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establishing the future of arc thrift stores

Professor J. Robert Mitchell and Maggie Scivicque wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In early 2019, Lloyd Lewis, the chief executive officer (CEO) of arc Thrift Stores, sat at his large conference table and studied the audience survey results he had recently asked his marketing director, Maggie Scivicque, to compile. When he had asked for this survey, Lewis had hoped the results would provide him and his team with a more detailed look into the minds of arc Thrift Stores’ customers. Specifically, why did these customers shop at arc Thrift Stores? What was it that kept them coming back? Were they loyal to the store, or were they only looking for low prices? Was there more than one customer segment, and if so, how could arc Thrift Stores appropriately market to these customers and speak to their needs? Most importantly, Lewis hoped that the results of this audience survey would provide guidance on what he and his team needed to do next. Lewis and his team had managed to take operations to a new level during the 14 years that he had been leading arc Thrift Stores, so, looking at the results, Lewis was confident that they could address these questions. After all, the results of their prior work—double-digit revenue increases and profits year after year after year—were undeniable. By all measures, arc Thrift Stores was very profitable.

Indeed, with his team, Lewis had taken the 14 Colorado Arc Chapters that were supported by arc Thrift Stores to new heights in their ability to advocate for children with intellectual and developmental disabilities (I/DD) in schools, helping them to live more independently, and even made a difference legislatively in advocating for the rights of individuals with I/DD all across the state. This emphasis on people was at the core of Lewis’s business mission. When he started, only 10 employees at arc Thrift Stores had been people with I/DD. Now, more than 300 such employees made up 18 per cent of the arc Thrift Stores’ workforce.

However, even after 14 years of such great results, it was critical that Lewis and his team broaden their reach and build loyalty among a younger demographic group to ensure the arc Thrift Stores’ business model continued to flourish. As she watched Lewis study the results, Scivicque remarked,

The audience audit is really going to help us refocus our efforts. I am thrilled to know we are doing a good job of brand building and inspiring loyalty, but we have some serious red flags to contend with as well. Our core audience is rapidly aging, and we have to think ahead to what’s next and how we grow the audience of the future. Can we inspire the same kind of hard-core loyalty we have enjoyed over the last 50 years for the next 50 years?

As Lewis thought about the results of the audience survey and Scivicque’s critique, he considered what they might mean for arc Thrift Stores. He responded by noting that “The younger generation is coming into their own; they will be the primary shoppers of tomorrow. We must ensure that the quality of our product, the strength of our mission, and the recycling values speak to this growing market segment.”

Erick Martinez, the vice-president of operations at arc Thrift Stores, agreed with Lewis: “We’ve got to figure out what makes the younger generation tick and what drives them. They will soon have the majority of the purchasing power. The more we can understand them, the more we can drive them in our doors.”

The senior team was optimistic and saw a bright future for the organization. However, they also knew that, while they needed to keep doing what had made them successful, they also need to evolve—sooner rather than later. As Scivicque explained, “We are preparing for an unforeseen set of circumstances we just can’t see clearly yet. It is scary, but exciting too. We will be ready, we have to be ready.” But the question now was: How could they prepare for future unknowns?

HISTORY

The history of arc Thrift Stores was rooted in the history of the Arc, which was established in the 1940s by parents of children born with intellectual and developmental disabilities.[[1]](#footnote-1) By 2019, Arc chapters in 39 states provided advocacy and services to families of individuals with disabilities.[[2]](#footnote-2) The goal of the Arc, in its early years and now, was to change perceptions, among parents and others, about the potential of people with intellectual and developmental disabilities. In the 1940s, it was not uncommon for doctors to suggest that parents institutionalize children who were born with disabilities. The Arc was created in order to change this. Parents in Colorado set up some of the first Arc chapters in the late 1950s. One of these chapters, the Arc of Colorado, was still operating in 2019.

Over the years, the Arc of Colorado had moved from focusing on deinstitutionalizing individuals with disabilities to working with chapters throughout Colorado to provide community supports that allowed for full integration of individuals with disabilities. Arc chapters in several Colorado counties began raising funds through bake sales, rummage sales, and other events to provide support to their members and advocacy for parents throughout the state.

