Retail's Radical Transformation/Real Opportunities

Beyond the "Retail Apocalypse" to a Bright Future

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Introduction

This is year two of our research on store locations. The genesis of this research came about as the mainstream press coined the term "Retail Apocalypse" to describe how several big name retailers encountered financial troubles. As we looked closer at the data beyond the handful of anecdotes, it became very obvious that the reality of what was happening in retail was not an overall reduction in store counts and sales. It was actually a time of great change, but retail growth.

This year we took a closer look at the data of over 1,500 retailers and still found that only a handful of retailers represented more than half of all of the closings. In fact, 16 companies represent more than 66% of all core retail store closings. For restaurants, 16 companies represent 74% of all net closings. For all companies (core retail and restaurants) reducing stores, 2.4 are increasing their store counts.

The research also shows that those closing stores / going out of business have at least one (or more) of these 3 characteristics.

1) Massive overexpansion of their store footprint beyond sustainable levels
2) Management or Private Equity saddled the companies with unsustainable levels of debt
3) They refused to modernize systems or improve their customer experience
4) They have not updated their business model to reflect changing times (in some cases, for decades).

As you will see in the results of this study, retail <u>is</u> changing drastically. In the US population of households we have a dwindling middle class and increase in the gap between the Haves and the Have-Nots. Income disparity is having a huge impact on retailers and formats. But make no mistake, retail is growing (by leaps and bounds), but it is different than it has been in the past. Add to this the fact that consumers who once HAD to shop in stores more often must WANT to shop at stores because of online alternatives, and retailers are more challenged than ever to improve their customer experience.

Finally we discuss why retailers must fix their out-of-stock issues or become irrelevant in an age of increasing Amazon Prime membership.

Some Definitions

For this report, we break the data down by segments to review what's happening. Below is a list of those segments included this research with some sample retailers:

Food/Grocery (Kroger, Safeway, Trader Joe's, Wegmans, Whole Foods)

Drug Stores/Cosmetics/Beauty/Vitamins (Walgreens, CVS, Sephora, Ulta, Vitamin Shoppe)

Superstore/Warehouse Clubs/Hypermarkets (Walmart, BJ's Wholesale, Costco, Sam's Club)

Mass Merchants (Target, Dollar Tree, Dollar General, Five Below)

Department Stores (JC Penney, Sears, Kohls, Beall's, Macy's)

Specialty Hardgoods (Home Depot, Lowes, Best Buy, Rooms to Go, AutoZone)

Specialty Softgoods (H&M, Zara, Abercrombie, Aeropostale, Gap, TJX)

Convenience/Gas/Forecourt (7-Eleven, Circle-K, WaWa, Racetrac)

Fast Food (McDonald's, Subway, Burger King, Starbucks, Taco Bell)

Bar/Table Service Restaurant (Applebee's, Chili's, Cheesecake Factory)

Without question retail is changing and changing fast. For the sake of deeper insight, we have grouped these segments into three categories. FDCM (Food, Drug, Convenience Stores, Mass/Warehouse Clubs), GMS (Department Stores, Specialty Hardgoods, Specialty Softgoods), and Restaurants (Fast Food, Bar/Table Service). With these three groupings, it becomes obvious where the successes are and where the struggles continue in retail.

Finally, we will highlight how retail is mirroring the general population of Haves and Have-Nots when it comes to making the changes required to compete going forward.

Retail Realities

The Negative Person Always Has The Largest Horn

iHL GROUP

First Things First - Why the Negative Press?

Retailers Close Stores Every Year

- The rebalancing of store portfolios is a function of any healthy retailer's business. Each year retailers close underperforming stores and open stores in new locations. 1-2% change in stores is normal. The only segments to have a net close of more than 2% of their stores in 2018 are Department Stores such as Sears and Macy's as well as Drug Stores due to the Rite Aid divestiture during Walgreen's merger. Even Specialty Softgoods retailers, who have the most net store closings, only reduced store counts 1.3%, well within the average range.

- With advances in demographic systems and location technologies, retailers are better than ever at predicting good locations, but the data is not infallible. Macro events can have significant impacts on store traffic.

Household Names

- When we completed this study last year, 16 retailers represented 48% of the closings. This year, the top 16 represent 66% of the closings.
- For the most part, these companies are based in mall locations rather than self-standing or strip mall locations.
- When it comes to restaurants, the top 16 companies for store closures represent 74% of the net closings.

Bad News Sells

- Household names and bad news are a great combination for clicks and ratings. Add in an employee who is losing their job and the recipe is perfect for ratings.
- Whether it is online, print or broadcast news, the big impending storm, big crisis, or scandal drives eyeballs which drive ratings and profits. Truth is OK, as long as it does not get in the way of ratings.
- To fully understand the phenomenon, we recommend the reading of Michael Crichton's great book, "State of Fear" that provides terrific insight into why fear is the basis of media success.

Formula 1 on Chicago Highways

- Nearly every one of the companies closing stores in mass have 1 or more of these characteristics.
    1. Outdated business models that were slow to refresh
    2. Grew way too large too fast
    3. Leveraged too highly with debt by owners
    4. Lack of investments in stores and technology.
- This is like buying a Formula 1 race car that is highly tuned for a race track, but ignoring the fact that you have to drive with potholes and other drivers on Chicago highways. It's simply bad business.

The Real Story - 2017 Year End

Retail Sales +$232b in 2017 > +4.5% growth

- **This was equivalent of adding South Korea's entire annual retail sales**
- **Some retail segments/sub-segments doing well**
  - C-Stores and Mass Merchants outstanding
  - DIY, Furniture, Men's Clothing and Toys doing very well
  - Department stores and Softgoods really struggling, appliances, sporting goods, office supplies all down >5% for 2017

Online sales were up ~18% over Holidays

- **25% of all retail growth (which means 75% of growth was traditional retailers)**
- **10.2% of total retail is pure play (+58b), but 18% when store retailer's online included.**

Amazon's Online Sales ~ about $29b of the growth.

Sources: IHL, Retail Census

2018 Year So Far – Through July

Retail Sales +5.5% through July

- US Retail Economy grew extra $190.6b in first 7 months
- Retail Growth Projected +4.4 to 4.6% in 2018
- But still too often being reported as "Retail Apocalypse"
- The equivalent of annual revenues of these 8 retailers combined has been added to US retail economy

Sources: IHL, Retail Census, Company Reports

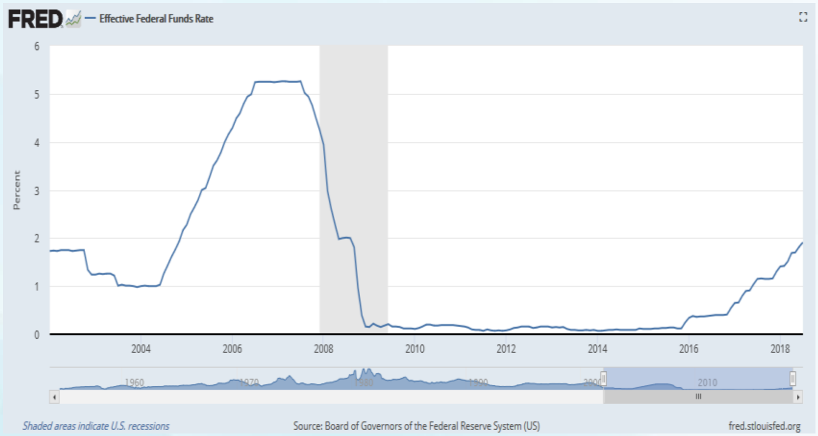
Cheap Money and Overstored

The next four pages are repeats from last year…the core underlying trends have not changed

