The Retail Apocalypse - Debunking the Myth

Introduction – The "Retail Apocalypse" is a concept being actively promoted through media headlines, and largely based on recent closures among national chain stores across the nation. However, it is only a myth that can be easily debunked with real data.

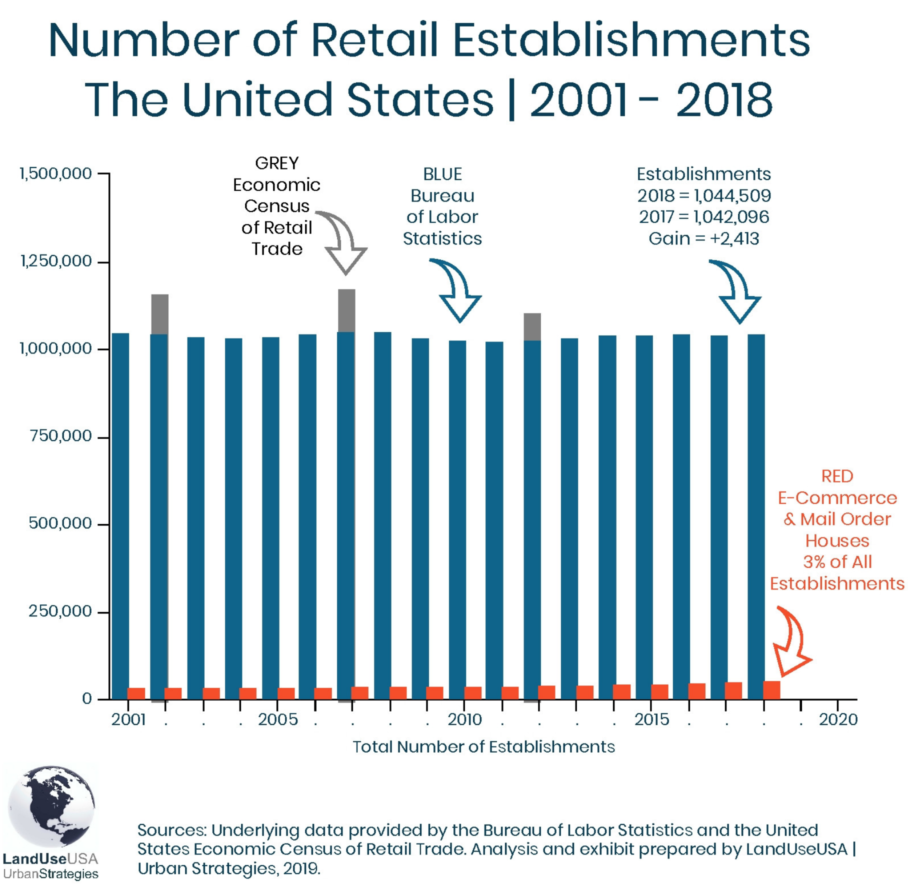
It is important to debunk the myth and change the dialogue about the future of retail nationwide, in our downtowns, and all urban settings. By challenging mainstream media and shifting the conversation, we hope to instill new faith and encouragement for urban and town planners, developers, downtown merchants, and main street managers.

This article explores real data and demonstrates that the total number of retail establishments and aggregate retail sales are actually increasing; new chain stores and restaurant openings are offsetting closures; e-commerce still represents less than 15% of total retail trade; and the annual growth rate of e-commerce has slowed to the low teens.

This article also touches on some emerging retail trends, including retrofitting vacant mall anchors and leveraging the "Halo Effect" of Omni-channel marketing to optimize retail sales.

Increasing Number of Retail Establishments – The hypothetical Retail Apocalypse should be supported by a decline in the total retail establishments – but nothing could be farther from the truth. In fact, the United States had over 1 million retail establishments in 2018 – and more than the prior year 2017. More specifically, the Bureau of Labor Statistics (BLS) reported 1,044,509 establishments for 2018, for a net gain of +2,413 establishments since 2017 (1,042,096). The 2018 figure also represents a net gain of over +20,800 establishments since the trough in 2011.

