

A woman with long dark hair is smiling and looking to her right in a grocery store aisle. The shelves are stocked with various products, including bottles of oil and other packaged goods. The background is slightly blurred, showing other shoppers and store lighting.

Debunking the Retail Apocalypse

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For the first half of 2017, anywhere you looked in the news there was a negative story about retail. Some major banners, particularly in Department Stores and Apparel retail, made significant announcements about the closing of stores, and this news spread rapidly. Then, somewhere along the way someone coined the phrase “Retail Apocalypse”, and headline writers jumped all over it. When our friends at Fung Global Retail & Technology released a report showing planned store closings surpassing openings for the first time in years, the complete narrative on the death of retail was formed. There was only one problem...the data was incomplete. Worse, it was contradicted by the total retail picture presented by the US Census Bureau. Those of us close to the industry knew retail was changing, but we also knew it was expanding both in locations and in sales.

After discussions with researchers at Fung Global, we quickly realized their numbers were based on deep research on public and large private Department Stores, Specialty Apparel retailers and Supercenters/Warehouse Clubs, with less focus on other segments and smaller retailers (that just so happened to be expanding rapidly). It’s great research, it’s just incomplete as a proxy for all of retail.

The following research is the result of a comprehensive view of chain retailers with 50 or more locations. The end result? Retailers and restaurants are opening 4,080 more stores than they are closing, and retail sales through July 2017 are up over \$121.5b from the same period a year before. Further, if we were to include fast growing companies smaller than 50 stores, we estimate the total increase in store locations would be well over 10,000.

In the report you will see us reference Core Retail and then Restaurants. Why do we include Restaurants in this research? For two reasons. First, the US Census data includes Food Services in their Retail Trade numbers. Second, this is how technology vendors have traditionally segmented the market. The numbers are as follows: Total of 4,080 net opens for 2017 for chains with more than 50 locations, of which 1,326 net opens are in Core Retail segments and 2,754 net openings are for Restaurants.

Finally, we use the term net openings. So a retailer that opens 10, but closes 2 for the year counts as a +8. We counted only those net results of +8. We did not tally the numbers within a particular retailer beyond the net increase or decrease.

Into the Data – Some Definitions



For this report, we break the data down by segments to review what's happening. Below is a list of those segments included in this research with some sample retailers:

Food/Grocery (Kroger, Safeway, Trader Joe's, Wegmans, Whole Foods)

Drug Stores/Cosmetics/Beauty/Vitamins (Walgreens, CVS, Sephora, Ulta, Vitamin Shoppe)

Superstore/Warehouse Clubs/Hypermarkets (Walmart, BJ's Wholesale, Costco, Sam's Club)

Mass Merchants (Target, Dollar Tree, Dollar General, Five Below)

Department Stores (JC Penney, Sears, Kohls, Beall's, Macy's)

Specialty Hard Goods (Home Depot, Lowes, Best Buy, Rooms to Go, AutoZone)

Specialty Soft Goods (H&M, Zara, Abercrombie, Aeropostale, Gap, TJX)

Convenience/Gas/Forecourt (7-Eleven, Circle-K, WaWa, Racetrac)

Fast Food (McDonald's, Subway, Burger King, Starbucks, Taco Bell)

Bar/Quick Casual Restaurant (Applebee's, Chili's, Cheesecake Factory)

Without question retail is changing and changing fast. The reasons for the change vary per segment, and we will focus on many of them in this report. Some have to do with overexpansion on the part of retailers and developers at the expense of customer service. Others have to do with competition from successful bricks-and-mortar retailers and online competitors. Finally, perhaps the largest reason has to do with the changing demographics of consumers.

We will show details by segment with deeper dives into the data on store sales and closings.

Finally, we will highlight how retail is mirroring the general population of haves and have-nots when it comes to making the changes required to compete going forward.

What is the background for the negative narrative?

How did we get to this negative view of retail?



The Start of the Retail Apocalypse Narrative



➤ Retailers Close Stores Every Year

- Rebalancing store portfolios is a function of any chain retailer's business. Each year retailers, (should) close underperforming stores and open stores in new locations. If there is one mantra that has become the norm in the recovery from the Great Recession, it's to learn to fail quickly. Savvy retailers have learned to cut their losses and close stores quickly and move on to more profitable regions.
- With advances in demographic systems and location technologies, retailers are better than ever at predicting good locations, but the data is not infallible. Macro events can have significant impacts on store traffic. For instance, if an anchor store in a mall is closing, every retailer in that mall is affected.

➤ First Year Fung Global Data Went Negative

- Besides the closing announcements of major brands, the primary data used to fuel the Retail Apocalypse narrative has come from our friends at Fung Global Retail & Technology. They do a terrific job on trends and the data they research. In particular, they are the go-to resource covering Department Stores and Apparel in detail, and particularly the larger companies, whether they be public or private enterprises. Since the two primary segments that are struggling the most fit into their coverage area, their early 2017 data on openings vs closings showed more closings for the first time in several years. This was picked up by the press that cover retail news.

➤ Lack of Other News To Counter

- Up to this point, there really has been no other research that takes a more comprehensive look at the market than what Fung Global had produced. Without countering data from another source, the press simply went with the Fung data as proxy for all of retail. Pretty soon, Retail Apocalypse took over the narrative.

➤ Bad News Sells

- Experience shows that bad news generates more clicks than good news. For example, the evening news template sets the first 20 minutes for shocking headlines, then a health story (that might be good or bad), sports, weather, and then the broadcast ends with a good news story to leave viewers on a positive note. In broadcast media, the constant tease to the next segment keeps us watching or listening, and this is almost always negative and exploits our human FOMO (fear of missing out).
- Because Retail Apocalypse was such a great negative headline, the stories almost always focused on the store closings and often even exclude the openings to maximize clicks and shares.

➤ Amazon Becomes the Villain

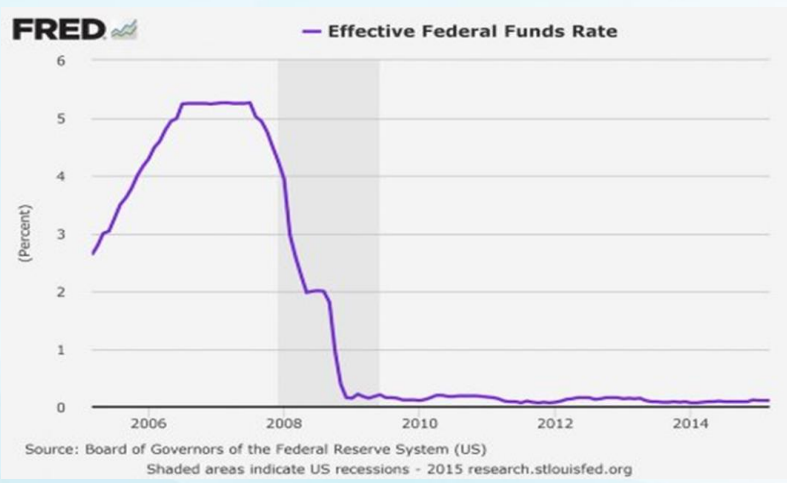
- Every apocalypse needs a villain and Amazon has become the proxy villain in retail. Online is certainly a growing part of the changes happening and Amazon is the largest player. But their retail revenue growth, particularly in Fashion and Department Stores, represents less than 5% of the impact on stores. Total ecommerce growth in 2017 is 28% of retail growth and Amazon is about 50% of that. Certainly Amazon is a threat, but they are not the cause of what we are seeing in these segments that are struggling.

