APOCALYPSE? NOT NOW!

Retail's imminent demise has been overstated, but that doesn't mean there aren't significant challenges ahead.

***By Steve Kaufman**, Contributing Writer*

The retail world is clinging to that infamous Mark Twain quote: "The reports of my death are greatly exaggerated."

The much-hyped "retail apocalypse" that was predicted around this time last year didn't happen. Yes, there were bankruptcies, store closings and properties sold off. But, as noted in an October 2017 article in *Forbes*, "Retail Apocalypse? The Sky Isn't Falling – The Sector Is Just Evolving," there were more store openings than closings in 2017, and mall occupancy is surprisingly strong.

"There is no doubt that e-commerce penetration, especially in certain categories, has also contributed to this exacerbated pace of change," wrote the authors of the article. "It's just not the great 'disruptor' that many would have you believe."

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The latest Seat store, designed by Birmingham, U.K.-based Green Room Design, provides a hands-on, digitally supported experience for customers.

JONNY LANG, ESSEX, U.K.

Many store closings were more evolutionary than revolutionary, says Carol Spieckerman, president of Spieckerman Retail (Bentonville, Ark.). "The old rule was, you had to have a store in every major market if you wanted to be a player. Now, some markets can be addressed purely digitally. That's why you'll see ads for Macy's in Bentonville, where there are no Macy's stores, and ads for Walmart in Manhattan, where there are no Walmart stores."

The fact is, notes retail strategist Chuck Palmer, head of Consumer X Retail (Columbus, Ohio), "retail in general is doing fine. It's the stores that are the concern, the real estate component. The need is to make those environments more vital – the high-minded experiential part everyone talks about."

Once online-only brands like Indochino are expanding their reach into physical stores, with excellent results.

PURE-PLAY NO LONGER

One challenge is the increasing – and successful – encroachment of pure-play digital retailers into the physical world.

"The economics of brick and mortar are evolving," says Spieckerman. "Traditional retailers have been humbled, and inspired, by how efficiently and profitably all these small-format digital brands operate their stores."

The digital retailers have figured it out, says Sandy Stein, president and design director, Stein Trending, Branding, Design (St. Paul, Minn.), "Most of these startups are well-focused niche players who already understand how e-commerce works. They've built a social following, they already have a loyal customer base and omnichannel is not foreign to them – it's inherent in their brand.

"They don't depend solely on traffic into the store," he continues. "They see stores simply as another means of building traffic online. Going from online to offline has proved to be a far more understandable and controllable exercise than the other way around."

COURTESY OF INDOCHINO, VANCOUVER, BRITISH COLUMBIA

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MALL DONE?

Green Street Advisors (Newport Beach, Calif.) reports that of the roughly 1200 malls currently in existence, about 300 A-malls are likely to survive in one form or another. "Better quality malls are adapting and introducing 'internet-resistant' concepts such as restaurants, entertainment and services," according to Green Street Managing Director DJ Busch, in the 2017 report, "Real Estate Analytics."

But that shouldn't mean complacency. "Mall developers – and it's amazing that we're still having this conversation – are still scratching their heads," says Palmer. "Retail and real estate are very different businesses."

But the smart developers are figuring it out.