By the mid-1960s, the local Arc chapter of Jefferson County, Colorado—part of the state-wide Arc chapter—decided that bake sales and rummage sales were simply not raising sufficient funds to properly serve the needs of parents of individuals with intellectual or developmental disabilities. The chapter had greater resource needs because it wanted to (1) provide resources such as training courses for parents; (2) employ staff who could advocate for the rights of individuals with I/DD; and (3) help individuals with I/DD do things like integrate into mainstream schools, find jobs, and live independently as adults.

When a parent from the Arc of Jefferson County visited a chapter in California, he discovered that it was having some success raising money through a thrift store. To his surprise, he also learned that people with I/DD were actually working in the store. He took this idea home to Colorado and presented it to his own and neighbouring chapters; in June 1968, the first arc Thrift Store opened on Broadway Street in South Denver, Colorado. The 1,400-square-metre space contained used items that were collected and sold, and to the surprise of many of the parents, the model was a success.

As a result of the success of this first store, the Arc of Colorado opened a number of other thrift stores in rapid succession. Key local Arc chapters established an allocations committee to decide how to distribute the profits from these new thrift stores. The allocations committee decided that the profits would be distributed to local chapters based on the population of that Arc chapter’s county: the more people a chapter served, the greater the allocation it would receive. This allocation formula continued to apply in 2019.

From its inception until the end of the 1980s, the driving mission of arc Thrift Stores was to produce as much profit as possible to fund the needs of the various Arc chapters. However, by the mid-2000s, this focus began to change, and arc Thrift Stores began to lose sight of its core mission. The organization’s underlying financials were weak and so was its link to the community of individuals with I/DD; arc Thrift Stores employed only 10 people with I/DD. Indeed, morale in the company was declining just as fast as its profits. This was partly related to the way the business was being managed, which was a function of who was managing it.

THE BUSINESS OF THE FEEDER-RECEIVER MODEL

In the early- to mid-2000s, arc Thrift Stores were run by business professionals who had little to no retail experience, no experience in thrift stores, and no background in what would now be termed a “social enterprise” business model. Similarly, these individuals had limited personal connections to the mission of arc Thrift Stores or to its support of individuals with I/DD.

Still, the individual leaders of the company were doing what they thought was best for arc Thrift Stores. At one point, according to the memories of long-time arc Thrift Stores’ workers, the leaders worked with consultants, who suggested a new business model for thrift retailers. Arc Thrift Stores implemented this new program, referred to as the feeder-receiver model, in which one store collected and sorted the products that would be sold in two different stores. The first store included a warehouse, where the used items were received and processed before being sold at that store andthe second store. The intention was to cut down production expenses related to collecting and sorting the products, and the underlying logic was that cutting expenses would lead to greater profit. However, the result was that this model did not sufficiently address customer preferences for products and pricing at individual store locations and did not produce adequate product in several key departments. As a result, several veteran arc Thrift Stores employees recalled the mid-2000s as a period of staffing cuts focused on trimming expenses and of a culture of strife and declining same-store sales.

WINDS OF CHANGE AND THE BIG MEETING

By 2005, the performance of arc Thrift Stores had led the board of directors to remove the sitting CEO and make Lewis, then the chief financial officer, the interim CEO. This change was surprising since Lewis had been with arc Thrift Stores for only six months. However, he had been making progress in cleaning up the finances, and his background in finance had enabled him to quickly understand and articulate the company’s current challenges, which led the board to see that new leadership was needed.

More importantly, Lewis had a personal connection to arc Thrift Stores and its original mission. He was the father of a two-year-old son with Down syndrome. This personal connection led Lewis to become an advocate for research on Down syndrome, and after six months within the company, he had already earned a reputation as a no-nonsense leader who had big aspirations for the organization. While Lewis admittedly had no experience in retail—his background was in finance in high-tech companies—he nonetheless believed that he could surround himself with the right team to accomplish his big vision. Within two months of his appointment as interim CEO, the board of directors made Lewis the CEO of arc Thrift Stores. It was then that he began the hard work of turning things around.