Key Trends & Drivers

➤ Historically Low Interest Rates

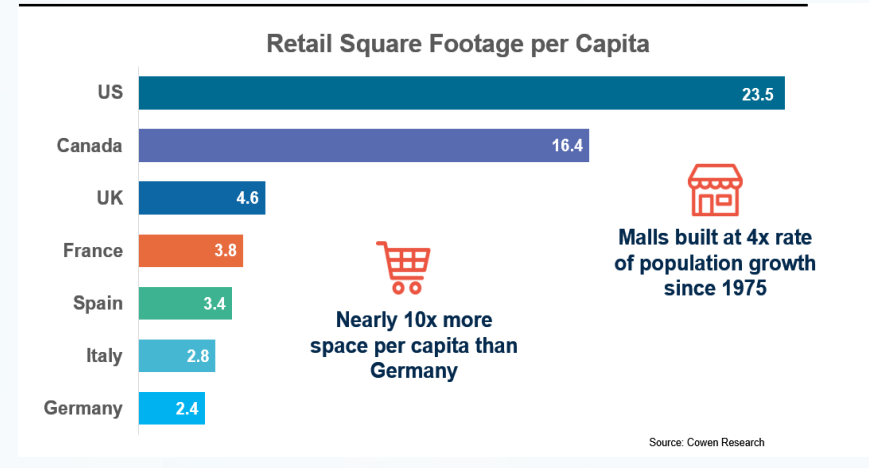
- Since 2009, we've had historically low interest rates, which made borrowing much easier for larger businesses. It has been an unprecedented period of opportunity for public companies offering bonds and private equity companies looking to make acquisitions that they can grow.
- This cheap money led many retailers and property developers to over expand. Quite frankly, because of short term thinking, many retailers expanded beyond their ability to service customers. The mindset became, "If it works in 100 locations, let's do 500". The result is oversaturation.

Figure 1 – Historical Fed Rates



Source – Federal Reserve – Board of Governors'

Figure 2 – Retail Square Footage – Global Comparisons



Source – Cowen Research

➤ Overstored

- Property developers have been expanding retail mall space at a rate 4x that of population growth since the mid 1970s. The mantra has been "If you build it they will come."
- The cheap money and easy opportunities to expand made it easy for retailers wishing to grow to do so.
- The end result is by 2015, Cowen Research noted that the per-capita retail square footage in the US was nearly 10x that of Germany. Essentially, we have too many competitors to shop, so any hiccup in the market causes problems.

Key Trends & Drivers, con't

➤ Impact of Fast Fashion and Off-Price Retailing

- The most significant hiccup to come into the categories that are shrinking is the impact from Fast Fashion-competitors like Zara, H&M and others. Quite frankly, many Department Stores and Specialty Apparel retailers got lazy in their customer service, relying on the strength of their brands.
- Then Zara and H&M introduced Fast Fashion, where the lead time from idea to store shelf when from 6+ months down to 3 weeks or less. With the price point for an outfit dropping by, consumers flocked to this new format.
- Fast Fashion, along with overexpansion, has had a significantly higher impact on apparel brands than online competitors or discounters. In addition, the continued rise of TJ Maxx and Ross Stores equally has impacted the market as consumers hunt for bargains.



➤ Breakout of Cosmetics/Beauty

- The double-whammy for Department Stores has also come from the breakout of Beauty and Cosmetics into standalone categories.
- Long a high-margin staple of the Department Store environment (along with Drug Stores), Cosmetics has traditionally been where Department Stores had exclusivity to many high-end brands.
- This has changed as major brands like Sephora, Ulta, Lush, and others have opened their own standalone stores.

Key Trends & Drivers, con't

➤ Price Changes

- According to the US Bureau of Labor and Statistics, since 1996 overall inflation in core consumer goods and services has averaged 55% over the 20 year period of 1996 – 2016.
- Some key examples of items significantly higher in cost are the following:
 - +200% - College Tuition and Textbooks
 - +125% - Childcare
 - +120% - Healthcare
 - +65% - Food and Beverage
 - +60% - Housing costs
- Some examples of products and services that have become more affordable:
 - -45% - Cellphone Service
 - -70% - Software
 - -72% - Toys
 - -95% - TVs
- So products and services that are more likely to be considered as necessities have grown significantly in cost over the last 20 years and items that are typically in the luxury category have gone down in price.
- In a vacuum, these price changes don't tell us much. However, when compared with income growth over the same period we can see that a much higher percentage of consumers cannot keep up with inflation, thus are shopping more at lower cost retailers and less at higher image/brand stores.

Figure 3 – 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%

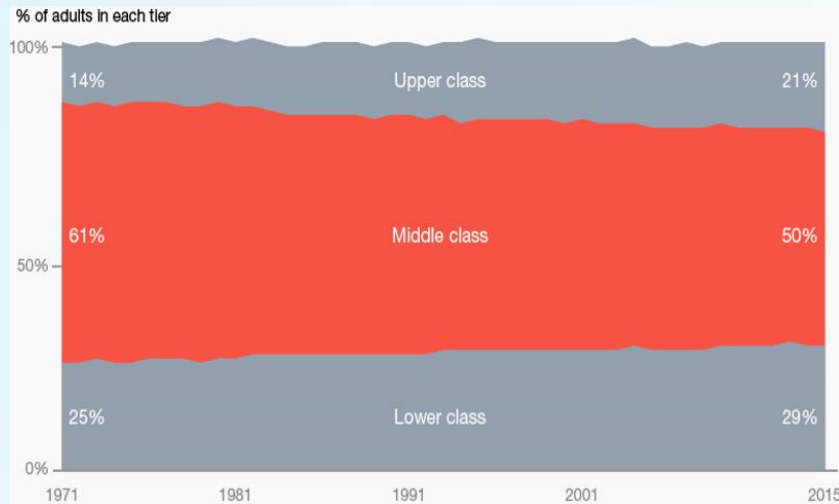
Sources: BLS, Census Bureau Historical Income Tables H1/H3

➤ Income Challenges

- From the data above we can see that 40% of the US population has not kept up with inflation and another 20% barely surpassed the 55% average inflation rate at the median income level.
- This means that over 50% of the households in the US are worse off economically than they were 20 years ago.
- The US household is being squeezed by higher costs for everything related to keeping their kids healthy, safe, and educated and this is affecting their shopping behavior.

