Flatlined: Combatting the death of retail stores

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Abstract The recent wave of retail bankruptcies as well as poor sales performance has resulted in a large number of store closings. Low sales in store-based retailers can also be attributed to the rapid growth of web-based retailers (largely, Amazon) as well as an excess of store space per capita in the U.S. as compared to other developed nations. Strategies to stem the decline of retail stores include: (1) utilizing omnichannel-based synergies among channels and devices to increase store sales; (2) making stores more attractive and engaging through personalization, interactivity, and a constantly changing environment; and (3) improving productivity through introducing small-size store formats and downsizing existing stores.

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1. The economic impact of store closings

Troubles are plentiful in retailing as measured by recent filings for bankruptcy (e.g., Toys “R” Us, Claire’s, Sports Authority, Payless ShoeSource, BCBG Max Azria, American Apparel, H.H. Gregg, Gordmans, Gander Mountain, Pacific Sunwear, rue21, The Limited, Aéropostale, Bebe, Quiksilver), as well as announcements of store closings due to underperformance (e.g., J.C. Penney, Macy’s, and Sears each announcing that they will close over 100 retail stores). Cavan (2016, p. 353) said that “store closures are a widespread phenomenon, leaving no corner of the nation unscathed” and predicted a loss of 175 million square feet of retail space due to store closings in 2016. Another author used the terms apocalypse, meltdown, and disaster to describe the state of the retail industry (Conick, 2017).

Not all retailers will be equally affected by store closings. A recent study by Deloitte classified retailers into three categories: price-based, balanced, and premier. Price-based retailers—such as dollar stores, Aldi, Lidi, and TJX—offer low

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prices, and premier stores have highly distinctive products and services. The premier group provides a unique experience, as opposed to a simple transaction-based experience. In contrast, the middle-balanced group provides neither low prices nor a quality in-store experience. According to Deloitte’s research, from 2015–2017, price-based retailers opened 2.5 new stores for every store closed in the balanced group. Price-based retailers with plans to open new stores include Dollar Tree, which planned to open 650 stores in 2017; Aldi, with 130 planned new locations; and TJX, with 111 planned new locations. During the same time period, premier retailers opened one new store for each closed balance group store (Halzack, 2018).

Despite the importance of this topic, a major review article concluded that store closures have not received adequate attention from academic researchers. The lack of research on this topic results in retailers having little guidance in determining lost sales due to the difficulty in predicting how much business will be shifted to existing store units that remain open (Haans & Gijsbrechts, 2010).

According to Fung Global Retail & Technology, the majority of retailers closing stores are mall tenants—department store operators and apparel and electronics stores (Misonzhnik, 2017). The closing of an anchor retailer in a mall negatively affects other retailers in the same mall due to a loss in customer traffic and also affects the mall’s developer. Shopping center leases commonly have co-tenancy clauses and percent of sales-based leases. Co-tenancy clauses enable the remaining retailers in a mall to renegotiate their lease terms or even to break their lease when an anchor tenant vacates. Typically, the lower rent would be in effect until another retailer occupies the abandoned space. In addition, many shopping center leases also have rent payments tied to sales at that location. The combined effect of the loss in rental income from the closed store, reduced rents due to co-tenancy clauses, and lowered rent on percent of sales leases can have a detrimental effect on the financial viability of a shopping center.

Retailers face significant costs associated with store closings, including lease termination costs, severance pay and other benefits to laid-off employees, and lost profits due to diminished sales. In 2014, Aéropostale took an after-tax charge of $5.5 million for lease termination fees. Sears also stated that it recently took a $6 million charge associated with breaking lease commitments (Gustafson, 2016). In addition, retailers face a loss in sales and profits due to reduced sales levels of its private brands, lower bargaining power with vendors, and continued expenses for underutilized distribution facilities and vehicles. Store closings also negatively affect product manufacturers—including retailers with extensive private labels—due to fewer distribution points. Moreover, store closures reduce local and state sales tax and federal income tax revenues.

