



PRIME BEFORE ITS TIME:

The Service Merchandise Experience

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Knowing customers flocked to its stores to “experience” a select number of products and willing to test out new technologies and retail strategies, Service Merchandise nailed fulfillment and omnichannel in the 1980s with its innovative showroom-catalog approach. Here’s what the modern-day retailer can learn from this pioneer.

In its heyday, Service Merchandise was a retail force. With 413 stores and \$4 billion in revenues at its peak, the company singlehandedly turned the “catalog showroom” shopping experience into one that consumers flocked to for fine jewelry, electronics, toys and other merchandise.

Standalone brick-and-mortar structures with expansive parking lots — most of which were packed with cars during business hours — Service Merchandise stores were where people went, catalog in hand, to look at product displays and check off their selections on order forms or at a computer terminal. A few minutes later, their goods appeared on a conveyor straight out of the onsite stockroom.

An emerging “lowest price” mentality, the escalating cost of expansive retail space, and the labor-intensive nature of its non-DIY showroom all proved to hinder Service Merchandise’s success in a new era of retail and e-commerce.

Nonetheless, the company definitely had a few things nailed. Many of its competitive moves were well ahead of their time, leading us to believe that Service Merchandise may have mastered “omnichannel retail” decades before the term was coined.

In this guide, we explore Service Merchandise’s roots, dig into its innovative retail strategies, and show how some of its early practices apply in today’s omnichannel retailing environment.

“Service Merchandise stored inventory in the backroom versus in the front of the house and basically understood the value of the omnichannel model as far back as the ‘80s.”



*- John Richardson,
Vice President of
Supply Chain Analytics,
Transportation Insight*



A Good 68-Year Run

In retail, timing is everything. Figure out a way to deliver on what consumers want right here and right now, and you can carve a success path that lasts until consumer preferences change or another company performs your functions better. A lesson learned by retailers like Blockbuster, Circuit City and Sears: Your time in the limelight is limited before someone comes and steals it.

Headquartered in Brentwood, TN, Service Merchandise was built on an innovative business model. Although the company filed for bankruptcy and liquidated in 2002, it has remade itself numerous times during its 68-year run — including a 2004 announcement that it was reinventing itself as an online retailer at servicemerchandise.com.

CEO

“When the company liquidated, I bought the name to keep it in the family. I put up a website — it didn’t sell much merchandise, but it got a tremendous amount of comments. Many wanted to tell me how much they loved watching the merchandise coming down the conveyor belt.”



*- Raymond Zimmerman,
CEO of Service Merchandise*



Service
MERCHANDISE

“ Every time we converted one of those stores for self-service and started clipboard sales, our sales went up dramatically. And we grew a lot through acquisition – all the stores we bought, most of those were converted to self-service and clipboards and sales skyrocketed there, too.



- Raymond Zimmerman

CLIPBOARDS TO CONVEYORS

Initially a variety store opened in 1934, Service Merchandise went from being a chain of dime stores to a catalog business. Operating from warehouses in Tennessee, the business eventually morphed into the showroom concept that made Service Merchandise famous.

The company broke new ground in a handful of retail landscapes:

1980

Allowed customers to place orders via specially equipped TV sets.

1981

Developed a computer program that used demographics and a specific location's characteristics to predict the market.

1982

Installed a cash register that allowed customers to check on product availability and order merchandise right on the sales floor.

Three years later, it implemented a computerized inventory replenishment system that helped it reduce inventory carrying costs while also reducing its out-of-stocks. In 1986 it opened an automated, 752,000-square-foot warehouse in New York.

ONE ON DISPLAY, THE BALANCE IN THE BACKROOM

Showroom concept advantages:



- Raymond Zimmerman



Pricing error avoidance:

“We didn't have to put a price tag on every piece of merchandise. And if the price changes, we didn't have to re-tag it. Any time there's a change like that, there's always room for error.”



Reduced pilferage:

“People could only take one piece – that's all we had on display.”



Reduced inventory investment:

“You didn't have to send 12 pieces of an item to a store if you sold one every three months. You didn't have to fill a display – the customer didn't know if we had one or 50 in the back – and they didn't care.”

WHAT HAVE WE LEARNED FROM SERVICE MERCHANDISE?

“ We had a great group of IT people - and that was unique for most companies at the time. At the time, there was no point-of-sale system that had an alpha-numeric. They were programming in BASIC language, it was very simple, but that’s how we developed all these systems.”



- Raymond Zimmerman

Retail has come a long way since the 1980s, but it is clear that Service Merchandise’s leaders had a knack for understanding their customer base and serving it well. They were also unafraid to invest in technology long before terms like omnichannel, automation, robotics and Amazon were common vernacular for retailers.

Today most retailers are still trying to figure out the right recipe for omnichannel success: A multi-channel approach to sales focused on providing customers with a seamless shopping experience.

Whether consumers are making purchases online, on computers or via a mobile device, by telephone, or in a brick-and-mortar store, omnichannel is pushing companies into new terrain when it comes to fulfillment, transportation and delivery.

