

RETAIL

In a post-COVID-19 world, every retailer must find its "essential"

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RHNew York, the retailer's outpost in Manhattan that combines interior design, furnishings and fine dining. Image credit: RHNew York

By [Pamela N. Danziger](#)

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As in Dickens' *Tale of Two Cities*, when we write the story of retail in 2020, it is going to be the best of times for one group of retailers those deemed essential and the worst of times for others: non-essential retailers.

Two new studies, one from IBM projecting retail through year-end and another from UBS looking out to 2025, tell the tale of the best and worst to come.

Retail's uneven bounceback

Overall, IBM has good news to report: 2020 should end with retail down only 3 percent, excluding auto-related and food services.

"The retail economy has bounced back quicker than I thought and frankly quicker than most thought," said Karl Haller, who leads IBM's Consumer Center of Competency, a consultancy group made up of retail and CPG industry experts.

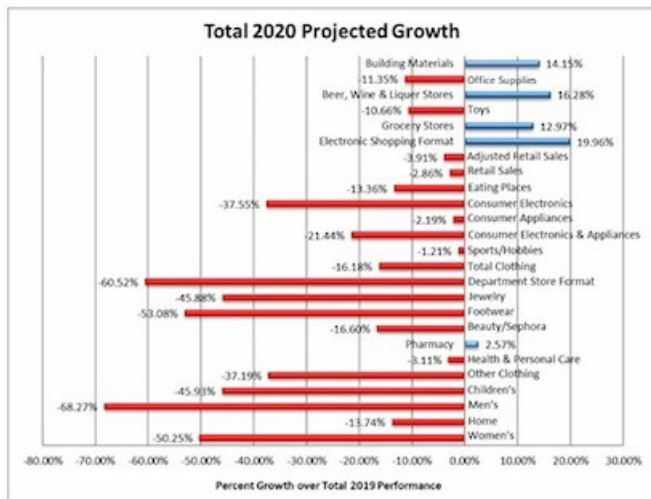
But, Mr. Haller adds, "It's bounced back very unevenly."

The ranks of nonessential retailers, which experienced sales declines of 25 percent in the first quarter and a massive 75 percent drop in the second, face a hard climb out of a deep hole.

The topline results are skewed by dramatic upticks in certain large retail sectors, such as building materials, which will end 2020 up 14 percent, grocery (13 percent), and electronic shopping (20 percent). They are offset by a much larger number of losing sectors, including consumer electronics and appliances, to end 21 percent down, clothing (-16 percent), beauty (-17 percent), home (-14 percent) and, the biggest loser of all, department stores (-61 percent).

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Total 2020 Projected Growth



Total 2020 projected growth for retail categories. Source: IBM

New measures

Complicating the read from retail trade results is that personal consumption, as measured by the Bureau of Economic Analysis, has held up fairly well throughout.

This reflects consumers shifting spending online, which the Census Department's retail trade data does not accurately reflect.

"I am losing confidence in our ability to measure ecommerce, because what exactly is an ecommerce sale since virtually everything has a digital engagement to it," Mr. Haller said.

"Does it matter where I am? Does it matter where the goods are? Does it matter where the transaction happens?" he said. "It becomes almost an arbitrary decision to assign a transaction as originating in the store or online."

The retail trade data needs to reflect this fundamental shift in the customer shopping, buying and fulfillment experience.

"Consumers are becoming more comfortable with their fulfillment happening differently from their buying and shopping," Mr. Haller said.

Redefining demand

Due to consumers' digital engagement, the store becomes more than just a place to collect and store goods for eventual sale. It becomes a hub to service consumers, sometimes to fulfill orders and accept returns, but more importantly, a place to make consumer connections and generate demand.

"If traditional retail is buying something for X and selling it for Y, then it has less and less value to consumers and less and less economic value," Mr. Haller said.

"The ability to generate sustained economic value doing that is declining and rapidly approaching zero, especially when dealing with discretionary purchases," he said. "You have to provide more than a product and a place to buy it. You have to generate demand."

Generating demand is actually easier in the store because people arrive there primed to shop, whereas online retailers must interrupt consumers while they are doing something else online. That is why so many digitally native brands are crossing over into physical retail, with nearly 2,000 digital brands having opened stores, and an additional 850 or more stores are planned by 2023.

Mr. Haller points to two home retailers IKEA at one end of the pricing spectrum and RH at the other as retailers that understand the power of the store to create demand.

"They have made their stores places to hang out and spend time, not just a place to buy products," Mr. Haller said.

