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RETAIL

Retail apocalypse continues: 75,000 US stores to be forced to close by 2026

April 25, 2019

Italian fashion brand Roberto Cavalli recently shuttered all 12 U.S. stores as part of its bankruptcy filing. Image credit: Roberto Cavalli

By Pamela N. Danziger

The next seven years are going to be tough for retail.

A sweeping restructuring and downsizing of physical retail will occur through 2026, as the penetration of online retail rises to 25 percent from its current 16 percent market share.

Stores tapped out

Called "store rationalization" in an analysis from Swiss investment bank UBS, it finds that with each 1 percent increase in online penetration, some 8,000 to 8,500 stores will need to close.

At its current rate, that means some 75,000 stores will be forced out of business by 2026, or about 7 percent of the 1,044,754 retail establishments in the United States today, according to data from the Bureau of Labor Statistics.

The sword will fall unevenly depending upon the retail sector and the rate of penetration that online sales are expected to have.

Clothing stores will take the biggest hit, losing an excess of some 21,000 stores out of the current 82,200, or some 25 percent. Consumer electronics stores will drop by 10,000 stores, or 25 percent of the 39,000 currently standing.

Home furnishings will lose 8,000 stores, or 32 percent of its current 25,300, and home improvement stores will drop by 1,000, or about 7 percent of the nation's 14,500 hardware stores.

The number of grocery stores will fall by 7,000, or 8 percent, from the current 89,500, if online penetration rises to 10 percent from its current 2% level.

Pace of closing will accelerate

With 75,000 stores closing over the next seven years, that translates to nearly 11,000 stores shuttered per year or nearly double the rate of store closures recently.

Through the first 15 weeks of 2019, Coresight Research reports its sample of select retailers announced 5,994 store closures. That exceeds the 5,864 stores closed in all of 2018.

The U.S. is historically overstored, with an estimated 23.5 square feet of retail for every American, as compared with 16.4 in Canada, 4.6 in the U.K. and 3.8 in France, according to financial services firm Cowen.

This led Cowen's analysts to declare the data "suggests that the sector remains in the early innings of reduction in unproductive physical retail."

In other words, the retail apocalypse is only beginning, as the world of retail as we have known it dies and the new world ascends.

Year-to-date
Retail bankruptcies and closing announcements have been rife through the first four months of this year.

Signet, which operates Kay, Zales and Jared jewelers, recently announced another 150 stores will close, following 262 closures last year.

Samuels Jewelers will close its Web site and 122 locations after filing for bankruptcy last August.

Italian luxury fashion brand Roberto Cavalli just filed for bankruptcy, as it shuttered all 12 U.S. locations in tony shopping areas.

This year going-out-of-business signs have impacted some 2,500 Payless shoe stores, 805 Gymboree kid clothing stores, 251 Shopko discount stores, 500 Charlotte Russe fashion boutiques, 159 Fred's pharmacies and 102 Performance Bicycle shops.

Home furnishings brand Z Gallerie filed for bankruptcy protection this year, but will only close 17 of its 76 stores while it seeks to restructure.

Ongoing concerns have also taken a knife to oversized retail operations this year.

L Brands will shut 53 Victoria's Secret stores, picking up the pace from 30 closures last year. Dollar Tree will close 390 of its Family Dollar stores. Beauty Brands will shutter 25.

J.C. Penney will close another 18 department stores and Macy's will close eight. Hudson's Bay Company will shutter 20 of its 133 Saks Off Fifth Avenue stores.

Chico's women's fashion brand will shut between 60 to 80 stores this year, with the intention of closing at least 250 stores over the next three years.

Destination Maternity, Christopher & Banks and Sears/Kmart are also in downsizing mode.

Others are right-sizing their fleet, weeding out less productive stores to give the ones that remain room to grow.

For example, Gap Inc. will close 50 of its company-owned stores this year to a total of 250 over the next two years. But at the recent Shoptalk conference, Gap Inc. CEO Art Peck said it would continue to open new locations, explaining the closures reflect "the wrong stores in the wrong locations."

Abercrombie & Fitch will eliminate up to 40 stores this year, following 29 closures last. However, it is also opening 40 new stores this year and expects to have a flat to increased store count by year-end.

These closures will bring collateral damage to shopping malls.

Cushman and Wakefield estimates that the number of U.S. malls will drop from 1,150 today to about 850 within the next several years.

Real estate research firm Green Street Advisors puts the current state of mall's overcapacity in perspective. It says that all the department stores still open in the U.S. could fill 350 average-sized malls alone.

Macy's holds the largest share of square footage in malls, followed by J.C. Penney, Sears, Dillard's and Belk, based on Green Street's analysis.

Retailers on the fence
Excess capacity and heavy debt burdens will continue to put more retailers at risk.

CreditRiskMonitor assigns a "FRISK" score to company's with publicly-traded debt or bonds. The score predicts the probability of bankruptcy within the next twelve months.

Claiming a 96 percent accuracy rate, it reports Neiman Marcus, J. Crew, Francesca's and Rite Aid top the list of at-risk

retailers with a FRISK score of 1, which indicates a 9.99 percent to 50 percent chance of bankruptcy.

Less likely candidates, but no less threatened with a FRISK score of 2 with a 4 percent to 9.99 percent chance of bankruptcy over the next 12 months, are J.C. Penney, Pier 1, Ascena Retail Group (Ann Taylor, Loft, Dress Barn and Lane Bryant among others), Destination Maternity, Camp World Holdings (Gander Outdoors), Overstock.com, Stein Mart, Tailored Brands (Men's Warehouse and Jos. A. Bank), Blue Apron and Steinhoff International Holdings (Mattress Firm).

Confronting retail's future with eyes open

Retailers large and small are in real danger of getting swept under by the rising tide of ecommerce, especially by Amazon, which is predicted to account for nearly half of U.S. ecommerce sales by 2026, according to UBS.

To help avoid that fate, BDO recently published a study reporting the results of a survey of 300 C-level retail executives.

"Industry dynamics will inevitably favor those who are thinking long-term," writes Natalie Kotlyar, BDO's partner and retail and consumer products practice leader.

With an inevitable market correction predicted, she contends, "What worked to keep businesses afloat in 2018 may not be enough once that correction hits and retailers that are just surviving today could find themselves in trouble."

The BDO analysis divides retailers into two groups: Thrivers (37 percent of those surveyed) and Survivors (the majority, or 54 percent). The differences between the two are stark.

Survivors are avoiding risk and are keeping their eyes on traditional competitors, as they lag in technology implementation. Survivors operate in a wait-and-see mode, not thinking beyond the next quarter or two.

Tellingly, some 68 percent of Survivors believe bankruptcy activity will remain on par in 2019 as compared with 2018.

Thrivers, on the other hand, are actively planning for the next market correction, with 41 percent of them thinking bankruptcy activity will pick up pace in 2019. Thrivers characteristically are described as "ecommerce-centric" and early adopters in technology. They are investing in their future and anticipating consumer needs and desires ahead of the curve.

Survivors need to make a quick course correction, or as the report states, "make the hard choices before they're made for you."

Thrivers have seen the future and are well on their way to adapting to the post-apocalyptic retail world.

For Thrivers it is out with the old, in with the new.

"The majority of retailers are stuck in survival mode," Ms. Kotlyar warns.

"Playing catch up in perpetuity is preventing retailers from seizing new opportunities and leapfrogging the competition," she said. "It's time for retailers to get rational: Scale with stability. Focus with foresight. Invest with intention."

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