This article analyzes the reasons for store closings and describes three major strategies to stem this decline. Examples of successful strategies to halt store closings are provided. Tables 1–3 can serve as a checklist of strategies for retailers to consider based on a retailer’s ability to implement these strategies as well as their potential benefits.

2. Factors contributing to store closings

Two major factors accounting for the poor sales performance of retail stores are the increased competition from online sales and an excess of retail space in the U.S. Amazon and other web-based retailers have made online shopping easy, fast, and risk-free. The web is also considered by many consumers as an effective substitute for traditional in-store customer support due to the presence of extensive online customer reviews, product-based videos, social media sites, and blogs. In addition, the web offers a huge selection of products and brands, price transparency, and fast delivery.

Two studies reported that the U.S. has an excess of retail space as compared with other countries. According to Cowen and Company, the U.S. gross leasable shopping center space per capita is 23.5 square feet, as compared with 16.4 square feet in Canada, 4.6 square feet in the U.K., 3.8 square feet in France, 3.4 square feet in Spain, 2.8 square feet in Italy, and 2.4 square feet in Germany (Cheng, 2017; Thompson, 2017). Another study, based on an analysis of U.S. Census Bureau data, found total retail space per capita in U.S. metropolitan areas to be 46.6 square feet. This contrasts with 2 square feet per capita in India and 1.5 square feet per capita in Mexico (Grohl, 2014).

3. Strategies to counteract store closings

Some of the causes of overstocking can be solved and/or prevented by retailers (i.e., refraining from opening new stores in an effort to compensate for declining store sales). Other factors are beyond the control of store-based retailers (i.e., the impact of
a department store’s closing on an adjacent retailer’s sales and the increased popularity of the web.

The effects of overstocking can be reversed through a combination of three strategies: (1) utilizing omnichannel-based synergies among channels and devices (smartphones, tablets, and PCs) to increase store sales, (2) making stores more attractive and engaging through personalization, interactivity, and a constantly changing environment, and (3) using retail space more efficiently via small-format stores, and through downsizing existing stores. These strategies will be discussed in the following three sections.

3.1. Utilizing omnichannel-based synergies among channels and devices to increase store sales

Omnichannel marketing recognizes that consumers use different combinations of channels and devices at each stage of their purchase journey: initial product discovery, information research, purchase, payment, order fulfillment, and product return. These different channels and touchpoints (i.e., tablet, smartphone, and in-store kiosk) are used constantly, interchangeably, and simultaneously (Verhoef, Kannan, & Inman, 2015).

Studies have shown that retail stores play a significant role in the omnichannel experience. Nearly 66% of digital consumers cite the ability to see, touch, and try merchandise as a major factor for preferring in-store purchases. Over half of those surveyed appreciate immediacy, and 33% turn to stores to be certain about fit and suitability of items, as well as in-person advice on fit and style (Wilson, 2016).

An A.T. Kearney study of over 2,500 U.S. shoppers found that 35% of consumers prefer to use a combination of both stores and online channels in their purchase journey. This study found that the most common of 30 possible purchase journeys is a consumer using online sources for the initial product discovery stage, and the retailer’s store for trial, purchase, pickup, and returns. Stores were found to be the preferred single channel of all age groups (Brown, Moriarty, & Mendoza-Pena, 2014).

An online 2017 UPS Pulse of the Online Shopper study with 5,189 respondents found that 21% of shoppers search and buy in-store, 14% search online but buy in-store, and 8% research both online and in-store but buy in-store (Flaherty, 2017). This study highlights the need for retailers to increase in-store purchasing activity. Similar findings were reported in Retail Dive’s 2017 Consumer Survey which found that 49% of consumers like to take home items immediately and 18% state that they still shop for the in-store experience. Only 7% stated that online is the only way they shop (Conick, 2017).