A timeline of total retail establishments since 2001 is shown in chart below. This same chart also shows a timeline of e-commerce establishments and mail order houses (i.e., non-stores). They currently total 33,000 and represent just 3% of all retail establishments. E-commerce sales are addressed in greater detail later in this article.



Sources: Underlying data provided by the Bureau of Labor Statistics and the United States Economic Census of Retail Trade. Analysis and exhibit prepared by LandUseUSA | Urban Strategies, 2019.

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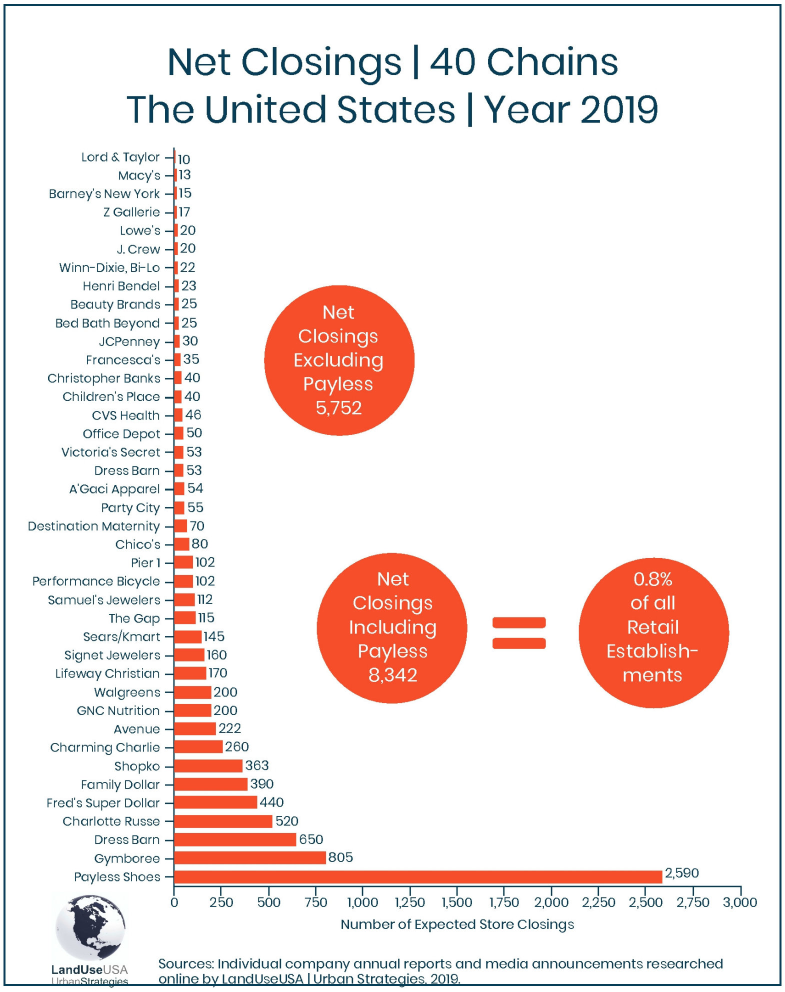
New Stores Offset the Closings – The growth of retail trade can be tough to imagine given all of the announcements of store closings across the nation, and particularly with media channels fanning the flames. Chain store closings get negative and inflated media coverage because it helps sell news channels. With that primary objective, reporters too quickly ignore new store and restaurant openings that offset the closures.

