

Debunking the Retail Apocalypse: *Retail's Real Story*

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Q&A Today



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➤ **Helping Retailers/Hospitality Make Better IT Decisions**

- Managed RFP Process, Contract Reviews

➤ **Syndicated Research and Data Services**

- Retail Benchmarking
- IT Forecasts - WorldView
- Sophia Data Service

➤ **Advisory Programs**

- Retail Executive Advisory Program
- Strategic Operations Exchange

➤ **Custom Research**

What is the background for negative narrative?

How did we get to this negative view of retail



Rightly Viewing The Data



➤ Retailers close stores every year

- 1-3% of stores closing in a brand is healthy
- Normally underperforming stores are replaced with new stores

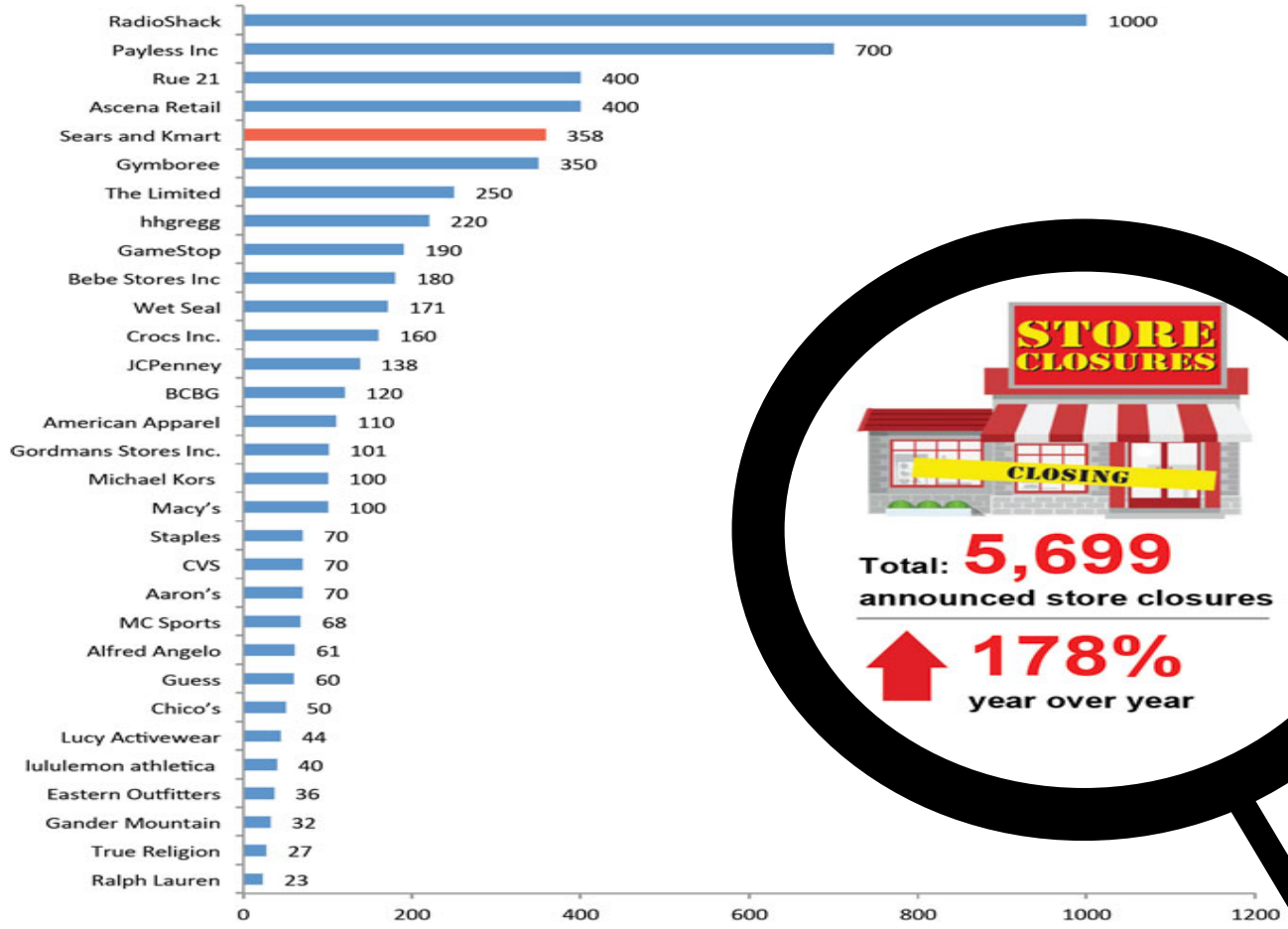
➤ First year in a while in the Fung data closing stores eclipsed openings

- Do terrific job on what they cover – Really only game in town traditionally
- Focus is the key
 - **Heavy focus on Apparel, Department Stores, Supercenters, Warehouse Clubs**
 - Less deep Food/Drug, Mass Merchants (so big categories growing, not as deep)
 - No coverage on Convenience, Fast Food, Restaurants
 - **Large, public or private** who have announced openings or closings