Historically Low Interest Rates

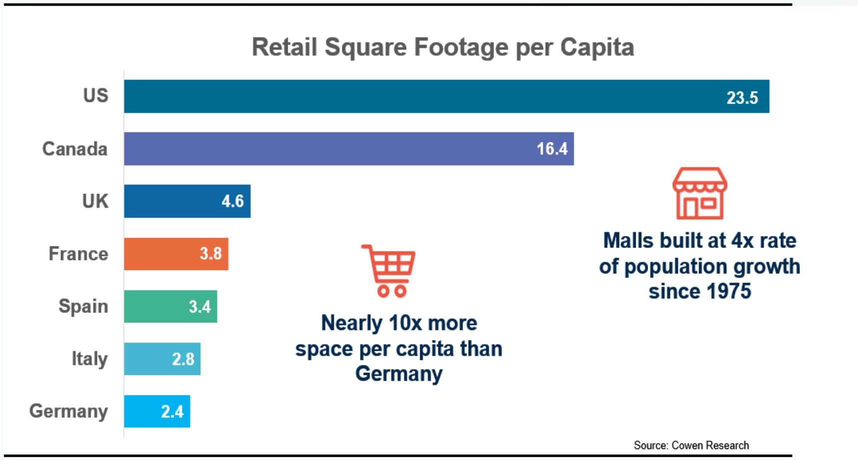
- Since 2009, we've had historically low interest rates, which made borrowing much easier for larger businesses. It has been an unprecedented period of opportunity for public companies offering bonds and private equity companies looking to make acquisitions that they can grow.
- This cheap money led many retailers and property developers to over expand. Quite frankly, because of short term thinking, many retailers expanded beyond their ability to service customers. The mindset became "If it works in 100 locations, let's do 500". The result was oversaturation.

Figure 1 – Historical Fed Rates



Source – Federal Reserve – Board of Governors'

Figure 2 – Retail Square Footage – Global Comparisons



Source – Cowan Research

Overstored – In Certain Sectors

- Since 1975, retail properties have expanded at 4x the population rate.
- Cowen Research noted that the per-capita retail square footage in the US was nearly 10x that of Germany.
- As Cowen Research has aptly said, the "Retail Problem is not an overall problem but a C & D Mall Problem." The key areas of oversaturation are in mall based retailers.
- While there still remains room to grow for grocery, mass merchants, convenience stores, and restaurants, mall based square footage per capita in the US has been more likely 20x that of Germany. These properties must get creative with their tenants beyond traditional specialty and department stores.

Fast Fashion and Beauty

These two trends having devastating impact on Department Stores and Apparel Retailers

➢ Impact of Fast Fashion and Off-Price Retailing

- The most significant hiccup to come into the categories that are shrinking is the impact from Fast Fashion-competitors like Zara, H&M and others. Quite frankly, many Department Stores and Specialty Apparel retailers got lazy in their customer service, relying on the strength of their brands.
- Then Zara and H&M introduced Fast Fashion, where the lead time from idea to store shelf when from 6+ months down to 3 weeks or less.
- In addition, the continued rise of TJ Maxx and Ross Stores equally has impacted the market as consumers hunt for bargains.
- While Fast Fashion is starting to see issues in 2018, the growth of off-price retailers continues at solid pace.
- While most fast fashion stores are mall based, the off-price stores are more often in strip malls or standalone.

➢ Breakout of Cosmetics/Beauty

- The double-whammy for Department Stores has also come from the breakout of Beauty and Cosmetics into standalone categories.
- Long a high-margin staple of the Department Store environment (along with Drug Stores), Cosmetics has traditionally been where Department Stores had exclusivity to many high-end brands.
- This has changed as major brands like Sephora, Ulta, Lush, and others have opened their own standalone stores.

Haves and Have Nots

Income disparity has a major impact on store formats and retail openings or closings

Price Changes

- According to the US Bureau of Labor and Statistics, since 1996 overall inflation in core consumer goods and services has averaged 55% over the 20 year period of 1996 – 2016.
- Some key examples of items significantly higher in cost are the following:
  - +200% - College Tuition and Textbooks
  - +125% - Childcare
  - +120% - Healthcare
  - +65% - Food and Beverage
  - +60% - Housing costs
- Some examples of products and services that have become more affordable:
  - -45% - Cellphone Service
  - -70% - Software
  - -72% - Toys
  - -95% - TVs
- Further, as stated in his book "Land of the Fee", Devin Fergus researched that hidden fees in many of the products and services targeted to middle and lower class families have added an additional burden equivalent of $1.4 Trillion per year added to electric bills, cell phone and cable bills, airline tickets, and other items.
  - This is the equivalent of 28% of all US retail sales that Americans pay in hidden fees.

Figure 3 – Household Income by Quintile

	1996	2015	Real $ Growth '96 -'15	% Income Growth
Lowest	8,595	12,457	3,862	44.9%
Second	21,097	32,631	11,534	54.7%
Third	35,486	56,832	21,346	60.2%
Fourth	54,922	92,031	37,109	67.6%
Highest	115,514	202,366	86,852	75.2%

Sources: BLS, Census Bureau Historical Income Tables H1/H3

Haves and Have Nots

- From the data above we can see that 40% of the US population has not kept up with inflation and another 20% barely surpassed the 55% average inflation rate at the median income level.
- There are more people on food stamps in the US (39 million) than there are people in Canada, and this is reflected in consumer's retail choices.
- This means that over 50% of the households in the US are worse off economically than they were 20 years ago.
- Things have improved in 2018 as unemployment has improved the opportunities for most consumers, but once again the rise is disproportionately towards households with incomes over $100,000.

Shrinking Middle Class

Most malls have been built to serve middle class neighborhoods

Figure 4 – The Middle Class is Shrinking

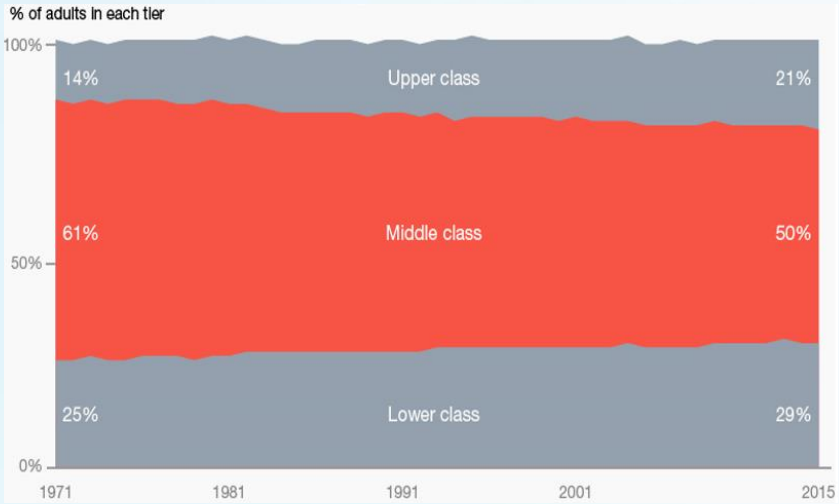
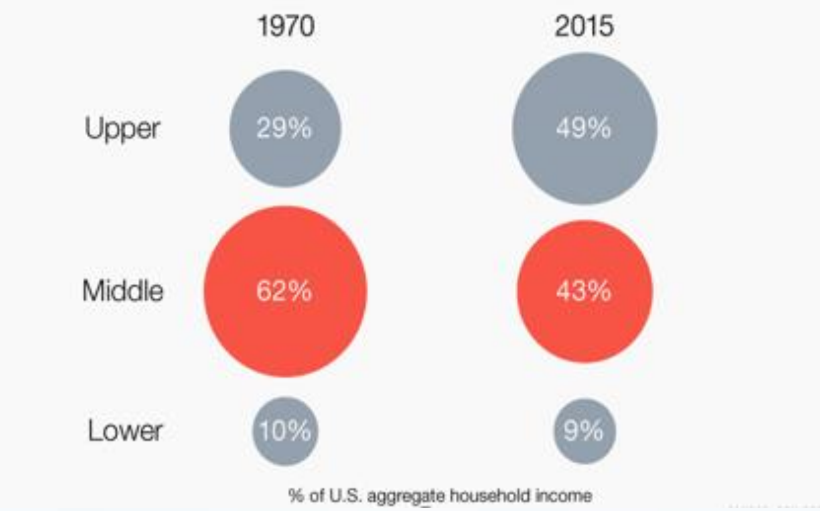


