless, making equipment-based and process-based improvements (Liptrot, 2007).

The second objective Payless will use to improve their sourcing efficiency will be to reallocate the five percent savings on spending in the first objective by the end of 2013, and distribute the savings among distribution center employees as an incentive program. According to *Business Fleet* editor, Mike Antich, today's distribution market trends are proving the increasing need to incentivize distribution managers within companies large and small. However, there is also a lack of financial or company incentives seen among distribution managers and employees (Antich, 2010).

As an attempt to decrease licensing costs and increase efficiency, Payless will undergo a strategic portfolio review and consolidate underperforming brands by the end of the 2012 fiscal year. According to brand portfolio publication, *Sense*, "No brand is forever. Although it is acceptable to alter a brand over time, it's not acceptable to passively let it happen" ("Sense," p. 8, n.d.).

Lastly, GNS Consulting will make an effort to realign Payless' portfolio based on the current industry trends and analysts' research to determine a market for each brand. According to brand portfolio publication, *Sense*, when a "company has multiple brands that once were distinct but which have grown into each other's markets"...companies need... "To understand the value and role each brand plays in each category" ("Sense," p. 8, n.d.).

Problem #1: A lack of efficient sourcing

The Payless ShoeSource brand has recently begun to experience multiple problems in their sourcing division of business. The company runs mainly out of one central distribution center in Topeka, Kansas, which has started to create a decline in the company's ability to stay on top of trends (Cullin, 2007). The 2010 Payless ShoeSource Annual Report describes, "The primary company-specific factor was not maximizing certain footwear trends…"("Collective Brands Inc.," 2010, p. 29). The Collective Brands report also describes the company's lack of continued development of fashionable, high-quality products in the desired assortments of sizes, color and styles. They also voice their inability to respond efficiently to changing consumer demands ("Collective Brands Inc.," 2010).

Objective #1-1:

The first objective that will improve the effectiveness of sourcing the large Payless brand portfolio is to invest in distribution efficiency by the end of the fiscal 2012 year with the goal of decreasing unnecessary spending by five percent a year through 2017. According to the *Boston Industrial Consulting Firm*, there are two main strategies to efficiently sourcing product in a large corporation such as Payless, making equipment-based and process-based improvements (Liptrot, 2007).

Strategy #1-1-1:

The first strategy to efficient sourcing, equipment-based, can be done in five quality ways, according to *Boston Industrial Consulting (BIC)*. The five equipment-based methods are to re-evaluate current picking equipment, explore new ways to automate, design efficient workstations, collect information early and accurately and to install electronic scoreboards (Liptrot, 2007).

As the brand portfolio of Payless grows so should their operations in the distribution factory, which is what re-evaluating the picking equipment is all about. This method deals with a change in the way each licensed product is stored in the distribution center and then picked out to send to stores in need of inventory. There have been many technological advances made in this area, such as picking robots, carousels and mobile terminals, etc. (Liptrot, 2007).

The next method to sourcing efficiency, exploring new ways to automate, includes four different options. These options are called smart carts, put-to-light, carousel and high-speed buffers. According to *Boston Industrial Consulting*, there was a smart cart case study done with another shoe distributor that implemented 10 new smart carts to pick out 10 orders at one time at 400-500 units per hour, which allowed the distributer to increase their order accuracy by 96 percent. For Payless, the put-to-light system would actually be referred to as a put-to-store location because they're individual computerized workstations, which are solely based on keeping track of each individual store's inventory (Liptrot, 2007).



Figure 1. Smart Cart.

The third equipment-based method that could be implemented, design efficient workstations, requires documentation of the Payless distribution process from start to finish and an engineering operator to plan out a 2-D sketch and then install each designed workstation. However, after each station is designed to fit the specific brand portfolio needs of the distribution center Payless is expected to save 10 to 20 percent on efficiency each year which, according to *BIC*, is a considerable return on investment (Liptrot, 2007).



Figure 2. Designed Workstation.

Another method for equipment-based efficiency is to collect information early and accurately. According to *BIC*, "The accurate use of information is one of the most critical opportunities for improvement in a Distribution Center" (Liptrot, ppt. 28, 2007). Information gathered early and accurately can cause error reduction, paperwork elimination and integration of additional efficient shipping systems, such as UPS. To remain effective, however, information needs to be gathered accurately from outside sources like the advanced shipping notifications (ASN's) constantly. Information can be collected through paper, barcode scanning, radio frequency, light or voice recognition. A case study done on gathering information early proved to increase the accuracy rate of the distribution center by more than 99 percent and allow for real-time data to be collected (Liptrot, 2007).

