THE DAWN OF A NEW BAY

Skeptics doubted Jerry Zucker's ability, and commitment, to revive the slumping Canadian retail giant. With new advertising, a new agency and a new style of marketing, will Zucker and the Bay be able to prove the naysayers wrong? BY CHRIS DANIELS

Early last year, when American businessman Jerry Zucker took over Hudson's Bay Co., more than a few analysts suggested he wasn't *really* interested in turning around the struggling department store. After all, in the fiscal year ending Jan. 31, 2006, just a few months before the takeover was approved, HBC reported a loss of $175 million on sagging sales.

There were predictions Zucker would break up the real estate and sell it piece by piece. He denied this, and now, with more than a year gone by and no property fire sales, it seems Zucker was telling the truth about his commitment to HBC, and, in particular, to revitalizing the Bay, one of the country's iconic brands–a challenge even marketing executives at HBC acknowledge is a mammoth one and still a work in progress.

In the words of Patrick Dickinson, general manager, HBC marketing, the Bay has an image of being "pedantic," a "mom store" and an "old department store." The goal is to become "dynamic" and "more responsive," and to do that, he says they need to take some risks in order to be a retail leader.

Though outwardly not much has changed since Zucker took over, Dickinson says there have been a number of improvements within the organization; internal processes have been streamlined and decision-making "freed up," he says. As evidence of its newfound freedom, in March the marketing department selected independent ad shop John St. to handle its $40.3-million ad account. Dickinson says the HBC marketing team has come up with an "entirely different model of marketing," and John St. best understood what that meant and how to communicate it. But the big question is: Can that new model usher in a new day at the Bay?

Dickinson spoke to *Marketing* shortly after awarding the ad account to John St., after which Katherine Raso, HBC public relations, said Bay executives would not comment further or provide any more details on this "different model." At the time however, Dickinson said the department has been forced into changes because of the rise of specialty stores.

According to market research firm NPD Group, traditional department stores held just a 17% share of the $19-billion apparel market in Canada last year, down from 19.4% in 2004. Specialty stores saw their share jump 8% to $9.7 billion, or a commanding 51.2% share, up from 48.5% two years prior–with a lot of that growth coming from unisex specialty shops. Kaileen Millard-Ruff, fashion director at Toronto-based NPD Group, believes specialty stores like La Senza and Old Navy have done well because they've made shopping "fun for customers, just like going to a movie or hanging with their friends." She says for too long department stores have ignored their impact. "It's frustrating that it's taken them this long [to recognize specialty as competition], but I think there's been this false sense of confidence that being an anchor in a shopping centre and having your own credit card guarantees a certain amount of foot traffic, sales and market share," says Millard-Ruff. "But it isn't about pure real estate–it is about product offering."

Certainly a more boutique-style approach is reflected in the Bay's lively new "Accessorize"

GETTING BACK TO THE BAY

Last year around this time, I made the cover of *Marketing* (right) with my point of view on the Bay. People I hadn't heard from in years wrote with their Bay stories (and to say they liked my jacket).

For the most part, there was an expression of hope and a desire to see the Bay succeed and be relevant again. I also got a call from the Bay's president Michael Rousseau who wanted to get together to exchange ideas. He was realistic about the goals, the challenges, and the measures of success. The promise of not settling for the status quo came through loud and clear from Rousseau. Change for the better is coming, he told me. Let me be clear. I was one of those people hoping that the new Bay would prosper. BrainStorm's clients like Jones New York, Elizabeth Arden, Anne Klein and Kenneth Cole all have a vested interest in seeing the Bay grow.

And so last month, when I toured a Bay store and spoke with HBC's Patrick Dickinson, I liked what I saw and I really liked what I heard.

To begin, one must walk through the Bay to see how much cleaner the stores look. Gone are the huge piles of marked-down end of season goods. Clearance racks no longer distract from the fresh goods, which are extremely well merchandised. The aisles are clearer and cleaner. Dickinson told me end of season inventory was lower by about 5% than last year at this time. There is still not an overabundance of staff, but those that are there are more communicative and easy to recognize.

Last year I was critical of the Bay's brand strategy that promoted house brands like Mantles and ToGo. That too has changed with the launch of its new in-house brand Baia, which is priced closer to Holt's house brand and is expected to pull that customer back to the Bay.

More than focusing on getting the right mix of house and better brands, the Bay's "big insight" is probably the significant change in how they see themselves and how they will come to the consumer in future marketing and communications.

The Bay, according to Dickinson, realizes that its competition is not just Sears. That in itself is huge.

The competition is all those specialty stores that focus on core competencies and execute extremely well. The Bay is striving to become everything those specialty stores represent but all under one roof. Think of Williams Sonoma, Zara, Pottery Barn and Victoria's Secret. Now think of them, minus their brand names, as departments in the Bay. There you have it. The Bay's new strategy.

So what should you expect as we cruise through summer and toward that important back to school season? With the help of new ad agency John St., don't expect the story to be about back to school. That will be covered off in the flyers and support ads that will continue to be the bedrock of the Bay's advertising.

