Too Many Retail Stores or Too Few Customers

This white paper discusses the current retail environment where a large number of retailers are claiming that they have too many stores. It presents some key concepts regarding the current state of consumer demand and perspectives on how retailers can adjust to current times.

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March 2010

The old joke by retailers that we do not have too many stores, just too few customers rings true in today's economy. If you listen to many of the quarterly earnings conference calls of retail companies, you hear statements that they are "over stored" or have more stores than needed. This is stated to be due to chain expansion during the prior periods of strong consumer demand.

Expansion of retail space by commercial developers along with the current recession has resulted in a large number of empty store fronts and under performing stores. Retailers are attempting to renegotiate leases and many are defaulting on leases or closing stores as leases expire. Planning of the number of stores needed is based on their best estimates of what consumer revenue they will realize in various markets and at what margins.

During the holiday season of 2009, we saw that retailers were able to better manage their inventories and reduce markdowns compared to prior years. In spite of analysts claiming some pickup in retail sales in various segments, overall the retail industry continues to be depressed and has not returned to levels experienced during pre-recession times.

What have we seen retailers do to adjust to the new level of consumer demand?

Obviously, as mentioned, we have seen a large number of retailers reduce the number of stores. We expect this activity to continue as leases expire and as retailers continue to assess the viability of each location. Some retailers have chosen to serve markets with smaller store formats and narrower inventory offerings to maximize the return from the stores.

Key management focus on the basics of retail continues to be the most important elements. Having the right product selection, promoting the retailer's brand, providing a unique and fun shopping experience, forecasting sales accurately, having solid merchandising and pricing plans, training employees to provide superior customers service, understanding their customers, and maintaining exceptionally strong vendor partnerships appear to be factors that insure success in these uncertain times.

A trend affecting the need for the number of stores a retailer should have is competition from online sales. Retailers must now have true "multi-channel" capabilities and must effectively market themselves via their eCommerce websites. Online sales were strong during the 2009 holiday season and will continue to grow. Retailers who do not embrace eCommerce channels will miss out on an important element for their success.

As a retail systems vendor, we see that our retailers are more promotional than before. They gear their promotions to entice customers to buy more and more frequently with creative new deals. They emphasize the importance of customer interactions and attention to the customer during the shopping experience. They have increased their emphasis on demand focusing, local market demand projections, and their understanding of which merchandise is moving in which store.

Retailers are reviewing their systems to make certain that they support the critical programs they have implemented to be successful in this market. For example, some have implemented layaway programs as a way to allow customers to afford to purchase merchandise. Loyalty and gift card programs have seen increased interest.

In summary, retailers have become more conservative regarding the number of stores they operate based on the uncertainty of the current economy and the change that they have seen in consumer buying patterns. Consumers are spending less and are, in general, being more selective on their purchases. Retailers have returned to the basics of good retail management. They are carefully reviewing their store results and eliminating or modifying those stores that do not meet their profitability objectives. We expect this activity to continue through 2010 and well into 2011 before retailers are able to work through existing leases and downsize their chains. Finally, retailers are using their information systems to better manage their operations.

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