➤ Absence of any further data, press used this data to project all retail

Store Closings – Bad News Sells

Year-to-Date 2017 Major US Store Closure Announcements



STORE CLOSURES

Total: 5,699 announced store closures

↑ 178% year over year

Ignored or buried in stories

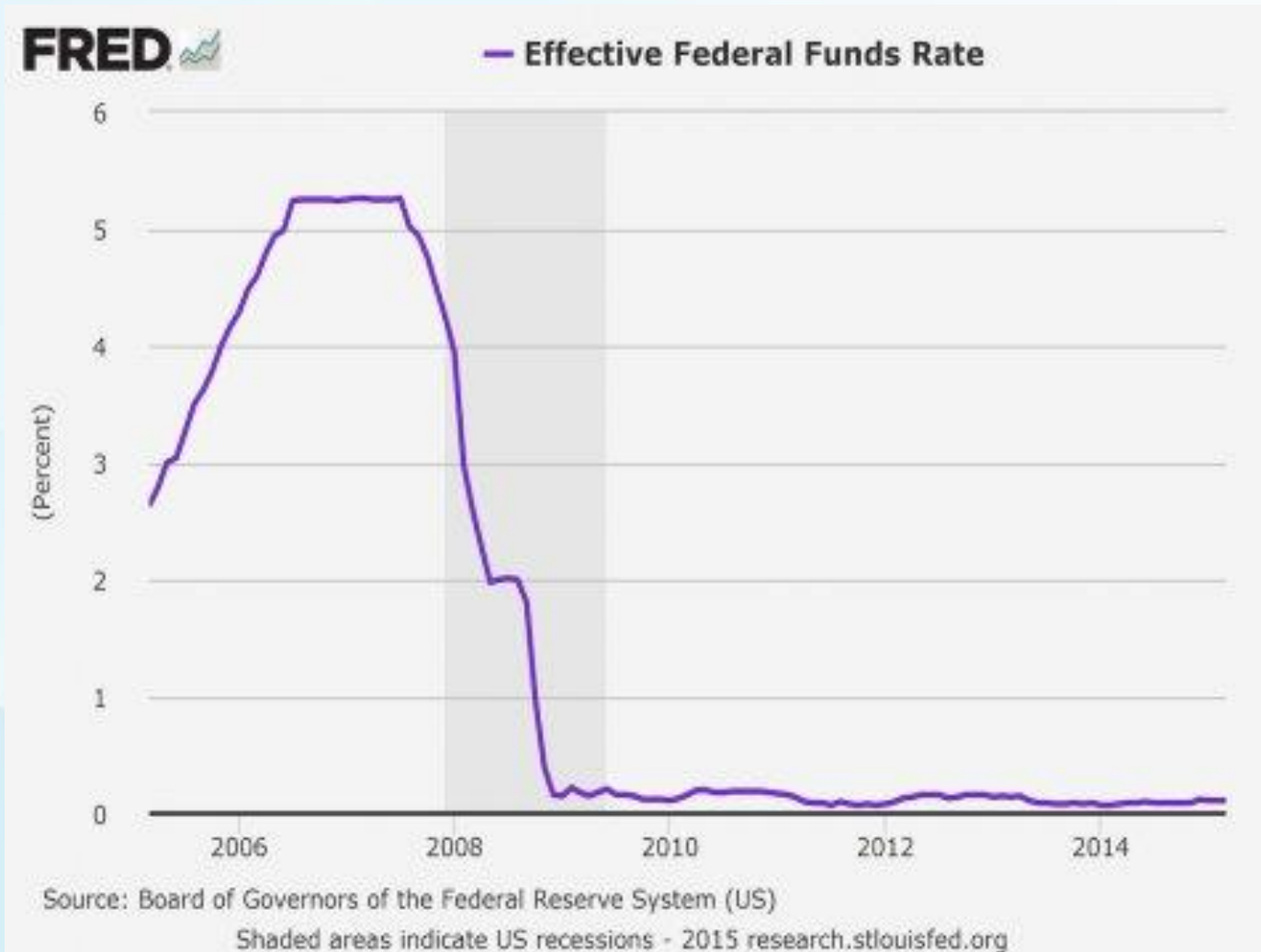


Total: 3,300 announced store openings

↑ 54% year over year

Gymboree announced it would be closing 350–450 stores. Ralph Lauren's store closing number was part of the 50-store closure plan announced in June 2016. Ascena will close between 268 and 667 stores by July 2019, depending on negotiations with landlords. Source: Company reports/FGRT

