The Retail Meltdown of 2017 and How to Avoid Becoming a Part of It

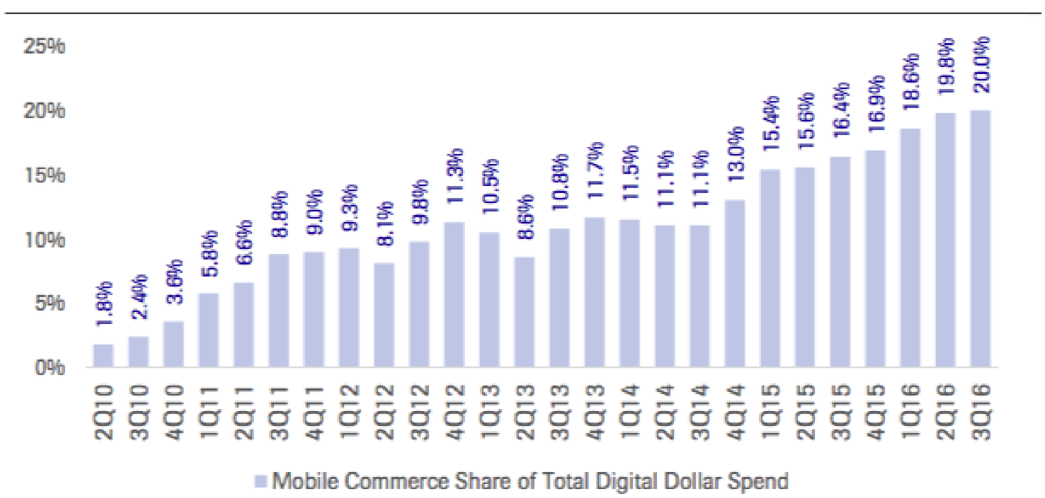
The U.S. economy is booming and the stock market is reaching record highs on an almost daily basis. Consumer confidence and spending is strong, but retailers large and small are failing in record numbers. Toys”R”Us is merely the latest in a record number of bankruptcies and downsizings to hit the retail industry in 2017. What’s behind the retail meltdown of 2017 and what can you do to make sure your business does not become a part of it?

The Growth of Online Shopping & Amazon

The most obvious explanation is that the boom in online shopping and the dominance of Amazon in particular have led to the decline of bricks & mortar retailing, but that’s only part of the story.

Ours has become a civilization of instant gratification. As society becomes more enmeshed in the experience of living in a global digital economy, we are regularly bombarded with new products and ideas. Items we want are delivered overnight to our doorstep, continuing to foster the immediacy of our desires. Amazon.com alone carries close to 400 million products,[i] making it easy for customers to find exactly what they want in the right size and color.

Mobile commerce is booming too. What was once a cumbersome experience is now increasingly easy, thanks to more user-friendly shopping sites, apps and mobile payment options. Since 2010 mobile’s share of the digital shopping pie has grown from 2 percent to 20 percent.[ii]



Source: Cowen and Company

To compete retailers need to expand their consciousness to embrace the role technology is taking in furtherance of retail business and not be afraid to take chances. If your organization doesn’t yet offer web- and mobile-based shopping, perhaps you should consider doing so. Aggregators like Amazon, Etsy and eBay make it easy to open an online store.