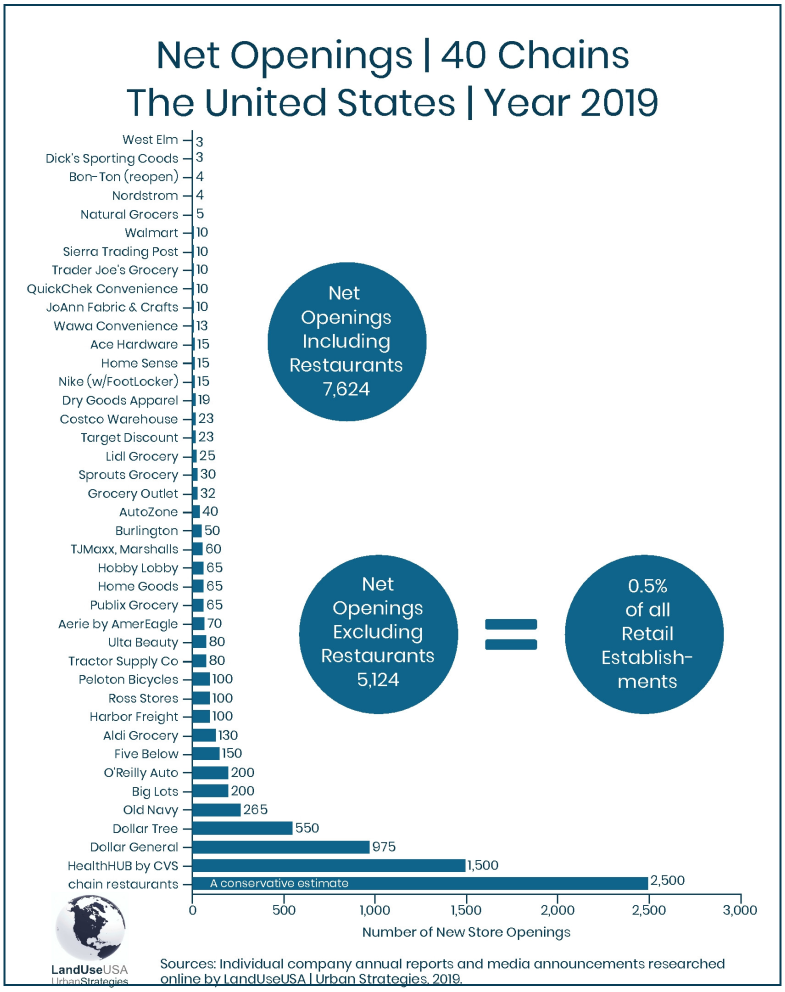
To further debunk the myth of a Retail Apocalypse, we conducted an in-depth survey of Top 40 announced chain store closings and openings, and assembled the findings in the two charts shown below. Based on these inventories, at least -8,342 chain store locations will close in 2019, including -2,590 Payless shoe stores. Others chain closings are in the hundreds and include Gymboree (-805), Dress Barn (-650), Charlotte Russe (-520), Fred's Super Dollar (-440), Family Dollar (-390), Shopko (-363), Sears/Kmart (-145), and the Gap (-115).

Here are some more facts to help keep the record straight. First, the top 40 chain store closures represent a mere 0.8% of all retail establishments reported in 2018. That is 8 stores out of every one thousand (8/1,000); and the other 99.2% of all retail establishments (9,992 out of every thousand) are actually growing in total numbers.

Furthermore, the nation's new store openings will total at least +5,124 in 2019 (0.5% of all establishments). There are also +2,500 net new restaurants opening in 2019 (this is a conservative estimate), which helps make up any remaining gap between store openings versus closings.

It is also worth noting that the Payless shoe store closings represent over 30% of the top 40 chain store closures. If Payless Shoes is removed from the count, then all other losses are nearly offset by new store openings. If the new restaurants (+2,500) are added to the mix, then there is a net gain rather than loss.