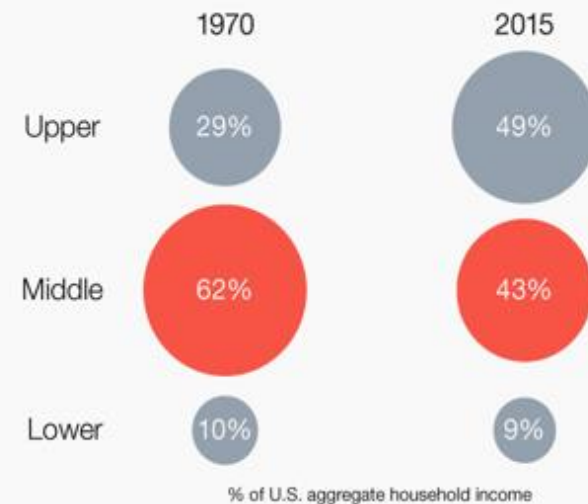
Shrinking Middle Class

Figure 4 – The Middle Class is Shrinking



Source: Pew Research Center

Figure 5 – Share of US Income held by the Middle Class has Plunged



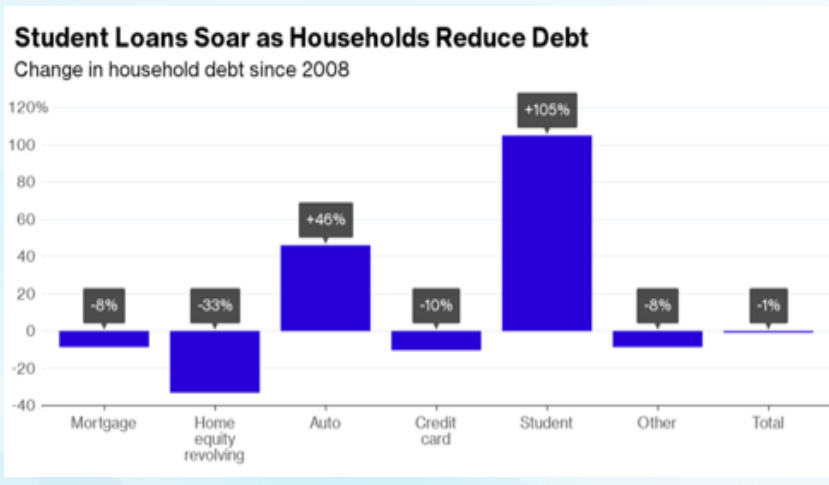
➤ Middle Class Conundrum

- Pew Research has looked at the change of the Middle Class since 1971. The data above shows that the Middle Class once represented 61% of all adults in the country, but has now shrunk to 50% of the population.
- At the same time, the share of income that these households controlled has gone from 62% in 1970 to only 43% today.
- The good news is the Upper Class grew by 50% in numbers and 69% in terms of share of income over the period. However, along with the challenges of the Middle Class, the Lower Class increased in population from 25% to 29% of adults, but the share of the income actually decreased from 10% to 9%.
- The majority of the malls that were built in the last 30 years were in areas thought to be Middle Class. But it is exactly that Middle Class and Lower Class consumer that has been squeezed the most.
- When we add to this the unbridled growth of many mall-based retailers due to lower interest rates, we can easily see why any hiccup in traffic is causing problems in these sectors.

➤ Student Loan Debt

- Student loan debt has become a significant concern among in households over the last 10 years.
- According to the Federal Reserve Bank of New York and Bloomberg, the change in student loan debt has increased 105% in the last 9 years alone.
- When you factor in millennial consumers that are most likely to be shopping for new career wardrobes and building out their shopping for families, this debt service is constraining retail spending in several consumer categories.

Figure 6 – Student Loans a Big Part of Household Debt



Source: Federal Reserve Bank of New York, Bloomberg

➤ Rise of Online

- Many retailers were slow to pick up on the very real threat of the rise in online shopping. For instance, the remarkable growth of Amazon Prime (with its free two-day shipping) has placed consumers in a position that retailers aren't accustomed to. Simply, consumers once HAD to shop in their stores since it was the only alternative available. Now, however, consumers have alternatives, so retailers must make consumers WANT to shop in their stores.
- According to Piper Jaffrey, over 70% of US households and 82% of households with incomes over \$112k now have Amazon Prime.

➤ Retailers Must Look In the Mirror

- Many retailers must look in the mirror and take ownership of the fact that they have prioritized growth in stores over customer experience for years.
- The fact of the matter is that the store experience in many retailers is simply horrible. They have underinvested in training of their associates, underinvested in IT spend to integrate systems across channels, and too many still tolerate an inventory process that leads to 25% of customers leaving their store without buying at least one item they intended to buy.

➤ Didn't You Just Make The Case?

- It would seem that the discussion over the last several pages clearly makes the case for the Retail Apocalypse. The truth is, it is an Apocalypse for retailers unwilling to change. But for those that do change, the opportunity is great and growing.

What is Really Happening?



➤ Retail Sales Up

- Despite the headwinds and negative headlines, retail as a whole is quite healthy. **Retail Sales are up \$121.5b** through the first 7 months of 2017.
- To put that growth into perspective, that is about size of the annual retail trade for The Netherlands. This is just the growth in 7 months.
- That said, there are quite a few differences by segments. We have alluded to these changes in some of the data shared already, but some of the faster growing segments for retail sales include the following:
 - **+8.4%** - Convenience/Gas
 - **+6.8%** - DIY and Home Goods
 - **+3.8%** - Furniture
 - **+4.0%** - Cosmetics and Vitamins
 - **+3.0%** - Restaurants
 - **+4.5%** - Mass Merchants, Dollar Stores, Off-Price
 - **+2.6%** - Jewelry
 - **+2.0%** - Supercenters and Warehouse Clubs
 - **+1.8%** - Food and Beverage Stores
- Conversely there are other segments that are seeing drops in sales for the first 7 months. These include the following:
 - **-8.1%** - Sporting Goods
 - **-4.3%** - Department Stores
 - **-1.3%** - Electronics
 - **-0.1%** - Clothing
 - **-0.9%** - Shoes
 - **-0.9%** - Drug Stores/Pharmacies

➤ Rise of Online Sales – But How Much?

- We should caution that the following numbers from the government are for pureplay online retailers and not bricks and mortar retailers that have online sales as well. So total online sales are higher.
- Overall Non-Store Retailers of which roughly pure play is 89% of the total is **up 11.8%** year to year.
- Online still represents **8.3% of total retail** but **29% of the retail growth**.
- IHL estimates that Amazon's online retail business has grown about \$17b YTD or roughly accounts for 13.9% of total US retail growth YTD. (Note: Total retail growth for Amazon here does not include the Whole Foods acquisition).
- It is obvious that some of online retail's strengths fit with the categories that are shrinking in sales in bricks and mortar stores. At the same time, much of the consumer products that drive the bulk of online sales are in categories that are also growing quite well at the store level.

Which brings us to the statement that it's all retail, and those that focus on the customer experience in retail will succeed and those who refuse to change will be in trouble going forward.

Retail is Growing, Not Declining

(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

➤ Up over 4,000 stores in 2017

- The news headlines on closings really focus on a very small number of retailers and segments that are concentrated in the mall based stores. As we will see later, 5 chains represent 28% of the announced closings, and 16 represent 48% of the total.
- Instead, what is happening is tremendous growth in store counts across the board and quite healthy retail numbers. Over 4,000 openings this year and 5,500 openings projected for 2018.