Figure 5 – Share of US Income held by the Middle Class has Plunged



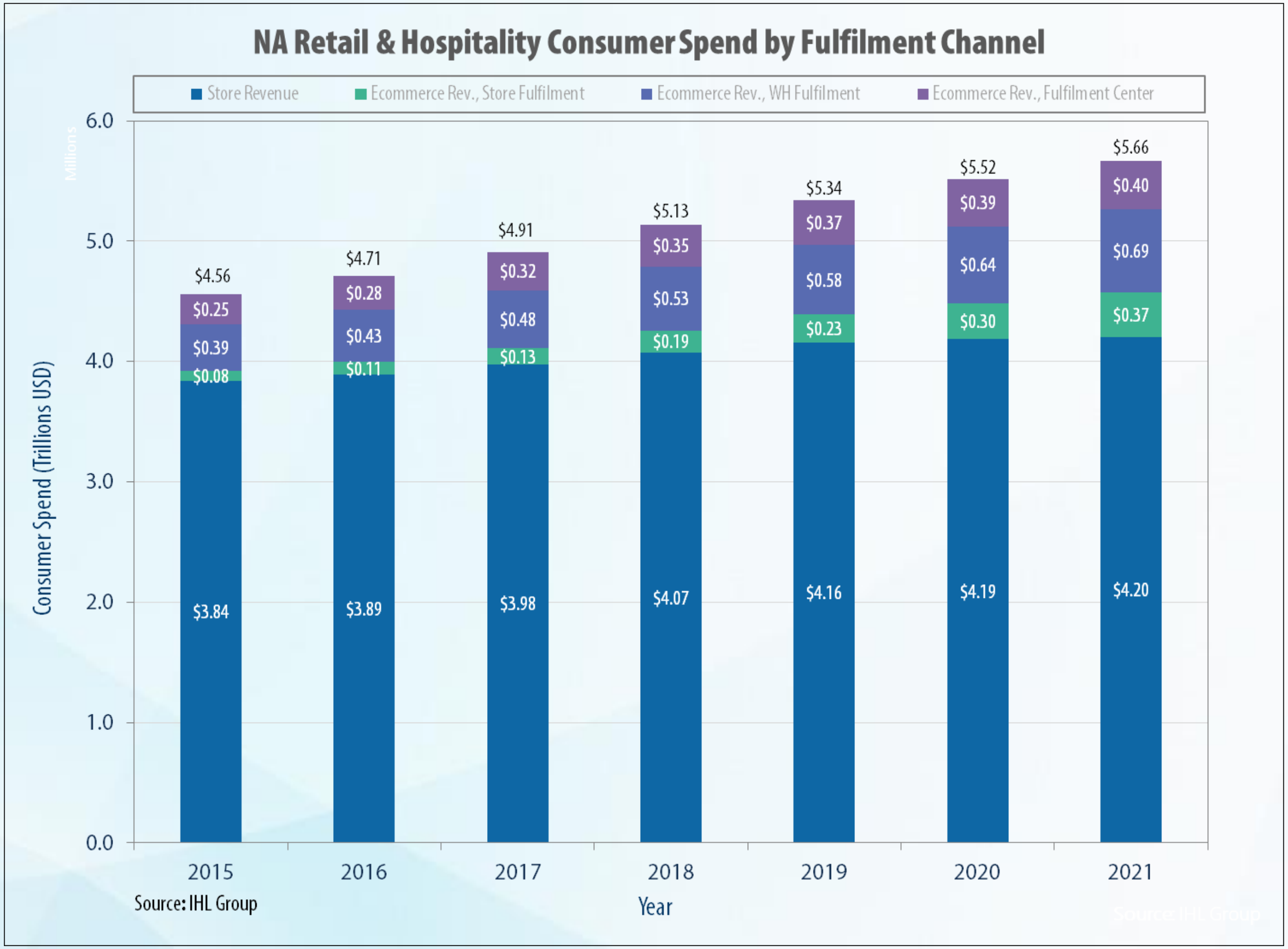
Source: Pew Research Center

Middle Class Conundrum

- Pew Research has looked at the change of the Middle Class since 1971. The data above shows that the Middle Class once represented 61% of all adults in the country, but has now shrunk to 50% of the population.
- At the same time, the share of income that these households controlled has gone from 62% in 1970 to only 43% by 2015.
- The good news is the Upper Class grew by 50% in numbers and 69% in terms of share of income over the period. However, along with the challenges of the Middle Class, the Lower Class increased in population from 25% to 29% of adults, but the share of the income actually decreased from 10% to 9%.
- The majority of the malls that were built in the last 30 years were in areas thought to be Middle Class. But it is exactly that Middle Class and Lower Class consumer that has been squeezed the most.
- When we add to this the unbridled growth of many mall-based retailers due to lower interest rates, we can easily see why any hiccup in traffic is causing problems in these sectors.

Stores Will Still Matter In Online Sales

Despite projected growth to 25% of retail by 2021, 81% of all retail sales will go through stores



Rise of Online

- E-Commerce is about 19% of all retail sales currently. (Pure play retailers only 10.2% today, the remainder are traditional retailers).
- IHL projects this to grow to 25.7% of retail by 2021.
- That said, IHL expects stores to still be involved in 81% of all retail in 2021.
- Those E-Commerce orders that represent 25% of the total value, much of that will be Click and Collect, Buy Online Pickup in Stores, or Ship from Store of orders.

Retail's Radical Transformation

The Real Story

All retail segments but Department Stores are seeing increased sales in 2018

Retail Sales Up

- Despite the headwinds and negative headlines, retail as a whole is quite healthy. **Retail Sales are up $190.6b** through the first 7 months of 2018.
- That said, there are quite a few differences by segments. We have alluded to these changes in some of the data shared already, but some of the faster growing segments for retail sales include the following:
  - +29.0% - Mass Merchants, Supercenters, Off-Price
  - +14.8% - Convenience/Gas
  - +5.5% - Restaurants
  - +5.5% - Specialty Softgoods
  - +4.3% - Drug Stores, Cosmetics, Vitamins
  - +3.9% - Food and Beverage Stores
  - +2.9% - Specialty Hardgoods
- Despite changes in store counts as we will see, Department Stores is the only segment with a drop in sales.
  - -.3% - Department Stores
- The retail struggle being reported is really a mall struggle. Malls must focus on attracting and retaining discount and off-price retailers, replacing Department Store anchors with Supercenters and other formats. Malls that refuse to add formats and traffic drivers will need to be A-list malls to succeed in this new market. Eateries, churches, medical facilities and other retail formats must become part of the new modern mall to help drive traffic.

Rise of Online Sales – But How Much?

- We should caution that the following numbers from the government are for Pure Play E-Commerce (online) retailers and not bricks and mortar retailers that have online sales as well. So total E-Commerce sales are higher.
- Overall Pure Play E-Commerce is **up 11.3%** year to year. *(This includes Amazon, except for Whole Foods which is included in Grocery. The Census Bureau has not figured out exactly what to do with Amazon and this acquisition. Right now it is being treated as two separate companies, which is different from traditional retailers with their online sales.)*
- Pure Play E-Commerce represents **10% of total retail** but **18.7% of the retail growth.** ***It is critical to note that in the first 7 months of 2017, Pure Play E-Commerce sales growth represented 25% of total retail sales growth, but only 18.7% in 2018. So traditional retailers grew their businesses (online and offline) faster than Pure Play retailers.***
- Pure Play E-Commerce is not the answer. It is becoming more and more clear that the vast majority of people want to have a personal connection specifically when returns are involved. That is a significant benefit that stores have that Pure Play E-Commerce does not.

