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RETAIL

Where are bricks-and-mortar and online retail headed?

June 21, 2021

Saks Fifth Avenue was one of the few major luxury retailers to get 360-degree retail right. Image credit: Saks Fifth Avenue

By MICKEY ALAM KHAN

Retail has undergone its most seismic 15 months in modern history, reshaping consumer attitudes to consumption, experiences, safety and customer service expectations.

In this extensive dialogue, Ken Nisch, chairman of Southfield, MI-based retail branding and design firm JGA, discusses the state of retail post-pandemic and how the environment will shake out for retailers, brands, consumers and other players in the ecosystem.

"While patterns will never return to exactly where they were, there likely will be a muting of the vast differences, generally, fashion, wear-it-out, beauty, fragrance and, of course, luxury "wearables," should benefit not only by consumers coming back into the physical marketplace, but as well having more physical places to wear and share their purchases," Mr. Nisch said.

Please read on:

The United States seems on track to have a vast majority of its population vaccinated by this summer. What will this mean for retail?

Retail and aggregate other than the initial 90 days of total shutdown has been the tale of two cities.

On average, up a point down a point, but in looking at it more closely, there is roughly a 50-point delta between "winners and losers."

Fashion mall retailers, accessories, most anything related to travel, has seen declines up to 25 percent, while other COVID-friendly retailers, home furnishings, outdoor and recreation, fitness with a particular shift towards digitally focused aspects of business have seen increases of 25-plus percent.

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their purchases.

Events will return, which will drive fashion apparel, travel while international travel both from and to the U.S. likely will be much slower to recover will prompt purchases and purchasing.

Many traditional international visitors to the U.S. come from places that are much less likely to be vaccinated, either because of their control over the spread of the disease has created a lower enthusiasm for vaccination, or the country in general is just behind.

We see this in places even as close as Canada and Mexico, with international travel requiring a minimal level of "affluence," and the most important customers, particularly in gateway cities, New York, San Francisco, typically with the exception of organized travel tours, which will likely take even longer to return to their previous levels, lagging domestic tourism.

Much internal tourism has shifted away from urban areas, New York, San Francisco into middle markets, even places like Miami, which may further shift as we get into summer. The fourth wave will be a threat.

Consumers spent more than a year under lockdown, trained to shop for most essentials and even luxury items via online and mobile. Has ecommerce cannibalized bricks-and-mortar retail to the point where the shift is permanent?

While the pandemic hasn't changed, it's likely accelerated the willingness and movement from traditional brick-and-mortar shopping to online shopping.

The online shopping in many cases has shifted consumption within primarily brick-and-mortar retailers, think grocery, big box, and also a shift in behavior for reasons of convenience and familiarity so that the shift was not just a "moving of the deck chairs," but in many cases represented real, incremental, and likely permanent gains for these brick-and-mortar retailers in growing their ecommerce business.

As well, pure-play ecommerce benefited, which leaves a question when you talk about brick-and-mortar specialty, and department stores.

Again, the change was coming, COVID accelerated it, and if indeed 30 percent of the shopping malls, and 20 percent of the brick-and-mortar store locations will close, there will be a consolidation, but the consolidation may be much less about top line i.e., those that are going to consolidate tend to be lower volume, ancillary to other market options, and that a certain level of sales actually contributing to the sustainably of a brick-and-mortar location through ship from store, click and collect, etc. activities, bringing incremental volume and customers to the remaining locations.

The biggest evident change will be in market square, there either was a single mall that's closing i.e., it's likely to push those sales into online or to other brands generally trading down the market exposure to brands and retailers versus trading up i.e., prestige cosmetics, luxury or aspirational not necessarily luxury goods that would typically be found in a second- or third- tier department store location, think Coach, Michael Kors, some apparel brands that now will not likely be represented at all in those particular markets on a brick-and-mortar basis.

It also will impact luxury categories, again also, such as cosmetics, accessories, they have little impact other than brand awareness, as categories such as better accessories, apparel likely not represented in those environments previously.

The whole lockdown strategy, I think, will create a lasting anxiety on the part of many retailers that now have found themselves defined as essential and non-essential.

"Street" retail, by and large benefitted, but without the "pass card" of food, HBA, pet, the independent retailer was hit just as hard as the chain, and retail that involved food service or personal services, were doubly hit.