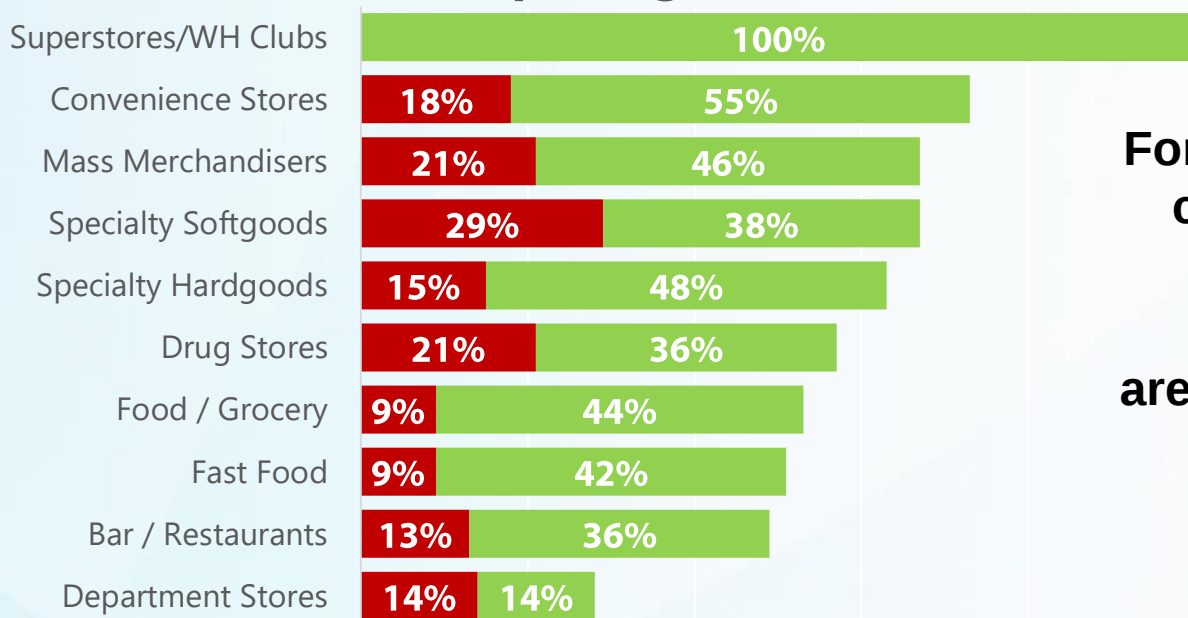
➤ Core Retail vs Restaurants

- When we review the data closer, the Core Retail segments are experiencing net growth of 1,326 stores (in chains with more than 50 stores) and 2,754 Restaurants.
- Looking forward to 2018, companies are planning 3,446 stores increases in Core Retail and 2,071 in Restaurants among the 1,800 chains researched.

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 Closing Stores

■ % Banners Gaining Stores

➤ Hundreds of More Chains Opening

- While the news tends to focus only on the large retailers that have announced closings, we are seeing that hundreds of more retailers are growing store count vs shrinking.
- In total 751 brands are increasing their store counts vs 278 that are reducing their store counts across all segments. By percentage, 42% are opening stores, 15% have a net decrease and 43% have no change in store count.

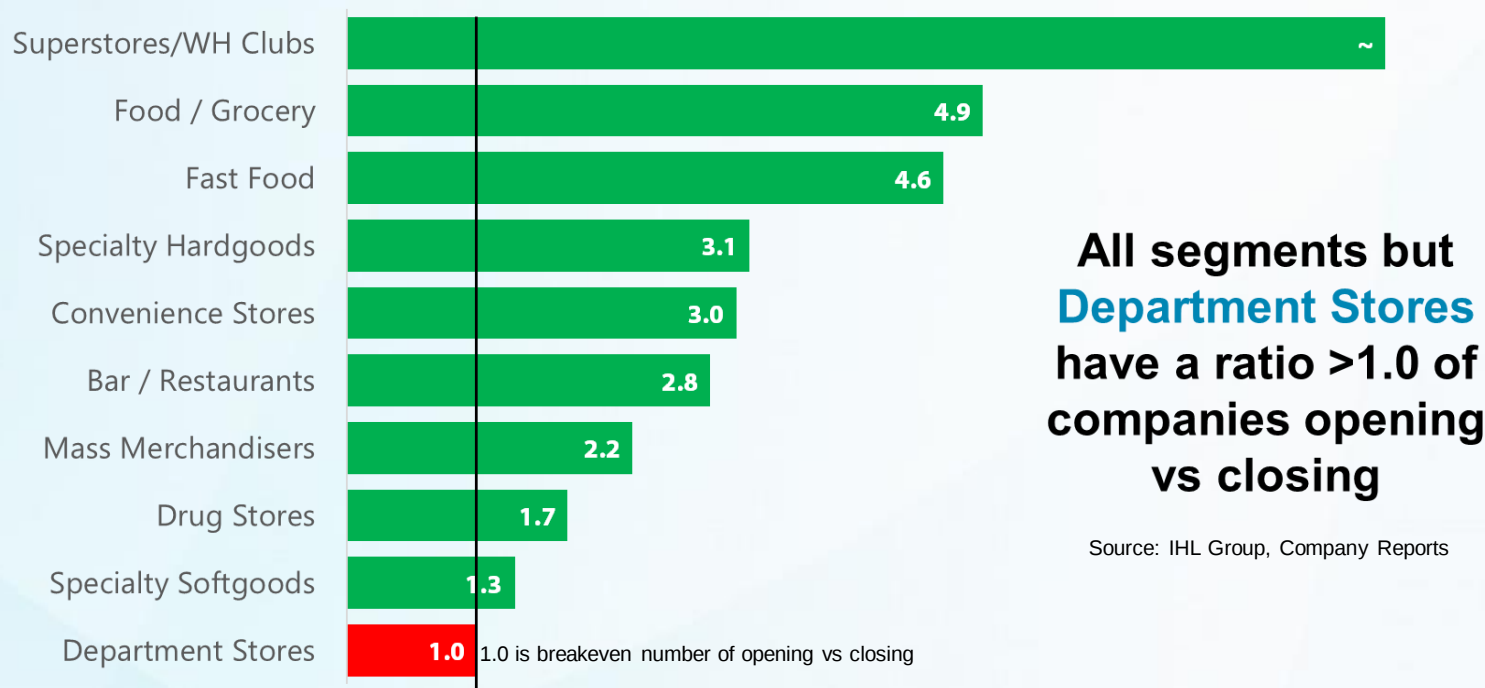
➤ Both Core Retail and Restaurants Up

- For Core Retail segments, 487 chains are opening stores vs 206 who are not, or an average 43% of brands opening more stores vs 18% that are closing stores. 39% of retailers have no net change in stores for the year.
- For Restaurants, 264 banners are opening stores vs 72 that have a net closing of stores. By percentage, 39% have a net opening of stores, 11% net closing and 50% no change.

