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THE LEGENDARY STYLE OF NINETIES' LEADING MEN FROM CULT-CLASSIC MOVIES SUCH AS "FEAR AND LOATHING IN LAS VEGAS" AND "ACE VENTURA PET DETECTIVE" IS AMONG THE INSPIRATIONS FOR SPRING – WHERE THE HAWAIIAN SHIRT IS AT THE HEART OF THE ULTIMATE GEEKY LOOK. FOR THE M COLLECTIONS ISSUE, *SEE PAGES 5 TO 27.*

Styled by
**ALEX BADIA**

Photograph by
**STELLA ASIA CONSONNI**

# Clash Act

M COLLECTIONS Special Issue

Lanvin's jacket, Sandro's shirt and Off-White's T-shirt, all in cotton, with Boss' leather pants. Off-White hat; Louis Vuitton sunglasses; Le Coq Sportif fanny pack.

# In Focus: Retail

FINANCIAL

## As Market Moves to 50% Online Sales, Retailers Need to Respond

Antony Karabus, chief executive officer of HRC Retail Advisory, explains how to do this, while keeping service in mind.

BY ARTHUR ZACZKIEWICZ

**While the demise of traditional** retailing and shopping malls has been fodder for headlines and research reports for some time now, the reality is that of a market going through massive changes, which will result in a landscape that might be unrecognizable.

"Retail is not dead – far from it," said Antony Karabus, chief executive officer of HRC Retail Advisory. "But the overall shopping experience needs to be better. And there are companies out there now who are doing just that."

In his latest "deep dive" analysis of the retail industry, Karabus revealed a market that is seeing the negative effects of Amazon Inc. on specialty and department store retailers. Karabus found that over the past five years, the e-commerce penetration of department stores and specialty retailers has climbed drastically as they've stepped up efforts to compete with one another as well as with Amazon. But the rate of overall e-commerce growth has slowed as Amazon has experienced steady growth.

Moreover, the overall sales volume of department and specialty stores has declined in that time period, while there's also been a drop in the number of physical stores. Karabus said this points to a transformation of the industry, which he aptly incorporated into the title of his report: "Trending Toward a 50/50 World of E-commerce and Retail Stores."

Karabus concluded that retailers "must develop a new economic operating model" that is based on this reality. And he asserted that there are many brands already executing in this manner, which is centered on offering a "compelling service experience aimed at keeping customers loyal and returning," Karabus told WWD.

Although Karabus didn't reveal the names of these retailers, companies that fit his description would include brands such as Lululemon and Nordstrom as well as department specialty retailers such as Stanley Korshak in Dallas and Mitchells in the New York metropolitan area, among others.

"These are retailers that are succeeding by creating communities and store experiences that customers can relate to and identify with," Karabus told WWD. "They are creating trusting relationships between sellers and customers, which is the absolutely best defense against the encroachment of Amazon into their market share."

The HRC Retail Advisory report is based on interviews and "extensive primary research" with c-suite executives from more than 30 leading retail clients of the firm across the apparel, home goods, discount and department store sectors. HRC said more than 90 percent of the firms researched are publicly traded with annual sales of between $240 million and $15 billion.

In the HRC report, Karabus said in the early days of e-commerce, "retailers allocated much of their capital budgets to this channel, while often neglecting their physical stores, which still drove most of their sales and profits. These e-commerce investments were made with the expectation of driving additional top line sales and to better compete against the emerging e-commerce competitors (such as Amazon)."

But he quickly noted that "no one could have predicted the pace of massive, ongoing investments that Amazon would make on fulfillment and other capabilities that enabled significant retail market share growth year after year."

"Arguably, the growing dominance of Amazon is reminiscent of the impact that Wal-Mart had on retail in the Eighties and Nineties," Karabus said. "However, today, traditional retailers have to contend with both Wal-Mart and Amazon."

As a result, market share is being transferred to Amazon, discount retailers and to "extreme value" players such as Dollar General, which is on track to open 1,000 stores this year. The so-called "experiential economy" is also taking a big bite out of the consumer's wallet. The response by traditional retailers (department stores and specialty players) has been to boost investments into e-commerce. But there have been consequences.