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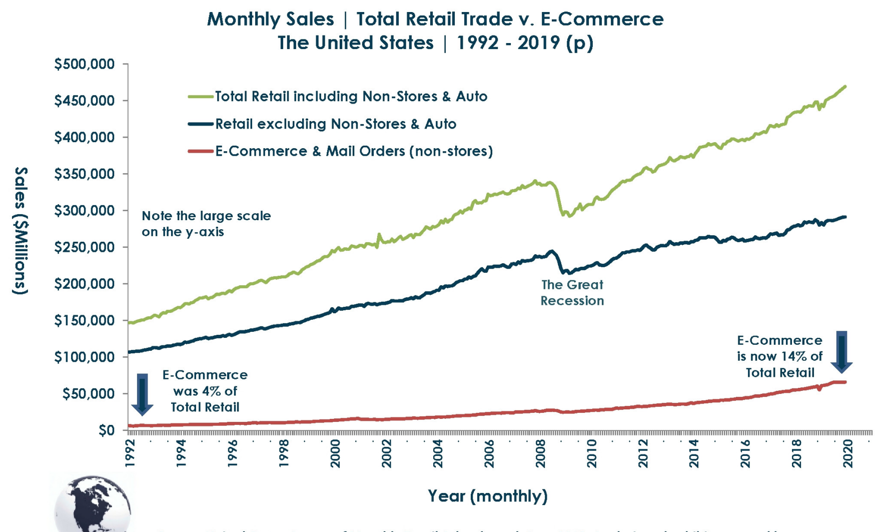
Increasing Retail Sales – A hypothetical Retail Apocalypse should also be supported by a decline in brick-n-mortar retail sales - but again that notion can be refuted with real data. The two charts below demonstrate that monthly sales for total retail, grocery stores, and restaurants are all continuing to grow.

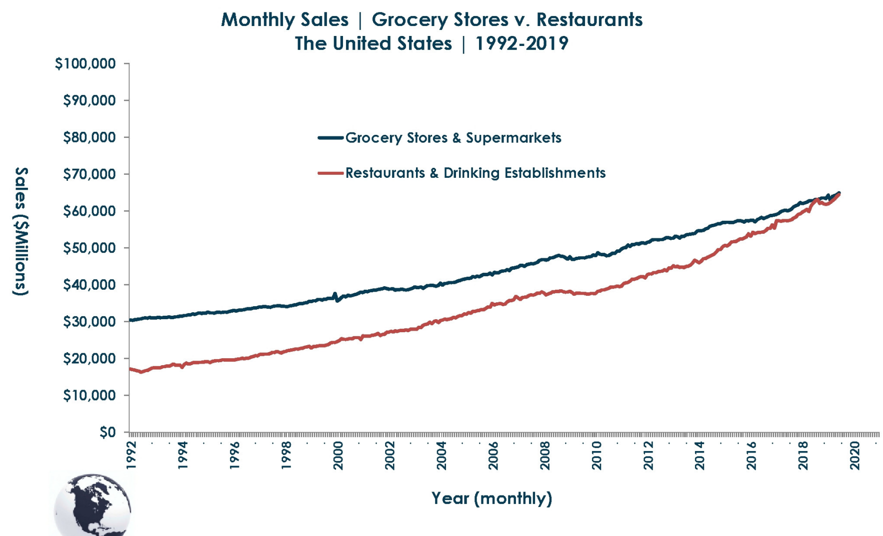
There appears to be more volatility since the Great Recession. However, monthly sales have since rebounded and the long-term prospects look promising. E-commerce, mail order houses, and other non-stores are also shown in the top chart and will be addressed later in this article.

A closer study of retail subcategories points to some winners and some losers. Grocery stores and supermarkets are experiencing the most robust growth in monthly sales. However, they will soon be passed up by monthly revenues among restaurants and drinking establishments.

Although restaurants are not technically included in the BLS classification of retail trade, they are important because they attract shoppers, enhance retail shopping experiences, and are good solutions for filling retail vacancies.



Source: United States Census of Monthly Retail Sales through June 2019. Analysis and exhibit prepared by LandUseUSA | Urban Strategies © 2019. Non-Stores include all electronic shopping (e-commerce), mail order houses (catalogs), and miscellaneous vendors.



