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RTL 6050 Merchandising Management in the 21st Century

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Build-A-Bear

Build-A-Bear Workshop was founded in Missouri by Maxine Clark in 1997, and the company was designed to be "a mall-based specialty retailer where children and families could create their own stuffed animals" (Build-A-Bear Workshop, Inc., 2022c, p.5). Build-A-Bear was a revolutionary idea in which Ms. Clark "created something that is now called 'experiential retail' which has fundamentally helped to change the way we think about shopping" (Build-A-Bear, 2022b). She also changed the stuffed animal toy market by "delivering a consistent approach to creating emotional connections with Guests through a unique high-touch service model" (Build-A-Bear, 2022b). As of January 29, 2022, the company employed 1000 full-time employees and 2700 part-time employees (Build-A-Bear Workshop, Inc., 2022c, p.8). Build-A-Bear also employs a number of seasonal workers, but that number fluctuates based on needs.

The company has a mostly centralized organizational structure with its corporate headquarters located in St. Louis, Missouri. It has one regional headquarter in Slough, England (Build-A-Bear Workshop, Inc., 2022c, p. 21). The retailer has 346 corporately-managed locations, 61 third-party retail locations, and 72 internationally franchised stores (Build-A-Bear, 2020b). Consumers can find Build-A-Bear in the United States, Canada, the United Kingdom, Ireland, Mexico, Australia, the United Arab Emirates, Bahrain, Kuwait, and South Africa (Build-A-Bear, 2022c, pp.24-26). Every corporate-managed location is leased, but the company owns its own warehouse and distribution center in Ohio. This warehouse ships to the majority of the brick-and-mortar locations and fulfills all North American e-commerce orders. A third-party warehouse in Southern California handles all of the company's West Coast stores, and a third-party distributor in Shanghai, China is responsible for the fulfillment of orders in Asia.

According to Total Retail (2019), Build-A-Bear was ranked in the top 100 publicly-traded omnichannel retailers in 2019. This offered an intriguing opportunity for research as the company does not immediately come to mind when I think of omnichannel retailers. This company did not exist when I was a child, so I have never understood the draw of customized stuffed animals. Combined with a quick internet search that showed surprising information about how the company handled the COVID-19 pandemic, I decided this company warranted further exploration.

When retailers expand globally, they are often faced with the "important decision about the extent to which they should standardize or adapt their retail banners" (Nath et al., 2019, p.30). This decision has been dubbed retail banner standardization (RBS) and refers to how a company will handle its brand; choices include "extending their domestic banner(s) to their foreign markets, opting for regional or local banners, or some combination of these two approaches" (Nath et al., 2019, p.30). Naturally, there are advantages and disadvantages to this model. An advantage is that RBS "may lead to superior performance because global banners can make retailers more efficient through higher economies of scope and lower organizational complexity" (Nath et al., 2019, p.31). However, RBS may remove the possibility of catering to a specific country's needs, which could hurt the financial performance of the company (Nath et al., 2019, p.31).

Build-A-Bear seems to follow a method comparable to the RBS method. The company has a low-complexity hierarchy with limited warehouses and headquarters. This centralized structure allows the company to have greater control over its brand. Additionally, the corporate-managed locations all function similarly and have a cohesive appearance. According to the company's 2021 Annual Report, Build-A-Bear's third-party retail model operates by the

company selling their products wholesale to other companies who then execute the company's retail experience (p.23). Build-A-Bear is able to standardize how the company sells its merchandise by having contracts in place to ensure that third-party and franchised retailers maintain the brand. Whether the retail location is online, a brick-and-mortar in Kuwait, or a pop-up location in the United States, customers will have a similar experience in each retailing channel due to the company standardizing its operations.

Maintaining the consistency of a brand is crucial to the success of a company, as it "leads to a strong brand equity, which means the added value brought to your company's products or services that allows you to charge more for your brand than what identical, unbranded products command" (Williams, 2022). As retailers develop omnichannel capabilities, there is a risk that selling online could hurt a company's reputation. To combat this challenge, there are several factors a retailer needs to consider to ensure customers are understanding a brand's identity. Companies need to remember every touchpoint, which includes brick-and-mortar locations, advertising, online stores, messaging, and social media accounts (Cestrian Imaging Limited, 2020). Everything that the company releases to the market needs to align to the brand and its values. Companies also need to think about cultural references, the translation of taglines, and seasonal variations for different regions (Cestrian Imaging Limited, 2020). For example, while it may be summer in the United States in July, it is winter in South Africa. For Build-A-Bear this means that swimwear needs to be offered to one market and scarves and mittens need to be offered to another.