"Hardly any of traditional retailers' e-commerce sales are incremental – more than 95 percent of these sales are cannibalizing physical store sales for the sectors analyzed," Karabus explained. "This has led to a significant de-leveraging of store operating infrastructure costs (store occupancy, labor and other costs) and a decline of as much as 40 percent in retailer EBITDA-to-sales performance."

Karabus' research showed that the rate of penetration of e-commerce as a percent of total sales for department store retailers has jumped from about 6.5 percent in 2011 to nearly 19 percent today. For specialty stores, it went from 9.8 to 15.9 percent.

Meanwhile, top-line sales have slowed. "Department stores' top-line sales increased at an annual rate of 1.5 percent since 2011 (registering a decline of 2.2 percent in 2016), with most of the top-line growth happening in 2011 to 2012," the HRC report stated. For specialty retailers, "top-line sales increased at an annual rate of 2.5 percent since 2011 (registering a decline of 1.7 percent in 2016)."

Karabus said for both sectors, "more than 60 percent of the total top-line growth over this five-year period was generated between 2011 and 2012, resulting in virtually no top-line growth since 2012."

The report also pointed out that "despite e-commerce being the primary growth engine for traditional retailers, it is rapidly maturing, with a significant decline being registered in the rate of e-commerce growth." With department stores, e-commerce sales growth went from a rate of about 39 percent in 2011 to about 12 percent in 2016. For specialty stores, the rate eased back from about 17.5 percent in 2011 to 11.2 percent in 2016.

And total store counts have shrunk. "The traditional retail market for numerous retailers is shrinking, despite the disappearance of dozens of retailers, including The Limited, BCBG, Wet Seal, Cache, Dots, Body Central, Deb Shops, Sports Authority, Sport Chalet, Borders, Circuit City, Bombay Company, Vanity Shoppes, Coldwater Creek and others," Karabus said in the report. "The closure of thousands of store locations from existing retailers is contributing to the shrinkage, including from Sears, Macy's, J.C. Penney, Payless Shoes, Rue 21, A&F, Aéropostale, PacSun, Eddie Bauer, Gander Mountain, Ascena, Gymboree, Guess, Gap and others."

Karabus said total U.S. retail merchandise sales, which exclude grocery, motor vehicle and auto parts as well as consumer electronics and building material sales, have grown at a compound rate of 2.9 percent since 2011. "This, together with significant market share becoming available as a result of bankruptcies and store closures, should have produced sales growth for traditional retailers – but sadly this hasn't occurred," he said.

Instead, Amazon, the experience economy, discounters, off-price apparel retailers and value chains are taking share. So how do traditional retailers respond? "They need to create experiences that are compelling," Karabus said. "Consumers will always want the experience of shopping in physical stores."

In conclusion, Karabus has several recommendations for traditional retailers to take action with, which includes clearly defining "your most important target customer, their problems/needs and how your chain will solve them."

He also suggested developing "a comprehensive real estate rationalization strategy, to right-size their store portfolios, close underperforming locations and right-size total occupancy costs. Don't just wait for lease expiry dates."

Karabus urged investing in the store profile and experiences "that best present and differentiate your brand, to enhance your flagship and most important, higher-traffic locations. Determine, embrace and invest only in the social, omnichannel, e-commerce and returns capabilities valued by your customers. Make choices and do not invest in every capability. Both the front-end customer-facing and the back-end inventory and other processes must enhance the seamless customer experience."

And lastly, he suggested building a new operating economic profit and loss and working capital model "that incorporates the above assumptions, while providing a roadmap towards acceptable profit performance. Incremental changes will not achieve this goal, at a time when the rate of disruption is escalating."

Rebecca Minkoff at the meet-and-greet at Nordstrom. Bringing in designers is one example of what retailers can do to create a better shopping experience.

Photograph by Katie Jones/WWD/REX/Shutterstock