Source: United States Census of Monthly Retail Sales through June 2019. Analysis and exhibit prepared by LandUseUSA | Urban Strategies © 2019. Grocery stores and supermarkets include liquor stores.

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General Merchandise, Clothing, Hardware – Other brick-n-mortar categories are benefiting from moderate yet steady growth in monthly sales, including general merchandise, clothing and accessories, and building materials (including all hardware stores) and garden supplies. The general merchandise category includes all conventional department stores like Bon-Ton (re-opening stores), Nordstrom, and Dillard's. It also includes all growing chains and brands like Walmart, Target, Costco, Dollar General, and Five Below.

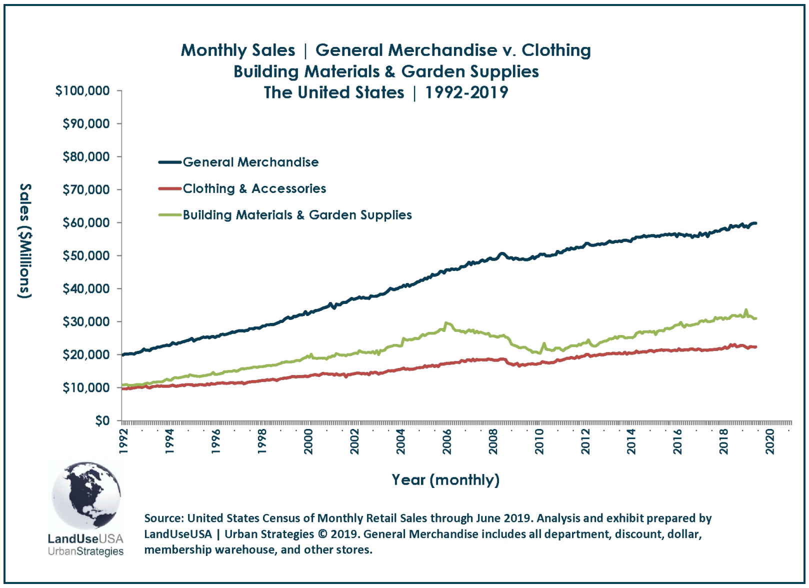
As an interesting side note, Walmart's domestic sales represent about 45% of general merchandise revenues for the United States (source: Walmart 2019 Annual Report and the Census of Monthly Retail Sales).

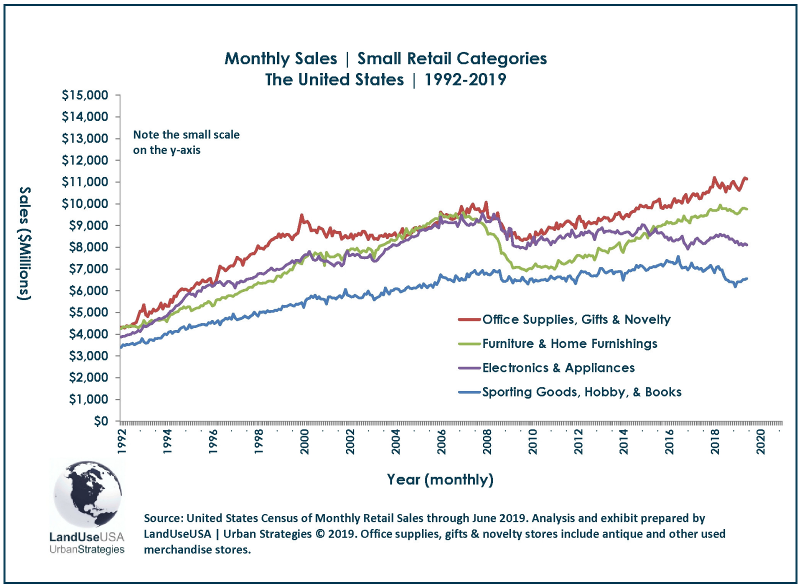
The discount and dollar store categories have proven to be especially recession-proof. During the Great Recession, shoppers shifted their spending away from luxury brands and conventional department stores. Instead, they learned to value thrifty shopping and enjoyed the gratification of finding good bargains and deals. This shift in shopper attitudes has continued even through the economic recovery.