Build-A-Bear is both the retailer and the brand. As such, it is able to maintain its brand, and it does this is several different ways. The first is that the company has a single logo it uses across all of its merchandise, packaging, signage, advertisements, stores, etc. The company also

maintains a consistent image on its ecommerce sites. The ecommerce site for the United States has a similar look to its ecommerce site for the United Arab Emirates with minor changes in keeping with the regions, such as different currency listed on prices (Build-A-Bear Workshop, Inc. 2022; Build-A-Bear Workshop, Inc., 2016). The company also maintains its brand by offering products that are appropriate for different regions. For example, the retailer offers country specific clothing for the stuffed animals, such as a Team England football (soccer) jersey versus a variety of Australian National Rugby League team jerseys (Build-A-Bear Workshop, Inc., 2016; Build-A-Bear Workshop, Inc., 2022a). The company's ability to preserve its brand will help it provide a consistent message to customers as it begins to adapt the new technology required for Industry 4.0.

The fourth industrial revolution emerged in the 2010s as an advanced version of the third revolution. It is more technologically advanced and "is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres" (Schwab, 2016). When retailers join this revolution, they will need to offer a fully integrated and immersive shopping experience for customers that has a heavy emphasis on new technology. Build-A-Bear's response to the disruptions of the COVID-19 pandemic illustrates the company's ability to transition from omnichannel retailing to the fourth industrial revolution.

In March 2020, Build-A-Bear had to temporarily close all of its UK, Ireland, and Canada stores due to governmental regulations relating to the pandemic. The US stores followed suit in April. As a result, the company needed to create a plan to stay in business. In four weeks, "Build-A-Bear turned its store locations into micro-fulfillment centers so it could maintain store operations, keep associates working and create a bright spot for consumers navigating uncertainty and stress" (Crouch, 2022). The company originally used only five of its global

stores as test subjects, but within the month, all of its 400 locations were being used to fulfill online orders. The company also improved its ecommerce bear building experience in an effort to “simulate the in-store experience, allowing shoppers to pick their new stuffed animal, add scents & sounds, dress them, and make a special wish on the heart” (Grill-Goodman, 2020).

Build-A-Bear also launched other experiences during the pandemic to help keep customers engaged, despite not being able to shop in store. The company created “Workshop Wednesdays, offering entertainment and other activities to inspire play, creativity and connection while at home” (Grill-Goodman, 2020). Every Wednesday, the company offered activities including easy-to-make snacks, DIY-crafting, coloring sheets, and more that consumers could participate in. Additionally, customers could upload their creations to Build-A-Bear social media for the chance to be featured.

Build-A-Bear’s quick response to the pandemic helped the company keep its doors open long term and kept customers engaged with the brand. It improved its omnichannel experience for consumers and showed that it was capable of pivoting to stay in business. For these reasons, Build-A-Bear appears to be prepared for Industry 4.0. With new technology comes the need to adapt quickly. Build-A-Bear has shown it can adapt its business to the demands of the day, as well as institute new technology and processes easily.

There is never a guarantee that a retailer will survive in the future, but there are financial factors that can determine the current health of a company, which could speak to the likelihood of a company’s long-term viability. These factors are the financial ratios associated with liquidity, solvency, and profitability. Liquidity is the amount of cash on-hand and assets that can be easily converted to cash a company has to pay off immediate debts. The ratios used are the current ratio and the quick ratio. Solvency is “a company's ability to meet its debt obligations on

an ongoing basis, not just over the short term" (Maverick, 2022). The ratio used is the debt-to-equity ratio. Profitability is determined through the company's profit margin and is "the best single indicator of its financial health and long-term viability" (Maverick, 2022).

Liquidity ratios speak to a company's ability to survive in the short term by paying off its immediate debts with available cash or easily-converted-to-cash assets. The quick ratio excludes inventory as it is often difficult for companies to sell inventory quickly. Build-A-Bear's quick ratio was .46 for 2019, .44 for 2020, and .46 for 2021 (see Appendix). These numbers are concerning as "a quick ratio lower than 1.0 is often a warning sign, as it indicates current liabilities exceed current assets" (Maverick, 2022). It is important to evaluate a company's quick ratio against the current ratio, as the current ratio takes into account inventory levels.