SEGREGATING SHOWROOM FROM FULFILLMENT

Stores aren’t meant to be fulfillment centers. Employees don’t know how to pack boxes efficiently. They rely on their own judgment about how much packing material and product to load into a box for a ship-to-home customer. That can get expensive when dimensional minimums come into play. For example: If a box is too large relative to the weight going into the box, the shipper is going to overpay.

Service Merchandise escaped these challenges.

- All inventory was maintained at the store level, in the back of the house, where customers couldn’t touch it until they ordered it, initially using a clipboard and written order and later using the “Silent Sam” ordering system.
- Employees were trained on efficient fulfillment techniques: The goods were either sent by conveyor to the customers or shipped to their homes.



“ We developed a system so that if we were out of stock on an item, we could tell you the five closest stores with that item, so you could go get it. Or we could ship it from that store by UPS at no charge.

“We took that system and expanded it so that you could go to a store in Columbus, Ohio, pay for something and send it down the conveyor belt in the Tuscaloosa, Alabama store. At the time, customers couldn’t go online and order and then pick up in the store. All these things developed over time.”



- Raymond Zimmerman

ONLINE ORDERS
COMING
THROUGH!



Today's retailers face mounting challenges in the omnichannel environment.

5

KEY OBSTACLES

Many of these challenges arise for retailers trying to fulfill multiple channels from physical stores. Likely earmarked for in-store or curbside pickup, those orders consume store labor and get in the way of a pleasant shopping experience for customers.

1



Store employees picking orders instead of taking care of customers.

2



Multiple touches create a high volume of dunnage and corrugate waste.

3



Online shipments packed inefficiently by store employees untrained in the fine points of fulfillment.

“ Just think about how far a store employee has to walk to collect all of those items, versus someone who was working in a warehouse with very high pick densities. Warehouses also incorporate technology (i.e., pick-to-light and voice options) that makes picking and packing more efficient.”



- John Richardson

4



Unnecessary touches: product is received, unpacked, put on store shelves, retrieved, repacked and shipped back out.

5



Aisles congested with big carts and harried fulfillment individuals trying to fill orders quickly.

GIVING CUSTOMERS AN EXPERIENCE

Having the right inventory at the right place and at the right time has become table stakes.

Service Merchandise served multiple channels efficiently from its brick-and-mortar locations. It had walk-in business driven by the catalog component - one that is really no different than today's "order online, pickup in-store" dynamic.

Service Merchandise also leveraged brick-and-mortar locations to meet retail customers where they were. Inspired by UK-based retailer Argos' fulfillment model that allowed freight deliveries to a secured inventory room without store access, Service Merchandise tested a warehouse-only model.

In Metro Atlanta, a handful of 13,000 square-foot suburban stores opened with the catalog as the main attraction along with a few display items. Customers could access Service Merchandise inventory in the warehouse and have it shipped to the catalog store for next-day pick-up.

Everything was in stock, but very little was on display.

This model proved very successful.

“All the online guys are opening brick-and-mortar stores or they are creating places where you can pick up merchandise in the existing stores. That’s where we were going - to have all those 10-15,000-square foot stores, so we could open hundreds of them close to the customer.

“In the ‘80s and ‘90s, we were where everybody is trying to get to now. It was the implementation that was our failure.”



- Raymond Zimmerman

CEO

“The catalog was not for people to order from. It was an advertising tool - people could pick what they want and come into the store. If that customer drove 3 blocks to come into our store, they expected to get it. We had to be in stock every day, on every item.”



- Raymond Zimmerman





CUSTOMERS WANT TO SEE AND TOUCH

Customers like going into stores to look at and touch products. That's when today's shoppers pull out their mobile phones and start searching for the best deal on that product.

The question becomes: Is there really a need for high levels of inventory on the retail floor, if all customers want to do is experience the product versus walk out the door with it?

With its part-catalog, part-showroom approach, Service Merchandise managed demand strategically before mobile phones turned into price-comparison tools.

“ The hottest item that wasn't in the catalog was less important than the worst item in that catalog. The customer that comes in has pre-shopped and they knew what they want.”



- Raymond Zimmerman

“ Service Merchandise knew that its customers really wanted to experience a product before buying it, which meant stores didn't really need to have all of their inventory visible and stacked to the ceiling when those customers walked in the door”



- John Richardson



TECHNOLOGY IS INTEGRAL TO OMNICHANNEL SUCCESS.

If afforded today's technology advances and its innovative mindset, here's what a profitable "Service Merchandise 2020" might look like.

- An early adopter of warehouse automation: It deploys advanced technologies like robotics, artificial intelligence (AI) and machine learning.
- Warehouse pickers are equipped with wearable technology that enables them to do their jobs faster in a hands-free environment.
- Integrating automated co-bots, conveyors and cranes into its stockrooms, it effectively leverages technology to shorten fulfillment times and hit two-day and one-day shipping windows.

