



Hilco Global
Asset Smarter

SMARTER PERSPECTIVE: RETAIL INDUSTRY **Innovative Solutions Help Address Ongoing Off-Price Supply Chain Challenges** By Ray Armendariz

In this article we take a look at how off-price retailers are working within their own organizations to overcome supply chain constraints as well as the important role that innovative, strategic partner solutions are playing in assisting those businesses to stay the course in the current environment.

Off-price operators greatly value the relationships they have forged and enjoyed in connection with vertical retailers over the years. A big part of the draw for consumers in shopping at off-price is, of course, the ability to find recognizable brands that they trust and value at a notable discount. Hunting for deals on brands with perceived high value has become part of many consumers' lives, and the off-price channel has flourished as a result.

Right now, however, manufacturers and retailers, alike, are struggling with the challenges of a broken global supply chain. In many cases, manufacturers cannot obtain the raw materials they need to produce their goods. And when those goods are ready to ship, they are often sitting in port or at sea for an extended period. This has placed many retail brands in a position where they have decided to hold onto whatever



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inventory they do receive, as well as most excess and out of date inventory that they typically filter through to their partners in the off-price channel, to feed into their own retail channels unless they are able to obtain an uncharacteristically high price for that merchandise from those off-price retailers.

As a result, much of the newer product currently available in the marketplace over the past several months has been unbranded, which presents a significant problem for these companies given consumers' demonstrated preference over time for obtaining branded item deals at their retail locations. As a result, we have seen multiple off-price companies establish new, specialized buying groups during the pandemic,

which we refer to as "Strike Force" teams. These newly established teams are comprised of a cross section of highly experienced category buyers from within an organization and, as a collective group, they are authorized to act very proactively and quickly in their efforts to obtain branded product from virtually any category. This approach differs greatly from the methodical and time-consuming category-specific buying cycle more typically associated with the channel.

To drive the ability to stock up very quickly, these Strike Force teams are authorized to actively engage the wholesale community, identify merchandise that they believe is well suited to their stores' customers and

make buys with a minimum of delay. With prices escalated as referenced earlier, and other similar teams from multiple off-price retailers competing for the same merchandise, we have found that buyers on these Strike Force teams have been given an unprecedented level of discretionary authority to commit funds and make those deals. Part of what makes this possible is the fact that the funds they are leveraging for those purchases are specific to the category of purchase. So when a Strike Force buyer makes a deal with Hilco or another wholesale source for \$1.5 Million of branded men's sportswear, funds for that buy are actually allocated from the company's existing men's sportswear category budget. A slight variation on this approach that we are also seeing in the market this past year is Strike Force teams that engage with wholesalers, negotiate deal terms, and then present those opportunities to their category buyers who then quickly determine on a case-by-case basis whether or not to proceed with a buy. In recent months, both approaches have greatly aided numerous off-price operators to increase the amount of branded merchandise on their shelves, maintain foot traffic and drive sales.

Just as the flow of branded and other merchandise was slowing into the off-price channel during early stages of the pandemic, another development was also occurring. With many interior malls closed and increasing numbers of department/other stores in many of those locations shuttered, shoppers sought out other brick and mortar shopping options. In doing so, many discovered off-price stores in nearby strip centers which had remained open. Inside those stores consumers found branded merchandise and, even though it wasn't necessarily the most current season's fashion, they experienced and acquired a taste for the unique value proposition that these stores offered. While this created added customers for the off-price channel, what we also saw operationally was selling floor capacity

starting to dwindle due to both lack of supply as well as the labor shortage created, in large part, as a result of the Federal Government's well-intended stimulus efforts.

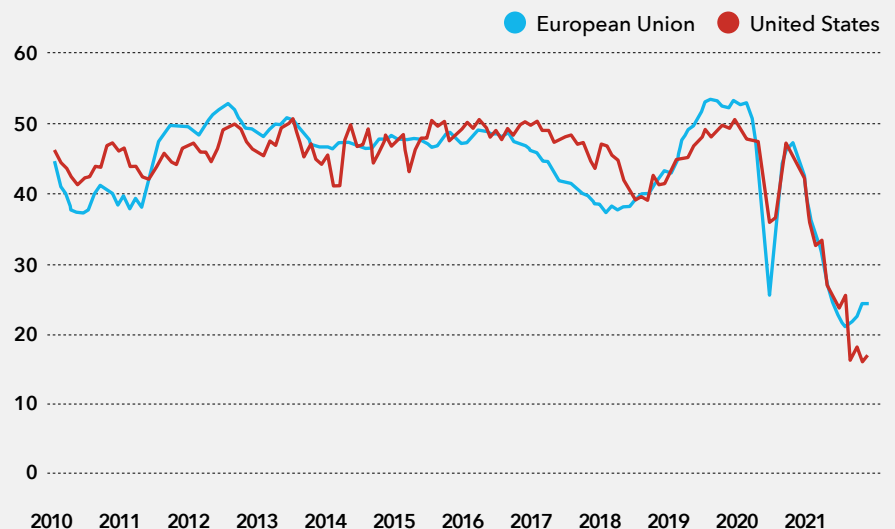
With distribution centers and warehouses operating at less than full force, processing product into stores has continued to be problematic. Right now, the average timeframe to get excess domestic wholesale product onto the selling floor from the time of purchased is ranging from six to seven weeks rather than the usual four to five.