The final equipment-based efficiency method is to install electronic scoreboards throughout the Payless distribution center. These scoreboards are put in place to create expectation for workers; therefore, acting as morale boosters when efficient sourcing is being accomplished. The messages should be short and simple, and can include information about daily expectations, the current pace of operations and current store inventory. Researchers have found that scoreboards displaying expectations and rewards show an increase in distribution productivity (Liptrot, 2007).



Figure 3. Electronic Scoreboard.

Strategy #1-2-2:

The second strategy advised for a company like Payless with a large amount of licensed products is to modernize the distribution center, process-based. The process-based method to efficient distribution also contains five steps, including re-slotting the warehouse, "leaning" out the process, standardizing the process, collect and use accurate cubic information and realizing that information is your most important asset.

The first step in the process-based efficiency method, re-slotting the warehouse, should happen about every six months for a centrally located distribution center like Payless'. For Payless, having a fixed warehouse location means a major re-slotting overhaul for new products and trends each season to increase path effectiveness within the center that, according to *BIC*, can improve efficiency by 25 to 40 percent (Liptrot, 2007).

The next step in the process-based efficiency method is called "leaning" out the process. The lean out method has been used in the manufacturing industry for a little over a decade and is now being transferred to the distribution center departments of many corporations. The lean out process means eliminating every type of waste possible, including waiting, transportation, processing, inventory and product defects (Liptrot, 2007).

A standardized process across the entire distribution center is the next process-based step. This needs to be implemented, mostly, because when existing employees' train new employees in a large distribution center there are lots of inconsistencies found among processes resulting in distribution defects. According to the *BIC*, "Standardization and repetition will build efficiencies and quality in the distribution operation" (Liptrot, ppt. 43, 2007). Updating and utilizing technology within all processes of distribution will help this standardization.

Collect and use accurate cubic information is the next process-based method to efficient sourcing. These are referred to as Cubiscan systems and can be used to provide real-time information about priority shipping, unit size and weights, etc. (Liptrot, 2007).

The last process-based efficiency method is realizing that information is one of a company's most important assets. This, basically, studies the accuracy of every method of a company's ability to source efficiently, equipment-based and process-based. Key Performance Indicators (KPI's) are a big process to gathering important distribution information. KPI's provide a company with measurable data allowing the distribution center to provide why the improvements happen and what needs to happen in the future (Liptrot, 2007).

Objective #1-2:

The second objective Payless will use to improve their sourcing efficiency will be to reallocate the five percent savings on spending in the first objective by the end of 2013, and distribute the savings among distribution center employees as an incentive program. According to *Business Fleet* editor, Mike Antich, today's distribution market trends are proving the increasing need to incentivize distribution managers within companies large and small. However, there is also a lack of financial or company incentives seen among distribution managers and employees (Antich, 2010).

Strategy #1-2-1:

The first strategy among the reallocation of spending will give distribution employees incentives to respond quickly to regional store's inventory needs. It is seen among many corporations that executives and low-end employees receive financial or company incentives often; however, in middle-management positions like that of the distribution manager and employees this is not the case. *Business Fleet* editor, Antich points out that companies should think of distribution managers as sales managers, whom keep employee morale up and, on occasion sell product for commission also (Antich, 2010). The distribution managers' incentive would act as their sells commission.

There are two main incentive programs that have proven to increase efficiency among distribution centers while over time allowing for a decrease in spending, "stretch" and "tiered" incentive programs. The stretch program is all about allowing the distribution manager to be challenged by creating cost-cutting initiatives throughout all processes in the center. This generally causes managers to become extremely innovating and reduce distribution expenses. The tiered incentive programs naturally cause distribution managers to formulate new strategies and objectives for efficient sourcing to achieve specific goals set by executives within the company. As research consistently proves the effectiveness of financial incentives on job performance, a reallocation of spending to directly benefit middle management will attest to improvement in Payless' distribution efficiency (Antich, 2010).

Strategy #1-2-2:

This next strategy, under the objective to reallocate spending, is to better understand employee happiness versus employee motivation and implement a distribution environment that will encourage efficiency. This strategy, which involves the study of employee happiness in which it relates to motivation, comes from the Zappos business model.

According to American psychologist, Frederick Herzberg, people are influenced by two factors: those that impact motivation and the basic factors that influence job satisfaction. Employee satisfaction/ happiness consists of factors such as pay, benefits, supervision and job security. While motivation factors are harder to determine and consist of anything that allow employees to strive for better in the workplace. The basics to this study determined that basic employee happiness must be met and then motivation factors need to be implemented based on the distribution manager's observations of each employee (Rogel, MBA, 2010). This idea/ process has been put into place by many corporations; however, most notably within the Zappos corporate culture.