Historically Low Interest Rates



Cheap Money
=
Overexpansion

Over Stored

Retail Square Footage per Capita



Nearly 10x more space per capita than Germany



Malls built at 4x rate of population growth since 1975

Rise of Fast Fashion



ZARA

H&M

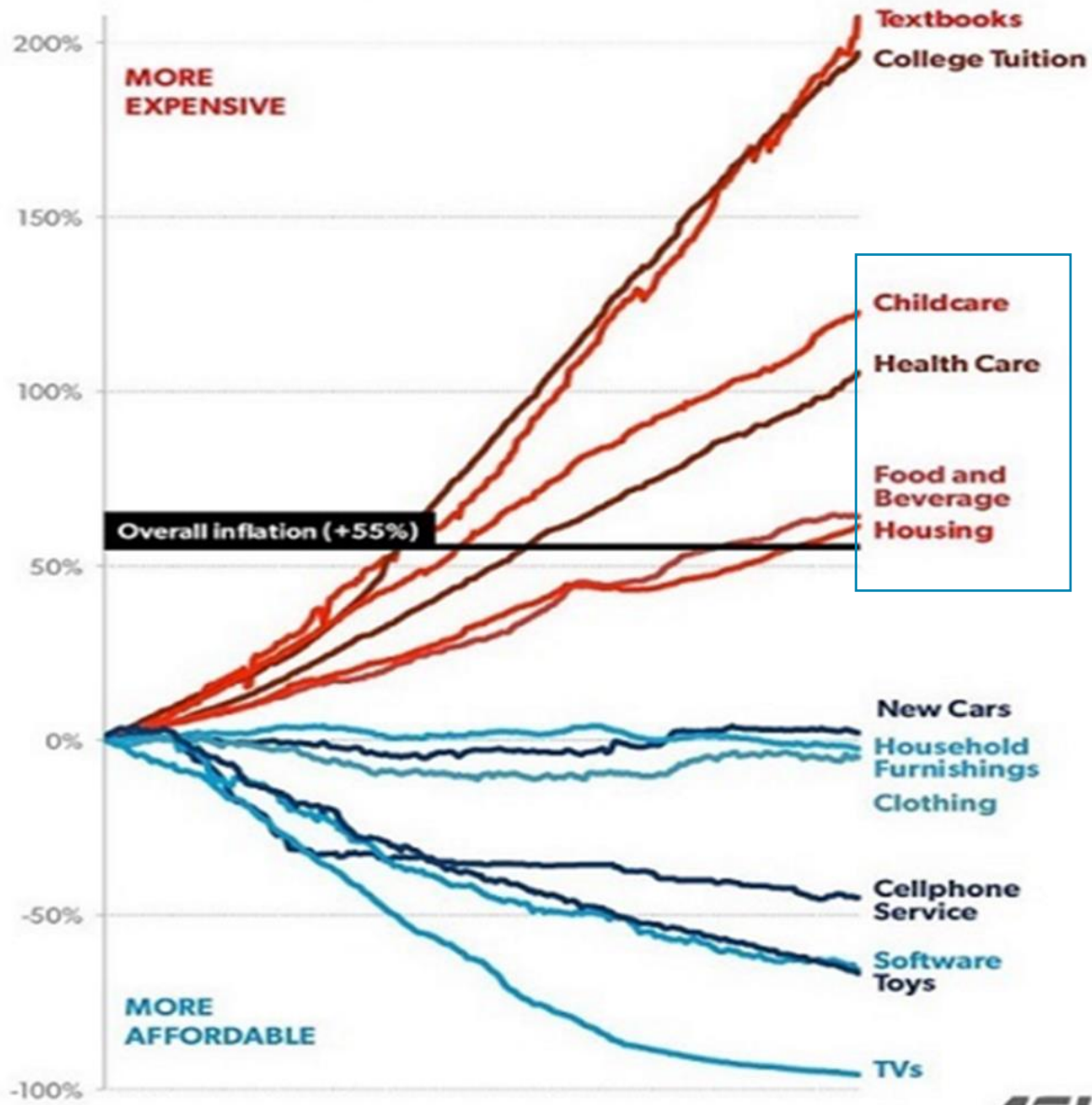
FOREVER 21

Breakout of Cosmetics/Beauty



Price changes (1996-2016)

Selected Consumer Goods and Services



Source: BLS

Carpe Diem **AEI**

Challenges of US Consumer



Household Income by Quintile

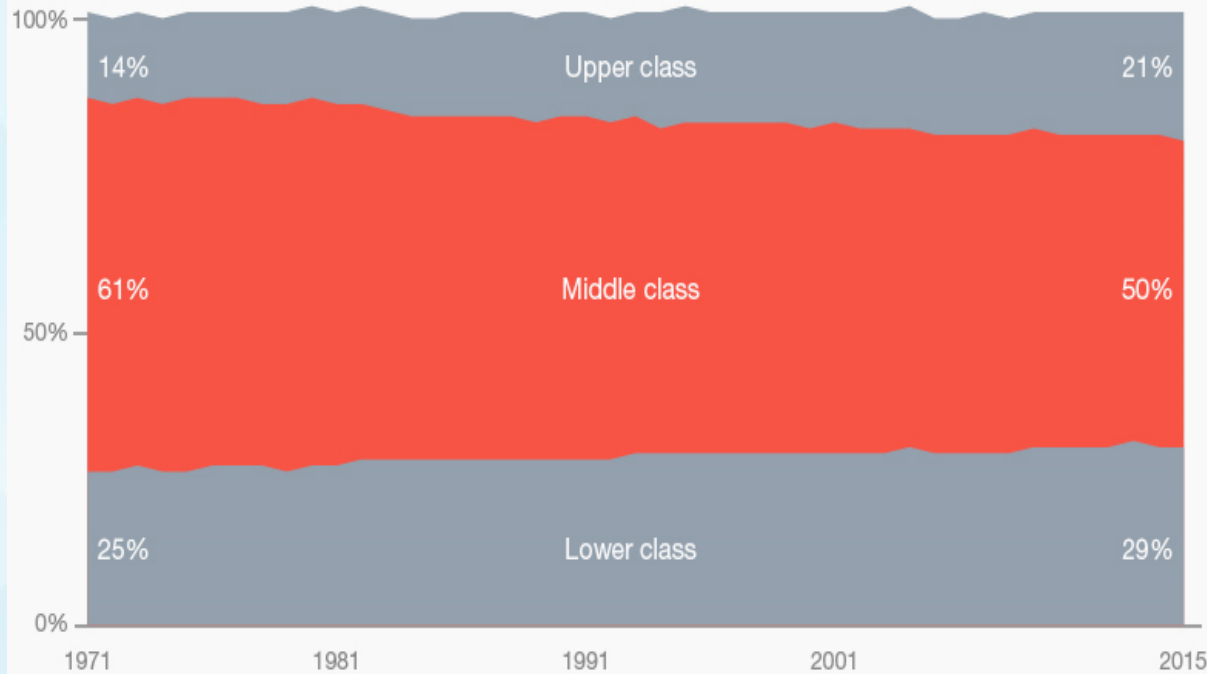
	1996	2015	Real \$ Growth '96 - '15	% Income Growth
Lowest	8,595	12,457	3,862	44.9%
Second	21,097	32,631	11,534	54.7%
Third	35,486	56,832	21,346	60.2%
Fourth	54,922	92,031	37,109	67.6%
Highest	115,514	202,366	86,852	75.2%

