Retail Was Remarkably Resilient In 2020, But Has Been Changed Forever

Jason Goldberg

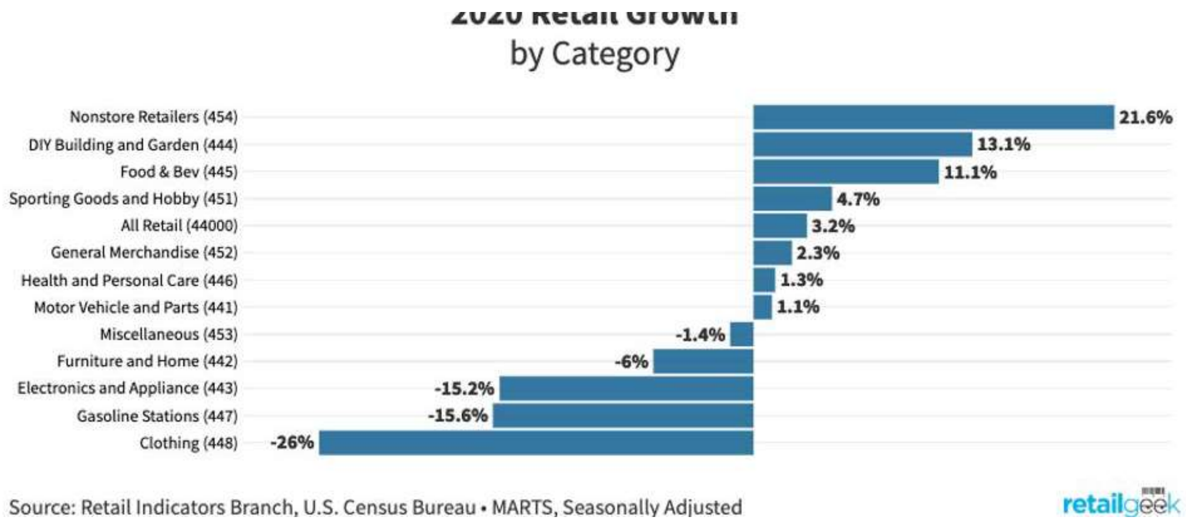
January 16 2021 www.forbes.com

Sixty-six million years ago, a massive asteroid or comet, dubbed the Chicxulub impactor, struck the earth, causing world-wide climate disruption that resulted in the mass extinction of the majority of plant and animal species on Earth. Covid-19 had a similar impact on retail in 2020. Just as the Chicxulub impactor created an opportunity for new life, including humans, to emerge and thrive on Earth, Covid-19 has created opportunities for new shopping behaviors to emerge and become dominant—most notably digital commerce.

Retail saw its largest decline and fastest recovery in 2020. Yet the shape of the retail industry has fundamentally changed, with a huge shift to digital spending and dramatically less spending on apparel.

The Retail Indicators Branch of the U.S. Census Bureau reports that April 2020 saw the sharpest one-month drop in retail sales on record. A month later, retail sales had almost fully recovered due to the fastest gain in history, a remarkable V-Shaped recovery. In total, 2020 saw $5.6T in retail sales, an increase of 3.2% over 2019.

Hidden in the top-line averages was how different retail sales looked after April. As consumers spent less on services such as travel and restaurants, spending shifted to retail categories such as DIY building materials and grocery, which were up more than 10% from the previous year While negatively-impacted categories like gas stations and restaurants were down more than 15%. The two categories most hurt by Covid-19 were already struggling coming into 2020. Department store sales finished in 2020 down 17% from 2019, and the apparel category was down a whopping 26% for the year.



Apparel sales have been in a slow decline for the past 30 years as consumers have spent less on their closets. In 1992, clothing represented 6.2% of consumer spending, but by 2020, that number was nearly cut in half to just 3.4%. Even before Covid-19, the globalization of supply chain had dramatically lowered the cost of durable, fashionable apparel, and the erosion of formal business attire had reduced the number of garments many Americans needed to own. Department stores, which are predominantly dependent on apparel sales, lost their assortment advantage as clothing brands shifted their focus to direct-to-consumer sales, and e-commerce sites emerged with limitless assortment, instead.