Which brings us to the statement that it's all retail, and those that focus on the customer experience in retail will succeed and those who refuse to change will be in trouble going forward.

2018 Enterprise Retail Market

For Enterprise retailers with 50 or more stores

(12,663 opens 8,828 closures)

Segment	Net Store Growth
Supermarkets	438
Drug Stores	-800
Mass Merchants/ Superstores/ WH Clubs	1,490
Department Stores	-348
Specialty Hardgoods	575
Specialty Softgoods	-909
Convenience Stores	1,566
Restaurants	1,823

+3,835 Net Stores Opening

Source: IHL Group, Company Reports

Up 3,835 stores in 2018

- The news headlines on closings really focus on a very small number of retailers and segments that are concentrated in the mall based stores. As we will see later, 16 retailers represent 66% of the total number of store closings
- Instead, store counts are on track to grow by 3,835 in 2018. the areas with the negative store counts are Drug Stores (due to Rite Aid divestiture of stores and those stores heavily focused on malls.

Core Retail vs Restaurants

- When we review the data closer, the Core Retail segments are experiencing net growth of 2,012 retail stores (in chains with more than 50 stores) and 1,823 restaurants locations. Unlike last year where restaurant locations increased over retail locations at a ratio of over 3:1, this year more retail stores are opening than restaurants.

Why Retail + Food Service?

- How US Census on Retail Trade reports numbers
- How vendors organize to sell to retail/hospitality

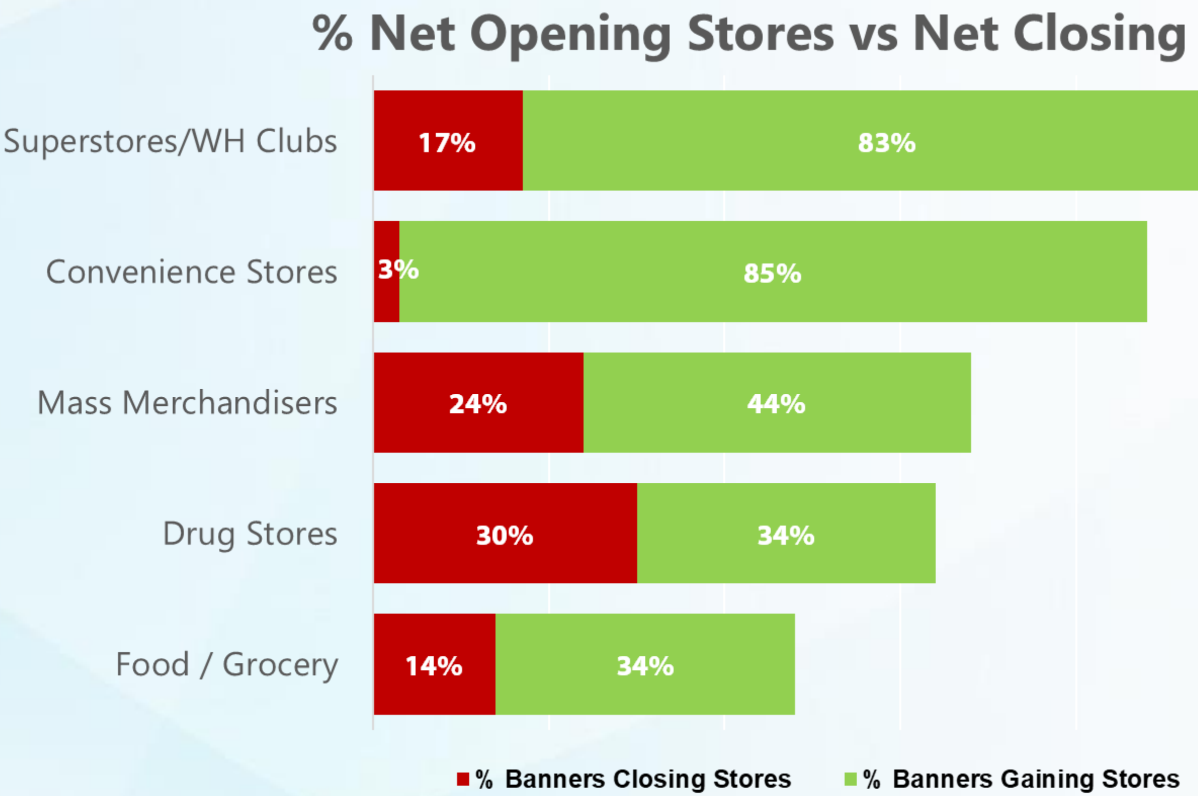
	2017 Net Opens	2018 Net Opens
Core Retail	+558	+2,012
FDCM	+3,115	+2,694
GMS	-2,557	- 682
Restaurants	+1,787	+1,823
Total	+2,354	+3,835

Source: IHL Group, Company Reports

Net Increase of **6,189** stores in last two years

FDCM Opening vs Closing Stores

5,809 additional stores in the last two years



For each company closing stores,

3.7

are opening stores

Source: IHL Group, Company Reports

Full Speed Ahead

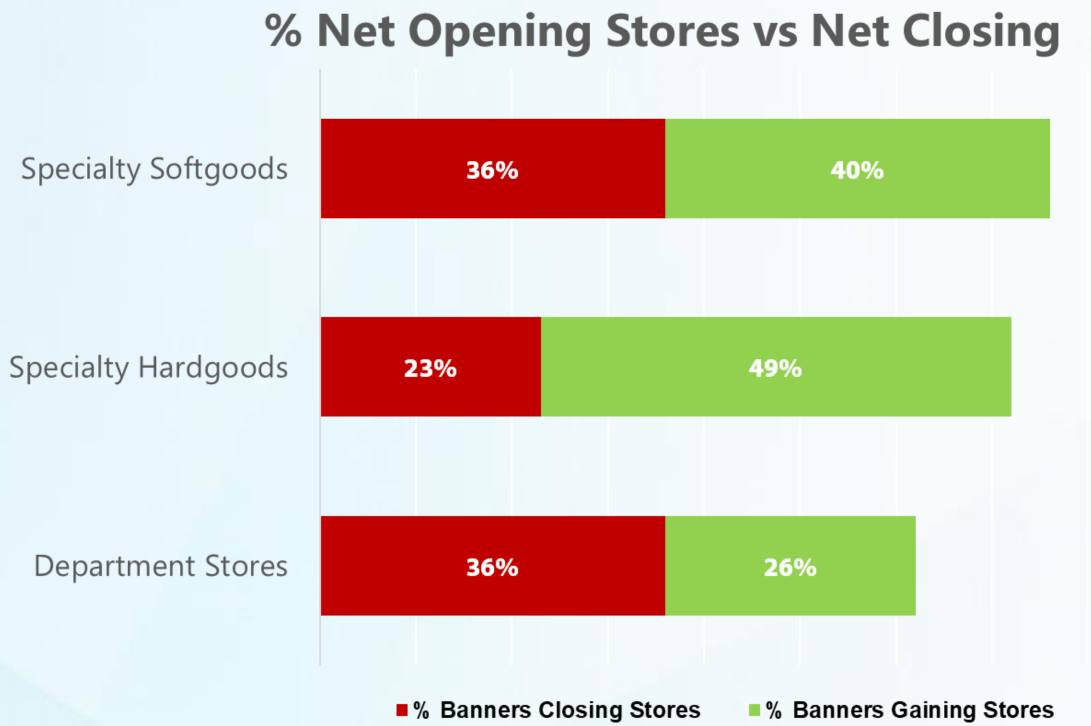
- Here we looked at 209 Enterprises representing 381 store brands. The end result is a net increase of 2,694 stores in 2018 and 5,809 additional stores in the last two years.