The clothing and accessories category includes apparel chains and tenants, but excludes department stores. Examples include growing brands like Old Navy, Ross Stores, Aerie (by American Eagle), Marshalls and T.J. Maxx, Burlington (Coat Factory), Nike/Foot Locker, Sierra Trading Post, and Dry Goods.

Building materials and hardware took a big hit during the Great Recession. The housing slump had home owners deferring maintenance and improvements while developers fled the industry and construction slowed to a halt. However, it has since recovered and has resumed a positive trend of growth in monthly sales. Growing brands in this category include names like Harbor Freight Tools and Tractor Supply Company.

Small Retail Categories – Among smaller brick-n-mortar retail categories, there are two winners and two losers. Office supplies, gifts, novelty stores (including antique stores), furniture, and home furnishings have thrived since the Great Recession. In comparison, monthly sales in electronics, appliances, sporting goods, hobby supplies, and book stores have struggled in recent years. The impacts on these smaller categories are often attributed to the impact of e-commerce. This is largely true, and the topic is addressed more on the following pages.





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Steady Occupancy Rates – Retail analysts throughout the industry are reporting solid and steady occupancy rates among all retail space (sources: CoStar, Reis, ICSC, and NAR). Industry-wide occupancy rates are currently holding steady at 90% to 95%, with some variation depending on the methodology, type of shopping center, and submarket. The overarching consensus among analysts is that open air "towne centres" have average occupancy rates of about 95%; whereas outdated strip centers have average occupancy rates of 80% to 85%.

The most sobering news is that regional malls have experienced an increase in average vacancy rates from 10% to 13% since 2013. Regional mall vacancy rates could climb to 15% by 2020 and following additional closures anticipated among conventional mall anchors and tenants.

Retrofits Help Occupancy Rates – Anchor store closures (like Macy's, Lord & Taylor, JC Penney, and Sears) can have profound negative impacts on the marketability of regional shopping centers. Malls that lose their anchor stores will also struggle to retain smaller apparel tenants. When the anchors downsize or close, all of the tenants suffer.

The relatively high vacancy rates among regional malls and strip centers are expected to recover over time, aided by the demolition of obsolete structures and retrofits. Vacant big-boxes can also be converted or adapted into non-retail uses, including services that complement retail and improve the overall experience for shoppers and patrons.

Retrofitting Vacant Space – Examples

Entertainment, Amusement Arcades, Childcare
Health & Wellness Spas, Fitness Centers, Gyms
Event Space, Rooftop Gardens, Music Stages
Work Share, Co-op Work Space, Business Accelerators
Overnight Accommodations, Hotels, Pet Retreats
Medical Urgent Care, Labs, Imaging, Radiology, etc.
Technical Training Schools, Computer Training Centers
Marketing and Call Centers, Phone Orders, Mail Orders
Urban Housing Formats like Lofts, Townhouses

Retail property owners are learning to be resilient and are becoming increasingly successful in luring a wide variety of alternative uses for vacant anchor space. "Experiential" uses like entertainment and amusement arcades, health and wellness spas, fitness centers and gyms, event space, and work share offices are especially effective in attracting patrons. They can then be converted into shoppers who generate sales and support the retail tenants.

The Lion in the Room: E-Commerce – It is quite popular to blame the "Retail Apocalypse" myth on the growth of e-commerce, with Amazon leading the way. The impact of e-commerce is real, but not as profound or negative as the media would have us believe. Contrary to popular belief, e-commerce has not killed retail. It has certainly had a negative impact on some relatively small retail subcategories, and namely electronics, appliances, sporting goods, and books. However, the Halo Effects of Omni-Channel and e-commerce can also be leveraged by physical stores to build and solidify customer loyalties.