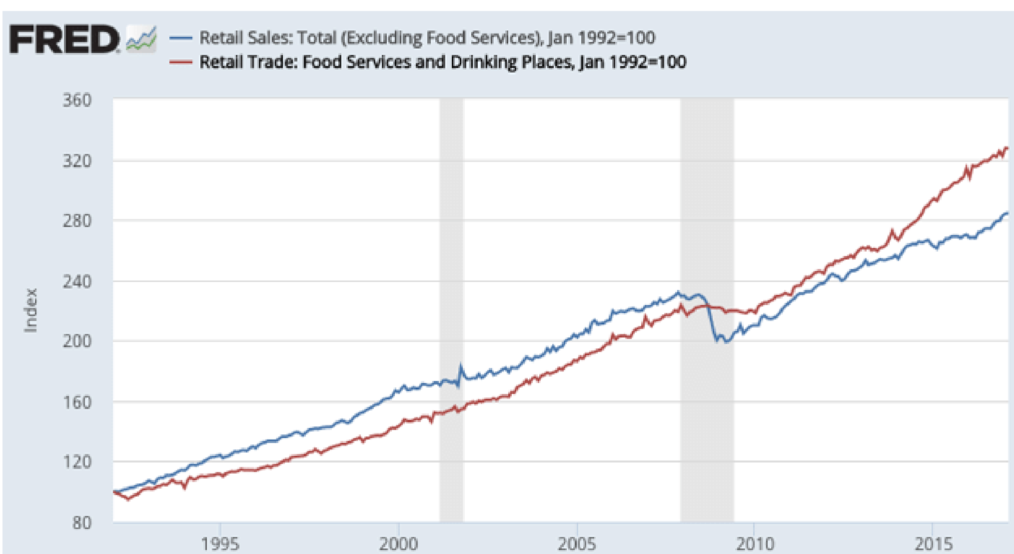
Consider innovators like Amazon, Apple, Microsoft and Google. Critically important best practices are the faithful study of the market for new trends, and learning crucial ways in which customer interactions can improve your business. My new book, *[LINK]* *The Future of Retail* [END LINK} sheds light on these issues, and more.

Changing Customer Preferences

Compounding the shift toward online and mobile shopping is a shift in shoppers' attitudes. Consumers have changed. Baby Boomers were of one culture with distinct buying preferences, but Millennials and GenZ are of quite another.

According to Richard Kestenbaum, a *Forbes* contributor, "the biggest reason why stores are closing now is that what consumers want has changed … baby boomers … wanted products that were mass, commercial, generic, prestigious" whereas Millennial and GenZ consumers are of a different culture and want products that are locally-sourced, ethically made, environmentally friendly, artisanal.[iii] This growing trend is apparent with a visit to any grocery store nowadays as evidenced by the partnership between the stores and local suppliers. Authenticity is the thread that links your interactions with your customers to the products you're offering.

Another change is the shift from materialism to experiences since the Great Recession. For example apparel purchases have declined as consumers have shifted spending from clothing to travel and dining out. Spending on clothing is down 20% this century while travel is booming. Hotel occupancy is up and U.S. airlines have flown more passengers each year since 2010.



Source: St. Louis Fed

The rise of restaurants is even more dramatic. Dining and drinking establishments have seen sales grow twice as fast as other retail spending since 2005. For the first time ever in 2016 Americans spent more money in restaurants and bars than at grocery stores.[iv]

Some have even posited that there is a social media effect at work here – young people may be at least partially driven by what they think makes a better post on Facebook or Instagram – a purchase at a store or an experience with friends at a restaurant or travel destination.

The Over-Building of Retail Space

Another factor in the retail meltdown is the over-building of retail space in the United States, particularly shopping malls. Between 1970 and 2015 the number of malls in America grew more than twice as fast as the population. There is 40 percent more "gross leasable area" in the U.S. than in Canada. The difference with Europe is even more pronounced – with the U.S. having more than 5 times more GLA as there is in the UK, and more than 10 times more than in Germany.

	Shopping Center GLA (sq ft, MM) 2015*	Population (MM)	GLA Per Capita
U.S.	7,567	321	23.5
Canada	589	36	16.4
U.K.	299	65	4.6
France	254	66	3.8
Spain	157	46	3.4
Italy	169	61	2.8
Germany	191	81	2.4

*France & Germany 2014

Source: Cowen and Company

Against the backdrop of this overbuilding, the Great Recession was a devastating blow. Between 2010 and 2013 mall visits declined 50 percent and have kept falling every year since, according to real estate research firm Cushman and Wakefield. [v] It's no wonder many analyst expect the number of malls in the U.S. to fall by 25% in the coming years.

