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THE FUTURE OF BRICKS-AND-MORTAR IN A TURBULENT RETAIL ENVIRONMENT

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Retail has reached a tipping point. Omnichannel shopping is no longer the "new thing" — it is THE THING. Demographics and technology have permanently altered consumer behavior, and retailers have felt the impact in an unprecedented manner.

In today's environment, proactive management of the store portfolio is not an option—companies must actively pursue a forward-looking, dynamic, and data-centric approach to design the optimal store portfolio to ensure ongoing viability.

New Retail Reality

So far in 2017, RadioShack, Gander Mountain, Wet Seal, hhgregg, MC Sports, Gymboree, Payless ShoeSource, and others have filed for bankruptcy, and more big names are expected to join. This does not necessarily mean the death of retail. Dig beneath the numbers, and a different narrative emerges.

Through the first five months of 2017, U.S. retail sales actually increased 4.0% over 2016.[1] Consumer confidence remains high, and unemployment is at 4.4%.[2] Today's shopper, while still on the lookout for value, has not gone into hibernation. Consumers are still shopping — they just do it in different ways.

While online shopping is trending upward — and certainly some retail segments, such as apparel and consumer electronics, feel the impact more than others — online sales still do not represent a majority of retail spending overall. The demand and need for physical stores still exists, and their role in an omnichannel world is critical.

Retailers must evolve and utilize current technology to become more efficient, particularly with regard to physical stores. Consumer demographics and preferences have evolved, forcing retail companies to face critical issues:

1. Sharp declines in physical store sales and customer traffic, with widening gaps between bricks-and-mortar and e-commerce sales and financial performance;
2. Lack of visibility into store-level performance, channel performance, sub-market demographics, efficacy of show-room designs, and the competitive impact of store locations;
3. An increased dependency on brick-and-mortar stores to support e-commerce customers, creating challenges balancing labor and inventory;
4. Minimal, ad hoc, or no process in place to review the portfolio and identify bottom and top performers to develop tailored strategies for each location; and
5. Lack of resources and expertise to operationalize strategic action plans.

1 US Census Bureau retail sales (excludes motor vehicles/parts, gasoline, food & dining).

2 US Bureau of Labor Statistics.

Retailers recognize the importance of balancing bricks-and-mortar and e-commerce, but many have missed the mark in analyzing and implementing this balance, resulting in an unprecedented number of store closures and bankruptcies. Across all segments of retail, companies are dealing with issues that must be addressed before options run out and the only path left is reorganization.

Store Portfolio Optimization

Store portfolio optimization is a data-driven, analytical process that examines the current store portfolio of a company, then develops and implements a plan to optimize store performance. Proactive, predictive store portfolio planning allows companies to deal with the impacts of a rapidly changing retail environment, putting them ahead of competitors.

To get there, retailers must (1) understand the complex dynamics of their current store portfolio, (2) develop a detailed plan to achieve the optimal structure, and (3) implement a plan to optimize the portfolio.

The concept is simple, but retailers may find it difficult to decipher their own data. Also, the approach many companies take when optimizing their store base is too simplistic. They use an outdated model based on traditional retail in a new retail environment. In addition, many are slow to review their store portfolios, taking a reactive — not proactive — stance, thus limiting strategic options and resulting in inefficient use of capital.

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An aggressive, analytical approach to store portfolio management drives value creation by using the right analytics, ongoing monitoring, and decisive action to keep stores competitive and profitable. This "dynamic approach" spurs action that leads to improved performance by enabling management teams to effectively manage exits, reframe store maintenance decisions, and anticipate investments in new stores.

The best-performing companies take advantage of a multitude of data inputs to understand the interconnected drivers of their success. Advanced analysis helps retailers unlock insights into their business in ways not possible only a few years ago. In today's business environment, a rigorous, fact-based approach is required to manage all aspects of the enterprise. The time to make changes is now, before the "new retail train" leaves laggards.

The Call to Action for Retailers

In an article published late last year, we noted:
Retail survival demands creativity in tackling a shifting consumer mindset, advancing technologies, and competitive pressures that place new demands that did not exist 10 to 15 years ago… retail executives must show a willingness to do the 'dirty work.' They must engage in a process of continuous renewal that allows companies to restructure and revitalize — before it becomes a necessity. [3]

A large part of the creativity and "dirty work" involves strategic work on the store portfolio — an effort that demands investment in resources and time. Commitment to this effort can pay dividends by (1) providing critical information to decision makers, (2) improving brand and customer alignment, and (3) driving stronger bottom-line financial performance.

Investors, boards, and C-level executives need to examine their store portfolios with a new approach. Making decisions using outdated four-wall analysis is not enough. Unless retailers engage in the process of continuous self-renewal in store operations, marketing, supply chain, information technology, and other key drivers of retail success, they may find themselves added to the list of casualties.

The future of bricks-and-mortar stores is not as dire as many would have you believe. Retail is experiencing drastic change, certainly, but companies can (and must) adapt to the new paradigm. A proactive approach is needed. Store portfolio optimization is available for companies that want to analyze their business and ensure future viability.

3 Bob Duffy, Keith Jelinek, and Steve Coulombe, "Retail Survival Requires Ongoing Restructuring, Revitalization," Journal of Corporate Renewal (November/ December 2016).

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