Sources: BLS, Census Bureau Historical Income Tables H1/H3

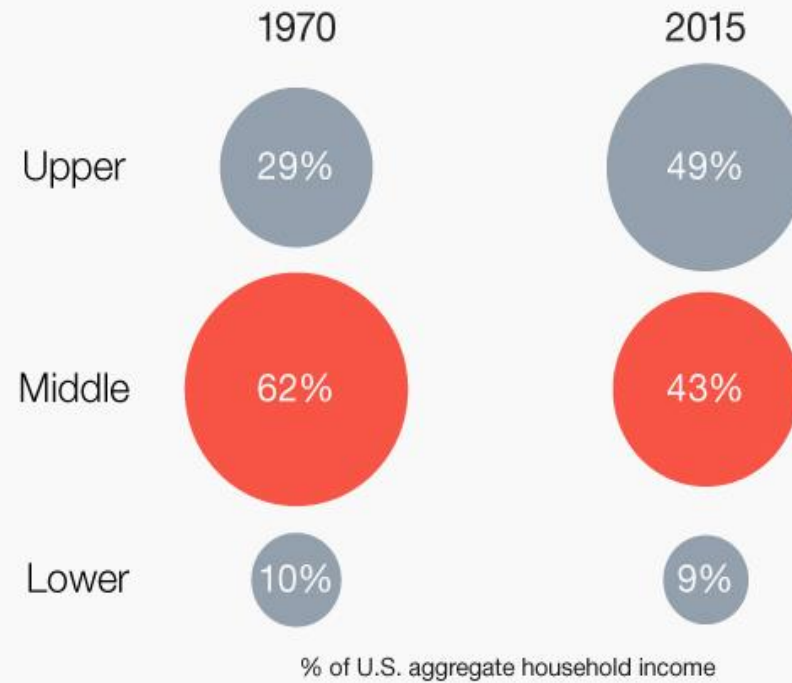
Shrinking Middle Class

The middle class is shrinking

% of adults in each tier



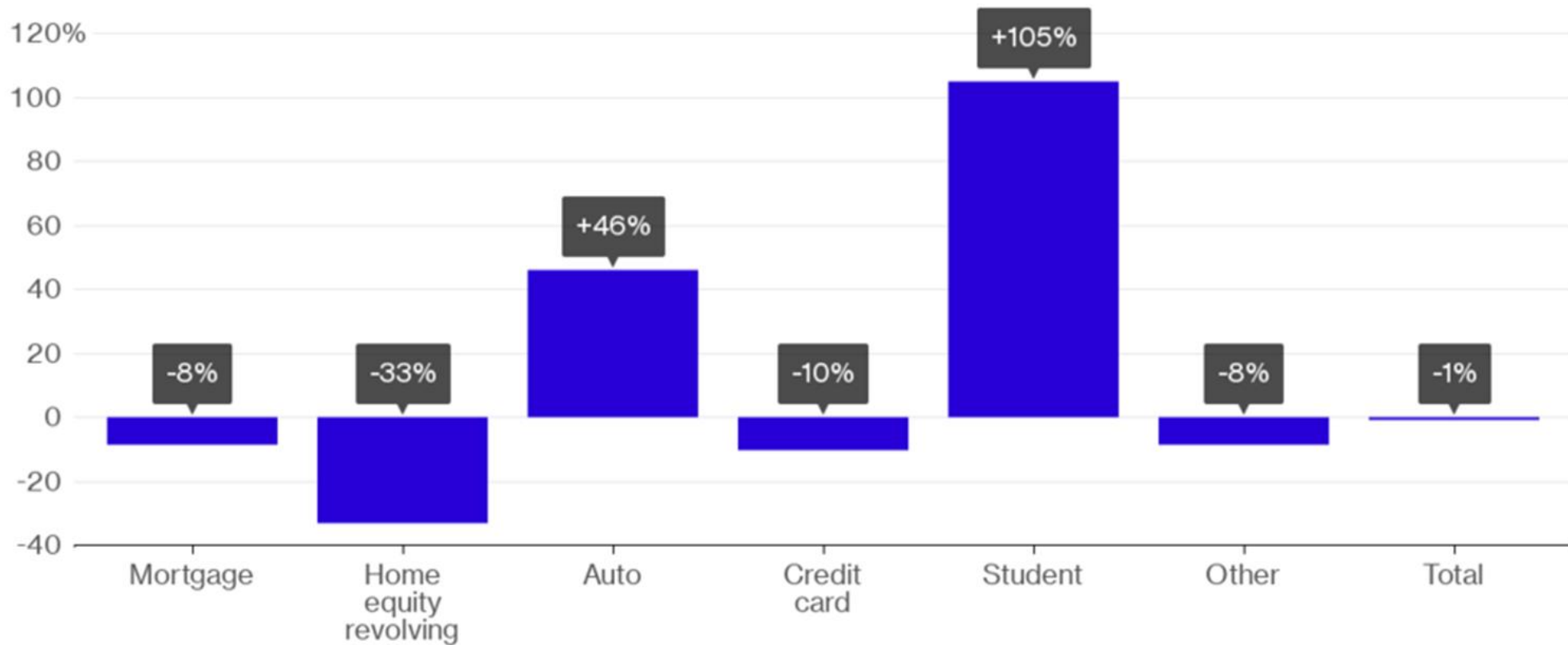
Share of U.S. income held by the middle class has plunged



Source: Pew Research Center

Student Loans Soar as Households Reduce Debt

Change in household debt since 2008



Source: Federal Reserve Bank of New York

Bloomberg

- **Low interest rates**
 - **Public companies, PE – growth at expense of service/relationship**
 - **Overstored, overmalled**
- **Fast fashion**
- **Breakout of cosmetics**
- **Smaller middle class**
- **Rise of online**
- **Incomplete data**

What's Really Happening?

The truth looks a whole lot better than the narrative.