Table 1 lists omnichannel-based synergies among channels and devices to increase store sales. These are classified into four strategy-based groupings: informational, logistical, promotional, and database sharing.

Informational strategies that direct online shoppers to local stores include an online listing of models on display at a local store, and data on inventory availability and in-store location (floor and aisle) at local stores. Logistical strategies enable online consumers to pick up and return goods that were ordered online. Stores can also feature special service desks that reserve online orders for in-store pickup. Promotional strategies include using mobile-based coupons that are redeemable in stores and retailers including the weekly store sales circular on the website. Database sharing strategies unify a retailer’s store and online customer and inventory databases.

Developing omnichannel-based strategies to stem store declines is especially difficult for retailers with low online sales growth and low online sales. Retailers in this category include Ralph Lauren (-4.9% online sales growth and 8.8% online sales), Tiffany (-2.2% online sales growth and 6.3% online sales), and Coach (-3.0% online sales growth and 3.9% online sales; Zaczkiewicz, 2017). While these retailers may have sales growth potential, they have not yet realized that potential. The low level of online sales also provides fewer opportunities for collaboration across channels.

Some large store-based retailers have purchased successful web-based retailers as a means to better integrate online and store operations. Recent examples are the purchase of Chewy.com by PetSmart for $3.35 billion; and Walmart’s buying Bonobos for $310 million, Moosejaw (an online outdoor retailer) for $51 million, and Jet.com for $3 billion. One report stated that Walmart’s interest in Jet.com was largely due to gain the services of Jet.com’s founder, Marc Lore, who sold his Diapers.com parent Qudsi to Amazon.com (Bowman, 2017). Likewise, Chewy.com has been one of the fastest growing websites, with 2016 revenues close to $900 million in the e-commerce site’s fifth year of operation.

3.2. Making stores more attractive and engaging through personalization, interactivity, and a constantly changing store environment

This strategy is based on making the store environment a more inviting, stimulating, and compelling
Table 1. Omnichannel strategies to increase store sales and visits

INFORMATIONAL STRATEGIES
- Listing online the nearest store locations, hours, and directions of the closest store based on iBeacons
- Listing models on display at specific stores on the store’s website
- Providing timely inventory availability (including aisle location) at locations near a person’s home or office on the retailer’s website
- Providing free online access in-store to enable consumers to look up product reviews
- Communicating special store-based events and demonstrations on a retailer’s website
- Encouraging webcrooming behavior

LOGISTICAL STRATEGIES
- Indicating goods in stock, including aisle location, to facilitate store pickup on a retailer’s website
- Enabling online customers to reserve items for store pickup
- Using shipping location data of online purchases to suggest nearby store locations
- Offering store pickup for online purchases
- Waiving shipping fees for online shoppers that buy online but elect to pick up merchandise in a store
- Offering in-store returns for online purchases
- Shipping goods from nearby stores (as opposed to distribution centers) that have been ordered online

PROMOTIONAL STRATEGIES
- Using mobile phone-based coupons or specials redeemable only at stores
- Including a store’s weekly sales circular on its website
- Offering special discounts at selected stores for online customers

DATABASE SHARING STRATEGIES
- Analyzing a customer’s overall purchasing preferences (store and web) to better communicate with them
- E-mailing special offers (closeouts, odd lots) and special purchases that have been especially targeted to customers based on their overall store and online purchase history

place to visit and shop. The Marketing Science Institute has identified strategies for the creation and offering of exceptional customer experiences to make retail stores more attractive as a research priority for a number of years.

Oliver Chen, a retail analyst at Cowen and Company, stated that retailers need to answer two questions in adjusting to the buy-anywhere reality of the internet: “What are modern consumers enjoying doing?” and “How can retail solve into that experience?” (Pinsker, 2017). Another analyst argued that shopping in stores must be as cheap and convenient as buying from Amazon, or entertainment based by offering memorable experiences that cannot be replicated online (Abnett, 2016). According to Norman Roberts, the vice president of FRCH Design: “You have to create an experience that people go to, then shop” (Abnett, 2016). Stores must be designed and conducted to compete with a visit to a movie, a sports match, or any other pleasurable leisure activity.