Retail giants Target, Walmart, Walgreens, Kroger, etc., and even big box and the home improvement categories, outdoor, etc., clearly benefitted early in the pandemic when the shutdown was more rigid and exclusionary.

The resilience of many smaller "non-essential" retailers is admirable, who pivoted quickly in the back half of 2020, and based on a combination of factors from rent relief, vendor and supplier forbearance, shorter operating hours and cost, and a scrappiness that took advantage of the local/shop small movement, in many cases were able to put together a reasonable holiday business in spite of the many obstacles.

Stimulus/CARES programs were a lifeline to many of these smaller and larger businesses, with the proverbial "middle" most challenged i.e., national chains, middle-market position, that could claim either to be local,

interesting, or large, multi-category businesses that benefited from the perfect scenario of many stay at home, highly "liquid" consumers is a combination of spending less on services, dining out, travel, etc., and having in many cases "found" cash through government support programs, with the relatively few places to spend the money i.e., the home.

One of the bigger impacts, however, I think will be that many brands grew their direct-to-consumer business.

We are seeing announcements daily of them shrinking their wholesale distribution and narrowing their retail partners, which will put pressure on "great opportunities" for smaller and new brands at wholesale, and pressure on retailers to support, and create more equitable ways of doing business with these new brands, particularly in light of the growth of "marketplaces," such as Shopify and Amazon.

Is the future only for major corporations and luxury?
Much of this is the definition of difference between luxury, luxury products, and luxury brands.

Luxury brands, by and large, in my view exist for what we call the mass luxury consumer versus for the true luxury consumer.

The whole concept of brand is around creating a "shorthand" for those who truly don't know or understand, to believe, that they do know and understand, and in particular, what they buy will be acknowledged and recognized by others that don't know or understand.

As long as there is a new and willing population, whether it be based on geography, rising economic standards, or just great marketing and positioning, the growth will not come from the half of the half of the half of the half of the one percent on the top of the market, but rather the influx of new and able customers migrating into what is the mass, brand and luxury space.

The balancing act always is enough at the top to appeal to the new consumer and the delicate dance between scale and exclusivity.

Small companies are not equipped to often grow into that mass luxury space, given the vast resources it takes to do so, and sometimes can or cannot survive in the narrow world of exclusivity.

I think though if you think beyond just the consumer side, the mass side of luxury, and into the shifting space of luxury whether it be collecting art, the whole world of appliances.

How has consumer retail behavior changed from March 2020 to now? Will those changes be permanent?

I would talk less about change than about the acceleration of change, most anything that happened during COVID was inevitable. But, I think, there are things that happened in COVID that weren't inevitable, but that COVID provided the "white space," whether that be white space of empathy, white space of news, even just white space of quietness.

I think the impact of George Floyd, the political upheaval that happened in this time, the dramatic images of 600,000 people dying [in the U.S.] with real lives, things as simple as the empty sympathy card rack section at the local drugstore, shocked the consciousness of people and consumers.

A New York Times article on March 4 about measuring change about black representation in the fashion business is a great example of that, and just a wakeup call to injustice, marginalization, turned a spotlight on all sorts of institutions whether they be businesses, government, the arts, that will create a change in all those places, with the ramifications yet unknown.

If the economy comes roaring back as many are predicting over the next months, yes, there is always a chance that all this will become a footnote at some point in the future.

On the other hand, to the extent that organizations embrace this, and it sticks, changes in leadership in the companies, is a catalyst for changes in not just corporate culture, but human ecology, then we will look back and see those as a permanent impact of this past year.

In many cases for consumers in third world or developing companies, it may be more negative given delayed vaccines, debt that the companies have had to take on that will inhibit their ability to implement social and environmental programs interesting report from the IMF on the impact of that [and] a change in the "consumption" cycle although the dock and shipping delays in the West Coast would suggest that that hasn't materialized so far, but much of the rising tide of global retail consumerism has been based on the appetite and excesses of the developed countries, and if that structure becomes a guilty consumption, the real growth opportunities to be the mass luxury

business could be seriously affected when this global economic tide doesn't rise.

I think in China, the sense of isolation and criticism that much of the world pointed towards China, a growing nationalist pride i.e., we fought and won, is growing national brands from the competitor to Tesla or Nike and a certain national pride or embracing of those brands is making a political and national statement regarding independence, I think has interesting implications to the luxury business i.e., will what was a badge a year ago be seen as a "Scarlet A" in the years ahead?