Build-A-Bear's current ratio was 1.15 for 2019, 1.12 for 2020, and 1.33 for 2021 (see Appendix). A current ratio above 1.0 means that a company has sufficient assets to cover its liabilities. According to the ratios, Build-A-Bear may not have sufficient current assets to cover its short term liabilities without inventory, but if inventory is calculated into the equation, as done for the current ratio, the company is less risky to investors. This is not enough information to determine a company's viability in the future, so solvency and profitability need to be examined as well.

Solvency is one way to calculate the health of a company because "it demonstrates a company's ability to manage operations into the foreseeable future" (Hayes, 2020). It compares a company's total liabilities to its total equity to determine how much of the company's debt is being financed through its operations (Fernando, 2022). Generally, a retailer will want to have a low debt-to-equity ratio, but Build-a-Bear's ratio was 2.35 for 2019, 2.56 for 2020, and 2.07 for 2021 (see Appendix). According to the 2021 Annual Report (p. 42), Build-A-Bear's liabilities

increased from 2020 to 2021 due to an increase in accrued expenses and accounts payable. It is possible that creditors extended due dates during 2020 to allow the company to stay in business during the peak of the COVID-19 crisis. The company's ratio has decreased from 2021 to 2020, which is a positive sign.

Profit margin, also known as net margin, represents how much of a company's sales has been turned into profits and "a larger net margin, especially compared to industry peers, means a greater margin of financial safety, and also indicates a company is in a better financial position to commit capital to growth and expansion" (Segal, 2021; Maverick, 2022). Build-A-Bear's profit margin was .1% in 2019, -9% in 2020, and 11.5% in 2021 (see Appendix). The company has struggled over the past few years, with its lowest profit margin in 2020. The profit margin in 2020 was a direct result of the COVID-19 pandemic and the global requirement to temporarily close all brick-and-mortar locations (Build-A-Bear Workshop, Inc., 2021). However, the company rebounded due to its ability to quickly improve its omnichannel experience which allowed customers to shop online and continue to engage in the merchandise.

Build-A-Bear is a 25 year old company that specializes in the experience on building a stuffed animal. The company is a global omnichannel retailer with brick-and-mortar locations around the world. The company follows a method similar to Retail Banner Standardization in which all of its locations operate under the single brand. The company maintains its brand through its logo, and customers will have the same experience whether they are in the United States or Bahrain. Based on its improving debt-to-equity ratio and profit margin for 2021, and its ability to adapt quickly when necessary, the company has positioned itself correctly to survive in the long term and transition to Industry 4.0.

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Appendix

(2018 and 2019 come from 2019 Annual Report; 2020 and 2021 come from 2021 Annual Report)

Quick ratio (in thousands)	**2018**	**2019**	**2020**	**2021**
Cash	$ 19,555	$ 28,395	$ 34,840	$ 32,845
Accounts receivable	$ 10,588	$ 11,526	$ 8,295	$ 8,295
Current Liabilities	$ 56,177	$ 85,964	$ 97,382	$ 89,328
	0.54	**0.46**	**0.44**	**0.46**

Current ratio (in thousands)	**2018**	**2019**	**2020**	**2021**
Current Assets	$ 99,798	$ 98,750	$ 100,193	$ 129,998
Current Liabilities	$ 56,177	$ 85,964	$ 89,328	$ 97,382
	1.78	**1.15**	**1.12**	**1.33**

Solvency (in thousands)	**2018**	**2019**	**2020**	**2021**
Total Liabilities	$ 77,732	$ 208,631	$ 172,641	$ 194,064
Total Shareholder Equity	$ 94,314	$ 88,631	$ 67,308	$ 93,683
Debt-to-Equity Ratio	**0.82**	**2.35**	**2.56**	**2.07**

Profit Margin (in thousands)	**2018**	**2019**	**2020**	**2021**
Net income	$ (17,933)	$ 261	$ (22,983)	$ 47,265
Revenue	$ 336,585	$ 338,543	$ 255,310	$ 411,522
	-5.3%	**0.1%**	**-9.0%**	**11.5%**