E-Commerce Market Share – Let's start with some of the real data and facts. First, there are 33,000 non-store e-commerce establishments and they represent just 3% of all retail establishments (see the very first chart in this article).

Based on data provided by the United States Census with Monthly Retail Sales through June 2019, e-commerce currently represents less than 15% of total retail sales. This is considerably higher than the early 1990's, when e-commerce represented less than 5% of total retail sales (see the second chart in this article). Most retail analysts and forecasters seem to agree that it will plateau at about 30% (sources: CoStar, Reis, ICSC, and NAR).

As an interesting side note, Amazon's domestic revenues represent about 20% of total e-commerce sales in the United States. (Source: Amazon 2019 Annual Report and the Census of Monthly Retail Sales.)

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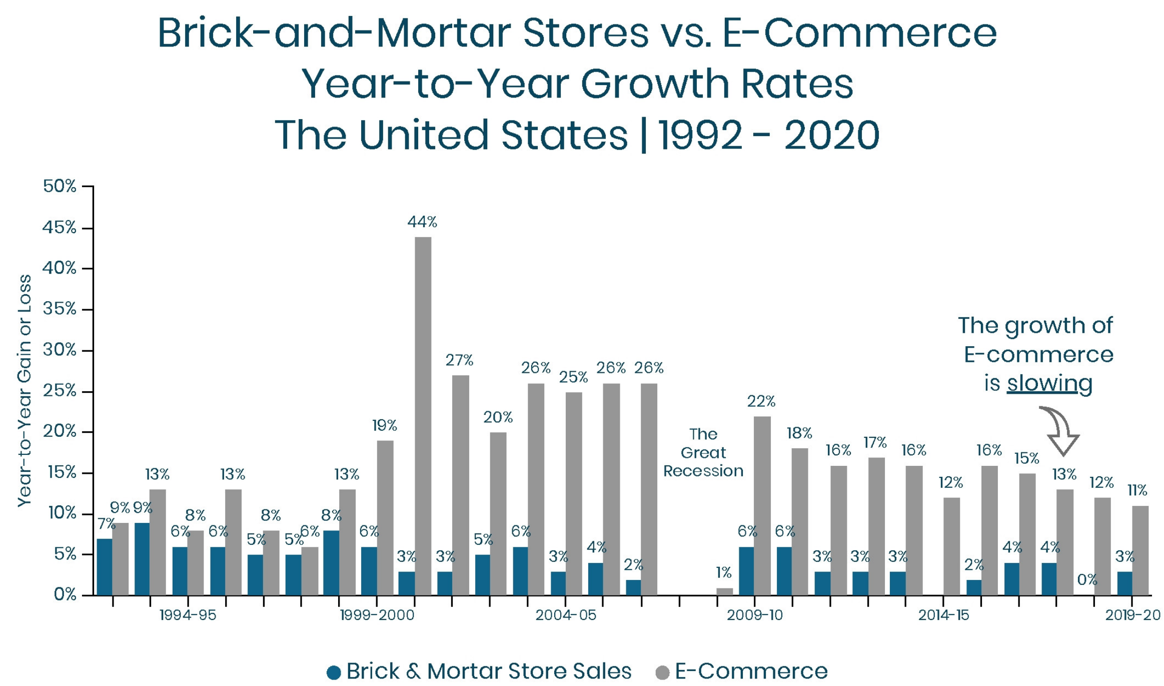
E-Commerce Growth is Slowing Down – As shown in histogram below, the growth of e-commerce has been exceptionally high but is now slowing down (source: United States Census). It was growing +25% annually during the 2000’s, but that rate fell into the teens during the early 2010’s and has since slowed to about +13% (2018 v. 2017). The rate of growth is expected to continue slowing and should settle down to +5% annually by the year 2030.

The Halo Effect of Omni-Channeling – The costs of building and maintaining an e-commerce presence can be prohibitively expensive. It can require considerable up-front investment into information technology, marketing, fulfillment, returns, and customer service. Yet even with the high upstart costs, many chains stores have been defying Amazon with their own online and Omni-channel strategies.

