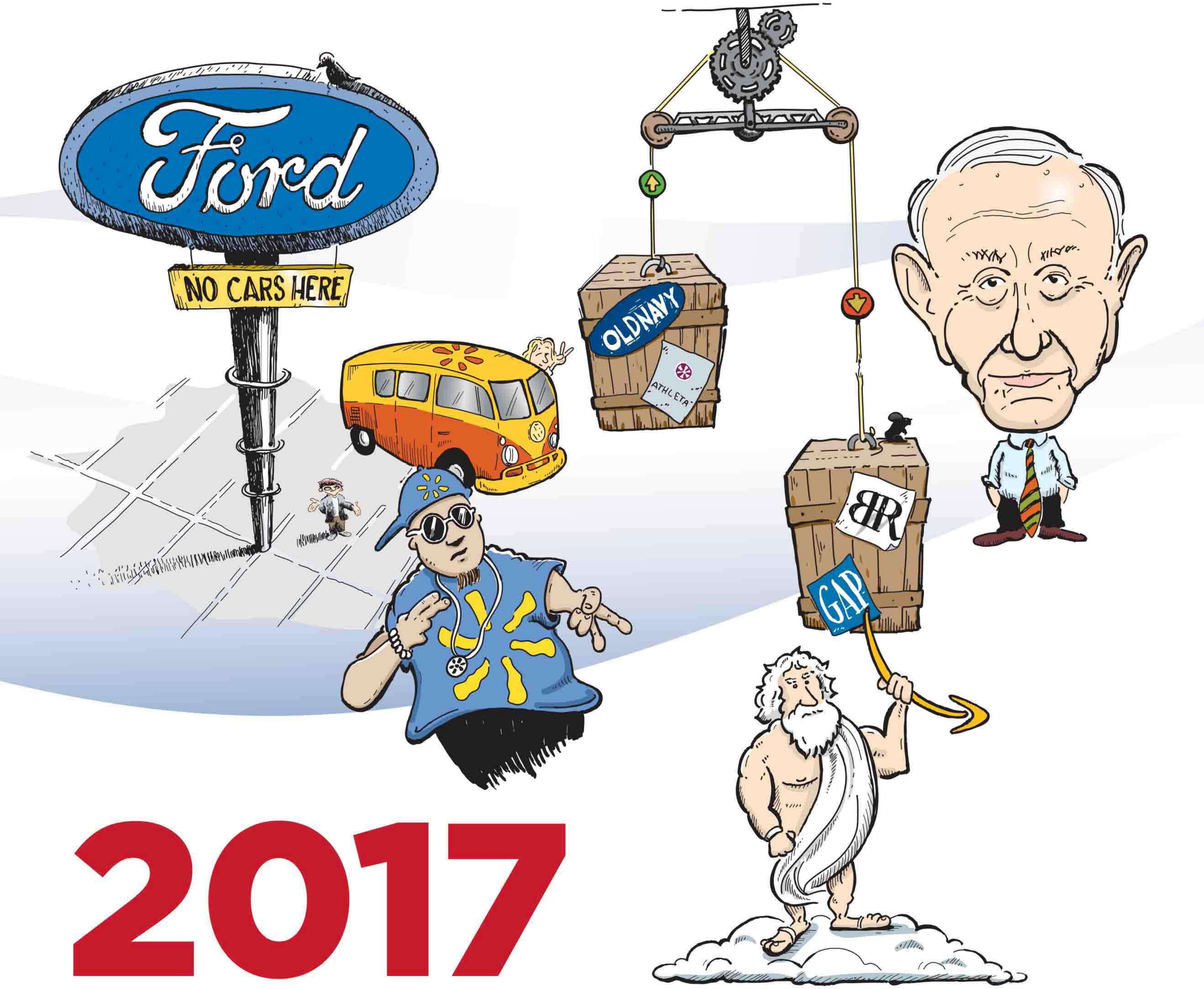
Top Stories of

In a brave new retailing world, e-commerce is blending with physical retail. Not surprisingly, Amazon's leading the charge. Surprisingly, Walmart is following suit.