According to *Inc. Magazine*, "Zappos's warehouse boasts a fleet of 70 brand-new robots that allows it to ship a pair of shoes in as little as eight minutes, earning reams of praise from logistics-industry trade publications" (Chafkin, 2009). This is impressive and screams efficiency, and in an interview done with the Zappos co-creator, Tony Hsieh, is completely credited to his goal to revolve every business decision around one concept, happiness. This single-minded focus

has led the company to score high on every end of their business model, from their corporate offices to the efficient distribution center. However, Zappos has not created this efficient blissfulness with financial incentive as the hourly-paid workers make only \$23,000 a year on average. According to *Inc. Magazine*, "Instead of buying his employees' loyalty, Hsieh has managed to design a corporate culture that challenges our conception of that tired phrase" (Chafkin, ¶ 9, 2009).

Directly improving the Payless distribution center and/or reallocating funds to directly benefit employees, financially or otherwise, will greatly increase the company's ability to respond efficiently to changing consumer demands; therefore allowing Payless to maximize opportunity on the current footwear trends.

Problem #2: A broad, underperforming brand portfolio

The problem that lies with their broad brand portfolio ties into problem number one, their lack of sourcing efficiency. Their broad brand portfolio is also not a practical business model considering the closing of 400 plus stores (WWD, 2011). Currently, Payless needs to examine and consolidate their large brand portfolio to decrease fixed distribution and factory costs associated with owning this large number of brands, which will eventually result in an increase in profits. In the MIT Sloan Management Review, *Achieving the Ideal Brand Portfolio*, the industry professionals lay out a five-step plan to bettering a brand portfolio. Step one is understanding the working definition of the brand and its consumers, step two is to understand the contribution of each brand starting with their annual revenues, step three is assessing the company within the current market position, step four is addressing the problems and identifying the opportunities of each brand and, lastly, step five is to develop an overall plan for the new portfolio (Hill, Ettenson & Tyson, 2005).

Objective #2-1:

As an attempt to decrease licensing costs and increase efficiency, Payless will undergo a strategic portfolio review and consolidate underperforming brands by the end of the 2012 fiscal year. According to brand portfolio publication, *Sense*, "No brand is forever. Although it is acceptable to alter a brand over time, it's not acceptable to passively let it happen" ("Sense," p. 8, n.d.).

Strategy #2-1-1:

An effort to consolidate underperforming brands in the Payless portfolio is the first strategy within problem two. This attempt comes from a strategy recently implemented by competitor, Brown Shoe Company, which also has a similar business model and large brand portfolio. According to the *St. Louis Today* website the new Chief Executive of Brown Shoe, Diane Sullivan, "Has said she wants to part ways with underperforming parts of the business as well as those that don't fall in the company's strategic focus" (Kumar, ¶ 3, 2011). This concept could boast well for Payless as their company focus is dedicated to "democratizing fashion and design in footwear..." ("Payless ShoeSource," 2011) Implementing change in their portfolio based on current market demands would keep Payless' democratization intact.

A decrease in licensing costs is another measurement in the objective to reviewing/ consolidating the brand portfolio. According to Chief Executive Sullivan, Brown Shoe is expected to see an \$80 million selling, general and administrative related expense savings over its first phase of portfolio consolidation. Also with Brown Shoe's new plan, Payless will not only focus on consolidating underperforming brands but also with plans of expansion for the future as the footwear industry continues to change ("Brown Shoe Company Reports," 2011).

Objective #2-2:

Make an effort to realign Payless' portfolio based on the current industry trends and analysts' research to determine a market for each brand. According to brand portfolio publication, *Sense*, when a "company has multiple brands that once were distinct but which have grown into each other's markets"...companies need... "To understand the value and role each brand plays in each category" ("Sense," p. 8, n.d.).

Strategy #2-2-1:

Therefore, the strategy for objective two to solving the broad portfolio problem is to define a position in the market for each brand to create value in different categories amid the footwear industry. As previously mentioned, the five-step plan in *Achieving the Ideal Brand Portfolio* describes that each brand needs to work together as collective assets for a company instead of cannibalizing the market (Hill, Ettenson & Tyson, 2005). For Payless, the idea is to research and collect analysts' information based on their target market—family-oriented women between the ages of 18 and 44—and then position each brand toward a specific family member the women can shop for.