3.7:1 Ratio

- Food, Drug, Convenience, and Mass Merchants/Warehouse had 3.7 companies adding store for every one that decreased stores. In total 193 FDCM companies are projecting net store increases and 52 companies net store decreases in 2018.

GMS Opening vs Closing Stores

A reduction of 3,239 stores in the last two years



For each company closing stores

1.5

are opening stores

Source: IHL Group, Company Reports

Mall Based Stores Struggling

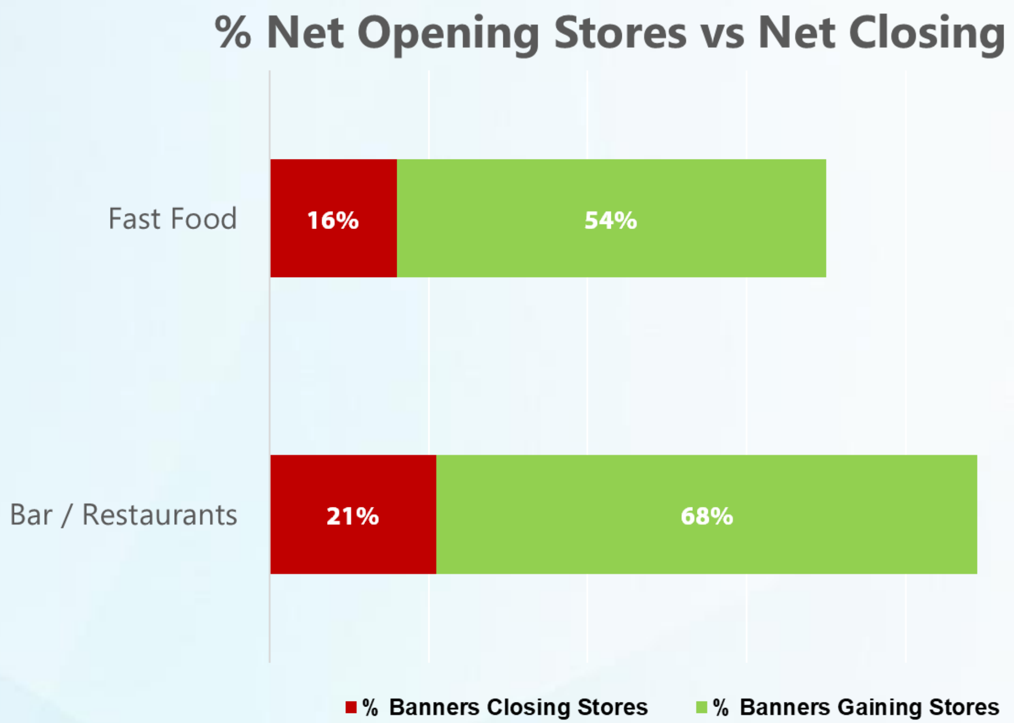
- We looked at 396 Enterprises with 635 store brands with 50 or more stores.
- Last year, retailers closed 2,557 stores. This year these segments are on track to reduce 682 more stores. It is only because the Specialty Hardgoods retailers are growing stores this is not a bigger loss.
- Overall 1.5 companies opened stores for every company that closed stores

What Malls Must Do

- The malls are where the big issues are today. Malls must replace tenants with FDCM retailers, restaurants, and other formats if they are not A or B mall locations to succeed.
- Consumers come to stores for expertise and experience. Malls must transition to help drive more traffic.

Restaurants Opening vs Closing Stores

Over the last two years, 3,610 more restaurants were added in chains over 50 locations



For each company closing stores

3.3

are opening stores

Source: IHL Group, Company Reports

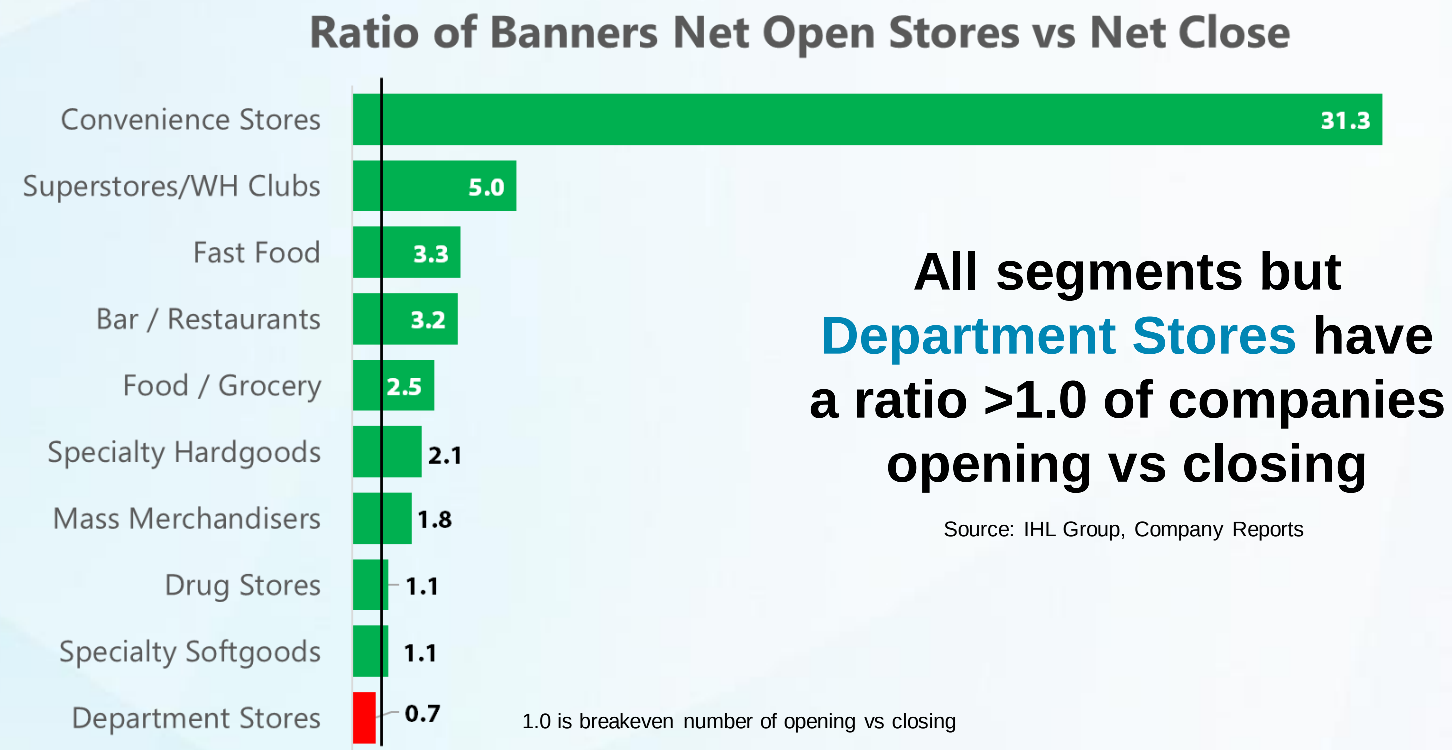
Fast Food Continues Torrid Pace

- This year we reviewed 269 enterprises with 469 restaurant brands between them.
- In total they were increasing store counts 1,823 for 2018 and 3,610 over the last two years with Fast Food growing at a pace almost 2.5:1 over Bars/Table Service Restaurants.
- This is a reflection of lower incomes and less time. We have been surprised the numbers still have held even with increased fuel prices

Trends Favor Restaurants

- Increase of mobile order-ahead and delivery is also helping speed the process of restaurant growth.
- Overall for every company closing stores, 3.3 companies are having a net increase in the number of locations. As we will see later, if we remove Subway and Chipotle, the remaining companies with a net loss of locations reduced by less than .5% of their store footprint.

