

PUBLIC NOTE

What's Really Happening to Retail?

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It's true that the "retail apocalypse" narrative is oversimplified, but the counter-narratives are not much better. They tend heavily toward the anecdotal ("look at how this mall replaced their empty Sears"), conspiratorial ("Amazon investors won't put up with those low margins forever") or just tautological ("retailers who can evolve and adapt will be survivors").

Many of the real answers are very location-specific or retailer-specific. But at a high level, can we say anything more substantive than "Amazon and millennials are killing the mall" or "America is over-retailed" without falling into these traps?

I think we can. Here are five other angles to consider.

1. FORMAT & LOCATION

Maybe you know the story about suburban enclosed malls killing downtown retail, then being targeted themselves by the rise of open-air formats like power centers, outlet centers and lifestyle centers — many of which are also now struggling.

Can you really blame Amazon for this? Much of it is just old-fashioned on-the-ground competition, as shoppers move on to new master-planned town centers, open-air malls and mixed-use projects that are more pedestrian-friendly and often closer to home.

(This is one problem with turning a dying mall into a “town center” by replacing failed tenants one at a time: if the surrounding demographics support something like that, there’s a good chance someone has already done it.)

Landlords like to point out that replacing defunct tenants has always been part of their business. But real estate formats have their own cycle of obsolescence, even if it’s a longer one.

2. WINNERS & LOSERS

The key difference between retail and other types of commercial real estate is that you’re selling cotenancy and traffic, not just space. You probably don’t care who else is in your office building, but every retailer knows exactly who they want as neighbors.

This is why a single mall can make the developer a billionaire: success in retail compounds much faster than it does for other real estate. Better malls can attract better stores, which attract more shoppers, which attract even better stores, which pay higher rents, which the landlord can use to expand, which attracts more shoppers, and so on.

But this is a high wire act that depends on low vacancy and a not-too-lopsided distribution of sales, so that tenants feel they’re each getting at least as much benefit from the center as they’re giving back. And even at a mall where total sales and traffic are not declining, a larger share going to the hottest tenants (like Apple or Tesla) can start that feedback loop working in the other direction.

3. LESS SPECIALIZATION

Another important dynamic is the ongoing push and pull of different retail categories being combined, separated and combined again. Remember that department stores were the original malls, killing all the mom-and-pop stores downtown. Then they were lured out to the suburbs, where they struggled for decades while the smaller specialty shops in the mall thrived. And then the category killers across the street...

Now the broader trend may be turning back towards consolidation, as the surviving general merchandisers with larger stores and lower rents find themselves in a position to cannibalize the wounded specialty stores in weaker categories (like toys) and to pile on in stronger ones.

Some of the traditional department stores are too far gone, and too compromised by their locations in obsolete malls, to take full advantage of this. But for off-mall retailers like Walmart, Target or Kohl’s, there’s never been a better environment to take share and concentrate more sales in less space.

4. BUYING VS. SELLING

The idea that retailers need to “adapt” and “evolve” to keep up with tech trends is actually a very dangerous one, and I wrote [last month](#) about the ways that many are “evolving” themselves to an even faster death.

It’s not that these initiatives don’t make sense on their own terms; many of them do. It’s that they tend to be focused on distribution and marketing, which are downstream from product and branding. And usually it’s the products or the brand (or both) where the real problem lies.

You can curate the perfect channel mix, recruit the best Instagram influencers, and get every customer to download your app and join your loyalty program. You can profile them to send each one exactly the right “personalized” email with the right discount code at the right time, and then ship their order from just the right store or warehouse based on real-time algorithms that maximize your profitability. Then you can spam them with customer-satisfaction surveys and feed that data back into the top of the funnel. But if they’re not excited about what you’re selling, none of it will matter in the long run. You can squeeze a little more out of your existing customers this way, but your costs to retain them (much less acquire new ones) will keep rising until you’re out of business.

This is an awkward truth that often seems to get lost on the way up to senior management. Retail has always been a combination of figuring out what customers already want and selling them something new — and the first is both less risky in the short term and more amenable to metric-driven research and management. But you have to do both.

In the long run, this is where the real advantage for physical retail will come into play. However brilliant your Instagram ads are, they’re still being delivered through a three-inch rectangle crammed with other distractions. When you get someone into a store, at least you’ve got a fighting chance to get them to look up from their phones and really differentiate your brand.

Another way to say this is that online retail is optimized for buying, but physical stores are ideal for selling — and much of our discretionary spending is on products that are more sold than bought.

And yet many retailers have decided the “store of the future” is one that gets you to look back down at your phone instead as soon as you walk in the door — to tweet out their hashtag, take selfies with their Instagram-bait decor, scan QR codes, pull up digital coupons, and so on. They’re turning their biggest strength into another weakness.

5. COMMODITIZATION AND BRAND LIFESPAN

The “lifestyle” startup brands are certainly not shy about selling, but they’re often doing it with direct response tactics that are undermining their brand value even as they build it. And digital commerce is a particularly awkward fit for

fashion, where the hottest products and brands are often the *least* convenient or micro-targeted. So much of what makes something cool is that it's *hard to get* in ways apart from price: only sold in limited quantities, in certain places or at certain times.

As with the buying vs. selling dynamic above, this tension between “convenience” and exclusivity is a slightly uncomfortable truth about human nature that everyone in advertising knows, but much of the startup world hasn't grappled with and many legacy retailers have forgotten. By definition, if something is available online to anyone with a credit card, it's not “exclusive.” Obviously you can still have limited editions, flash sales and “drops” online, but beyond a certain scale these are not great for your brand either, and you can target them more precisely offline.

Consumer psychology is also changing. The “[Feiler Faster Thesis](#),” from the TV journalist Bruce Feiler, argues that the accelerating news cycle is not just a “push” from technology, but a “pull” from how much faster we all process new information and *want* to move on to the next thing. And similarly, shoppers may be increasingly likely to abandon a particular retailer or brand, online or offline, even if they haven't done anything wrong... just because that's what shoppers do now, that's what shopping is.

What all that means is that apart from a few big winners, we're likely heading for a future with a greater number of smaller, shorter-lived brands — and most of the industry is simply not capitalized or structured for that.

CONCLUSIONS

Let's recap those five points. Even if you held e-commerce penetration constant, you'd still be seeing rising store closures from:

1. increasingly obsolete formats and locations
2. concentration of specialty sales in fewer brands
3. large-format / general merchandise retailers taking share
4. self-inflicted wounds, as legacy retailers scramble for online growth
5. a shrinking lifespan for retail and consumer brands in general

Note that they all reinforce each other in various ways — for example, the winner-take-all dynamic (#2) makes the traditional mall format even more obsolete (#1). And of course they're all exacerbated by e-commerce growth, and they're all feeding back into it.

The good news is that these current trends may not tell us much about the long-term equilibrium for online vs. offline sales. And in many categories, the logic for physical stores is stronger than you might think.

The bad news is that with all these factors moving in the same direction, it's likely to get a lot worse before it gets better.

Remember that George Carlin routine about environmentalism? Don't worry about "saving the planet," the planet will be fine, it's the *people* who are screwed.

Retail will be fine. But a lot of retailers are still in serious trouble, and so is a lot of retail real estate. You could unplug the whole internet tomorrow and that would still be true.

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