Strategies to improve the store experience should be based on a combination of personalization, interactivity, and a constantly changing retail store environment. Personalization strategies can be based on messages, offerings, and interactions (Peacock, 2016). See Table 2. Examples of a personalized message include a special offer to a consumer based on his/her past purchase behavior, or an invitation to a fashion show featuring a customer’s favorite designer. Personalized offerings enable consumers to order customized goods such as mass-customized Nike sneakers. Personalized interactions can involve the use of a dedicated professional sales staff to help consumers match goods with their needs (e.g., personal shopper, wedding registry manager) or a demonstration of a new product.

Stitch Fix, an online apparel store, utilizes personalization through algorithms to select clothing items for individual consumers based on their purchase history. These items are shipped to selected customers who can return unwanted items. Stitch Fix offers free shipping both ways. The model is so important to Stitch Fix that it employs a 75-person data team (Lui, 2017).

While personalization is an important component of the in-store experience, one study found that 49% of U.S. consumers stated that they “never” or only “sometimes” receive personalized service while they are in a store (Taylor, 2017). Another 49% of those questioned stated that they would increase their store spending by 4.7% on average if they received better, more personalized service from retailers.

Interactivity can involve the use of augmented reality, in-store mobile apps, and live video communications technologies (Parise, Guinan, & Kafka, 2016). Through augmented reality, marketers layer text and pictures (e.g., visual representations of furniture) over objects and spaces in the physical world. Augmented reality enables consumers to
Table 2. Making stores more attractive and engaging through personalization, interactivity, and a constantly changing store environment

**PERSONALIZATION**

*Personalizing Messages*
- Individualized messages to highly targeted populations (heavy users, customers with unique preferences)

*Personalizing Offerings*
- Targeting specialized audiences with relevant offers based on their specific purchase history
- Using augmented reality to show how goods appear (e.g., furniture, apparel, eyeglasses, and makeup)
- Using mass customization and 3D printing to customize goods
- Tailoring selections to the demographics and lifestyles of the store’s shoppers

*Personalizing Interactions*
- Providing personal shoppers
- Selecting, training, and motivating salespeople and customer service personnel to interact with customers to determine their specific needs

**INTERACTIVITY**

- Showing items in use via demonstrations (e.g., cooking, computer, exercise clinics, home improvement)
- Using store space as product showrooms
- Utilizing in-store augmented reality applications
- Participating in live in-store video communications
- Enabling consumers to sample a wide variety of goods

**A CONSTANTLY CHANGING STORE ENVIRONMENT**

- Using seasonal promotions (e.g., holiday season train show for families)
- Changing demonstrations by store personnel (installing a hard drive in a computer store, replacing a faucet in a home center) on a regular basis
- Utilizing a treasure hunt atmosphere (with special offers for limited times, and a constantly changing selection of merchandise)
- Using pop-up stores for special events and sales
- Using celebrity appearances (author book signings, cooking demonstrations by noted chefs)

experience these hybridized realities via digital screens or projections (Scholz & Smith, 2016).

Augmented reality enables consumers to better visualize their space or appearance. Through augmented reality, consumers can see virtually how a new product will look in their home or how it will affect their appearance. IKEA, Bloomingdale’s, and Sephora have used augmented reality to improve the store experience. IKEA has an in-store virtual reality app that enables customers to vary fabrics, wall color, and even the time of day so they can better visualize how furniture will look in their homes (Porter & Heppelman, 2017). Bloomingdale’s Topshop store has an augmented reality app in its stores that enables shoppers to see how its products look without trying them on. Similarly, Sephora and Pantone have created Color IQ, a digital device that scans a customer’s skin tone and then matches it with a proper foundation color (Wilson, 2017). Sephora’s Virtual Artist app can also be used by shoppers to experiment with over 1,000 cheek colors via uploaded photos, augmented reality, and artificial intelligence. Interactivity can also be increased through product demonstrations, book signings, seasonal promotions, celebrity appearances, and in-store workshops.