Banners Opening vs Closing Stores



Ratio of opens to close

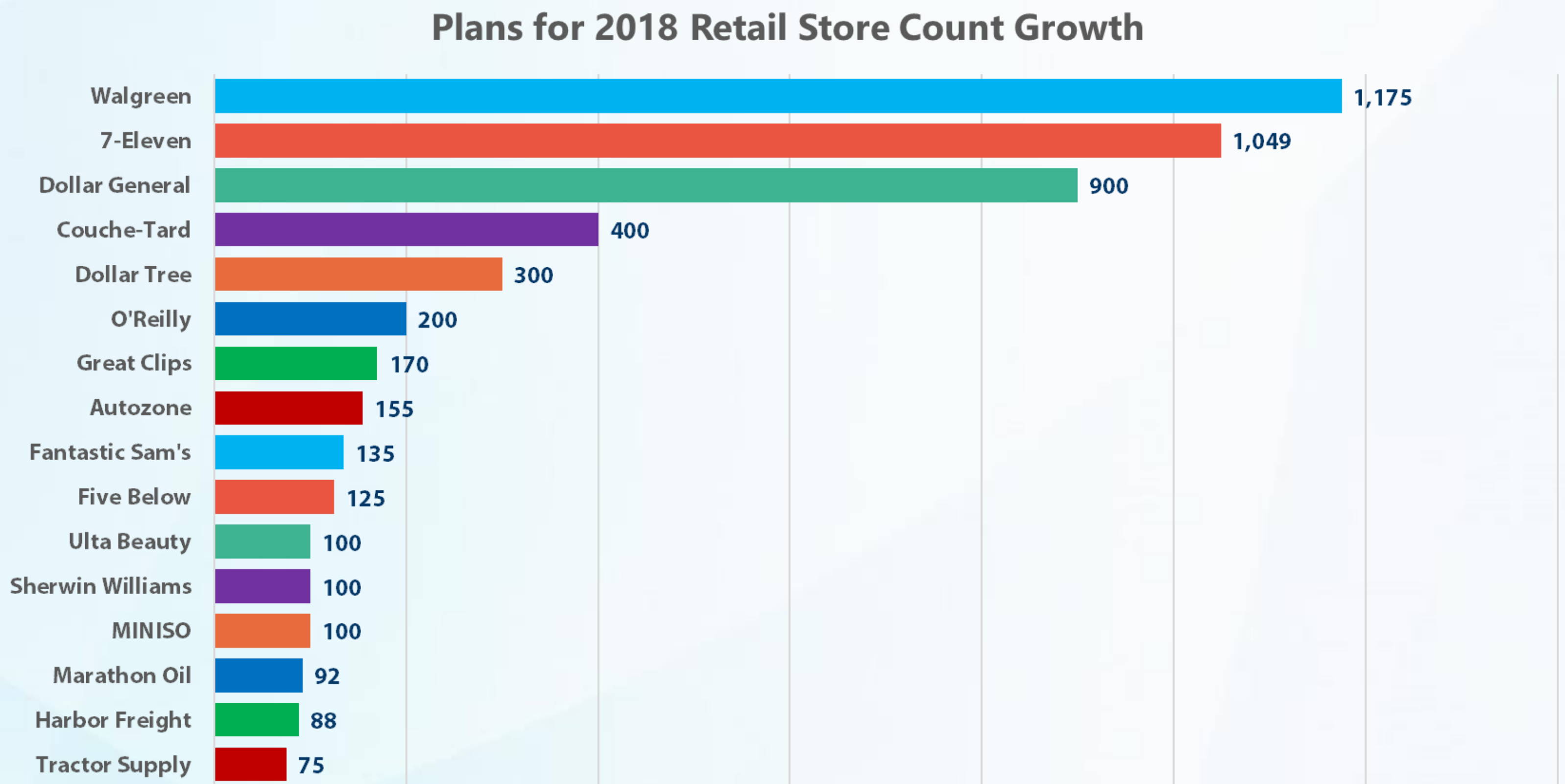
- The previous page looked at the number of openings and closings per segment in percentage terms. This chart looks at the ratio of those opening vs closing. Only Department Stores have more banners closing stores than opening stores.

Strong results in most sectors

- Most sectors are expanding in stores as well as the number of chains opening stores.
- The anomaly in Convenience Stores comes from Sunoco selling stores to traditional retailers. For oil companies it is very difficult to break out retail locations as they are not generally reported. In this case, thousands of stores were newly included in the research.

Retail Store Count Growth

Increase of 5,164 Stores for Just 16 Banners



Source: IHL Group, Company Reports

Fast Growing Retailers

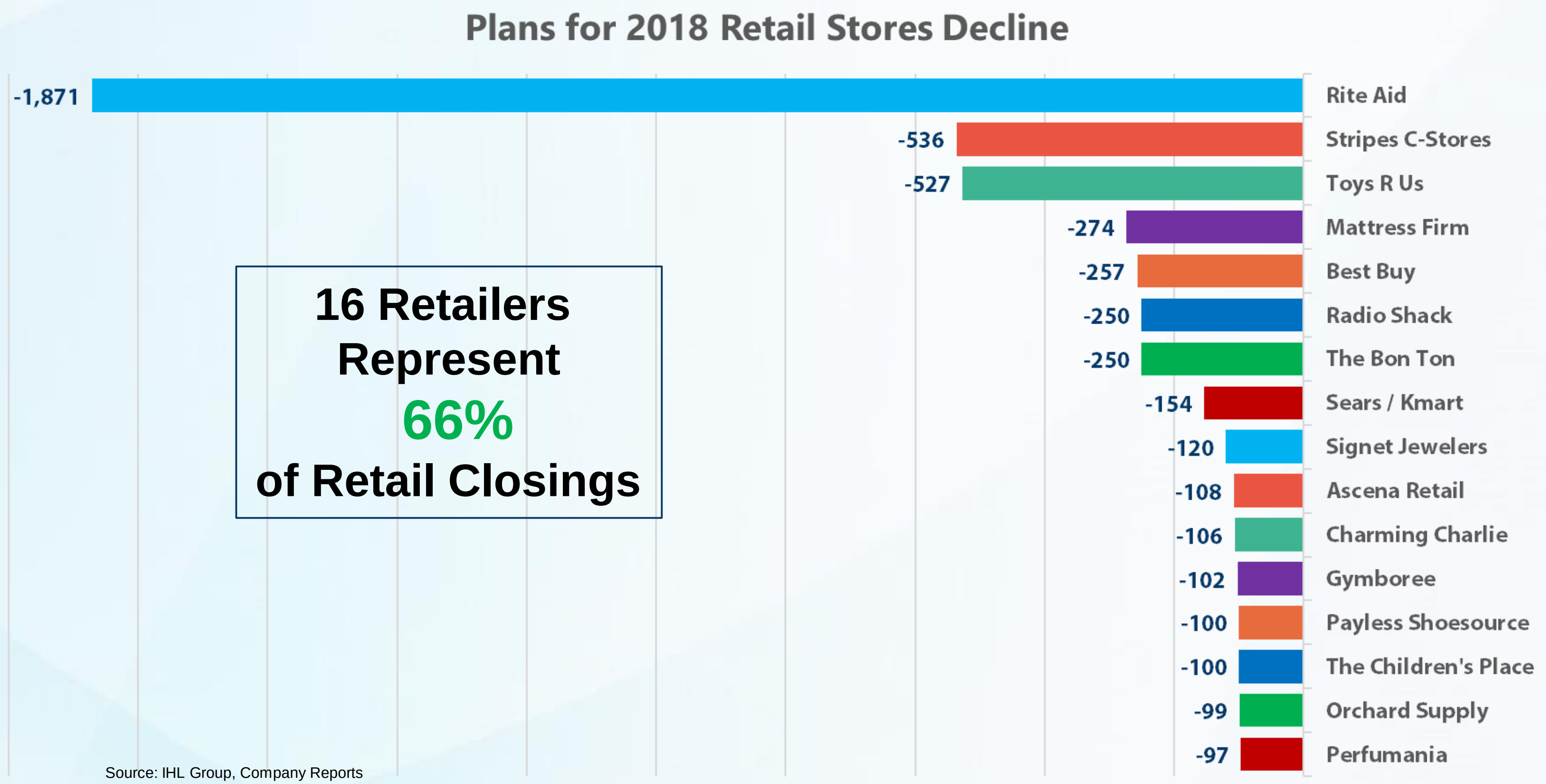
- Here we truly see the breakout of the types of businesses that are growing. They are mostly in the Dollar Stores, C-Stores, Beauty, and the Specialty Hardgoods sub-segments of Auto Parts and Home Improvement/Farming.
- Walgreens, 7-Eleven, and Couche-Tard are mainly from acquisition. Divestitures are captured in next page on reduced number of stores.

