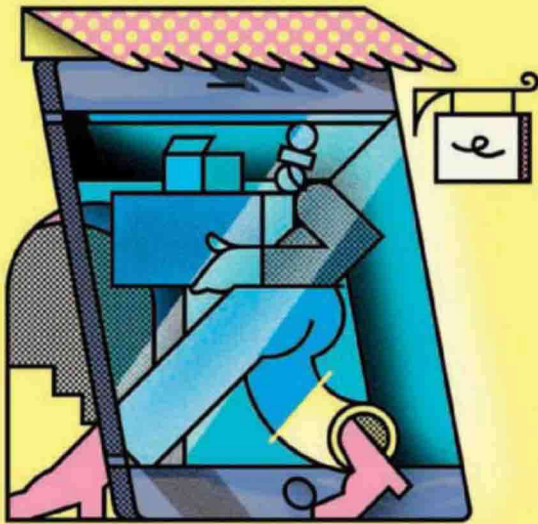


HOW E-COMMERCE IS MAKING STORES RELEVANT AGAIN

Struggling retailers are betting that their brick-and-mortar outlets will help lift online sales. BY PHIL WAHBA



TECH AFTER A TOUGH HOLIDAY SEASON, many big-box retailers went on a cost-cutting binge. J.C. Penney, Macy's, and Sears all announced that they would shutter dozens of stores each as shoppers increasingly shift online. But the carnage could have been much worse. Oddly enough, it was that very shift to e-commerce—the one bright spot for most retailers during the holidays—that spared even more stores from the reject rack.

The counterintuitive strategy boils down to this: If traditional retailers have any hope of countering Amazon's dominance, it's by using their brick-and-mortar stores as local arms of their online businesses. Whether or not that's ultimately successful, a number of retail CEOs touted the idea during recent earnings calls.

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Kohl's, which had record online sales over the holidays while its overall business slumped badly, says that one-third of online orders are now either picked up in its stores or shipped by one (shaving a half-day off its average delivery time).

At J.C. Penney, 90% of e-commerce returns are handled in a store, giving the company another chance to wring more sales from those customers.

And Target says three-quarters of Americans live within 10 miles of one of its stores, an edge that it claims will help it deliver online orders more quickly to shoppers who increasingly want their merchandise in a couple of hours, not a couple of days.

Kohl's says it has data to back up the theory that brick-and-mortar stores help online sales. Last year, after closing 18 stores, it found that online sales at nearby addresses fell 10%, as some shoppers forgot about the chain altogether. Based on those findings, Kohl's plans to shrink 200 stores instead of closing any of them.

Meanwhile, retailers like Best Buy believe that more technology will lift store sales. For example, Best Buy has armed workers with handheld devices that can show customers whether nearby stores have a particular TV that is otherwise out of stock. "In the stores, technology can be our best friend," says Best Buy CEO Hubert Joly, whose company has avoided closing stores in recent years.

Still, the inescapable reality for retailers is that store sales are falling faster than e-commerce can make up for. In the end, retailers may only be postponing their day of reckoning.

High real estate costs in prime locations make it expensive to keep stores open, says Joel Bines, cohead of retail for consulting firm AlixPartners. E-commerce warehouses, in contrast, are typically built on cheap land and where wages are low.

Says Bines: "The wave of store closings we've been predicting for years is upon us, and it's going to last for many, many years." ■