By Steve Kaufman, Contributing Writer

DON HEYL, CINCINNATI



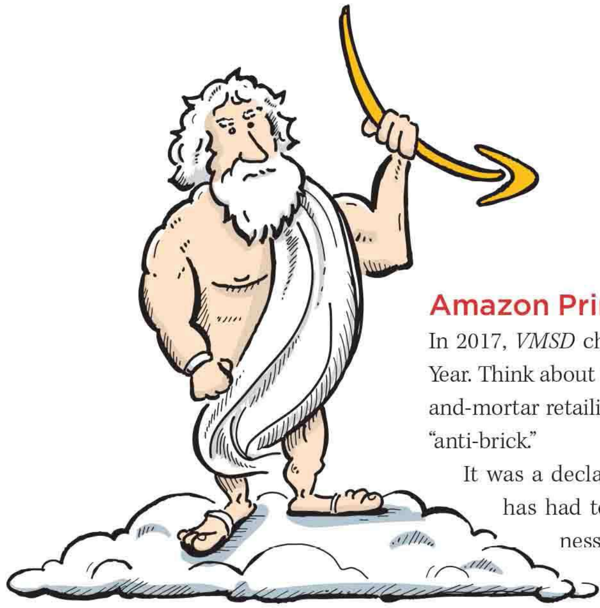
2017

Brazil is going to have to get used to it. "Mighty Amazon" is no longer just a reference to a river.

This was truly the year that Amazon.com Inc. (Seattle) pressed its foot deeply into the retail landscape, leaving one of those huge footprints that you only see in monster movies.

Monster, indeed: creating its own retail offerings, partnering with other traditional brands and making one of the biggest acquisitions in recent years.

Of course, there was a lot of non-Amazon news during 2017: innovations, store closings, bankruptcies, acquisitions, mergers, executive resignations. But, in a way, much of that could be traced back to Amazon. When Jeff Bezos played with the idea of selling books on the Internet, beginning in 1994, he set in motion a disturbance in the force that's still rumbling through the galaxy.



Amazon Prime

In 2017, *VMSD* chose Amazon as its Retailer of the Year. Think about that. A magazine devoted to bricks-and-mortar retailing for 120 years chose to honor the "anti-brick."

It was a declaration of how all traditional retail has had to transform its way of doing business: creating its own compelling online presence and efficient operations; reimagining its brand; finding ways to reach the online shopper by participating in some aspect of online retail.

But Amazon has done more than rewrite the rules from its lofty online position. It has stepped down from Olympus, like Zeus, to play the mortals' game, becoming a bricks-and-mortar retailer itself.

Amazon has stepped down from Olympus, like Zeus, to play the mortals' game, becoming a bricks-and-mortar retailer itself.

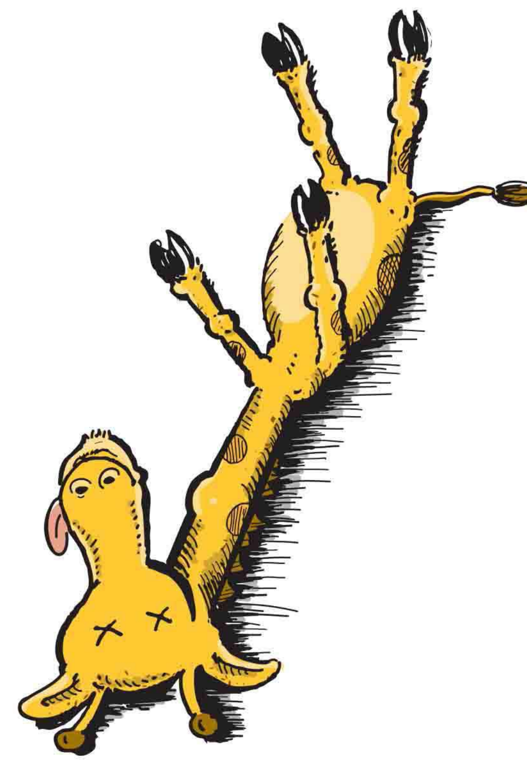
Whole Foods and More

Easily, the biggest story of 2017 was Amazon's acquisition of Whole Foods Market (Austin, Texas). What would it mean for traditional grocery shopping? What would it mean for the distinctive Whole Foods brand?

But Amazon was active elsewhere, too. During the year, it announced a partnership with Sears (Hoffman Estates, Ill.) to start selling Kenmore brand appliances. (*Fortune* said it was an extension of Amazon's efforts to dominate all product sectors, much like Bentonville, Ark.-based Walmart did 20 and 30 years ago.) It then unveiled a partnership with Kohl's (Menomonee Falls, Wis.), which would open Amazon smart home experience shops inside some of the department store retailer's locations, which would accept Amazon returns – all to attract online shoppers to their stores.

Amazon also expanded its bookstore chain, opening its 12th store in Los Angeles this past fall. And it's toying with new retail concepts, like Amazon Go – a transactionless shopping experience – that's still being tested by its employees in Seattle.

What's next?



Is Geoffrey the Giraffe an Endangered Species?