In early 2006, shortly after becoming the CEO, Lewis invited managers from around the company to join him for a strategy session. Those who attended held influential positions and had been at arc Thrift Stores for many years; they held strong opinions and were eager to better align arc Thrift Stores with its original mission. The purpose of the meeting was to enable district and store managers to set a strategy that would accomplish such an alignment. Lewis’s plan was simple: call a full-day meeting, give some direction as to the big-picture goals for arc Thrift Stores and its mission, and then see if this group of managers could deliver a plan to return the company to success. When asked about this meeting after the fact, Lewis explained that he had left the room after the first hour or two because he wanted the managers’ honest feedback about how to change.

The meeting resulted in a back-to-basics manual that recommended completely eliminating the feeder-receiver practice and returning stores to their prior method of collecting and sorting product within the production rooms of each individual store.[[3]](#footnote-3) As Martinez suggested,

Feeder-receiver was geared around expense control, not growth. The hope was that labour increases at one location could allow that location to produce for another location. The true problem with this plan became clear when we realized the producing stores were always going to take the better product for themselves; they kept the more quality product for their floor instead of sending it to the receiving store.

The back-to-basics approach would enable the managers to manage their stores like traditional retail stores instead of attempting to manage expenses first and foremost. Martinez described the underlying logic for this approach, which was implemented soon thereafter:

We started to do thrift again. We’ve been doing it since 1968, and we just had to get back to what we knew how to do. No distractions. We focused in our production rooms; we revamped the storage program to sustain the stores; and all of this brought us back to what we had always known how to do: run a thrift business.

Under the leadership of Lewis, arc Thrift Stores was run like a traditional retail business, with a strong focus on the mission to produce as much profit as possible to fund the needs of the various Arc chapters. Of course, his finance background meant that Lewis demanded that budgets be met; he pushed his employees in operations to increase sales and those in marketing to expand the reach of arc Thrift Stores and drive up customer counts. But everything Lewis did was for the overall good of the mission and for the sake of those the company served. Gerta Thompson, the merchandise manager for arc Thrift Stores, described it this way:

What has changed? We’ve set up the stores better, we merchandise better, and people have figured out it’s a cool place to shop. They keep coming back. Maybe people have finally turned the corner and they do care about our mission and recycling. It’s been an evolution of improving operations and merchandising. The cool thing is, we are still evolving.

But Lewis’s tenure was not just about providing profits to the Arc chapters. It exemplified a return to what was important: the mission of supporting individuals with intellectual and developmental disabilities. Everything about arc Thrift Stores, from whom it employed to how it helped those employees, focused on these individuals.

ARC, ITS PEOPLE, AND ITS IMPACT

One of the first big signals that things at arc Thrift Stores were going to be different under Lewis came in late 2005 when he decided to hold a dinner to celebrate the year’s accomplishments. At this dinner, which became an annual tradition, Lewis started another tradition of honouring three Heroes of the Year, all of whom were arc Thrift Stores employees with I/DD. This tradition also continued and became a symbol of arc Thrift Stores’ most important function as a resource to individuals with I/DD and their families.

Lewis’s signal about the importance of focusing on individuals with I/DD was heard across the company. Following the annual dinner, arc Thrift Stores had a new mandate. This mandate was simple: if people with an intellectual, developmental, and/or physical disability were seeking a job, they would find it at arc Thrift Stores. Not only that, they would be paid at or above minimum wage—something that was not necessarily the norm for individuals with I/DD—and they would have a job that fit their level of ability. Parents from across the state began to reach out to arc Thrift Stores in hopes of helping children who had already aged out of high school to find a purpose. That purpose became a paycheque and a social life, both of which came with a job at arc Thrift Stores. Employees with I/DD came to be known as the Ambassadors; they served “as examples of [the] Mission in action—to have people with intellectual/developmental disabilities gain self-respect, self-determination, and independence in their communities and professional workplace.”[[4]](#footnote-4)