to raise consumer prices in order to compensate.

At Hilco Wholesale Solutions we have the ability to proactively deploy our own capital to acquire large quantities of branded apparel and other merchandise efficiently, which we then sell primarily into the off-price channel as well as into ecommerce. We purchase product coming into ports in different parts of the country, and store those goods in our own 3PL facilities across the U.S. This allows us to hold inventory in close proximity to our off-price customers'

Backlogs and Bottlenecks: Supply Chain Turmoil

Suppliers' delivery times in the US and EU have slowed considerably – a lower index reflects longer delivery times.
(Manufacturing PMI, Suppliers' Delivery Times)



Sources: IHS Markit.

Note: PMI = Purchasing Managers' Index. Reading above 50 indicate faster delivery times, readings at 50 signal no change, and readings below 50 indicate slower.

Additionally, with the merchandise itself costing more and freight at an all-time high, the cost of moving that merchandise from ports of entry to stores around the country has become a drag on off-price operators' margins. Based on the competitive landscape, few have demonstrated a willingness

store locations and then ship it quickly and more cost effectively than other sources at the precise point in time when it is needed in those stores.

Right now, there are a tremendous number of purchase orders that have been delayed and missed the holiday





deadline. In many cases, retailers do not want to take possession of that merchandise because it is too late to bring it in, process, and get it out to stores and on shelves. At the same time, they also don't want to incur the cost to ship it back or to store it domestically. As a result, our Wholesale Team at Hilco has been very actively involved in reviewing those and other inventories and making strategic purchases which we can hold in our facilities until sold into off-price or ecommerce and then ship cost effectively to those customers based on seasonal selling needs. We are also working with multiple off-price retailers right now who are currently procuring inventory for spring to hold their goods in our 3PL warehouses for shipment at a later date as well. In conjunction with each of these efforts, we have the capacity to create customized solutions for our client partners, including processing, ticketing, defacing and sorting inventories for direct shipment to specific stores, thereby bypassing the need for distribution center involvement.

These are challenging times. As such, we encourage operators within the industry, as well as those with

manufacturing, distribution and retail segments, to actively monitor and assess the evolving needs of their businesses and entertain the use of new and innovative approaches – such as those discussed here – in conjunction with qualified partners, to help ensure sustainable and growth-minded operations in the year ahead.

Hilco Wholesale Solutions (HWS) assists retailers, manufactures, and trademark holders in re-marketing unproductive, aged, and out-of-season inventory. Through the delivery of customized solutions tailored to a client's exacting needs, the company is able to effectively and efficiently monetize the inventories of a broad range of asset classes including: Apparel, Footwear, Toys and Games, Books, Sporting Goods, Housewares, Health and Beauty Products, Grocery Items and End of Season Merchandise. Leveraging Hilco's global disposition capabilities, infrastructure and expertise, Hilco Wholesale Solutions is able to efficiently re-market these merchandise assets while at the same time avoiding channel conflict. The end result is a timely, tailored disposition program that maximizes recovery and provides

needed liquidity for clients. The business is a unit of Hilco Merchant Resources (HMR), which specializes in liquidation and disposition events at the wholesale and retail level to monetize unwanted or underperforming inventory and FF&E. HMR develops, implements and manages going out of business sales, store closings and relocations, or clearance event sales, in support of M&A transactions, divestitures, rationalizations and other contexts.



**RAY ARMENDARIZ IS CEO
OF HILCO WHOLESALE SOLUTIONS**

Ray has been with Hilco since 1999. He has overseen the execution of numerous transactions covering a broad range of inventory categories and store formats within the continental United States, Puerto Rico, Mexico, Canada, Australia and UK.

Contact Ray at 915.276.6261 or rarmendariz@hilcoglobal.com