The Real Story – Retail Growing/Changing



➤ Retail Sales +\$121.6b through 7 months

- **Some retail segments/sub-segments doing well**
 - C-Stores and Mass Merchants outstanding
 - DIY, Furniture, Men's Clothing and Toys doing very well
- **Some not so much**
 - Department stores and softgoods really struggling
 - Appliances, sporting goods, office supplies all down >5%

+



➤ Online sales up ~11%

- 29% of retail growth, 8.3% of total retail

➤ Amazon ~ about \$9b of the growth total

About The Research Methodology



- **Started with Over 2,700 retailers in Sophia**
- **Narrowed down those who were parents and banners in segments that matched US Census Retail Trade**
- **Focused only on Companies with 50 or more stores and their banners, which resulted in 1,803 companies with more than 50 locations in 10 segments**
- **Net Opens and Close per chain only**
 - **So retailer that opens 10 stores, closes 2 – we only counted +8**
- **Note: Purposely Conservative**
 - **Does not include mom and pop growth**
 - **Does not include pure play showroom stores (unless more than 50)**
 - **Does not include foreign retailers operating here unless 50 or more stores**

Enterprise Retail Market (50+ Stores)



(14,248 opens **10,168 closures**)

Segment	Net Store Growth
Supermarkets	674
Drug Stores	345
Superstores/WH Clubs	82
Department Stores	-400
Specialty Hardgoods	153
Specialty Softgoods	-3,133
Mass Merchandisers	1,905
Convenience Stores	1,700
Bar / Restaurants	728
Fast Food	2,026

+4,080
Net
Stores Opening



Source: IHL Group, Company Reports

Why Retail + Food Service?

- How US Census on Retail Trade reports numbers
- How vendors organize to sell to retail/hospitality

Core Retail Segments
Restaurant Segments

2017
Net Opens

+1,326

+2,754

Source: IHL Group, Company Reports



Banners opening vs closing stores



% Net Opening Stores vs Net Closing



For each company
closing stores,
2.7
are opening stores

Source: IHL Group, Company Reports

Banners opening vs closing stores



Ratio of Banners Net Open Stores vs Net Close



All segments but Department Stores have a ratio >1.0 of companies opening vs closing

Source: IHL Group, Company Reports

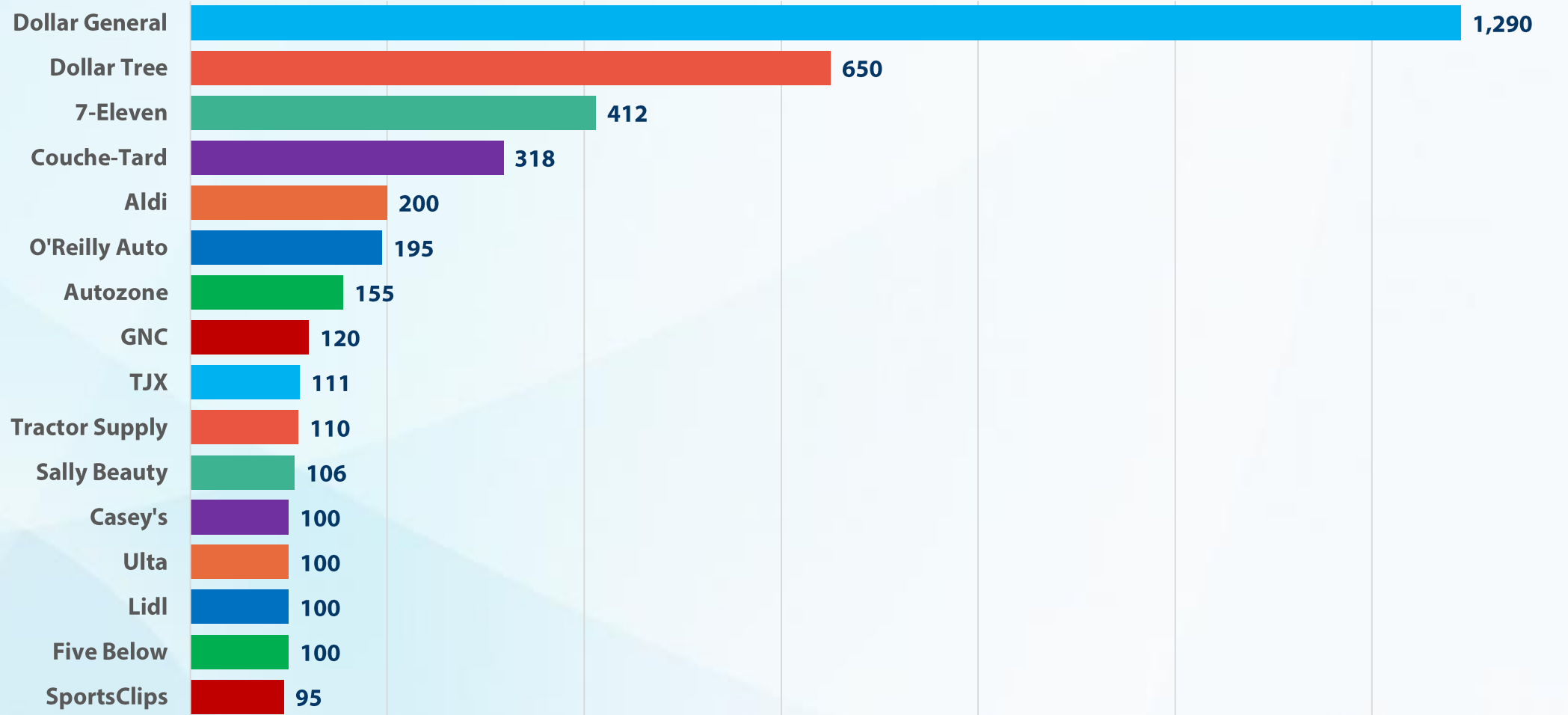
1.0 is an equal number of opening vs closing