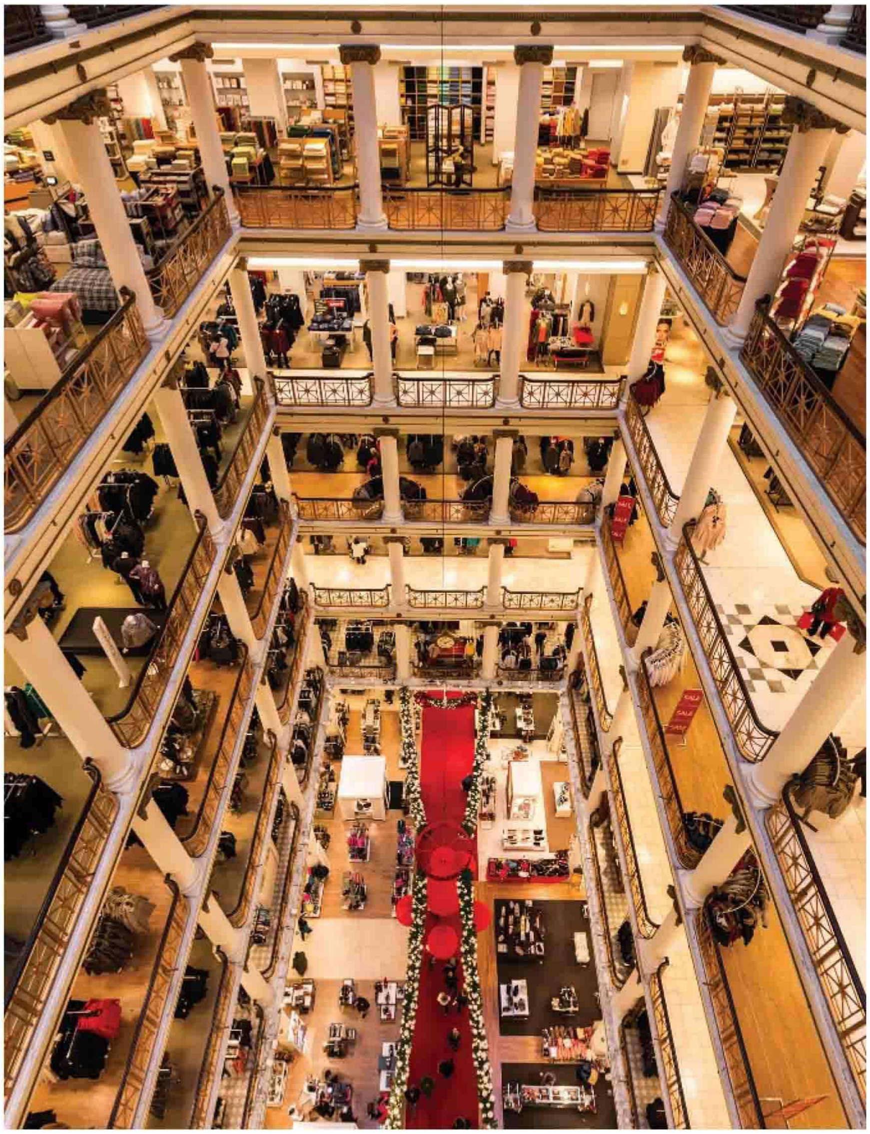
Simon Property Group (Indianapolis), the nation's largest mall owner, has developed a new concept, called The Edit, that it's experimenting with at Roosevelt Field in East Garden City, N.Y. It's a 4500-square-foot space, carved out of 3000 square feet of inline store space and 1000 feet of common area.

Initial tenants, about a dozen, represent a variety of categories – most of them e-commerce brands – and occupants will rotate in and out of "micro retail units" ranging from 20 to 200 square feet. Simon will provide custom-designed modular fixturing systems, digital media walls and staffing as needed.

APPEAR HERE, NEW YORK

ABOVE *Shopping centers like the King of Prussia Mall outside Philadelphia are rethinking their tenant mix to adapt to changing market dynamics.*

LEFT *The Edit@ Roosevelt Field is a turnkey retail space designed to give established and emerging brands a place to test new concepts.*



Traditional department stores like Macy's are monetizing their real estate holdings, selling off assets to raise cash against declining sales.

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UN-REAL ESTATE

Though it may appear as if most store closings are in malls, there is also flux on commercial streets, especially among urban department stores.

Last fall, Hudson's Bay Co. (Toronto) sold Lord & Taylor's 103-year-old Fifth Avenue store in New York to coworking and office space outfit WeWork Co. (New York). Reportedly, Lord & Taylor will rent the street level and additional space equal to about 25 percent of the building, with WeWork's headquarters occupying the rest.

Macy's Inc. (Cincinnati) has announced a similar intention for excess space in its Chicago flagship store, the former Marshall Field's.

"It makes sense," says Palmer. "Nobody goes up to the eighth floor to buy a wedding gift anymore. These big department stores will see their dollar-per-square-foot go up as they concentrate on just two or three floors."

But there's a risk.

"When department store chains close individual stores, it diminishes their brand presence," says Spieckerman. "Having fewer stores has the potential to limit these retailers' online sales. Shoppers need to know that these companies are still in business, and physical stores are the most powerful way of messaging that. Retailers also have to insure that their brand, not just the brands they carry, pops up in Google searches."

Stein insists department store executives are focusing on the wrong things – operations, merchandise density, making it to the next quarter, pleasing shareholders. "As they're losing customers," he says, "they're trying to save themselves by diminishing the amount of service – everything that was great about the department stores in the beginning. They're playing a losing game in the race to the bottom. Their real estate is worth more than their businesses. That's a sad state of affairs."

Sometime this year, we'll probably hear more apocalyptic predictions about retailing. And stores will close, and some companies might declare bankruptcy. But retail is still about selling – meeting consumers' needs – and those companies that grasp the synergies of physical and online retailing, and what people want and expect from both channels, will continue to avoid any apocalypse, real or imagined, that comes our way.