Banners opening vs closing stores



% of Banners Net Open Stores vs Net Close



Source: IHL Group, Company Reports

➤ Ratio of opens to close

- The previous page looked at the number of openings and closings per segment in percentage terms. This sheet looks at the ratio of opens vs closing. No segments have more chains closing stores than opening. Even Department Stores have an equal number of chains opening stores vs closing. The difference is those closing are very large chains like Macy's and Sears and those numbers are greater than those opening stores.

➤ Strong results

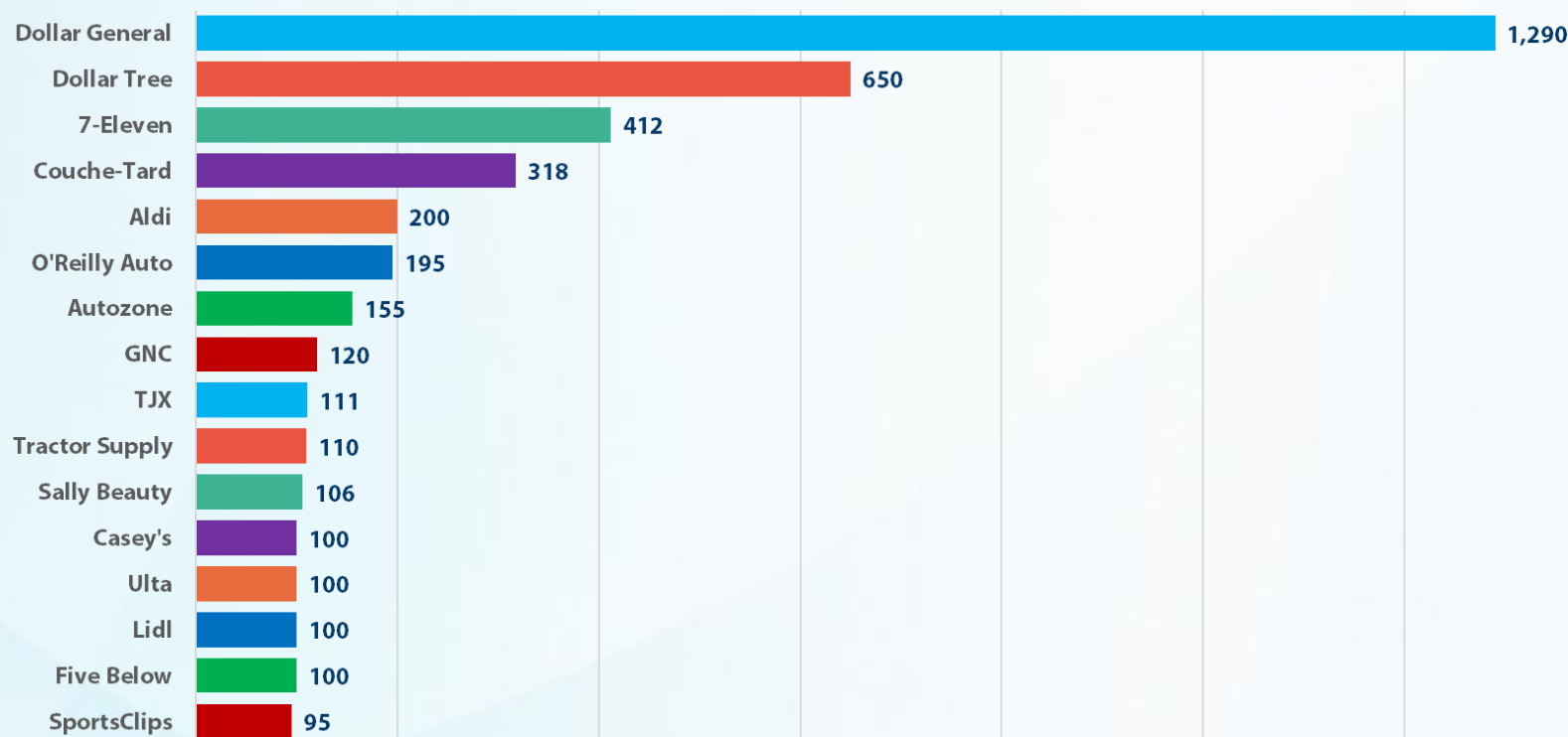
- Other than three segments (Department Stores, Specialty Softgoods, and Drug stores), all other segments have more than 2x the number of chains opening stores than are closing stores.
- Supercenters and Grocery Chains in particular are opening stores. It should be noted these retailers tend to be far more disciplined in planning and opening stores due to their own capital involved for the properties.

Retail Store Count Growth

Just 16 Banners are driving over 4,100 openings



4,162 New Stores From These 16 Banners



Source: IHL Group, Company Reports

➤ Fast Growing Retailers

- Here we truly see the breakout of the types of businesses that are growing. They are mostly in the Dollar Stores, C-Stores, Beauty, and the Specialty Hard Goods sub-segments of Auto Parts and Home Improvement/Farming.

➤ Matches Economy

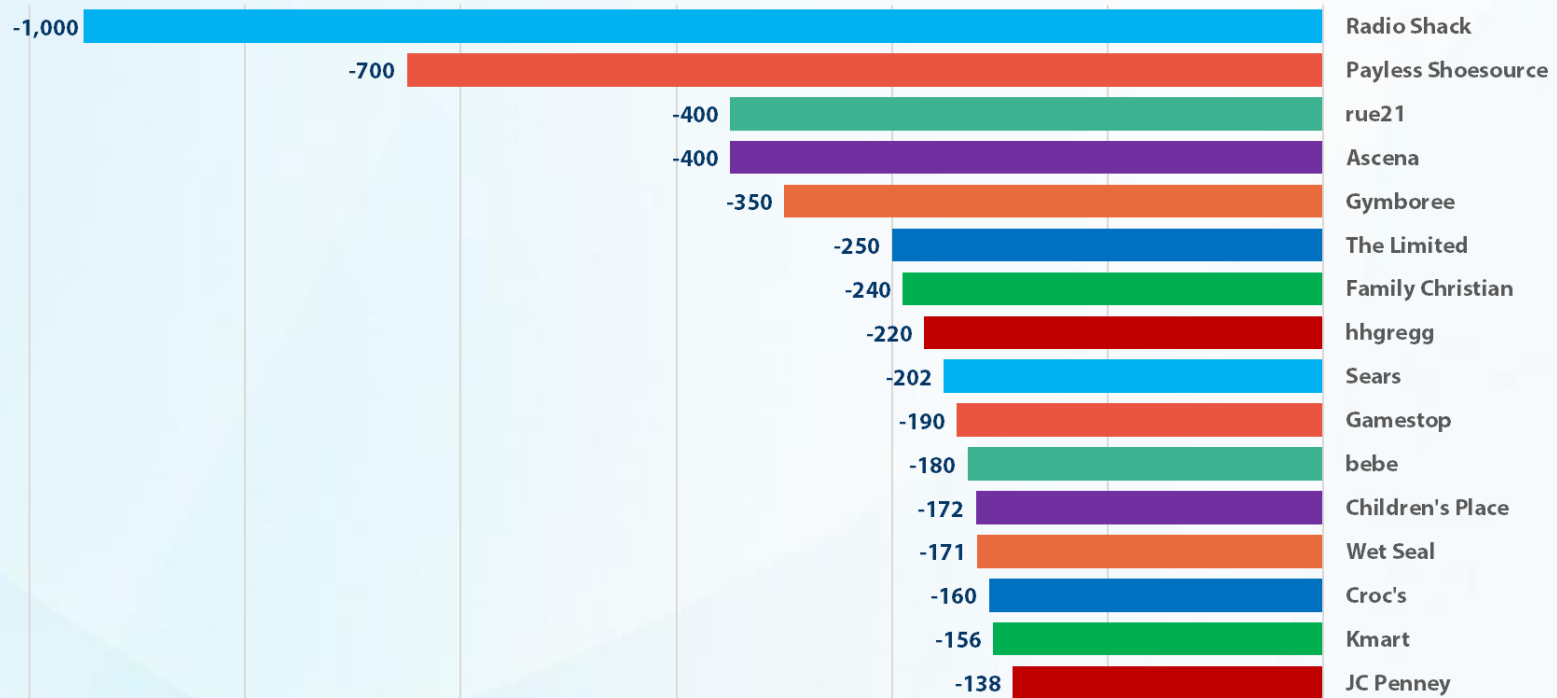
- We really see growth in stores mostly mirroring what is going on with the incomes of consumers. More discounters, less mid-range or luxury.
- With 50% of the households having trouble keeping up with inflation this makes perfect sense.