Toys "R" Us (Wayne, N.J.), one of the earliest of the big-box category killers, filed for bankruptcy protection in September, seemingly a victim of the online shopping surge.

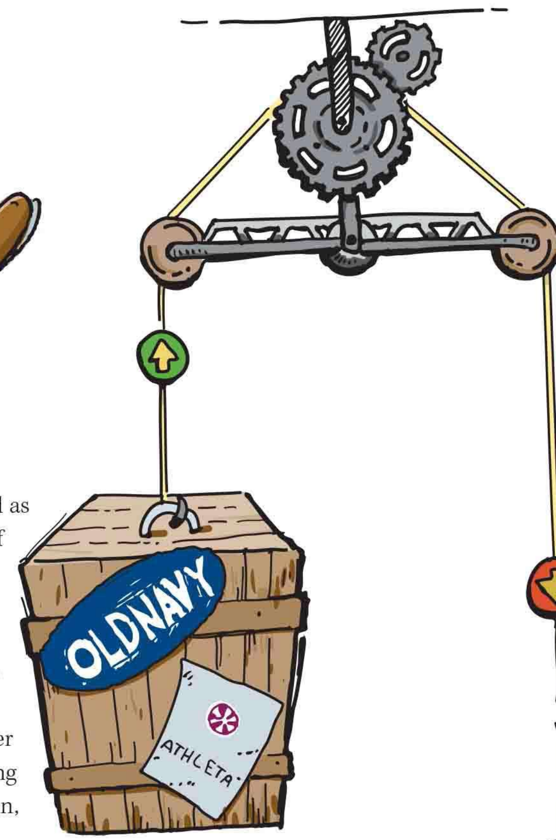
But Toys "R" Us' problems went way beyond online competition. The company said it needed to revamp long-term debt of more than $5 billion. It was acquired by private equity players for about $6 billion in 2005. In 2018, $400 million of that debt comes due, and the company has been burning cash to stay operational.

It has insisted its chain of 1600 Toys "R" Us and Babies "R" Us stores would remain open and operating as usual, at least through the holidays, thanks to a $3.1 billion operating loan. Oddly, sales were beginning to trend upward. But, in the toy business, Christmas is everything.

Millard “Mickey” Drexler resigned as ceo of J.Crew after 14 years of trying to sail the preppy retailer into open waters.

The Prince Jumps Ship

In June, Millard “Mickey” Drexler resigned as ceo of J.Crew (New York) after 14 years of trying to sail the preppy retailer into open waters. Crew’s sales have dropped, and its newer, hipper shipmate, Madewell, has had some success, but not enough to overcome the company’s losses.



Drexler came to Crew in 2003, after leading Gap Inc. (San Francisco) to soaring popularity, earning him the appellation, “The Merchant Prince.”

At Crew, he faced what has hurt all specialty, mall-based retailers – not only digital shopping, but the phenomenon of fast-fashion retailers, like H&M (Stockholm) and Forever 21 (Los Angeles), that can rush trendy, low-cost items onto their shelves quickly and profitably.

Drexler will remain chair as well as an owner of J.Crew, and vows that the brand will not go the way of Payless ShoeSource (Topeka, Kan.), The Limited (Columbus, Ohio), BCBG Max Azria (Vernon, Calif.) or Wet Seal (Foothill Ranch, Calif.) – other specialty retailers that couldn’t compete in the modern world.

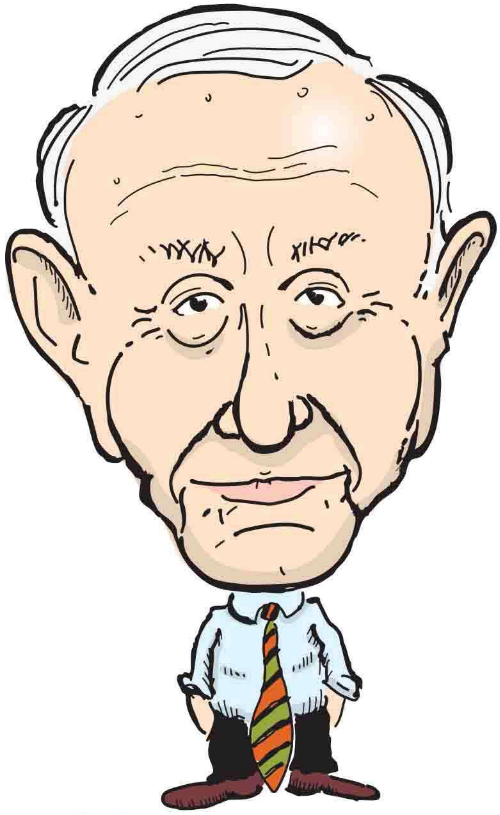
Closing the Gap

In September, Gap Inc. said it would close about 200 Gap and Banana Republic locations and open 270 stores from Old Navy and Athleta.