The Explosion of Retail Debt

Rounding out the perfect storm of factors pummeling the retail industry is the massive debt loads that have weighed down and sunk many retailers. At the time of its bankruptcy filing in mid-September, Toys"R"Us had a huge debt load of some $7.9 billion spread out over more than 100,000 creditors, with much of it related to 2005 leveraged buyout.[vi] Private equity involvement and sizable debts have also been a factor in many other retail bankruptcies.[vii]

While private equity involvement and billions in debt are less of an issue for smaller retailers, poor cash management is one of the biggest reasons that most retail businesses fail today. According to The Retail

Owners Institute, in the last year alone, on average, one U.S. retailer failed every 12 minutes … 5 failures per hour, 24 hours per day, 365 days per year.[viii] The rewards of proper cash-flow management are stronger relationships with your suppliers, payment discounts and better relationships with lenders. Employing such tools as a cash-flow budget can keep your business profitable in every way, and keep you on track. It's also advisable to protect your capital before you start. Research getting the right liability insurance for your business to protect against unforeseen liabilities and expenses.

Where Do We Go From Here?

All of these trends underscore the importance of understanding customers and social and macro-economic trends effecting business in general and retailers in particular. As we've seen, even large businesses frequently get blindsided by macro-economic trends and shifts in consumer behavior they didn't see coming.

Understanding Your Customers

The biggest failure is not being in touch with your customers through deep dialogue. Understanding how important customer satisfaction is and striving to give customers exactly what they want is one thing that has made FedEx so effective, says Dave Lavinsky in *3 Surprising Facts You Didn't Know About FedEx*.[ix] Improvements are often ineffective if you're not listening to and engaging your customers. Real dialogue with your customer is critical, especially since they hold the key to your success. Constantly improving a business is an important aspect of long-term success. Markets will always change and customers will always want more. Improvement is something that should be a part of your daily operations and every employee needs to be engaged.

Recognizing that customers hold the key to your success is important. In an interview with *Wired* magazine, Amazon CEO Jeff Bezos pointed out the importance of customer word-of-mouth and how it can impact a business. "In the physical world an unhappy person might tell six people, but online, that same customer could reach 6,000."[x] Consistently interact with your clients to stay abreast of their preferences. Conduct market research, seek the advice of others and read books by experts in the field. Fluctuations in quality are the surest way to lose loyal customers. Consistent quality in customer interactions is equally as important as the quality of your work and your product. If clients and customers cannot rely on consistent quality, they will turn to a competitor who is more reliable. Quality must be the main focus of any business.

Be clear, concise and compelling. Failure to communicate is the figurative death of us all, in business and otherwise. Learning how to effectively communicate is the key to success with your clients and customers. Take some savvy advice from Eric T. Wagner, Contributor, *Forbes:*[xi]

- Be clear (are your customers unclear about who you are and what value you bring to them?).
- Be concise (are you somewhat clear but go on and on and on in your messaging?).
- Be compelling (do the words you use persuade your customers to take the action you want them to?).

Offer incentives to encourage customers to fill out surveys and/or questionnaires. You need to know how your customers feel about your business and what they would like to see in the future. The simplest way is to offer incentives to encourage them to fill out surveys and questionnaires. Consumers appreciate being asked for input and it is a valuable tool for revealing weaknesses in your company and suggestions for improvement. Key benefits from putting a plan of this nature in action are improved customer satisfaction, improved training methods, improved customer recovery, improved employee motivation and improved operational procedures.[xii]

Don't be afraid to put your business to the test. Whether you engage secret shoppers or use surveys, asking for honest customer feedback will help to identify problem areas that need your attention. Regularly using these tools will help your business continue to refine and improve the experience for your customers.

The need your business is fulfilling may not always be there, so don't become complacent. It's imperative to monitor the market and learn when it's time to alter your plan. Build a culture of excellence to help support your company's vision. Engage every employee in understanding how their own roles and responsibilities and specific actions will help to achieve this vision. Eitan Sharir has developed this unique three-phase approach:[xiii]

- Phase One: Mindset of Excellence – create a mindset to engage and align every employee with your vision, mission and values

- Phase Two: Strategies for Excellence – with the mindset in place, your employees/teams are ready to focus on achieving their specific goals and plans for performance excellence

- Phase Three: Sustaining Excellence – once the first two phases are complete, it's time to focus on developing strong leadership to ensure that the new mindset and performance skills learned are sustainable and simply become the way things are done.

Companies like FedEx are known for their dedication to excellence. Their culture of excellence is simply the way things are done. They ensure that everyone in the chain, from retail location customers up to corporate employees have the best possible experience, so much that their "commitment to quality … has become part of the entire brand itself."