Store Count Decline

4,929 closed stores just from these 16 retailers



Plans for 2017 Store Count Decline



Source: IHL Group, Company Reports

➤ Dominated by Handful of Retailers

- We can't emphasize enough that the closings have been driven by a handful of retailers, not the overall market. These 16 retailers represent 48% of the reported closings.
- Many of these retailers have been shrinking for a decade or more, others are victims of their own undisciplined growth.

➤ Challenging Business Models

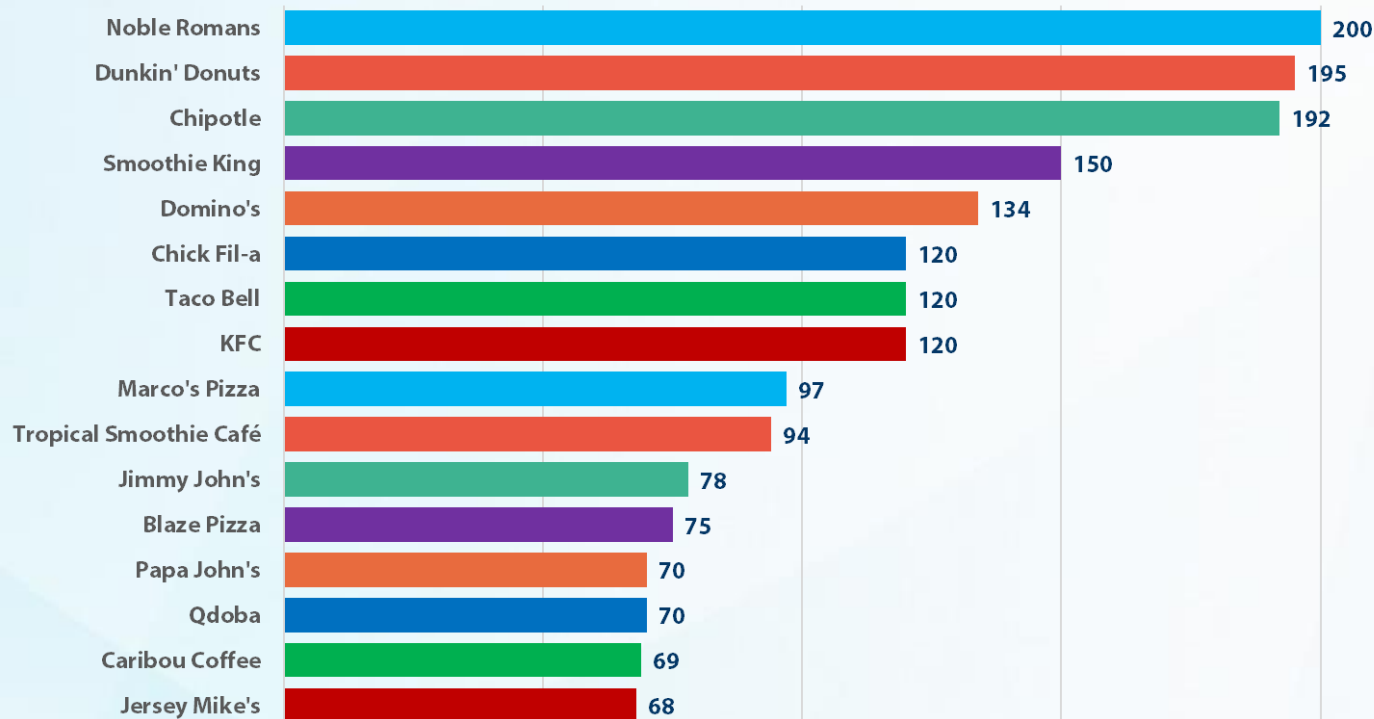
- When 16% of retailers represent 48% of closings, it is fair to say that there are business operating issues in each case rather than overall market forces. Most of these retailers were driven to grow, grow, grow or have outdated business models.

Restaurant Count Growth

1,852 new restaurants just from these 16 hospitality providers



Plans for 2017 Restaurant Count Growth



Source: IHL Group, Company Reports

➤ Coffee and Pizza Driving Growth

- American's insatiable love of pizza is at the heart of 5 of these 16 chains driving growth.
- Coffee and specialty drinks make up 4 of the 16.