I would put a lot of these under "unintended" consequences versus direct consequences. Did spending and cultivating brand loyalty through marketing incentives serve as payoff to retailers during this pandemic?

The interesting answer there is that I have read various things that at no time in recent history has retail been "less promotional" than currently.

Some of this is driven off of supply chain hiccups i.e., lack of inventory and, therefore, lack of incentive to promote, the customer having a certain amount of cash and being less sensitive in many cases to over-interested in promotions, a sense of self-reward, and this is everything from incentives and zero financing being taken off the purchase of a luxury vehicle down to literally end of season sales not happening.

I would say, yes customers feeling that companies were essentially there for them, and I think the currency of loyalty and promotional dollars is changing.

Note so many of the changes in the consumer's mind as to the ethos and the ethics, not just the prestige of the company.

The dollars may be spent less on traditional market activities, runway shows, celebrity endorsements, and more on activities that enhance not just the perception, but the reality of inclusion, fairness, equity, and everything from manufacturing, wages, work conditions, responsibility for workers, to inclusivity, ranging from cultural, social, and environmental.

The New York Times did a session about a couple of months ago where they invited four leaders of fashion companies, design companies to talk about what their companies are doing and the spokespersons were very critical of everything from the French educational, cultural system, and how it systematically doesn't include marginalized populations, the Italian gentleman was talking about how he names his designs after the seamstress that made the product because the industry doesn't recognize the labor and the toil and the humanity that goes into the product.

Another talked about the policies of the design businesses that systematically don't encourage or cooperate with certain magazines because their readership might offend their customer base.

I think these are all ways that will take dollars from hiring talent to sponsoring and engaging with institutions that can make this change.

Ken Nisch is chairman of JGA

What will bricks-and-mortar retail look like in 2022 and beyond in terms of store design, merchandise, customer service, and omnichannel capability?

On the one hand, some very interesting things are being done in virtual and augmented reality in creating shopping

environments that will be virtualized, uniquely merchandised based on the customer demographic and psychographic or previous shopping behavior, and being shopped virtually through technology such as PixelPool, Mosaic, etc. All the thought, visual merchandising, experience that's necessary for a physical store, but today it might be "built" in a virtual environment.

Likely, there will be fewer points of sale, but those points of sale likely will be more unique, reflective of the context in which they are located versus necessarily parachuted from one geography or culture into another.

There will be an expectation of much more "texture" in those spaces versus purely for all intents and purposes a glorified stockroom i.e., the ability to learn and engage, to create in real time on premises from personalization to design, for environments to be more open and engaging from a hosting environment, whether it be causes that the brand champions, to environments that recognize and reward their best and most important not necessarily always their wealthiest customers.

And to what I believe will be ultimately districts and here's where the size and the power of the luxury companies becomes important with a place in the not-too-distant future, where LVMH owns Rockefeller Center and basically "merchandises" that environment to be reflective of their enterprise from front consumer to back of house, from hospitality, travel, investment, community, and activates that space leveraging the vast creative and cultural resources that the major conglomerates have.

This will, I believe, radically change the current physical distribution model which ranges from everything from department store shop-in-shops, to traditional luxury mall stores, to traditional luxury streets such as Madison Avenue or Fifth Avenue.

Some of this may be economically driven i.e., so much of the rents and revenues for real estate are driven by luxury retailers and tenants, why not "own the cow," social and cultural issues with many of these environments likely to become more gated or controlled, not necessarily from a security standpoint, but from a management of the total guest experience, and what I think will be increasingly a 24/7 activity cycle of these types of settings, that might range from a significant growth of appointment based business, to retail that is adjunct to other types of activities, entertainment, and less based around the traditional 11 to 6, open on Thursdays, retail hours that to a great extent the pandemic has broken through.

How about the Christmas season this year: Will it be a bumper holiday season, with folks looking to spend due to pent-up demand?

Christmas is interesting, in general.

Most retailers will tell you that the idea of Christmas "season" happening between Thanksgiving and Dec. 24, in the U.S. is not a reality. That there are the shoulder seasons, with their influence in everything from Amazon Alibaba events occurring pre-season, the extended shopping post-season, which is a function of many extended cultural holidays, currency being the gift of choice, are now making the immediate weeks after Christmas as important and not necessarily just for sale as the week before Christmas, and which something that has been called the "desert" that seems to be occurring for two or three weeks between Christmas and Thanksgiving, where relatively little activity takes place.