Instead, expect dominant communication campaigns that let you say and feel that "The Bay gets it," and reflects your lifestyle choices; campaigns that talk to your inner shopper and get you to feel that there is a reason to come back to the Bay.

Without alienating their existing customers, the Bay is about to tell you that they aren't your father's Buick. And more importantly, prove it when you come to the store.

RON TELPNER is chair and CEO of The BrainStorm Group

TV campaign, which is set to the '70s disco tune, "Keep it Coming Love." And the campaign is all about the Bay's, well, varied product offering. The first ad features men and women switching up their hat, purse, jacket, while the ad for the retailer's home segment features morphing vases, pillows and candle holders. The tag line of the campaign: "Reinvent your wardrobe/home."

The ads were created on a project basis by Leo Burnett, which is the agency for the Bay's sister chain Zellers. Arthur Fleischmann, president of John St., says his agency's ads will build on the Accessorize campaign within the next few months "and you will get a sense of what the Bay stands for."

While the ad might resemble something closer to an H&M spot, by playing on the "reinvent" idea the Bay runs the risk of overselling the in-store experience, says Alan Middleton, executive director, Schulich Education Centre and assistant professor of marketing at Schulich School of Business, York University in Toronto. Just by hiring John St. and announcing in a press release the agency will help them "reposition [the] Bay brand, they run the risk of over-promising and under-delivering the experience," Middleton says. Instead he suggests the Bay stick with basic image campaigns to drive sales for now, and then, in a couple of years after it's made all the necessary changes, come out with new brand positioning.

But the executives at John St. are only too aware of the risks of over-promising. Four of the key people who run John St. were at Ammirati Puris when the shop created the "Aubergine" ad in an attempt to reinvent the Eaton's brand in 2000. The ad was considered by many to be the final nail in the coffin of Eaton's. "We have used [Aubergine] as a good case study of what not to do: never to over-promise and under-deliver," says Fleischmann, who was COO at Ammirati at the time before leaving in 2001, taking Emily Bain, Angus Tucker and Stephen Jurisic with him to John St.

"Did the issue come up? Sure, but it wasn't a fundamental discussion in the pitch and hasn't been since then." He says the Bay has already implemented a number of changes and continues to do so, and

The lively new "Accessorize" TV campaign for the Bay (created by Leo Burnett) highlights the iconic retailer's varied product offering and suggests significant reinvention. But is the Bay promising too much?

the advertising will reflect the department store's evolution. (Dickinson is cognizant of the danger as well: "The key to success is to unite the customer promise with the store experience, and that is a difficult task for a large company.")

So what experience does the Bay have to offer? Well, by most accounts, the Bay is not the first place people visit to find the latest fashions. Brett Channer, CEO and executive creative director of Saatchi & Saatchi Canada–one of the short-listed agencies for the Bay account–believes that is changing. He says more categories possess product SKUs exclusive to the Bay including Baia ('Bay' in Italian), an exclusive ladies sportswear collection.

He says the Bay also needs to increase its "turns"–industry lingo for how often a year merchandise changes "seasons." H&M has an incredible turn rate of 12 times, making it appear like the store always has something new on the racks. Channer suspects the Bay has already increased its turn rate to six from four, and would even encourage them to add a few more. "I think ultimately what they are trying to do is deliver a Holt's value but for the average Canadian."

Richard Talbot, president and managing director of Talbot Consultants International, thinks aspiring to Holt's is a good idea. "The biggest mistake was for [the Bay] not to move up into the gap [left by] Eaton's. Instead what they did was move closer to Sears and their own junior department store brand Zellers and, of course, Wal-Mart. They went into an area where everyone was fighting for the lower-end of the market." He says by failing to move up, it left Holt Renfrew to widen its customer reach. "They're morphing into a full-size major department store because of the lack of competition."

Talbot applauds the new Accessorize campaign, believing it effectively moves the Bay brand up-market. But he admits it won't be an easy sell. When his firm conducts shopping surveys around Christmas, the Bay often ranks as one of the first places consumers visit. But when the survey asks the follow-up question "Where is the first place you shop?" the answer is rarely the Bay. "I used to make a very unkind joke," says Talbot, "that when you probed the third question as to why they visited the Bay first, consumers said it was because they wanted to be able to find their car when they left the shopping mall."

"THE KEY TO SUCCESS is to unite the customer promise with the store experience, and that is a difficult task for a large company," says the Bay's Patrick Dickinson

Unkind or not, these are the consumers the Bay will have to win over to be successful. At least Jerry Zucker and company seem dedicated to trying to make that happen, says Maureen Atkinson, a retail analyst at JC Williams Group in Toronto, who used to be skeptical about the American's intentions. And even if Zucker has been able to reduce operational costs at the Bay (which she suspects he has), she says he likely hasn't been able to increase sales–at least not yet. "In the end, the challenge for a department store is to get to a sales level where they can actually make money," says Atkinson. "And so far, not many department stores have been able to achieve that."

–WITH FILES FROM DAVID BROWN

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