nerej
EST 1963 CELEBRATING 55 YEARS

No brick-and-mortar retail category will be insulated from the impact of e-commerce

January 30, 2014 - Spotlights

You can't help but notice, between Thanksgiving and Christmas for the last several years, the divergence between reported internet sales and total retail sales. Mid-double digits vs. low-single digits have been the norm. For many retailers, it's largely moving money from one pocket to another, from its brick-and-mortar stores to its online business, with possibly some synergistic benefit. For retail landlords, however, it has become an increasing concern that retail stores are downsizing as the internet absorbs market share.

While major store closings such as Circuit City, Linens 'n Things, and Borders could be viewed as Phase I of a national retail transition, store downsizing may be regarded as Phase II. Some of the many chains that have been shifting toward smaller stores include Best Buy, Kohl's, Staples, Old Navy, Michael's, and now even Walmart. To pick up the slack, many retailers are making e-commerce sales a priority, and this has been paying off.

Macy's, for instance, has a limited number of opportunities to add more stores. In order to boost revenue it has invested in its online services to meet the needs of the new "omni-channel" consumer. The result has been online sales growth of 40% each year since 2010 while total revenue experienced only single-digit gains. The online segment of Macy's business now accounts for 11% of total revenue. Best Buy, another retailer now heavily dependent on e-commerce revenue, grew its 3rd Quarter 2013 online sales by 15.1% while total revenue declined 0.2%. This past year the company invested in an upgrade to its website with the expectation of doubling its share of online consumer electronics sales to 18% - equaling its brick-and-mortar share.

As of 3rd Quarter 2013, e-commerce as a percent of total retail sales was 5.9%. In 3rd Quarter 2003 the share was only 1.8%, and by 2017, Forrester Research projects that internet sales will represent 10.3%, or $370 billion of the $3.6 trillion in total retail sales. Omitting auto and gasoline sales, those figures adjust to roughly 9.7% today and 16.1% by 2017. By any standard, these figures are enough to grab any landlord's attention.

Of course, for those in the industry it is no secret that the impact of e-commerce varies considerably by merchandise category. For instance, electronics and appliances share of e-commerce sales ranks highest at 21.9%, while food and beverages comprises only 2.2% of online sales.

Another category not quite a hit yet among online shoppers is health and personal care, which makes up only 4.8% of total sales. In the early days of e-commerce, apparel and accessories sales were relatively modest - consumers didn't get to try on and touch the goods before purchasing, and when they didn't fit or felt cheap, the inconvenient and sometimes costly return policies made it all not worth it. But oh, has that changed! Apparel and accessories now accounts for 20.2% of online sales, ranking #2 among merchandise lines, evidence that retailers have overcome those impediments.

And although food and beverages currently ranks lowest in online market share, it may not be so for long. It used to be that online grocery shopping was a niche business catering to select affluent urban markets and unappealing to the masses as a result of inconvenient delivery, high costs, and limited selection. But growing competition is bringing costs down, speeding up delivery, and offering wider selections. Peapod is one of the pioneers in the business, and now Amazon with AmazonFresh, Walmart with Walmart to Go, and a number of smaller companies are digging in for a share of the market. Even with delivery fees, on-line grocery bills are running closer to those at traditional supermarkets, and in some cases even lower.

Moving forward it appears that no brick-and-mortar retail category will be entirely insulated from the impact of e-commerce. As a result, it is reasonable to expect that, over the long term, retail's overall physical footprint will continue to contract. Developers and landlords need to understand that today.

Bob Sheehan is the vice president of research for KeyPoint Partners in Burlington, Mass.