



# STRATEGIC VISION ALLIANCE

## It's the customer, stupid

They had 'em, then lost 'em. Can Krispy Kreme, Pier 1, Sharper Image, Hot Topic get 'em back?

May 2, 2005: 9:32 AM EDT By [Parija Bhatnagar](#), CNN/Money staff writer

**NEW YORK (CNN/Money) - Krispy Kreme's warm glazed doughnuts. Pier One's wicker furniture. Sharper Image's ionic Breeze air purifier. Hot Topic's Goth-inspired paraphernalia.**

What's the common thread?

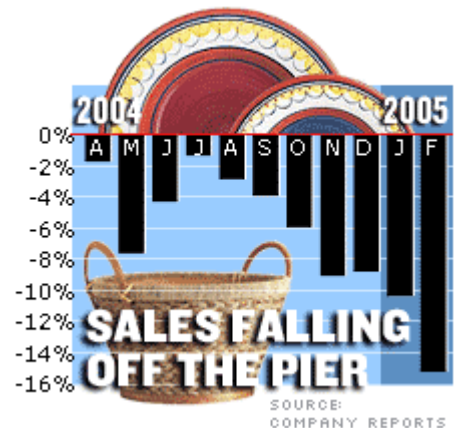
"These four companies all had good solid strings of success for a while," said Craig Johnson, with retail consulting firm Customer Growth Partners. "They even had Wall Street paralyzed by their success."

That would've been the ideal time for each of them to prepare for the next chapter, Johnson said. "Instead, they took their eye off the ball and worse, off the customer," Johnson said.

So how do they get their eye back on the customer?

**Krispy Kreme-d:** It single-handedly turned the doughnut into a food phenomenon. Investors went nuts over doughnuts when the Winston-Salem, N.C. -based chain hit Wall Street in 2000. [Krispy Kreme](#) ([Research](#)) shares shot up over 70 percent on their debut.

**Problem:** The company grew too fast; profits took a hit; it ousted its CEO and now the



FROM: THE SHARPER IMAGE

**Sharper Image's one-trick pony: The Ionic Breeze silent air purifier.**



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government is probing its accounting. And one other thing -- calorie-conscious consumers dumped the doughnuts when the "low-carb fad" gripped the nation last year.

**Solution?** Expand into other types of breakfast foods like rival Dunkin' Donuts. Said Johnson, "This company bet the baby's booty on a fatty snack and it's hard to convince people that a sugary doughnut is good for you."

But Morningstar analyst Carl Sibiliski, disagreed. "Krispy Kreme's built an entire franchise around the doughnut. The company shouldn't move away from that. The brand's not going away. They just need to run the business more efficiently."

**Getting 'wick'-ed:** Once upon a time, Pier 1's consumers couldn't get enough of its unique wicker and bamboo chairs, aromatic candles, decorative lamps and damask pillows.

**Problem:** Almost every major discount and department store chain now offers similar home products, in some instances cheaper than [Pier 1 \(Research\)](#).

Even though Warren Buffett -- the legendary value investor -- owns a nine percent stake in the Fort Worth, Texas-based furniture chain -- its sales have [fallen](#) off the pier and the stock languishes at its 52-week low.

"The biggest problem has been increased competition from retailers like Target. In my opinion, Target's home furnishing offerings are as good if not better than Pier 1's and more competitively priced," said Morningstar analyst Anthony Chukumba.

**Solution?** Find the new "wicker." In other words, the retailer has to give customers something to be excited about instead of simply opening more stores selling the same stuff that everyone else now has.

"Pier 1 needs to fix the problem with its merchandise. Fewer people are going into their stores because they're not selling anything different," said Chukumba. Once you get the product line set, he added, find a marketing message and stick with it -- no Kirstie Alley and "Queer Eye" flips.

**Airing out Sharper Image:** A year and a half ago the San Francisco-based company hit a home run with its ionic air purifiers and quickly captured market leadership with the product. The air gadget suddenly became responsible for 35 percent (analysts guess) of the company's revenue.

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**Problem:** Competitors got in on the act and stole market share away from Sharper Image with cheaper copycat versions of the purifier.

As sales eroded, so did its stock price, losing more than half of its value over the past year. "If you become a one-trick pony and investors are in love with you, there's a tendency to keep riding that pony until it gets tired," said Custom Growth Partner's Johnson. "That's fine until someone else's pony starts to run a little faster."

**Solution?** Needs to rebuild its product pipeline with more wacky and innovative gadgets.

Harris Nesbitt analyst Richard Weinhart thinks digital music products is a good growth vehicle. "Sharper Image didn't do enough to capitalize on the digital music craze over the holidays. They could do a lot with digital music accessories and win back customers."

**Pink ... the new black:** Rebellious teens fell in love with Hot Topic, whose clothing glorified Goth, punk and rock-and-roll. Wall Street fell in love with its sizzling sales and profits.

**Problem:** Teens are notoriously fickle and fashion trends are equally wishy washy. Sales fell after kids decided to pick "preppy" over "punk." [Hot Topic \(Research\)](#) slashed prices to avoid getting stuck with excess inventory. That dented profits.

**Solution?** Company executives are willing to gamble that Hot Topic's customers will eventually return since it still dominates the niche it created.

But the wait-it-out strategy might not be enough. You could argue that the store should develop new concepts that appeal to different types of customers. Hot Topic's second brand -- Torrid -- is a good example of that, selling trendy clothes mostly in larger sizes.

"Hot Topic is dealing with a customer with the loyalty of a flea. Catering to teens is already a huge challenge," said Johnson. "If you're selling to teens, you have to be both innovative, nimble and ready to shake things up."