Store Count Growth

4,162 new stores just from these 16 retailers



4,162 New Stores From These 16 Banners

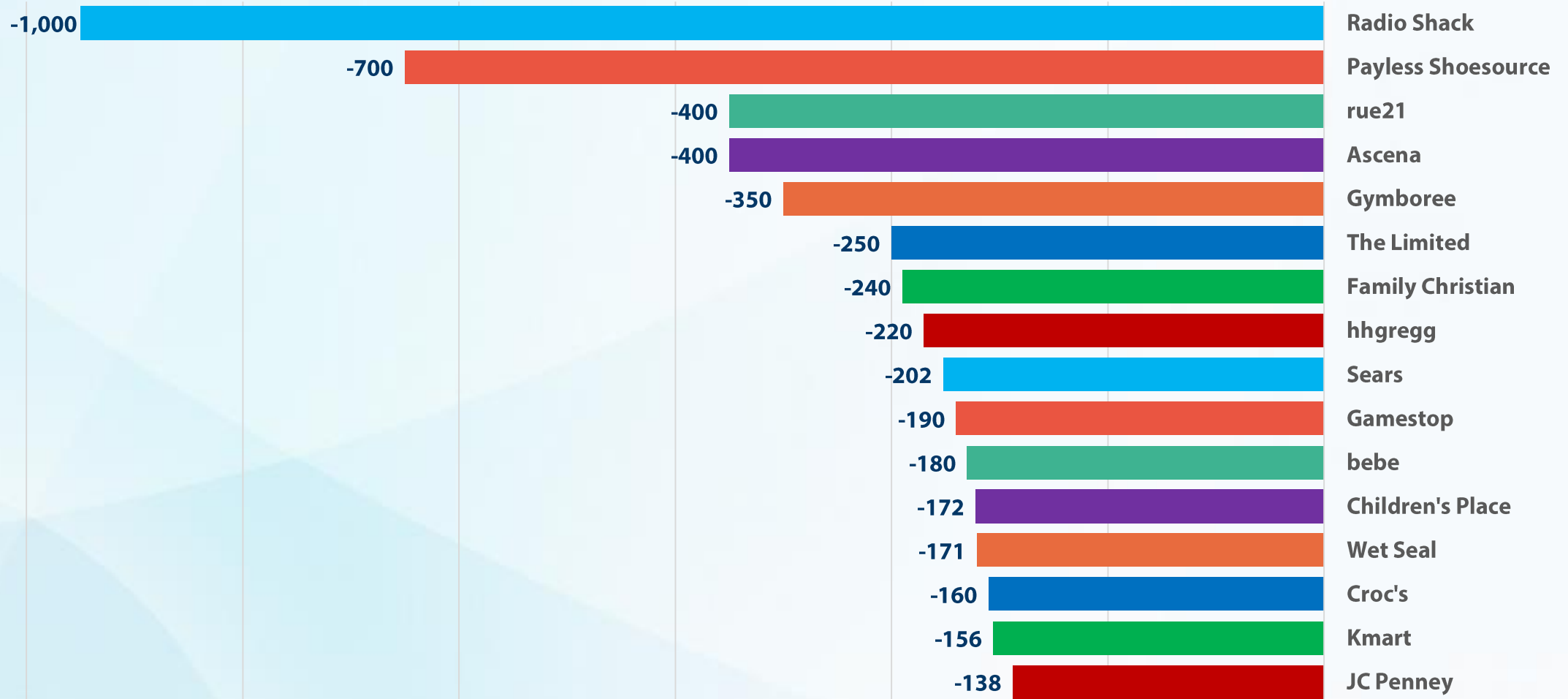


Store Count Decline

4,929 closed stores just from these 16 retailers



Plans for 2017 Store Count Decline



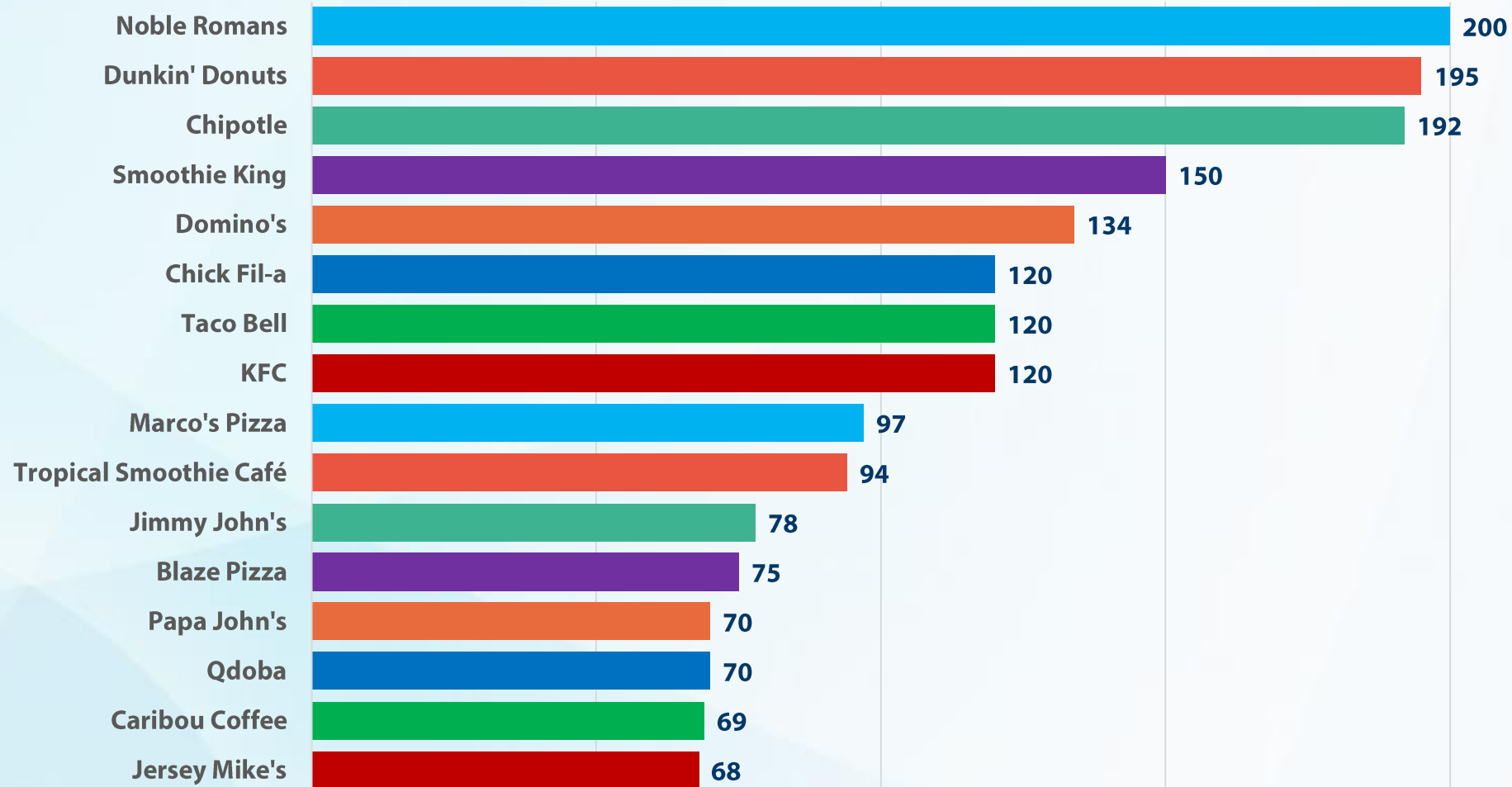
Source: IHL Group, Company Reports

Restaurant Count Growth

1,852 new restaurants just from these 16 hospitality providers



Plans for 2017 Restaurant Count Growth



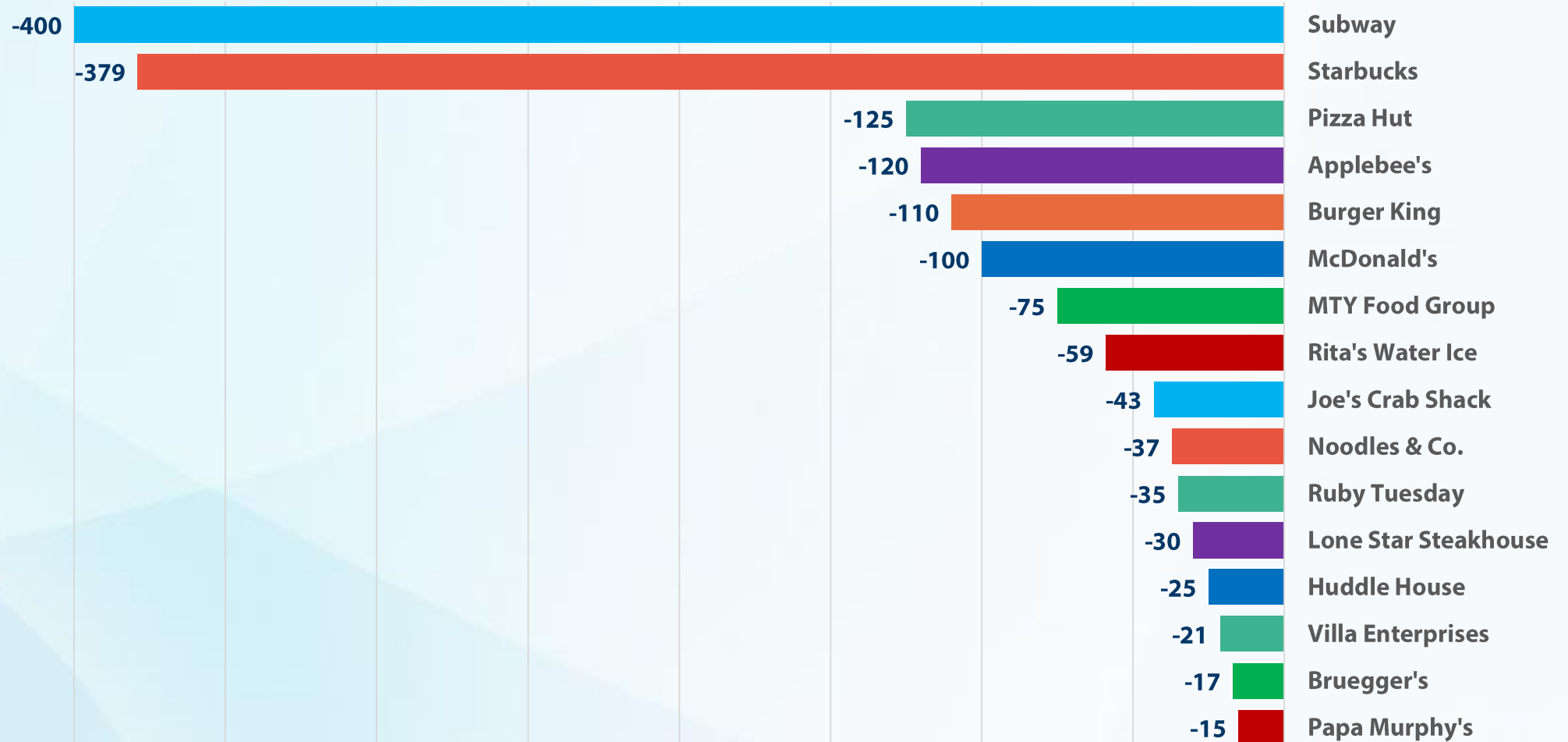
Source: IHL Group, Company Reports

Restaurant Count Decline

1,591 closed restaurants just from these 16 hospitality providers



Plans for 2017 Restaurant Count Decline



Source: IHL Group, Company Reports

Deeper Dive – Drug and Cosmetics

+345 Stores



Net Stores Opening or Closing

US Sales Growth 2016-7

Total Net Stores

345

↓ 0.1%

-77

Drug Stores/Pharmacies

↓ 0.9%

**Cosmetics/
Vitamins**

422

↑ 4.0%

Sources: US Census on Retail Trade, IHL Group, Company Reports

Deeper Dive – General Merchandise

+1,587 Stores



Net Stores Opening or Closing

Mass Merchants

1,905

-400

Department Stores

Supercenters

82

US Sales Growth 2016-7

↑ 4.5%

↓ 4.3%

↑ 2.0%

Sources: US Census on Retail Trade, IHL Group, Company Reports

Deeper Dive – Softgoods

-3,133 Stores



Net Stores Opening or Closing



US Sales Growth 2016-7



Sources: US Census on Retail Trade, IHL Group, Company Reports

Note: Rue 21 totals included in the Clothing totals but removed from Fast Fashion to show otherwise growth. Also, Luggage is also a sub-category included in the total -3,133 Stores but not shown in the chart.