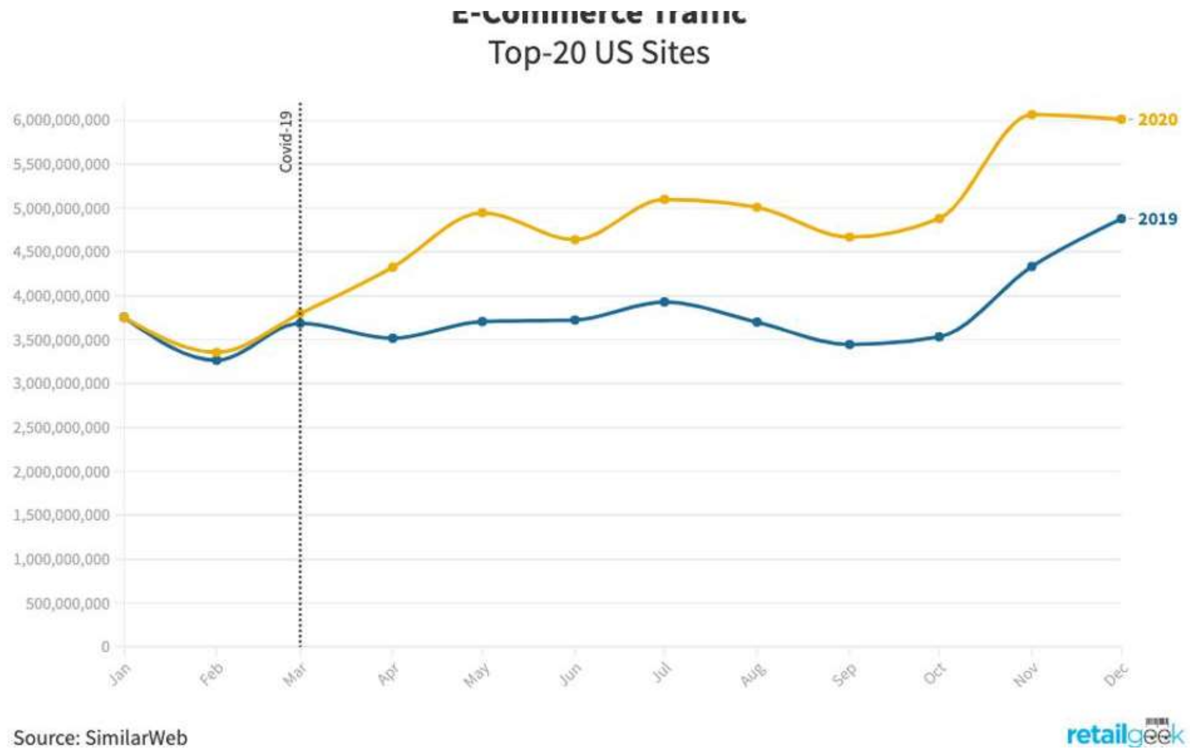
Perhaps most challenging of all, the apparel industry lost its ability to create trends and drive demand for new products. Gone are the days when consumers choose their styles from glossy magazines reporting on the latest trends from the Paris fashion shows, and when merchant princes could win fame and fortune through their unique edits of merchandise assortments. Today’s consumers are far more likely to be informed by their favorite micro-influencer on YouTube, Instagram, or TikTok. And then Covid-19 struck, throwing consumers into economic uncertainty and giving them even fewer occasions to dress up.

More than three dozen apparel retailers, including Neiman Marcus, J.C. Penney, Ascena Retail Group, Tailored Brands, J. Crew and Brooks Brothers, filed for bankruptcy this past year, and we’re likely to see more in 2021. Like a row of dominos, the decline in spending on apparel impacted department stores, which then impacted the malls and shopping districts that are dependent on those anchor brands.

When the influence of Covid-19 abates, restaurant sales will bounce back, but like the dinosaurs of the Cretaceous period, department stores and apparel sales are not likely to ever return to pre-pandemic levels.

