The slow, spiralling death of retail

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Digital innovation in the retail space is growing at the rate of Moore's Law squared, according to D. Farrington Yates, who introduced an experienced panel of retail experts and restructuring and insolvency professionals with expertise spanning the North American, UK and mainland Europe and Australian markets.

Despite the title of this very fascinating session, the clear theme was that retail is not dead, or even dying, but it is undergoing a seismic change.

Consistent trends were evident across the regions discussed. Bricks and mortar retailers in certain sectors (e.g. specialty apparel, footwear and department stores) are struggling, with 9,000 store closures in the US, and 1700 net closures in the UK (double the average of the past 5 years) in 2017. On the other hand, smaller store, value offering or food/convenience stores are on an upward trajectory, accounting for a significant volume of the 14,000 store openings in the US over the same period. Similar trends are evident in Europe, according to Bob Rajan, though the absence of a large "shopping mall" culture has helped mainland Europe avoid the "dead mall" phenomenon afflicting the US. Bob noted that bricks and mortar retailers have made insufficient investment in innovation and technology. Australia has been slightly buffeted from the UK and US retail fallout, as Gayle Dickerson explained: only 20% of the world's top 250 retailers have a presence in Australia; online shopping represents only ~5-6% of the Australian retail market; and there has been a 30% increase in Chinese tourists to Australia. But there may be pain to come for Australia if interest rates rise as predicted, particularly given the high levels of household debt as a percentage of income.

It is not all decline however. The real seismic shift in retail is in the growth of online sales, innovation and the use of data and artificial intelligence. In the US and Europe, online sales are increasing. The three largest players in the retail sector - Amazon, Alibaba and Walmart continue to dominate. Amazon "continues to be on fire" according to Ian Fredericks: it has reported growth of US$10b over the past 5 years (c.f. US$3bn decrease in US department store sales over the same period); 50% of US households are Amazon prime members; 30% of US retail sales are conducted on Amazon; it is the second largest apparel retailer in the US, and, explaining some of the department store malaise, saw year on year growth of third party retailers using the Amazon platform increase by 41%. Like Alibaba and Walmart, technology is germane to Amazon's success.

A video of ordering via Amazon's Alexa device, delivery direct to one's home or car (using smart keys) intrigued delegates. Rumours of Amazon using predictive data to make unsolicited deliveries, which consumers may return for free or retain at a discount, moderately spooked (at least this) delegate. We were also taken on a virtual reality shopping tour of Macys, via the Alibaba platform. Much of the success of Alibaba and Walmart is owed to their innovation and the use of data, algorithms and predictive analytics to create demand.

From the perspective of restructuring and insolvency experts these developments have had the greatest impact on retail landlords and vendors. With more vendors selling directly to consumers (including via Amazon), vacancies in leased premises are rising. The market is difficult for landlords: access to capital is down because interest rates are starting to rise, capex costs are generally fixed and at the same time rent books are underperforming. For advisors of retail landlords, proactive measures are important, including taking note of early warning signs (default, change of key team members).

The three key takeaways were (i) we are experiencing a seismic shift in retail, and it is only just beginning; (ii) bricks and mortar retailing is not dead, but will contract - $1.9bn of high yield debt falls due in 2019 and it will not all be able to be refinanced; and (iii) to survive, retailers need to invest in technology (albeit that access to capital may be difficult for some).