Technology aside, if Service Merchandise weathered downturns, retail shifts and consumer preference changes, the retailer's core model may have endured.

A 21ST CENTURY HURDLE

One obstacle facing today's retailers that Service Merchandise didn't have to deal with: massive SKU proliferation. While the retailer probably carried a significant number of SKUs in its backroom, it also knew that most of its customers weren't walking in the door with the goal of buying 10 or more items.

This didn't pose a problem until the definition of "convenience" changed. The world's super centers caught onto the shift and started carrying dozens of different "similar" items.

"At that point," says Richardson, "all that a shopper had to do was walk in, fill a cart, and walk out the door."

“The average price of an item sold in the store was \$30. The average transaction was \$55, so we were selling less than two items per transaction. Because they were \$30 items, it was less expensive for us to handle it on a pick and conveyor basis than it was to stack it out and let the customer pick it up.”



- Raymond Zimmerman



“ We had to keep inventory tight and we spent a lot of time monitoring to make sure that stores were making inventory adjustments. If they didn't have any adjustments, the store wasn't doing its job verifying inventory count; if there were too many, the store was having a shrinkage problem.”



- Raymond Zimmerman

ACHIEVE AN OMNICHANNEL EXPERIENCE

With customers' rising expectations for free shipping and 2- or 3-day delivery, retailers need to be able to design a distribution network where every customer in the U.S. can be reached within two days.

For companies that have brick and mortar locations, the question becomes: How do you leverage all inventory assets to decrease customer lead time – and do it cost effectively?

That requires analysis, good data, good tools and people who know how to interpret that information.

“ Companies have to decide where they want to play. With more service comes more cost. You have to understand your customer base – understand who you want to compete against. Can you compete against Amazon? Maybe not – and if you try, you may bankrupt yourself.



- John Richardson



Model Networks to Manage Mistakes

Modelling exercises help retailers determine cost trade-offs versus service before you start an initiative. This can allow you to determine where to guarantee 2-day delivery in certain areas, while offering longer service time and lower cost in other areas.

“ One of the core benefits of network modelling, is you can do all the what-if scenarios so you know how the network reacts before you invest dollars and make a mistake.”



- John Richardson



Leverage the Right Resources

Most retailers may not have resources to manage massive amounts of data and then turn around and review and reproduce network designs every six months – all while managing a separate returns network and a separate dot-com network.

“Many organizations can’t afford to obtain the people, obtain the tools and manage to keep them. If you do have a staff on site, people may not always be needed for network design or analysis. You end up re-tasking them with other things so they are not staying fresh on their modelling skills, and when it is time to update the model – what if they are working on other critical projects? That work falls by the wayside.”



- John Richardson

Another downside of an internal modelling team: They get to know your business, and how it works. There’s a tendency to get into a modelling rut, modelling within your constraints.



Master Your Domain

“Retail companies in particular should focus on what they are good at.”



- John Richardson

Buying the best products and marketing to customers is the core competency of most retailers – not transportation and logistics. In that case, an outside expert can offer an unbiased view informed by supply chain best practices effective in varied industries and many different retail organizations.

“Hire an outside expert that can take care of customer delivery demands, so you can focus on the retail areas where you excel.”



- John Richardson

“Someone outside your organization knows what other companies have done – and they’re not limited by your constraints. That’s why consulting companies exist. They can think outside the box and understand the cost of your constraints rather than operating under assumptions.”



- John Richardson



“ We’re in an era where higher fulfillment costs continue to erode retail margins. It’s time for stores to think harder about how to fulfill orders across all channels, while also factoring in parcel transportation costs and how to package in a way that minimizes dimensional charges.”



- John Richardson

Knowing the struggles that retailers face as they navigate the complexities of omnichannel fulfillment and all of the requirements that come along with it, rethinking store design and reflecting on how early players like Service Merchandise approached the customer experience could give companies a clear advantage in the marketplace.

About Transportation Insight, LLC

Transportation Insight is a multi-modal, lead logistics provider that partners with manufacturers, retailers and distributors to achieve significant cost savings, reduce cycle times and improve customer satisfaction rates through customized supply chain solutions. Transportation Insight offers a Co-managed Logistics® form of 3PL, carrier sourcing, freight bill audit and payment services, state-of-the-art transportation management system (TMS) applications, parcel technology platform (audit, engineering, advanced analytics) and business intelligence. The Enterprise Logistics division of the Transportation Insight Holdings, LLC, (TI Holdco) portfolio, Transportation Insight operates alongside transactional freight brokerage Nolan Transportation Group (NTG) to help client shippers engineer efficient supply chain networks. Combined, the \$3.2 billion TI Holdco organization serves 7,000 clients with logistics management services that include domestic transportation (TL, LTL, Parcel), e-commerce solutions, supply chain analytics, international transportation, warehouse sourcing, LEAN consulting and supply chain sourcing of indirect materials including secondary packaging. Headquartered in Hickory, NC, Transportation Insight has secondary operating centers and client support offices across North America.

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