It’s an understandable change in focus. Old Navy is flirting with $10 billion in annual sales, and Gap expects Athleta to hit $1 billion.

Understandable, but sad. Gap was once the darling of the fashion scene, opening fleets of stores around the world. And Banana Republic was the choice of the trendy in-crowders. But, more recently, Gap hasn’t seen same-store sales increases in 14 quarters. And Banana has suffered through 10 straight quarters of declines.

In the meantime, Edward Lampert – the Sears chair who also owns 5.8 percent of Gap Inc. – was said to be using his leverage to agitate for change. Reported *Forbes*: “Lampert is … arguably the brightest exemplar of the difference between having lots of money and having good fashion retail skills.”



There were too many changes in consumer culture, and not another Wexner available to overcome them.

Un-Limited

Another esteemed specialty apparel name, L Brands' The Limited, started off the year by closing its 250 remaining stores and filing for bankruptcy.

The brainchild of Les Wexner once straddled the landscape like a mall colossus, with an empire of approximately 4500 acquired or spinoff-brand stores – The Limited, Express, Express Men, Limited Too, Victoria's Secret, Henri Bendel, Lane Bryant, Lerner New York, Abercrombie & Fitch (New Albany, Ohio), Bath & Body Works, Structure and Galyan's Trading Co.

"Les' thought was always, 'Open it, test it, then talk to me,' " says Lee Peterson of WD Partners (Dublin, Ohio), formerly a Limited merchant who worked closely with Wexner. "He said, 'You don't know anything until the register rings.' In other words, put it out there and let's see."

But as consumers fled malls in waves, the fallout crippled many of the tenant brands. There were too many changes in consumer culture, and not another Wexner available to overcome them.

Neiman Marcus' Annus Horribilis

Even the surest-footed luxury retailer couldn't avoid the shifting sands. Losses were deep. Debt was high – $4.4 billion of long-term debt, $295.7 million of interest expenses alone last year. In February, Standard & Poor's (New York) downgraded Neiman Marcus (Dallas) stock three notches, to CCC+. That's considered "junk" territory.

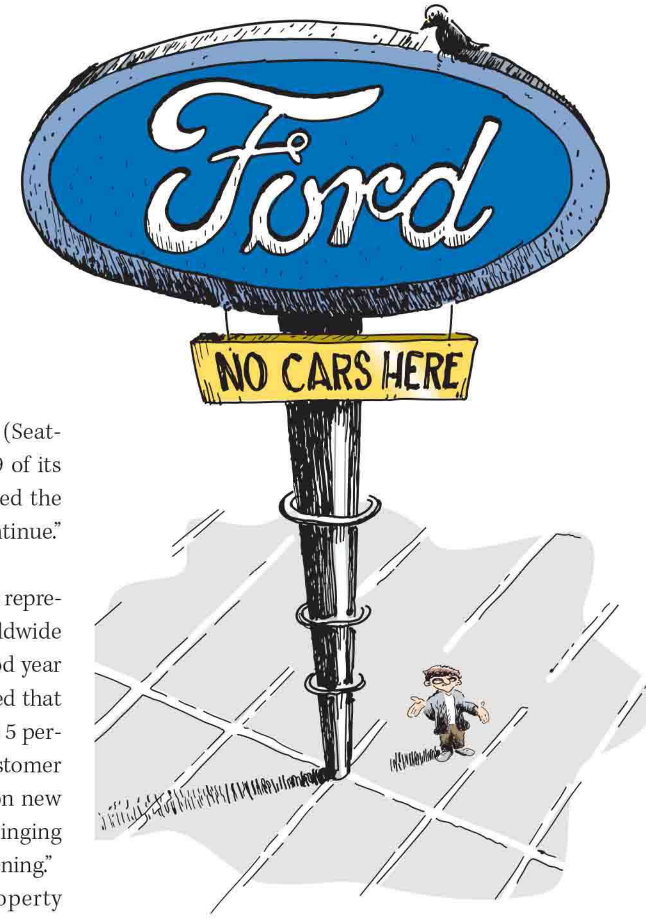
The retailer closed its off-price Last Call operation. It considered going public, then pulled the IPO at the last minute. It was even in talks about a sale to Hudson's Bay Co. (Toronto), but the discussions stalled.