A big step in defining a future market for each brand is assessing the current portfolio's market position. Payless' brand managers currently do this, however to re-define the brands they must analyze each one a step deeper (Hill, Ettenson & Tyson, 2005). According to *MIT Sloan Management Review* (2005), Payless must ask the following questions about each brand:

What are the brand's relative competitive position and levels of awareness among both existing and potential customers? From the sales force and customer service, what issues are they hearing from customers as well as from distribution and retail channels? For example, does the brand have poor quality, and is it overpriced? From the ad agency, how difficult is it to find relevant and substantial differences (other than price) versus the competition? And how loyal are the brand's customers, distributors, internal employees and other stakeholders? Lastly, how does the brand fit with the company, both operationally and culturally? (p. 87)

Evaluation

Accomplishments

The client will determine the accomplishments that will result from each objective by noticing major positive differences within each Payless store. By improving the lack of efficient sourcing and consolidating the company's brand portfolio, the firm will be able to automatically provide relevant, trendy, in-style, and appealing shoes of desired styles, colors, and sizes. The confusion and frustration of the consumer will lessen during shopping. Consumers will be motivated to make purchases due to improved and organized store layout, appealing visual merchandising, friendlier customer service, helpful associates, and overall, an exciting shopping experience. The connection between the consumer and Payless will increase and become stronger. The goal is to maintain a close and relevant relationship with the consumer by satisfying their wants and needs.

Evaluation Methods

To determine if the proposed strategies have met with the desired objectives for each problem defined, is to carefully examine the outcomes of each strategy.

The first problem was to improve the lack of efficient sourcing by improving their sourcing division of business by modernizing the distribution center, equipment and process based. The goal is to decrease unnecessary spending by five percent. This can be easily be evaluated by determining if the modernization of the distribution center actually worked. To measure the results, Payless should be able to increase their response to industry trends by distributing fashionable shoes for women, men, and children at a faster rate. By decreasing unnecessary spending by five percent, Payless should be able to distribute the savings among distribution center employees as an incentive program. The goal is to increase distribution speed. A way to measure the success of the employees' incentive program is by evaluating the performance of their employees. Performance reviews can help determine the results.

The second problem is, Payless has a broad and underperforming brand portfolio and this issue adds to their lack of sourcing efficiency. The first objective is to tailor the list of brands by determining the most successful and most profitable and the second objective is to realign the portfolio based on Payless' current market position and analysts' research. The strategies can be measured by comparing previous profit levels to current ones. In result, the company should also notice a decrease in fixed distribution and factory costs. The goal is to increase profits but also Payless will have a better understanding of their brands and consumers. The company will be able to understand the contribution of each brand starting with their annual revenues. In addition, the company will address and solve problems quicker and easier and identify the opportunities of each brand. Consolidating the firm's brand portfolio will allow the company to focus on what is important and relevant to their consumers. It will contribute in building a strong brand reputation and connection with its target market.

Conclusion

Payless has over 4,000 stores with a presence in the United States, South America, Canada and Central America (Lachapelle, 2011). With this much market saturation, Payless has the opportunity to dominate the value-priced shoe segment. In order for Payless ShoeSource to implement and reach its mission of "democratizing fashion and design in footwear and accessories to the world and inspiring fun fashion possibilities for the family," they will have to attract and retain consumers by providing faster distribution of fashionable shoes and building a relationship with its consumer base (Collective Brands, 2011).

References:

- Antich, M. (2010). *To maximize your fleet efficiency, incentivize your fleet manager*. Retrieved from Business Fleet http://www.businessfleet.com/Blog/Market-Trends/Story/2010/05/To-Maximize-Fleet-Efficiency-Incentivize-Your-Fleet-Manager.aspx
- Associated Press. (2011, August 24). *Payless Shoes Owner Considering Sale of Company*. Retrieved from http://news.yahoo.com/payless-shoes-owner-considering-sale-company-215105977.html
- Brown Shoe Company reports third quarter 2011 results. (2011). Retrieved from Business wire http://www.businesswire.com/news/home/20111121006451/en/Brown-Shoe-Company-Reports-Quarter-2011-Results
- Chafkin, M. (2009). *The zappos way of managing*. Retrieved from Inc. magazine http://www.inc.com/magazine/20090501/the-zappos-way-of-managing.html
- Collective Brands Website, Retrieved from http://www.collectivebrands.com/brands/payless Shoesource
- Connelly, E. A. (2011, August 24). *Payless Parent Company To Close 475 Stores*. Retrieved September 26, 2011, from Huffington Post: http://www.huffingtonpost.com/2011/08/25/payless-parent-company-to-close-475stores_n_936120.html
- Dsw Inc. (2011). *Investor Relations*. Retrieved from http://investors.dswshoe.com/phoenix.zhtml?c=189127&p=irol-IRHome
- Funding Universe. (n.d.). Payless Shoe Source, Inc. Retrieved September 26, 2011, from Funding Universe: http://www.fundinguniverse.com/company-histories/Payless-ShoeSource-Inc-Company-History.html
- Glitterbug. (2011, June 5). *Supports and refuses to let go a DM who' a bigot!* Retrieved from Pissed Consumer: http://payless-shoesource.pissedconsumer.com/supports-refuses-to-let-go-a-dm-who-s-a-bigot-gsp-columbia-sc-20110605241442.html
- Hill, S., Ettenson, R., Tyson, D. (2005). Achieving the ideal brand portfolio. Retrieved from MIT sloan management review http://www.type2consulting.com/articles/Ideal_Brand_Portfolio.pdf
- Hooper, M. (2006, December 7). *Payless Marketing Earns Award*. The Capital Journal. Retrieved from http://cjonline.com/stories/120706/bus_payless.shtml