Stores also need to frequently change their goods, demonstrations, and classes to build store traffic. Seasonal promotions, using pop-up stores for special events and sales, and utilizing a treasure hunt atmosphere with constantly changing merchandise are examples of this strategy. Story, a 2,000-square-foot store that started in 2011, gets a complete makeover including a new design, range of products, and marketing message every four to eight weeks. Past themes include HIS STORY (sponsored by Braun, Old Spice, and Gillette) which featured a hot towel shave and MAKING THINGS (sponsored by General Electric) which featured demonstrations of GE’s MakerBot 3D printers and injection molding machines.

3.3. Improving store productivity by introducing small-format stores and downsizing existing stores

This strategy involves the rethinking of a store size via developing small-format stores and through downsizing existing stores. Small store formats enable retailers to:

- Capture lost sales from nearby stores that have closed;
- Use smaller urban retail locations;
Table 3. Using retail space more efficiently via small-format stores and through downsizing existing stores

<table>
<thead>
<tr>
<th>DEVELOPING NEW SMALL-FORMAT STORES</th>
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<tbody>
<tr>
<td>• Recapturing customers from nearby closed stores that would otherwise be lost due to store closings</td>
</tr>
<tr>
<td>• Providing access to major cities where big box store locations may be unavailable or costly</td>
</tr>
<tr>
<td>• Targeting selected market segments with special goods and services (such as stores adjacent to a college campus or a retirement community)</td>
</tr>
<tr>
<td>• Enabling online customers to pick up and return online purchases at a convenient local location</td>
</tr>
<tr>
<td>• Viewing stores as unstores, which have large selections but no merchandise available for sale</td>
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<table>
<thead>
<tr>
<th>DOWNSIZING EXISTING STORES</th>
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</thead>
<tbody>
<tr>
<td>• Resizing existing retail space to proper levels</td>
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<tr>
<td>• Providing rental income</td>
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<tr>
<td>• Obtaining added customer traffic due to customer interchange between the existing store and new retail tenant</td>
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- Appeal to highly targeted populations (such as stores near retirement complexes or college campuses);
- Be used as pickup and return facilities for online sales; and
- Serve as ‘unstores’ where shoppers can try on merchandise and view goods on display for ordering in larger stores or online (see Table 3).

Target focuses its store offerings in its small-format stores. These stores are also used as pickup and return locations for online orders. A Target small-format store located near the University of Minnesota stocks a limited assortment of products such as miniature ironing boards and twin-size sheets geared for college students. Target’s small-format stores are typically smaller than 50,000 square feet as compared with the average Target store of 145,000 square feet. These small, urban-centric stores have more than two times the sales per square foot of its larger, suburban-located store units (Wahba, 2018).

Kohl’s uses its small stores as a means of keeping customers that used to shop at recently closed stores. Its small-format stores are 35,000 square feet versus the standard-sized store at 88,000 square feet. Kohl’s stores are also used as distribution points. One-third of the goods ordered online from Kohl’s were shipped from a store during the fourth quarter of 2012 (Enright, 2017).

In an unusual use of small stores, menswear retailer Bonobos has 43 unstore locations (i.e., showrooms) called guideshops that serve as showrooms for its clothing. These stores can be downsized as compared with traditional Bonobos locations as they stock only one variation of each size, color, fit, and fabric. While these unstores enable customers to touch and try on for fit and appearance, they have no inventory for immediate purchase. Instead, they accept orders for in-home delivery with free shipping. According to Bonobos’ chief merchandising officer, its in-store consumers have larger average sales than its direct online customers and appeals to more frequent shoppers who are less likely to return goods (Abnett, 2016). Similarly, Warby Parker, Sézane, and Nasty Girl’s stores allow consumers to try on products and then place orders online. They do not stock inventory for sales at their e-commerce showrooms.