"Whether it is the meatballs at IKEA or a \$17 cocktail at RH, they create an experience that drives interest, buzz and

excitement," he said. "These experiences give people a place to go, as well as provide the retailer with another revenue stream. And the ultimate hope is that more sales will come when their guests are looking to make home purchases."

Similarly, Nordstrom's new 57th street store in New York opened with a Shoe Bar, where guests can sip cocktails or coffee drinks while they try on shoes.

"It's a fantastic way to make the store something more and gives customers a reason to go shopping instead of getting shoes delivered tomorrow from Zappos," Mr. Haller said.

Treasure hunts

But it does not have to be only enticing customers with food and drinks.

TJ Maxx and HomeGoods have mastered experiential treasure hunt shopping that has become addictive.

When the TJX stores opened after the shutdown, brand loyalists lined up all across the country to get their fix.

Looking to the future of retail, Mr. Haller foresees "accelerated corporate Darwinism," or survival of the fittest.

To become one of the fittest that will survive, it is essential for retailers to find their "essential" value to the customer, and it is not just being a place to buy stuff.

"For three months we were told by the government what was essential retail and what wasn't," Mr. Haller said.

"Now the only person telling you if you are essential or nonessential is the customer," he said. "The challenge for every retailer within the nonessential' space is to go out and find your essential again. And it probably won't be the same one that it was a year ago.

"This is the challenge facing every retailer that depends upon emotional, discretionary purchasing."

And, virtually everything in retail hinges on emotion.

Rough road ahead

The UBS study, which looks out over the next five years in retail underscores the need for every retailer to find its "essential."

The retail landscape will be radically altered between now and then. With consumers shifting to online shopping, UBS forecasts online penetration will rise to 25 percent of retail, resulting in the closure of at least 100,00 retail stores.

"With that many sales online, we simply won't need as many stores," said UBS senior research analyst Michael Lasser.

And just like IBM's retail assessment for this year, UBS finds that retail opportunities and challenges will not be evenly distributed.

Through June of this year, discount/dollar stores have experienced the most growth in number of stores (+1,560), followed by home improvement (+180).

By comparison, clothing retailers (2,390 closures), jewelry and accessories (-950), home furnishings (-820), footwear (-480) and sporting goods (-270) have experienced the most permanent closures.

Looking to 2025, the shift to online shopping will accelerate store closures most profoundly in clothing and accessories (-23,940), consumer electronics (-12,490), home furnishings (-11,280), and grocery retail (-11,040).

In addition, retailers in those segments with fewer employees, which coincides with retailers slower to implement effective omnichannel capabilities, will be the first to fold.

"Retailers that have harnessed the power of omnichannel will continue to lead, like Walmart, Home Depot, Lowe's and Target," Mr. Lasser said. "They will be able to use their physical locations as hubs of distribution.

"Smaller players are particularly vulnerable to the changing landscape. If you are a smaller retailer, it's more difficult to have the resources necessary to meet the expectations created by the consumer."

No safe haven

While both IBM's Mr. Haller and UBS' Mr. Lasser believe that omnichannel capabilities are essential for all retailers, it is not their ultimate "essential." It still and always will revolve around the connection the retailer is able to make

with the customer. The physical store remains the best place to create that connection.

"There is tremendous value that a store brings," said Kearney partner Michael Brown from his perch as head of the firm's consumer practice of global strategy and management. "It's marketing. It's customer acquisition. It's a point of engagement. It's brand building and connectivity.

"The store is an opportunity for customers to build a relationship with a brand," he said. "It's an opportunity for them to engage with the brand, engage with representatives of the brand, and be inspired by the brand. And then down the road, they may transact with the brand across any number of different media."

Transforming the store into a place to do something more than just buy stuff will continue to be a priority, especially once people can get back to doing the other things they enjoy doing, such as travel and restaurants.

"If we look especially at the high-income quintile consumers whose personal finances haven't been materially impacted, they have shifted a great deal of spending from the discretionary services bucket, for things like vacations or dining out, to discretionary goods purchases," IBM's Mr. Haller said, adding that those expenditures will likely shift back once the pandemic lifts.

THE PLACE TO start to find your essential is to figure out what your community of customers consider essential about the products you sell.

Then extend that product-specific essential out to encompass an essential shopping experience that your customers will value and need again and again.

Maybe it is serving a cup of espresso or a margarita when trying on shoes, but more likely it will be much more than that. You are only limited by your imagination.



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