➤ Fast Food is Fastest Growing

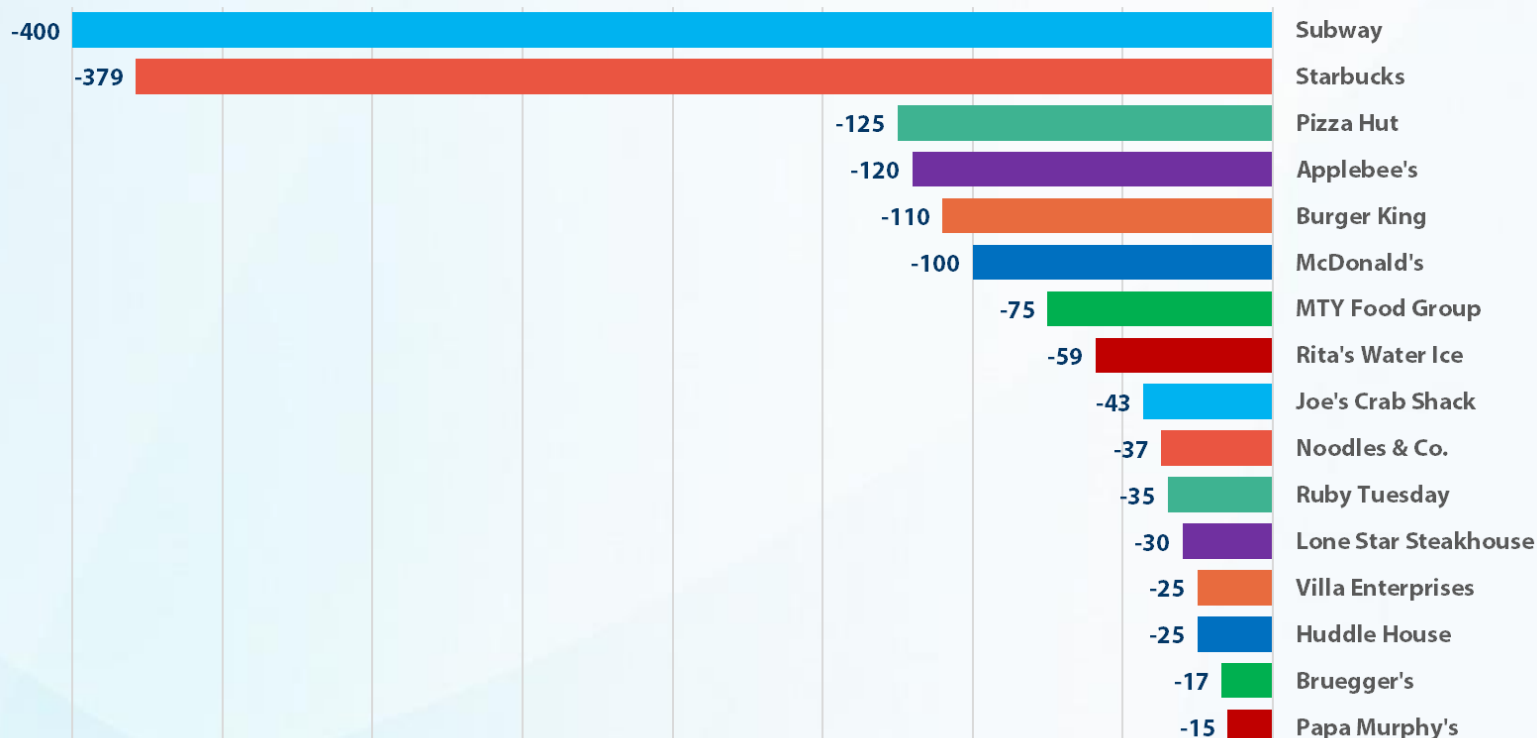
- What is instantly clear from this data is that Fast Food continues to grow at a rate significantly faster than Table Service Restaurants.

Restaurant Count Decline

1,595 closed restaurants just from these 16 hospitality providers



Plans for 2017 Restaurant Count Decline



Source: IHL Group, Company Reports

➤ Massive Chains, Unique Circumstances

- When you look at the names on this list, they are almost all household names with thousands and thousands for restaurants at the top. 400 closings for Subway represents less than 3% of their restaurant total.
- The franchised nature of restaurants also lends itself to faster growth opportunities and these don't all work out.

➤ Table Service Chains Represent

- Although not at the highest number of closings we do see certain brands that are retrenching. Each has its own story, and several have private equity and other pressures.

Deeper Dive – Drug and Cosmetics

+345 Stores



Net Stores Opening or Closing

Total Net Stores

345

-77

Drug Stores/Pharmacies

Cosmetics/
Vitamins

422

Sales Growth 2016-7

↓ 0.1%

↓ 0.9%

↑ 4.0%

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

➤ Diversified segment

- Looking at Drug Store, Cosmetics and Beauty segment, we are seeing a shrinking of the Drug Stores, driven mostly by closing of stores from big mergers led by CVS and Walgreens.

➤ Cosmetics and Vitamins Driving Growth

- Beauty, Cosmetics, and Vitamins are driving growth with brands such as Sephora, Lush, Ulta and Sally Beauty.

Deeper Dive – General Merchandise

+1,587 Stores



Net Stores Opening or Closing

Sales Growth 2016-7

Mass Merchants

1,905

↑ 4.5%

-400

Department Stores

↓ 4.3%

Supercenters

82

↑ 2.0%

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

➤ **Mixed Bag**

- When we look at General Merchandise Retailers (aside from apparel on next page), we see strong growth in Mass Merchants such as Dollar Stores and Off-price Retailers, and continued growth from Supercenters and Warehouse Clubs.
- This growth echoes the economic challenges of consumers who are shopping more at Walmart and Dollar Tree regardless of income level.

➤ **Department Stores Struggling**

- With the rise of Fast Fashion, the breakout of Cosmetics and Beauty and lack of clear differentiation, Department Stores have had a rough couple of years and this likely will continue without radical changes.
- Some of the brands struggling today have been suffering a death by a thousand cuts for years due to poor merchandising and outdated business models.

Deeper Dive – Softgoods

-3,133 Stores



Net Stores Opening or Closing

Sales Growth 2016-7



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

➤ Several Issues

- At the core of the issues in Fashion are overexpansion and a lot of me-too retailers without differentiation. Add to this cheap money, growth at the expense of customer relationship and the rise of Fast Fashion and several chains are in trouble.

➤ Fast Fashion

- In the numbers above we removed Rue 21 who rapidly grew to over 1,200 stores in just a few years and have scaled back over 400 stores and filed for Chapter 11 bankruptcy.
- Disciplined retailers like Zara, H&M and Forever 21 are doing quite well.

Deeper Dive – Hardgoods

+ 153 Stores



Net Stores Opening or Closing

Auto Parts

620

DIY

347

Furniture

171

Sporting Goods

4

-239

Books

-1,426

Electronics

Sales Growth 2016-7

↓ 1.1%

↑ 6.8%

↑ 3.8%

↓ 8.1%

↑ 0.2%

↓ 1.3%

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

➤ Some Up, Some Down

- The primary challenges in this market are in the area of Electronics and Sporting Goods. Here we see the impact of Amazon in the market.
- DIY and Home Stores are thriving, with sales up over \$14b year to year.

➤ Auto – Cause for Concern

- Here we still see strong store growth, but a decline in overall sales could be an issue going forward. Growth is driven by large chains and B2B partnerships.
- It should be noted that as much as 70% of sales for these stores come from auto dealers and repair shops, not walk-in consumers.

Deeper Dive – Restaurants

+ 2,754 Stores



Net Stores Opening or Closing

Sales Growth 2016-7

Fast Food (QSR)

2,026

↑ 3.2%

Bar/Rest. (TSR)

728

↑ 4.0%

Note: Restaurant Sales figures through June only.

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

➤ **Americans Eating Out**

- With Fuel prices about 7% higher than a year ago, consumers are still eating out.
- What is changing fairly rapidly is the mix of Fast Food vs Table Service Restaurants.
- Americans are more time starved than ever and preferring the convenience of Fast Food.