With the successful implementation of the mandate to hire individuals with I/DD came an idea to further support these individuals with more than a job alone. Louise Vaughn, who had joined arc Thrift Stores’ information technology and human resources department in 2003 after 31 years as a manager at AT&T, had previously taught in an adjunct capacity after finishing a master’s degree at the University of Denver, and she shared Lewis’s passion for education. Both Lewis and Vaughn wanted to see the arc Ambassadors experience post-secondary education at some level. Lewis tasked Vaughn with bringing in government and community grants that would help arc Thrift Stores create a series of post-secondary courses for employees with intellectual and developmental disabilities. Vaughn described arc University as a “point of pride for arc Thrift Stores. The high school years of our Ambassadors, in most cases, were not positive. This is a positive opportunity for our people [with I/DD] to learn life skills and have a taste of post-secondary education in a positive and nurturing environment.”

The Daniels Fund—a Colorado-based philanthropic organization with a grants program that focused on “supporting highly effective nonprofit organizations that achieve significant results”[[5]](#footnote-5)—was supportive of the arc Thrift Stores mission to provide post-secondary experience to its Ambassadors. Through a generous grant from the Daniels Fund, arc Thrift Stores was able to create the arc University program, which involved the arc Ambassadors in life skills classes on topics such as managing their health, having conversations with their doctors, and managing their finances. While many arc Ambassadors would never have the opportunity to attend post-secondary courses, the arc University made this possible.

ARC THRIFT STORES AND ITS AUDIENCE

In a very real sense, arc University exemplified what arc Thrift Stores did for individuals with I/DD. When employees were asked to describe what the store did, arc University was likely to come up in their responses as something that typified arc Thrift Stores’ impact. However, it was an impact that those who shopped at arc Thrift Stores might not even be aware of. The audience survey Lewis had requested from Scivicque was intended to investigate questions about just this kind of awareness.

To conduct the audience survey, Scivicque worked with two other organizations to collect data on the awareness of arc Thrift Stores among members of particular market segments. A total of 2,729 individuals were included in the survey. Respondents were primarily arc Thrift Stores customers who were invited to participate via email, but the survey also included individuals who responded to requests on various social media channels and individuals in Colorado who were part of a research panel made up of thrift store customers, which was initiated by the vendors who collected the data for arc Thrift Stores.

The results of the survey showed three different market segments for arc Thrift Stores: treasure hunters, benefactors, and trend followers. Treasure hunters were described as “impulse buyers who [loved] shopping” and were “always on the lookout for something unique.” Benefactors were “brand loyal and much more likely to support local retailers and those that support their community.” Trend followers were “much more likely than other groups to prefer chain stores.” This group worried more than others about buying used and wanted to “stay on trend.” As might be expected, the treasure hunters and the benefactors tended to be more similar in their responses compared to the trend followers, who were less committed to stores like arc Thrift Stores.

Other patterns also emerged from the survey. Trend followers represented the smallest group of arc Thrift Stores’ customers; most of the respondents were female (82 per cent); a significant portion of the respondents were above 40 years old (75 per cent); and the largest portion of respondents were white (84 per cent). A large portion of the respondents also noted that they spent less than $50 a month on clothing (66 per cent). In response to this evidence, Thompson, the merchandise manager, commented, “We have always suspected our customer is older, but I am not sure we have ever really made a true effort to appeal to the younger generation—the college kids and the 20-somethings. We really aren’t addressing this market the same way we do our regular 34 to 54 demographic.”

Based on these results, it was clear to Scivicque and Lewis that continued growth and success for arc Thrift Stores required them to build loyalty among a younger and more diverse demographic. The question was how to go about doing this. How could the company make inroads with a younger demographic? While there were some possibilities in arc Thrift Stores’ current operations (e.g., Facebook ads about College “move in” day prior to the beginning of a new school year), they wondered what else they could do. Should they focus more on sustainability? Should they consider moving into the e-commerce space, following the lead of book sellers such as AbeBooks, which was founded in Victoria, British Columbia, in 1995 and sold to Amazon.com Inc. in 2008? Like the bookstore model, the thrift model was also changing, and it was critical that they understand these changes.