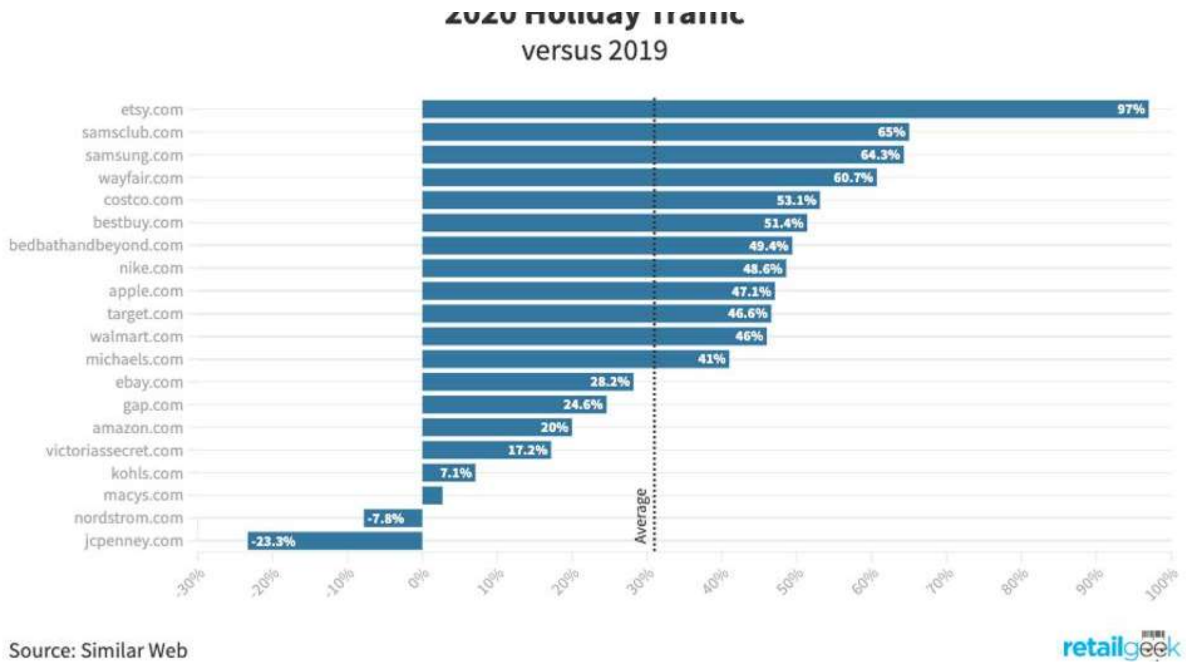
Of course, we'll continue to buy and wear clothes, but we're unlikely to see brands and merchants dictate new worldwide trends like before. Amazon may have given a glimpse into the future of the apparel industry this month, when they launched a new service, "Made For You," which uses a mobile phone camera to take 3D measurements of the customer and then makes a custom-sized T-Shirt, which ships in three to five days. Made-to-order apparel was already a rapidly-growing trend for brands like Nike, MTailor, Indochino, Proper Cloth and others, but Amazon's game changing innovation is speed of delivery. If Amazon can deliver on its service promise, it will actually be delivering made-to-order apparel faster than many traditional brands can deliver off the rack. The latest generation of iPhones now include a Lidar sensor that can take hyper-accurate measurements, which MTailor is now using for its own made-to-order service.

Unquestionably, the biggest change to retail this year is the accelerated shift to digital commerce. In January, e-commerce represented 13% of retail sales. That number spiked to almost 20% of sales in April and leveled back to about 16% by the end of the year. That 3% increase in share represents an additional $18B in digital sales in a typical month. The digital trend can also be seen in traffic to retailers' websites. Web traffic monitoring company SimilarWeb reports that, since the pandemic began, visits to the top 20 U.S. e-commerce sites has been up 31% versus last year.



While customers are buying more online, they are visiting stores less, picking fewer retailers and buying more in each trip. Store traffic monitoring firm ShopperTrack reported that in December store traffic was still down over 30% from the previous year. Walmart CEO, Doug McMillion told investors “shoppers are making far fewer trips to stores, with total transactions falling 14%. And they are spending significantly more during each visit, as the average ticket size during the quarter increased 27%.” When shoppers do visit a store, they are far more likely to use omni-channel amenities such as curb-side pickup. Digital analytics firm Adobe reported that over the course of the holiday season, BOPIS (Buy Online Pick-Up in Store) orders were 25% of all online orders, an increase of 40% over 2019 holiday levels.

The holiday shopping period changed as well, starting earlier and looking more digital. Adobe, reports that U.S. online purchases over the holidays grew 32.2% from 2019, totaling a record $188.2 billion as shoppers stayed home and shopped on the web during the pandemic. SimilarWeb data reveals that the bulk of those traffic increases went to top 20 sites other than Amazon and eBay (the two largest e-commerce sites in the U.S. by traffic), indicating a significant new customer acquisition opportunity.



Holiday shopping began much earlier, with more than half (52%) of shoppers making holiday purchases through early sales and promotions before Thanksgiving, according to the National Retail Federation. Driven by Amazon’s annual Prime Day moving from Summer to October, and consumers fears that shipping carriers would have slower delivery times due to the increased e-commerce spending, a so called “Shipageddon.”

Covid-19 has created a heretofore unimaginable disruption of the retail industry, but it has also created a unique opportunity for the retail industry to evolve. The front door of every retail brand has moved from the mall to the mobile phone. The center of gravity of retail has moved from apparel to grocery. The retail playbook is in the process of being re-written. 2021 holds a great deal of uncertainty, but what is certain is that it won’t look or feel like any year before.