Matches Economy

- We really see growth in stores mostly mirroring what is going on with the incomes of consumers. More discounters, less mid-range or luxury. Increased fuel prices means more opportunities for C-store locations.
- Overall we had 9,482 new stores opened or growth of 2.4% in openings.

Retail Store Count Decline

4,951 Net Store Closings From These 16 Retailers – 66% of Total Net Closings



Dominated by Handful of Retailers

- We can't emphasize enough that the closings have been driven by a handful of retailers, not the overall market. These 16 retailers represent 66% of the reported closings.
- In total, we had 7,470 stores closed in core retail in 2018 of 394,321 stores in 2017, or 1.9% of the total.

Challenging Business Models

- When 16 of retailers represent 2/3rds of closings, it is fair to say that there are business operating issues in each case rather than overall market forces. Most of these retailers were driven to grow, grow, grow or have outdated business models.

Restaurant Store Count Growth

1,677 new restaurants just from these 16 hospitality providers

Source: IHL Group, Company Reports

Coffee, Chicken and Pizza Dominate

- American's insatiable love of coffee is at the heart 33% of the total outlets in this top 16.
- Chicken represents another 25% of this list in terms of chains and 13% of the total new stores in this list.
- Pizza represents another 3 chains in our top 16 and 16% of the stores.

Fast Food is Fastest Growing

- As you can see from this list, only WingStop would be considered a traditional Table Service Restaurant, with all of the others in the top 16 being Fast Food outlets.

Restaurant Store Count Decline

1,005 closed restaurants just from these 16 hospitality providers

Plans for 2018 Restaurant Count Decline

Source: IHL Group, Company Reports

Massive Chains, Unique Circumstances

- When you look at the names on this list, they are almost all household names with most having hundreds or thousands of locations. 500 closings for Subway represents 3% of their restaurant total.

Top 16 dominate total number

- When 16 chains represent 74% of all net closings, this shows a very healthy sector.
- In total we had 1,358 restaurants closing doors (1,005 here) out of a total of 192,150 stores in our research or 0.7%.