Consistently monitoring the market for new key trends will allow time to adjust your strategy and remain successful. One look at the music industry or Blockbuster video shows that successful industries can undergo huge changes. Stay open to innovation and new ideas. FedEx learned the 'fold or evolve' lesson years ago when the popularity of the fax machine caused a 50% decline in their business. They did what all successful businesses do: never stop striving to improve. They studied the market, made critical changes to their model and catapulted to the top with the service standard they are known for today. Adjust your strategy when needed and be driven to continually improve.

Consumer product companies that are digitally native have a big advantage over legacy retailers who have legacy approaches. This means is that we're going to see more store closings, according to

Kestenbaum. The ‘structural’ difference between retailers and technology companies make squaring these two approaches hard, yet many brands are turning to various social platforms like Instagram and Snapchat to bridge this gap and to engage their customers in a new way. As Mona Bijoor, *Contributor, TechCrunch/Crunch Network*, says, “technology presents a huge opportunity to reinvigorate the consumer experience … whether it’s in-store on online.”[xiv]

Employ checks and balances to stay on top of problems. FedEx did this by forming their own logistics company to constantly monitor operations, which allowed them to “consolidate the entire command infrastructure to better ensure that constant improvements were implemented correctly.”[xv] They employ redundant processes as a system to catch problems before they happen.

Customers want new, fresh product selection. Unique Value Proposition (UVP) describes the qualities, characteristics, products or services that differentiate a business from its competitors. The problem is, too few businesses actually have a UVP, or they fail to make it clear what theirs is — probably because they don’t know themselves. UVP makes explicit how you create value for your customers and even helps you to design products and services your customers want. Once you know the UVP, communicate it clearly, to customers and staff,” Says Paul Chaney of Small Business Trends.[xvi]

Identify the true value you bring to the market which is unique and different than others. As Wagner states, you must “figure out the true value you bring to the table which is unique and different than others in the marketplace” and he further suggests using a tool like Alex Osterwalder’s Value Proposition Canvas.[xvii] Businesses need to continually differentiate their products from their competitors. If there is no differentiation, why would a customer buy your product compared to a competitive product?

Don’t underestimate the competition. To increase your chance of success, conduct a competitive analysis as part of your overall market analysis. Assess your competitor’s strengths and weaknesses and implement strategies to improve your competitive advantage. Certainly the products you offer and their value are attractants for your customers, but one of the biggest ways you can distinguish yourself from the competition is in the experience you give your customers. This occurs from the minute they walk into your store, log on to your website, or begin a conversation with one of your employees. How they are treated will long be remembered over anything else. No matter what we are buying, how we are *made to feel* leaves a lasting impression, good or bad.

Don’t have your head in the sand. Late adopter status will be a negative differentiator now and in the future. Immediate access to information has propagated impatience among today’s consumers. Customers expect speed and efficiency from retailers. Embrace technology, make it work for you and educate yourself to its many advantages for your business. Whether you invest in an electronic inventory control system or engage resources like shopbots and virtual concierge services, incorporating smarter shopping into your business practices will help you advance in a competitive e-commerce landscape.[xix]

Striking a balance with inventory management is key. Mismanagement of inventory will kill you. Constant demands to have more/better/newer products on hand in order to keep up with the competition and to anticipate your customer’s needs can quickly highjack your cash, not to mention cause stress. Utilization of an open-to-buy plan will help you learn to budget and manage your inventory purchases responsibly. Tie that in with the implementation of an automated inventory system to eliminate over-ordering and under-buying and you'll be ahead of the curve.[xx]

Conclusion

The success of any company depends on strong leadership and on leaders doing just that … *leading.* Embrace changes in the marketplace, in technology and new ideas, and find the right fit for your business. As Chaney says, "Make it a priority to acquire the skills needed to strengthen areas where you know you are weak. Read books on leadership from authors such as John Maxwell, Stephen Covey, Peter Drucker and Sheryl Sandberg; join peer advisory groups like Vistage or take an online course in leadership from Dale Carnegie." Take action today by ordering your free copy of my book, [LINK]*The Future of Retail: How to Thrive in Turbulent Times*.[END LINK]

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