➤ **Haves and Have Nots**

- Here is an area where income growth (or lack thereof) and Millennials are having a significant negative impact on the visits to Bar and Table Service Restaurants.
- Sales are still growing in the space, but it is the incomes in the top 2 quintiles that are eating out more at TSRs, driving changes in concepts, experience, and portion sizes.

Going Forward

Our recommendations for retailers going forward.



6 Things Retailers Must Do

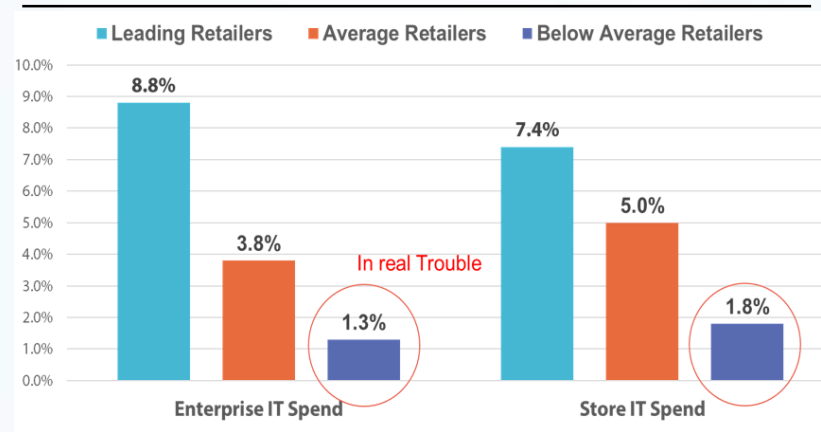
➤ Improve The Experience

- As we have already discussed, retailers must give consumers a compelling reason to come into their stores. People are overscheduled and online buying has become too easy due to Amazon Prime.
- Retailers must invest in the experience at the store level. The days of “Stack’em High and Watch’em Fly” are over.
- This means investing in their people and investing in the ambiance of the store. There is a reason that Publix, Wegmans and Chick Fil A make multiples of net profit more than their competitors. Their people and their stores are more inviting and customers like to shop there.

➤ Attack Out Of Stocks

- When consumers had to shop for everything at a bricks and mortar store, retailers could often get away with poor inventory levels and out of stocks. Not anymore.
- Amazon is almost always in stock because it is not just one retailer but a marketplace.
- For many categories, shopping at a local store is hit or miss due to inventory being off by as much as 25%.
- The retailers that will survive and thrive will invest in technologies such as RFID and image recognition to right-size their inventory. This will not only allow for those sales in the store, but also for true ship from store and free up associates to do these new functions without adding to existing labor hours.

Figure 7 – Leaders vs Average Retailers on IT Spend Growth



Source: 2017 RIS News / IHL Group Store Systems Study

➤ Decouple IT Spend Growth

- We talked earlier about the Haves and Have-Nots in terms of consumers. We are seeing the same thing happening among retailers.
- Traditionally, retailers have used a fixed percentage of 1-2% of previous year's revenues for IT Spending. If revenues went up, the IT budget went up.
- Leading retailers (those growing better than average) have decoupled their IT Spend Growth from their previous year's revenue are embarking on transformational IT spending, in some cases growing spend 7x faster than the weakest competitors in their segment to better compete. This is the key: Retailers do not need to outspend Amazon and Walmart, but need to outspend their weakest competitors.

6 Things Retailers Must Do



➤ Leverage The Cloud for a Jumpstart

- Using cloud computing can be a huge help for retailers that want to make a transformational impact in the shortest available time.
- A hybrid cloud approach where the cloud provides for the interfaces so you can have a single view of inventory and a single view of the customer across channels is a key first place to start.
- 34% of all software spending in retail in 2017 is on cloud solutions

➤ Embrace Mobility – Leaders Are

- Your customers are mobile, make sure your associates are as well.
- IHL research has shown that retailers who have embraced mobile in different categories are experiencing significantly higher growth in sales percentages.
- Retail Leaders are:
 - 250% more likely to be using Mobile Devices for Associates
 - 150% more likely to using Mobile POS to complete the transactions.

➤ Follow The Leaders

- Not only are retail leaders investing in IT solutions at a significantly higher rate and embracing mobile technologies, their IT priorities are much more focused.
- Specifically, retail leaders are focused on these areas in a much more significant ways than average or lower performing retailers in their sector:

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

➤ Retail is not dying, but it is changing...

- Without question we are at an inflection point. Retail in the US is right-sizing in a number of different ways. Overexpansion, changes in consumer behavior, rise of competitors both online and offline, and continued challenges among consumers and disposable incomes have led to more shopping at discounters over malls, online for convenience, and the breakout of new categories. Retailers need to up their game.
- It is important to note that retail has gone through many different inflection points and changes. For instance, in 1990 we had 4 Walmart Supercenters. By the year 2000, there were over 1,500. This had a profound affect on retail and changed it many ways. And yet Retail not only survived but grew. In 1992, the US Retail Economy (with motor vehicles) was \$2.0 Trillion. By 2000, it had grown to \$3.3 Trillion. For 2017 Total Retail and Food Services Sales (with motor vehicles) is on track for \$5.775 Trillion.
- At the same time population has grown. In 1992 the US population was 256.5 million. In 2000 it had grown to 282.2 million. And by the end of 2016 it was 323.1 million. So built into the retail economy is growth.
- Consumers are investing heavily in their homes and on experiences. Whether it is the latest concert, ball game or Game of Thrones episode, consumers in America long to be entertained. Retailers and Malls that take that to heart, invest in their people and their IT systems to improve their shopping experiences, will continue to not only survive, but thrive.

* US Census Monthly Retail Trade 1992-2016 – Non-Adjusted, Retail and Food Service Sales Total

Methodology

Here we describe how we arrived at the figures included herein.

How We Got Here



For this research we relied on a few specific sources.

The first was the US Census for Retail Trade and the monthly retail sales numbers that are released. For this research we relied on the version that was released on August 15th that shared retail sales through July of 2017. We track this data monthly from the US Census and realize the current figures can be adjusted up or down when the following month's results come out; we wanted to provide the latest data knowing that it may change. As an FYI, when July's data was released, June's figures were revised upwards, so it is likely the figures in the report on sales growth are conservative.

The second primary resource was our Sophia Data Service for North America. Here we track over 2,700 North American retailers and restaurants. We started with that list and then eliminated those with fewer than 50 locations or which were in hospitality segments that differed from those that are included in the US Census for Retail Trade. We then reviewed each entry to make sure we properly identified the differences between enterprises and banners. Conglomerate companies that have many retail banners were sorted and the banners (and their respective segments) were researched so that we did not have double counting. This got us down to 1,804 banners with more than 50 locations.

From that our research team set out and looked at press releases, leveraged the public Fung Global Retail & Technology data, company websites, tax filings, and many different ways to find the data on store counts and increases/decreases for each of the 1804 companies.

In our research we looked at net opens and closings per retailer. A retailer that opened 10 stores and closed 2 was counted as +8. We did not keep track of every store opening and every store closing, but rather the net change per retail banner. Those were then compiled in aggregate for the results.

For more information on this study, please see our [website](#) or contact us at +1.615.591.2955.

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Thank You

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