Deeper Dive – Hardgoods

+ 153 Stores



Net Stores Opening or Closing

US Sales Growth 2016-7



Sources: US Census on Retail Trade, IHL Group, Company Reports

Deeper Dive – Restaurants

+2,754 Restaurants



Net Stores Opening or Closing

Fast Food (QSR)

2,026

Bar/Rest. (TSR)

728

US Sales Growth 2016-7

↑ 3.2%

↑ 4.0%

Note: Restaurant Sales figures through June only.

Going Forward

What must retailers do to compete going forward?



To Effectively Compete

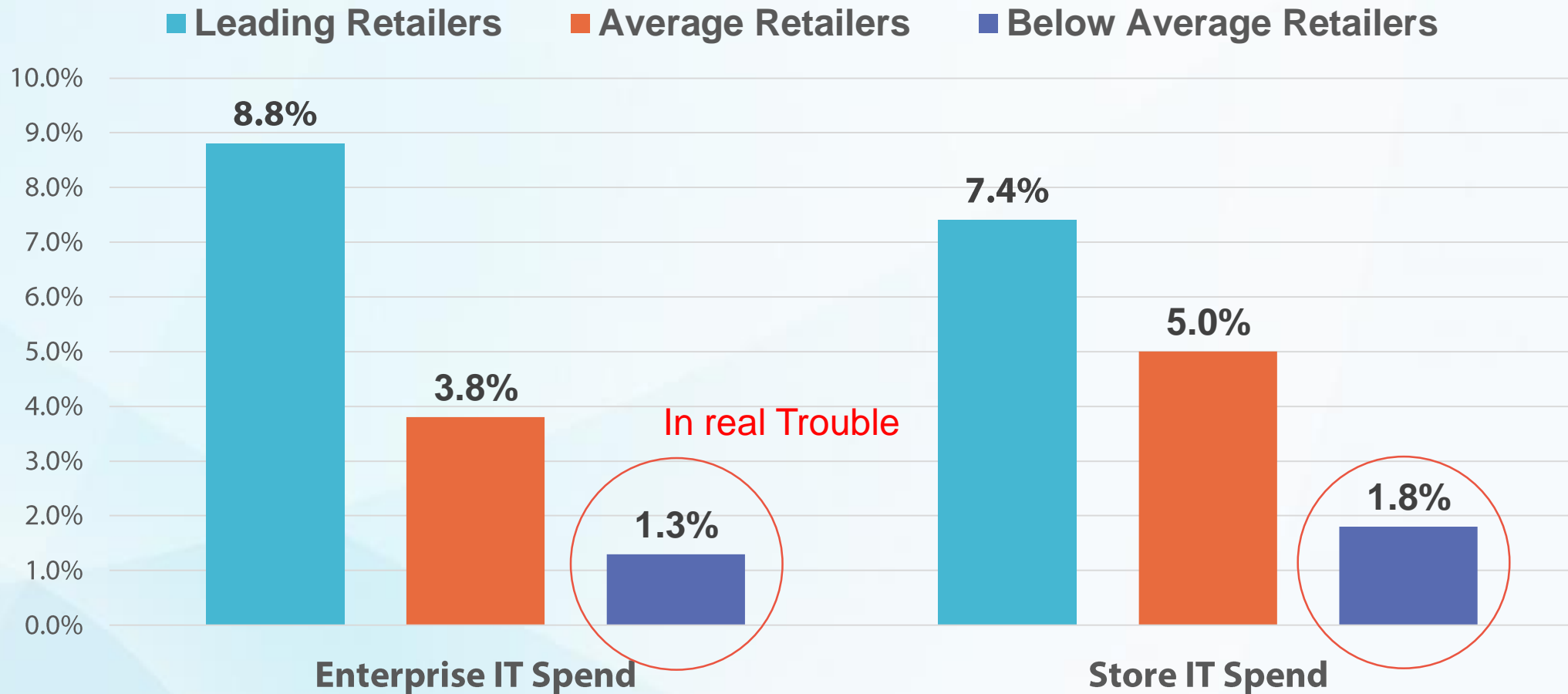
Retailers must....



- 1. Transform the customer experience**
- 2. Attack Out of Stocks**
- 3. Decouple IT spend growth from PY revenue**
- 4. Leverage the cloud**
- 5. Embrace Mobility**
- 6. Learn from the Leaders**

2017 Spend Growth

Planned IT Spend Growth for 2016 Leaders, Average, Below Average Performers



Source: 2017 RIS News/IHL Store Systems Study

Retail Leaders:

- **250% more likely** to be using **Mobile Devices for Associates**
 - Enjoy **70% higher sales increase** than others
- **150% more likely** to be using **Mobile POS**
 - Enjoy **90% higher sales increase** than others

Where Leaders Are Focusing IT

Retail Leaders vs. Average Retailers



Leaders rate:

- **IT Transformation 135% higher priority**
- **Lowering Supply Chain Costs 145% higher**
- **Associate Training / Tools 194% higher**
- **Inventory Visibility 55% higher**
- **Clienteling / Assisted Selling 26% higher**

Source: 2017 RIS News/IHL Store Systems Study

You Don't Have To Beat Them...

Retailers Must Simply Out-invest and Out-execute Your Competitors



Q&A Today



Questions		
<input checked="" type="checkbox"/> Show Answered Questions		
X	Question	Asker

Thank You

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