- InvestorGuide. (2011). *Collective Brands*. Retrieved November 27, 2011, from InvestoryGuide.com: http://www.investorguide.com/stock.php?ticker=PSS
- JC Penney Company, Inc. (2011). *About JC Penney*. Retrieved from "http://www.jcpenney.net/Our-Company.aspx" http://www.jcpenney.net/Our-Company.aspx
- Just-style. (2006, June 28). US: Payless Reveals New Logo. Retrieved from http://www.juststyle.com/news/payless=reveals-new-logo_id94167.aspx
- Kumar, K. (2011). *Brown shoe to license buster brown brand, shutter more stores*. Retrieved from St. Louis Today http://www.stltoday.com/business/local/brown-shoe-to-license-buster-brown-brand-shutter-more-stores/article_f58db492-14a2-11e1-98e1-001a4bcf6878.html
- Lachapelle, T. (2011, September 19). *Payless Shoes Poised for Buyout at 76%*. Retrieved from Bloomberg Business Week: http://www.businessweek.com/news/2011-09-19/payless-shoes-poised-for-buyout-at-76-sales-discount-real-m-a.html
- Liptrot, B. (2007). '10 ideas for improving your distribution center's efficiency.' Retrieved from Boston industrial consulting http://www.bicinc.com/White papers/10IdeasforImprovingyourDC.pdf
- Nike. (2008). *Torn in to Pieces*. Literally. Retrieved from Nike ReUse A Shoe: http://www.nikereuseashoe.com/where-it-goes
- NPD Group, Inc. (2011, February 8). NPD Reports U.S. Fashion Footwear Industry Rebounds In 2010. Retrieved from NPD Group, Inc: http://www.npdgroup.com/wps/portal/npd/us/news/pressreleases/pr_110208a/!ut/p/c5/04 _SB8K8xLLM9MSSzPy8xBz9CP0os3g3b1NTS98QY0P3oAA3A08Pb2N30-BQI0tfM_1I_SjjeBc3Sw8PN28TQ4sgSwsDT1d_QxfPoAAjC0sj_YLsQEUAV-h-SA!!/
- *Payless ShoeSource*. (2011). Retrieved from Collective Brands Inc. http://www.collectivebrands.com/brands/all-brands
- Reeves, J. (2011, August 26). Sell Payless, Stride Rite Parent PSS as it Closes 475 Retail Stores. Retrieved November 27, 2011, from InvestorPlace.com: http://www.investorplace.com/2011/08/collective-brands-payless-shoes-store-closingpss-stock/
- Retail Acumen. (2010, October 26). *Why is Visual Merchandising* Important? Retrieved from http://retailacumen.wordpress.com/2010/10/26/why-is-visual-merchandising-important/

- Rogel, C. (2010). *Employee satisfaction vs. motivation and employee engagement*. Retrieved from Decision wise http://www.decision-wise.com/blog/2010/11/22/employee-satisfaction-vs-motivation-and-employee-engagement/
- Sense. Solving the puzzle of complex brand portfolios. (n.d.). Retrieved from Lippincott mercer http://www.lippincott.com/files/documents/sensemagazine/97/files/assets/downloads/sens e97.pdf
- Target Brands Inc. (2011). *Target: company overview*. Retrieved from http://sites.target.com/site/en/company/page.jsp?contentId=WCMP04-030795
- Tay, M. (2011). Brown shoe to close stores. Retrieved from wwd.com http://www.wwd.com/footwear-news/business/brown-shoe-to-close-stores-signs-newlicenses-5383942
- Veja. (n.d.). Vision. Retrieved September 30, 2011, from Veja: http://www.veja.fr/#/projets/VISION-26