THE EVOLUTION OF THRIFT

Like that of retail in general, the business model for thrift stores had undergone a broad shift over time. Thompson, the arc Thrift Stores merchandising manager, had seen these changes in retail and specifically in thrift over her career. She had started working in retail in the 1960s and had been the merchandise manager and buyer at arc Thrift Stores for over 20 years. Her role had allowed her to watch the retail and thrift business evolve from the front lines. She described the changes in thrift:

Gone are the days of pricing sweat pants and putting them on the racks in the domestics department. Today thrift is far more efficient. Arc Thrift Stores colourizes, sizes, and departmentally sorts the selection because that’s what the customer wants. They want a clean, organized environment that is easy to shop. As we grow, it is about balancing that customer experience with managing production. We have the advantage of not waiting for a vendor to bring us product. Rather, we can turn on a dime and make changes to the floor based on a weather event because we have the inventory. It gives us a unique niche in the brick-and-mortar retail market.

However, Thompson and other leaders at arc Thrift Stores were focusing on more than just how customers shopped and what they shopped for; they were more interested in ensuring that they did not lose customers because the customer experience was not good enough. Instead, as Thompson noted, “We have to make things look fun and look exciting; it has to be easy to shop.”

Instead of thrift being “just for low-income people,” Thompson explained that thrift had shifted to “almost becoming the cool thing to do—thrifting is now widely accepted.” Thrift looked very different today than it looked years ago, but it was still, fundamentally, a business of gently used items hitting a sales floor. However, in the modern iteration of the thrift business model, retailers like arc Thrift Stores provided product more efficiently, were more concerned with quality and brand names than ever before, and took the time to display it in a more pleasing and organized manner.

The thrift industry had also become a little savvier in its hiring practices over the years. As Thompson explained, “Instead of hiring the first person off the street that comes in and can chew gum and walk, we have to be smart about hiring.” Indeed, because shopping was a social experience, arc Thrift Stores had focused on hiring people who interacted and assisted customers in a positive way. Several arc Thrift Store managers insisted that the growing practice of including employees with I/DD on the sales floor had had a very interesting effect on the business. Lewis often told fellow business owners,

You can’t exactly work next to someone with Down syndrome and be in a bad mood. Here is a person, with a disability, who truly believes they have the best job in the world, and they simply don’t understand why you would be unhappy. That happiness is contagious for employees and customers.

It was for this reason that Vaughn believed that arc Thrift Stores “must continue to add employees with I/DD—that is so important and truly gets to the core of our purpose.” But was this enough, or did the mission of arc Thrift Stores—or at least, the communication of that mission to audiences—need to further evolve? From Vaughn’s perspective, the answer was no: “Trends will come and go, but it’s more important for us to continue our focus. We focus on our I/DD community, and it is what we do well. That is what rings true for us. If we grow our business with more stores and in new areas, we don’t need to change our mission or our focus.”

WHAT NEXT?

It became clear during the meeting that arc Thrift Stores was facing many key questions. The future was uncertain, and the leadership team, led by Lewis, was working to understand what to do next. How could arc Thrift Store evolve? Should it evolve at all? If so, how could it get a new set of customers who would sustain the organization for the next 50 years? How could it make inroads with a younger and more diverse demographic?

As Lewis and his leadership team reflected on this question, Lewis remarked that the company’s future would be “forward facing: we will add stores, add customers, and grow to spread the word about our mission. We want people to understand the value of shopping our stores and quality of items our customers can expect to find.” Now it was time to do this.

1. “Our History,” The Arc, accessed March 5, 2019, www.thearc.org/who-we-are/history. [↑](#footnote-ref-1)
2. “Find a Chapter,” The Arc, accessed March 5, 2019, www.thearc.org/find-a-chapter/state-executive-directors-list. [↑](#footnote-ref-2)
3. Production rooms were the back rooms of each arc Thrift Stores location. This was where donations were collected, sorted, and priced for distribution to the sales floor. [↑](#footnote-ref-3)
4. “Ambassadors,” Arc Thrift Stores, accessed March 9, 2019, www.arcthrift.com/mission/annual-report.html. [↑](#footnote-ref-4)
5. “Mission & Charitable Giving,” Daniels Fund, accessed March 9, 2019, www.danielsfund.org/about-daniels-fund/mission. [↑](#footnote-ref-5)