Most of the real retail growth is happening in other places in the world, whether it be tied to Chinese New Year, Diwali, festivals in the Middle East, all of these are making Christmas for global brands less defining, and I think to some extent the impact of the imposition of Christmas as a holiday on other cultures, has, I believe, also diminishing impact.

This doesn't diminish the importance of holidays, some secondary holidays such as Halloween again, primarily a U.S. invention are growing from a consumption stand point, Christmas will still remain the biggest, but will the U.S. and Western consumers ultimately evolve closer to a Japanese calendar, which has the year sprinkled with significant gift giving events, some being more important than others, but not the traditional Black Friday which is also rapidly diminishing in importance defining when consumers shop or don't shop.

If you asked if I thought fourth quarter was going to be strong, I would say yes, particularly in the part of the business that declined, fashion specialty.

One of the questions people are asking is, is the whole home furnishing trend going to continue on the pace it is at, or will it decline back to more reasonable levels. I would say the next year to 18 months, will see a lot of confusing

comp sales between companies with lots of spin rationalizing what happens.

Take a punt on 2025. What do you see luxury retail looking like in the U.S., Europe, China and the rest of the world? Will consumer behavior be similar or diverge, and how should brands and retailers prepare for a world of germ warfare, trade wars and even physical conflicts?

But the punt in 2025, will have an election.

Election years typically are not the best for retail, I would hope by then the world has been vaccinated and the next wave of disruption hasn't yet occurred, I would suggest that politically and emotionally, that much of the world is "exhausted," and that if what I read is true, that big parts of the world at that point should just be experiencing full economic recovery.

I read it is going to take three to four years for big parts of the world to get their footing back, the developed economy should be feeling pretty good about where they are, and then for the case of the North American economy we should still be feeling the economic buzz of many things that were implemented in 2022/23, and yet feel little of the hangover relative to the economic cost until later in the decade.

What are the biggest short-term threats to retail, both ecommerce and bricks-and-mortar? And long-term threats?

On the short-term threat to retail, both ecommerce and brick-and-mortar, I think relatively little threat to ecommerce, although I do believe there will be a threat to certain ecommerce companies, given the political will of "cutting them down to size."

The same thing to some extent with tech companies, but nothing that will slow down the growth there.

On the brick-and-mortar side, I think the challenge is going to be more from the real estate property and development stand point.

You probably read that many of the office buildings in New York have lost 25 percent of their value this past year. That's replicated across most major commercial cities that house the vast majority of luxury brands and luxury consumers.

Lots of pain in the heartlands relative to the development community around shopping malls, again similar devaluation, growing ownership of "slumlord," landlords not really probably an issue for luxury companies as they typically would not be in these properties in the first place, the return of global tourism to the U.S. also a challenge, but to some extent some of those sales although we all know residents are less vibrant consumers than visitors will shift the place of location of sales for the luxury companies, but to a lesser extent the actual amount of sales.

Now about opportunities for retailers, U.S. and other markets. Think about luxury brands, companies are popping up with vegan leather, products that are designer inspired by new fresh faces that address issues of opportunity and inclusion. The embracing and growth of resale even at the luxury level.

I see an opportunity and a challenge for luxury brands that have built a "brand fortress" around a mono-brand, breaking down these walls, think of diffusion brands that are sponsored by, supported by, empowered by, the familiar luxury brands of today.

I see a growing investment reality around mission-based businesses, supported in many cases by foundations, family offices, and less by the public markets or the stock market, where the ethics and the ethos of the brand is an important part of a long view and vision of the investor.

There is an interesting company we work with called Lakeside Collaborative, that works with companies that are developing mission based, many of them are actually cultural institutions around responsible sourcing, enablement of small businesses and crafts people, sustainability.

I'm not sure department stores, at least national department stores are going to exist the way they do today, and it might be interesting.

Is there a role for regional department stores that, yes, can carry select national brands, but are seen more as marketplaces versus stores with a cross-section of activities from co-work, to shopping to hospitality?

I can picture a brand such as Amazon and even more so a brand such as Shopify being a major brick-and-mortar platform to enrich the opportunities of its portfolio members.