Another real estate-based strategy involves retailers downsizing their existing store space by subletting excess store space. This strategy may enable an existing store location to be economically viable, for a retailer to collect rental income, and for the existing store to benefit from traffic generated by the retail tenant. Sears has leased areas of its stores to other retailers, such as sporting goods retailers, grocery chains, and health clubs. Hudson’s Bay Company, the owner of Lord & Taylor and Saks Fifth Avenue, has leased space in some of its Canadian stores to Topshop, a British specialty chain. Kohl’s plans to lease extra space in its existing stores to other retail tenants so that nearly half of its locations will become 35,000 to 55,000 square feet—down from the current level of 80,000 square feet (Wahba, 2018).

The use of small-formats and downsizing strategies involves significant effort. Merchandise selection needs to be reduced and made relevant to the immediate area. The proximity to recently closed larger stores also needs to be studied as a means of recapturing lost sales. Retailers need to decide whether to reserve space for pickup and returns of merchandise purchased at other stores or online.

4. Summary and conclusion

The issues involved in curbing the decline of stores require a retailer to rethink its current omnichannel marketing strategy in terms of its organization format; the metrics used to measure success; potential
synergies among channels and devices; and employee selection, training, and motivating (in terms of engaging in omnichannel initiatives and in better personalizing and interacting with customers).

Retailers also need to overcome the silo mentality that permeates their organizational structures and focus on such omnichannel-based measures as web-influenced store sales. ¹ Lastly, store employees need to be motivated to order an out-of-stock item online or through an in-store kiosk. Retail executives need to utilize Tables 1, 2, and 3 as store closing prevention checklists. Each bulleted point should be analyzed in terms of its appropriateness to the retailer as well as its ease of implementation. This analysis should be useful in getting a retailer to prioritize its strategies to improve the attractiveness of stores relative to the web.

Each strategic option has its own unique requirements. The omnichannel-based strategy requires that the retailer integrate inventory and customer databases, merchandise selection, pricing, SKU numbers, and product descriptions across channels. This can be especially difficult with mobile marketing due to the small screen size, different-sized smartphones, and different operating systems. Due to the difficulties associated with shipping small orders and handling returns, some retailers would want to consider outsourcing these functions to firms such as Zappos and Amazon.

Making stores more attractive and engaging works especially well with specialty goods, collectibles, products with high perceived risk, do-it-yourself products, and products that benefit from augmented reality. An important part of this strategy involves personalizing messages. This requires large data teams utilizing data mining. The constantly changing store environment can be based on creativity (e.g., seasonal promotions, changing demonstrations), as well as creating a treasure hunt atmosphere via a changing mix of limited offerings at exceptional value pricing levels. This strategy requires a retailer to invest heavily in special events, high levels of sales support, store atmospheres, and in efforts to promote these activities. Implementing this strategy may be difficult as it requires making significant store-based investments at a time when store sales performance may be declining.

The last strategy has two components: small-format stores and resizing existing stores to make them more productive. The small-format stores allow department stores and superstores to utilize urban locations, to offer pickup and returns from online sales, to serve highly specialized markets, and to recapture some of the lost sales due to adjacent larger store closings. Through the downsizing strategy, large department stores and supercenters can achieve additional rental income, as well as gain store traffic due to affinities with a leased department.

This article also raises a number of questions that academics, as well as retail executives, need to consider. These include further studying the types of retailers most prone to closings (price, balanced, and premier), determining how much in lost sales will be shifted to existing stores, evaluating retail space per capita in the U.S. and other countries by store type, studying the effectiveness of various omnichannel-based retail organization formats, analyzing the importance of store atmosphere in different categories of retailing (such as traditional department store versus off-price retailing), and studying the impact of limited assortments on small-store format success.

References


¹ As opposed to such measures as comparable store-based sales or sales per square foot.