FDCM Segments

+5,809 Stores Opened in Last Two Years

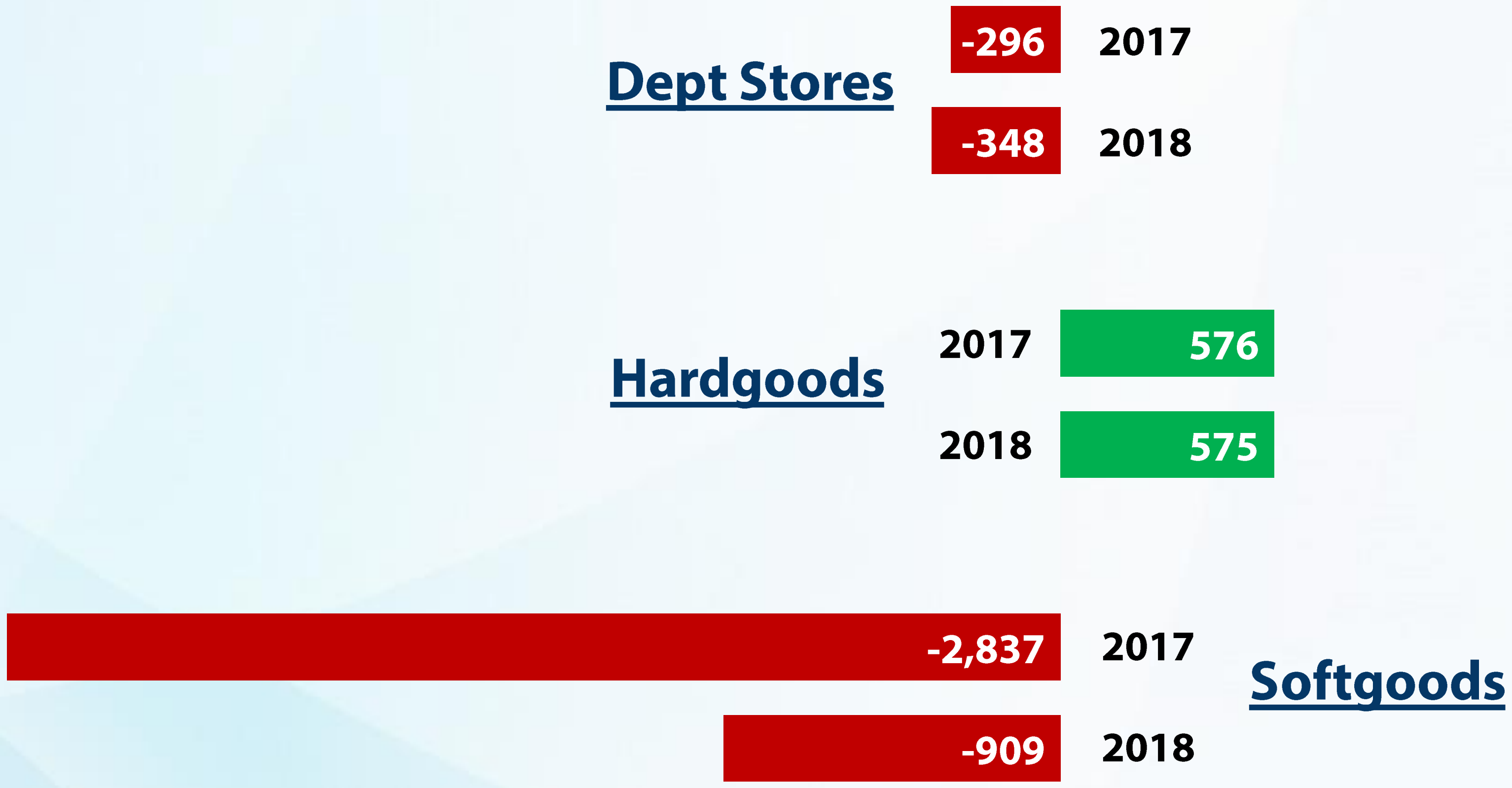
Net Stores Opening or Closing

Sources: US Census on Retail Trade, IHL Group, Company Reports

GMS Segments

3,239 stores closed in the last two years

Net Stores Opening or Closing



Sources: US Census on Retail Trade, IHL Group, Company Reports

Restaurant Segments

+3,610 Stores Opened In Last Two Years

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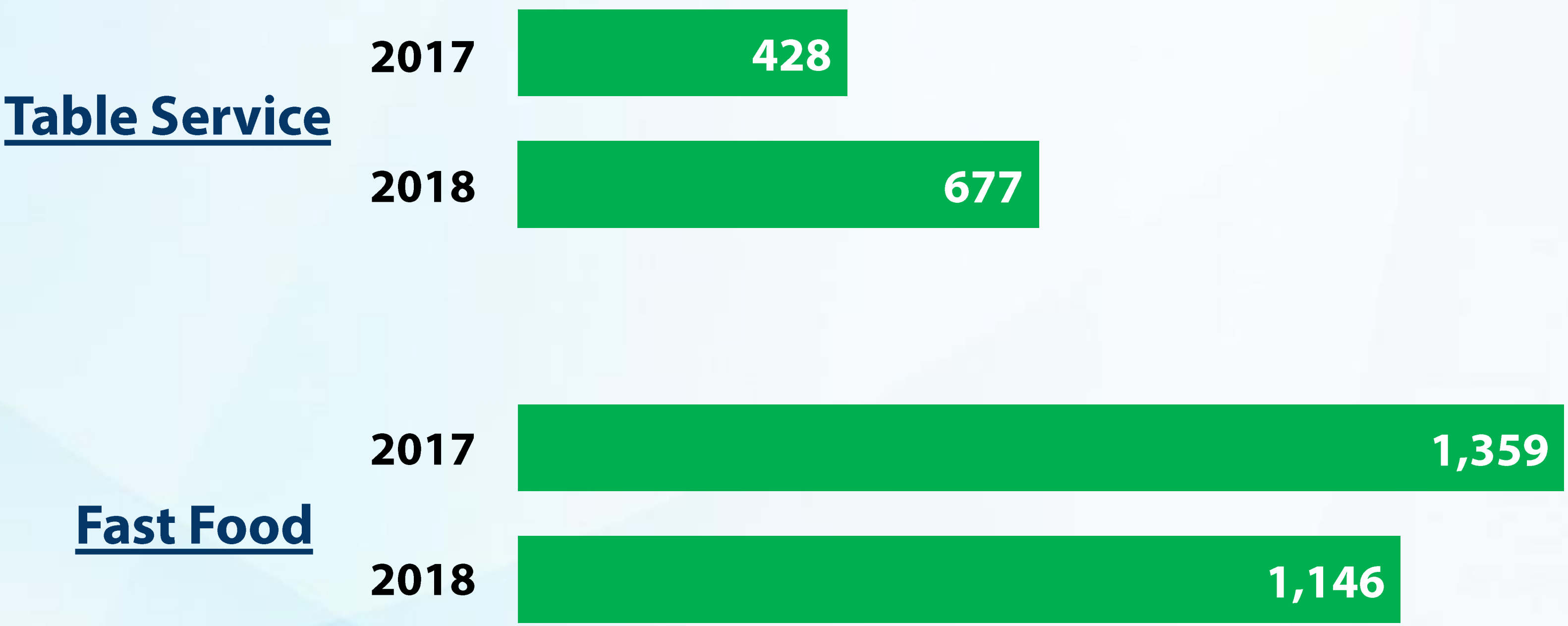

Sources: US Census on Retail Trade, IHL Group, Company Reports

Moving Forward

Amazon is not going away and retailers must change their practices to succeed

Two Things Stores Must Fix

Improve The Experience

- Consumers used to HAVE to shop and now must WANT to shop. Retailers must give consumers a compelling reason to come into their stores.
- **In a recent IHL consumer survey, we found that 55% of US households now have Amazon Prime with free two day shipping. Even more critical,, 69% of households with incomes over $100,000 per year have Prime accounts.**
- This means investing in their people and investing in their technology and investing in the ambiance of the store. There is a reason that Publix, Wegmans, Apple Stores and Chick Fil A make multiples of net profit more than their competitors. Their people and their stores are more inviting and customers like to shop there.

Attack Out Of Stocks

- When consumers had to shop for everything at a bricks and mortar store, retailers could often get away with poor inventory levels and out of stocks. Not anymore.
- Amazon is almost always in stock because it is not just one retailer but a marketplace. Walmart's marketplace is another competitor.
- The retailers that will survive and thrive will invest in technologies such as RFID and computer vision to right-size their store inventory and eliminate out of stocks.
- The following charts highlight why this is so critical. Retailers that refuse to attack their customer experience and out of stock issues will be in big trouble as retail goes forward.

Figure 7 – % of US households that are Amazon Prime Members

IHL Study – Out of Stock, Out of Luck – June 2018

Online Shopping Growth

The disparity of Amazon Prime Members vs Non-Prime Members Shopping Online

% of budget spent online

% of Budget Online	Food and Grocery	Health and Beauty	Home Improvement	Electronics	Clothing
All	**10.1%**	**12.7%**	**11.5%**	**22.5%**	**22.9%**
Prime	10.9%	16.0%	14.1%	27.0%	30.0%
Non-Prime	9.2%	8.6%	8.3%	16.9%	13.9%

- **Speed of Online Budget Growth of Prime Members Astounding**
  - Apparel retailers lack of discipline in inventory and size control of that inventory is driving consumers online for their sizes. This is particularly true of Amazon Prime Members. Similarly in electronics with phones, TVs, it is often easier to buy online for delivery.

Why Do Customers Shop at Stores

Keys to customer engagements

1. **Customers Want It Now**
   - Fast Checkout
   - **In-stock on what they want to buy**
2. **Want To Touch And Feel**
   - Experience the product
   - Questions about the product/expertise
3. **Don't Want To Pay Delivery Charge**
4. **Want To Support Local**
5. **Convenience**

If you miss on first two items …you miss
PERIOD

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What They Do When Encounter OOS

Amazon Prime Members vs Non-Prime Members when encountering Out of Stock

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➢ Impact of Out of Stocks on Prime Members

- Amazon Prime members shop at stores for 3 reasons: 1) They need the product now and do not want to pay for expedited delivery. 2) They need some expertise or want to touch and feel the item first. 3) And prime members actually wish to support local retailers more often than non-Prime members/
- However, two important things happen when a Prime member experiences an out of stock. First, they are 71% more likely to simply whip out their phone and order from Amazon if the retailer does not have the item or their size. And second, they are far less likely to consider that retailer again for that item.

Driving Customers to Amazon

Upwards of 24% of Amazon US retail sales can be attributed to customers who first tried to buy the product at the local store and found them out of stock.

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Bottom Line

Total costs of out of stocks equivalent to 3.4% of Same Store Sales. For apparel retailers as much as 9% of same store sales due to poor size and inventory control.

Retailers are losing

3.4% of Same Store Sales

due to

OUT-OF-STOCKS

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Methodology

Here we describe how we arrived at the figures included herein.

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How We Got Here

For this research we relied on a few specific sources. The first was the US Census for Retail Trade and the monthly retail sales numbers that are released. For this research we relied on the version that was released on August 15th that shared retail sales through July of 2018. We track this data monthly from the US Census and realize the current figures can be adjusted up or down when the following month's results come out; we wanted to provide the latest data knowing that it may change. As an FYI, when July's data was released, June's figures were revised upwards, so it is likely the figures in the report on sales growth are conservative.

The second primary resource was our Sophia Data Service for North America. Here we track over 2,700 North American retailers and restaurants. We started with that list and then eliminated those with fewer than 50 locations or which were in hospitality segments that differed from those that are included in the US Census for Retail Trade. We then reviewed each entry to make sure we properly identified the differences between enterprises and banners. Conglomerate companies that have many retail banners were sorted and the banners (and their respective segments) were researched so that we did not have double counting. This got us down to 1,454 banners with more than 50 locations.

From that our research team set out and looked at press releases, leveraged the public Fung Global Retail & Technology data, company websites, tax filings, and many different ways to find the data on store counts and increases/decreases for each of these companies. As this is our second year for this study we had the benefit of full year results after our 2017 predictions. In total, our end store count predictions based on 586,471 locations were off by than 1,735 stores. We face a similar challenge this year with the expansion to 590,306 stores at press time for retailers and restaurants over locations.

In our research we look at net opens and closings per retailer. A retailer that opened 10 stores and closed 2 was counted as +8. We did not keep track of every store opening and every store closing, but rather the net change per retail banner. Those were then compiled in aggregate for the results.

For more information on this study, please see our website or contact us at +1.615.591.2955.

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Thank You

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