WWD

The Outside View

The entrance of Target's new store in New York's Herald Square.

What Retail Apocalypse?

HRC Retail Advisory's Antony Karabus and Farla Efros on the opportunities for retailers willing to commit to the transformation journey. BY **ANTONY KARABUS** AND **FARLA EFROS**

If the health of the retail sector is judged by the number of Chapter 11 and liquidation announcements since 2019, it would appear the industry is facing an apocalypse. But the reality is far more nuanced and complex.

While the bar has been raised since the onset of the digital era, and even more so since the arrival of the pandemic, significant opportunities exist for retailers that are able and willing to address their most pressing challenges and opportunities. Success, however, requires a commitment to fundamental transformation. Indeed, the winners will be those that evolve to become the destination and authority for target customers in their category.

CONSUMER SPENDING REMAINS STRONG

Consumers are still shopping, but their habits have changed significantly over the past seven months. Malls are quieter and foot traffic has continued its steady multiyear decline.

But media warnings of a retail apocalypse fail to consider the windfall of tens of billions of dollars being diverted – at least during 2020 and likely also for much of 2021 – from restaurants, hotels, airlines, cruises, entertainment and other related spending, to home improvement, grocery stores and clothing for work-from-home, exercising and lounging. The warnings also don't consider the success of a few other retailers that have invested in differentiating their brands and becoming the true destination in their category.

In short, despite gloomy predictions, consumers are spending.

RETAIL RESULTS ARE INCREASINGLY UNEVEN

Not surprisingly, the retailer reaping the biggest rewards is Amazon, whose Prime Day sales have increased by 36 percent over 2019. But there are other winners, too. Retailers in categories such as home categories, mattresses/bedding, home improvement and appliances, grocery, beauty, pet, pool and active/outdoor retailers are also performing well. These retailers, including those that are nonessential but meet key customer needs, are exceeding expectations and reporting strong financial results. Target Corp., for example, experienced a 24 percent increase in comparable sales to $23 billion in the second quarter of this year, with a $5 billion increase in market share.

Still, results are increasingly uneven. Many retailers in the specialty apparel (in particular, those selling work and tailored clothing) and department store sectors are experiencing negative comparable sales, and in some instances have filed for creditor protection in the past year.

Most retailers filing Chapter 11 since 2019, however, were already on the "watch list" for restructuring. To be sure, while COVID-19 has been an accelerator for the troubles facing the discretionary spending category, it's far from the root cause.

The narrative of "the coronavirus is the issue" doesn't consider, for example, the investments in digital growth and omnichannel solutions made by leading retailers before the pandemic hit, and the comparable lack of investment made by others. Today's winners have invested heavily over the past few years to ensure they can adapt to the changing consumer demands and expectations of the digital era. These investments have helped these companies capitalize on further changes in consumer behavior due to COVID-19 – namely the shift in focus to online buying.

The massive debt added to numerous retailers' balance sheets from leveraged buyouts and previously failed transformations has proven to be impossible to service, in particular for retailers that needed to concurrently invest in the required transformation, creation of the required operational capabilities, and updating of stale technologies to meet ever-changing consumer needs.

THE BAR TO SURVIVE AND THRIVE HAS BEEN RAISED

The road ahead isn't going to be easy. Success will require meeting the ever-increasing expectations set by retail leaders who have invested heavily in new operational capabilities, including digital, omnichannel, fulfillment and service solutions.

To make it more difficult, digital growth is coming at the expense of most retailers' in-store sales, which means many are unable to increase total sales. And making things even more challenging is the fact that it's more costly to fulfill digital orders than in-store sales due to shipping, fulfillment, digital marketing, talent, returns and other costs. The best way to mitigate the high expense of fulfilling digital sales is to fulfill them through physical stores. Simply put, it has become harder in the digital era to maintain profitability, while satisfying customer demands and preferences for ordering, buying, picking up and returning merchandise.

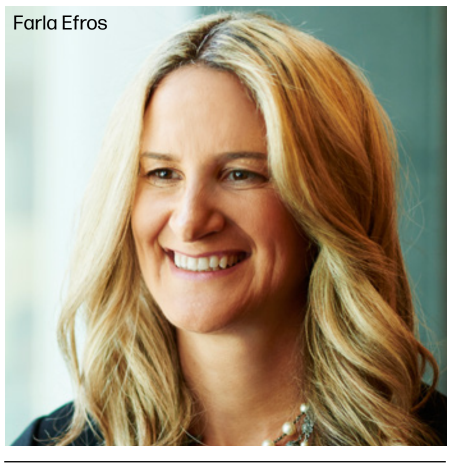
STILL AN OPPORTUNITY FOR RETAILERS TO THRIVE

Consumers are still spending. There is significant opportunity for retailers in many key sectors to plan ahead and capture market share and succeed in transforming their business.

Our firm has identified three essential steps for retailers to transform and thrive during these uncertain times:

1. Strengthen brand differentiation to become the authority in their categories.
2. Go on the offensive and retool the store fleet to strengthen omnicapabilities and profitably compete against online players.
3. Create greater intimacy with customers and optimize the in-store customer experience, your greatest weapon to win against the online players and other competitors.


Antony Karabus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