In fact, a market transformation is currently underway with brick-n-mortar stores leveraging e-commerce to build Omni-channel experiences that solidify brand loyalties among shoppers. The fastest growing trend is e-commerce sales bolstered by brick-n-mortar stores that enable shoppers to explore and test the merchandise; check sizes, colors, and quality; collect online sales (“click and collect”); and avoid delivery fees for returns. It is a symbiotic relationship, with e-commerce generating a Halo Effect for physical stores and vice versa (see the diagram on the next page).

The ongoing cycle of chain store closings and new store openings reflects a market in flux and transformation. Shoppers are looking for convenience, experience, unique merchandise, high service, and a complete sensory experience. Omni-channel shopping helps bridge these preferences with the convenience of online shopping and gratification of an enjoyable shopping experience in brick-n-mortar stores. The combination is powerful and is being used by many retailers to solidify brand loyalties.



Analysis and exhibit prepared by LandUseUSA | Urban Strategies © with all rights reserved. Underlying data provided by the United States Census with interpolations, calculations, and forecasts provided by LandUseUSA. "E-Commerce" includes all electronic shopping, mail order houses (catalogs), and miscellaneous vendors; and includes e-commerce by both brick-and-mortar stores and by non-stores.

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Emerging Trends – More and more retailers are adopting Omni-channel and click-and-collect strategies, which allows customers to order merchandise online for pickup in stores. It is generally believed that shoppers will buy additional items in the physical store, even if their initial trip was just to pick up online purchases. Brick-n-mortar stores can capitalize on this trend by providing click-and-collect services along with shipping to private residences.

Brick-n-mortar retailers that harness e-commerce will succeed in attracting more in-store shoppers. Some stores are even building relationships with brands so their customers can collect or return merchandise that is not actually available from the store. This gives those stores a chance to convert visitors into impulse buyers of their own merchandise.

In addition, brands that were originally created only for "pure play" online sales are now opening brick-n-mortar stores. E-commerce retailers are also beginning to test the waters with pop-up stores, which helps raise brand awareness and can be used to gauge performance before committing to a long-term lease.

Lifestyle preferences of young consumers are also shifting, and retailers must be nimble to adapt and keep up. For example, younger consumers are increasingly willing to rent home furnishings and clothing, which opens new niche opportunities for both e-commerce and brick-n-mortar stores. These are just a few of the most recent trends, and new ones will emerge every year.

Conclusion - The future for brick-n-mortar retail is far less bleak than the scene painted by mainstream media. Although e-commerce is taking a larger share of the pie, brick-n-mortar and physical store sales are also continuing to grow. Most of the chain store closures are limited to certain segments of retail, and particularly department stores anchors and apparel tenants of sprawling regional malls and strip centers.

Changes in technology and consumer preferences are also transforming the retail industry. These changes include the downsizing or "right-sizing" (and sometimes the demise) of chain stores and brands that were overbuilt, outdated, and either unwilling or unable to keep up with emerging new trends, fashions, and shifts in shopper behavior. Fortunately, there is a new store, merchant, or restaurant that opens for every chain store that closes.

Brick-n-mortar retail is here to stay. For the foreseeable future, shoppers will continue visiting physical stores to enjoy the shopping experience; for its entertainment value ("retail therapy"); for instant shopping gratification without delivery delays; to touch and test merchandise; and to leverage Omni-channel strategies like click-and-collect and fee-free returns. Merchants and independent proprietors who can leverage the newest trends will also be the most likely to succeed and thrive.

Prepared on behalf of
The Congress for the New Ubanism

About the Author – Sharon Woods is a certified Counselor of Real Estate advising communities, professional planners, and developers on market-wide opportunities and the highest and best use of land. She develops residential and retail market strategies for urban places; serves as a faculty member with the Incremental Development Alliance; and also serves on the board of directors for the Michigan chapter of the Congress for the New Urbanism.

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