In October, the company reported a net loss for the 2017 fiscal year of $531.8 million; revenues dropped 5.2 percent; and earnings were down 25.8 percent.

That same month, Neiman Marcus Group President and CEO Karen Katz told analysts that plans for the first Manhattan store (slated to open March 2019) are continuing, but that it will be 10 percent smaller than originally planned. The cost to build the 190,000-square-foot store at New York's Hudson Yards, she said, were "definitely higher" than the $400 to $500 per square foot the company usually spends.

Spending money to make money, apparently.

Standard & Poor's downgraded Neiman Marcus (Dallas) stock three notches, to CCC+. That's considered "junk" territory.

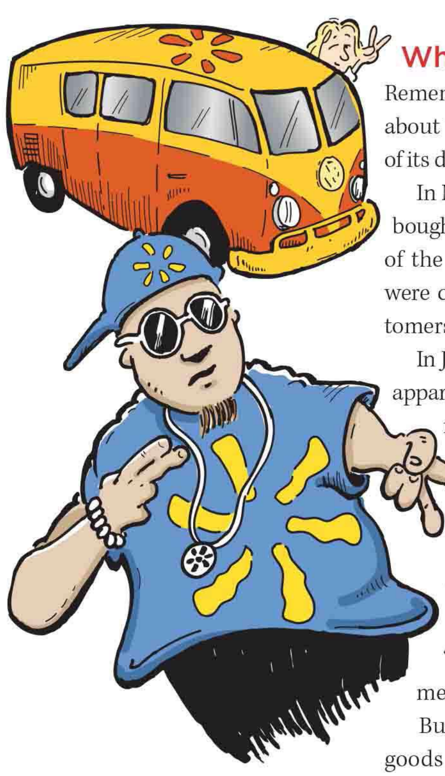


Crossing All the Teas

In July, Starbucks Coffee Co. (Seattle) announced it was closing all 379 of its Teavana stores, explaining that it expected the mall-based chain's "underperformance to continue." Another victim of falling foot traffic in malls.

Bear in mind that the 379 Teavana locations represented only 1.5 percent of Starbucks' total worldwide presence. And overall, Starbucks has had a good year with record quarterly earnings. But *Forbes* noted that Starbucks' sales increases were due more to its 5 percent higher ticket prices than to increased customer counts: "Starbucks is now relying completely on new stores to create incremental growth, since bringing in new customers to existing stores is not happening."

And to make matters worse, Simon Property Group (Indianapolis), the largest mall operator in the U.S., has sued Starbucks, alleging that by removing its Teavana stores, it's breaking its lease agreement with the company. Seventy-eight of the Teavana stores were in Simon malls.



Who's Hipper than Walmart?

Remember how these year-end reviews used to be all about Walmart? Well, the game-changing retail giant of its day hasn't been snoozing.

In March, the decidedly unhip mass-merchandiser bought ModCloth (San Francisco), one of the hippest of the online apparel retailers. Walmart customers were confused ("What's Modcloth?"). ModCloth customers were angry ("*Really*? Walmart?").

In June, Walmart bought another innovative online apparel company, Bonobos (New York), a menswear retailer with about a dozen physical showrooms, as well.

Forbes called the Bonobos acquisition "even bigger than Amazon buying Whole Foods … a step totally outside Walmart's big box."

Bonobos loyalists weren't happy, either. "Hugely disappointing," some said (on social media, of course). "Sad day."

But, Bonobos reassured its customers that its goods won't be sold in Walmart stores, but rather, through Jet.com (Hoboken, N.J.), which was also acquired by Walmart last year.

Maybe assigning the acquisitions to a forward-thinking e-tailer like Jet softens the blow for their hardcore brand loyalists, but regardless, Walmart definitely remains in the game.

The FordHub with no Fords

Even auto companies are getting into the brand experience game. Last year, Cadillac (New York) opened its dazzling, multipurpose space Cadillac House at its new SoHo headquarters. But Dearborn, Mich.-based Ford's approach, which opened this year in the Oculus building in New York's World Trade Center, is quieter, more thoughtful and less about the cars themselves.

As Fitch (Columbus, Ohio) designer Laura Krpata says, "It's a completely non-transactional space. Instead, it's a place that connects brands to consumers." The 2800-square-foot mall space is loaded with the future. It demonstrates, with a series of interactive exhibits, how people will get around in the cities of tomorrow – traffic patterns, mass transit, new technologies, self-healing roads, and new options like car-sharing and car-borrowing.

Want to buy a Ford? They'll help, but they carry no showroom inventory. It may still be your father's Ford, but he wouldn't recognize the Hub.