The Retail Industry Bounces Back

The retail industry accounts for an estimated two thirds of the U.S. GDP, with an estimated 15.7 million people employed in the U.S. Retail Industry.[1] Industry trends reflect the larger economic and cultural trends impacting the country more generally.

Introduction

In September 2016, Kiplinger predicted retail sales will increase 3.4 percent in 2016 and 2017, a decrease from the original projections, as retail and food services sales decreased the previous month.[2] Over the past several years, the retail industry has gone through a significant transition, as customers have been affected by uncertain economic conditions and additional competition. Additionally, the movement of physical retail stores online has caused new challenges and concerns for both retailers and consumers.

Recovery Mode

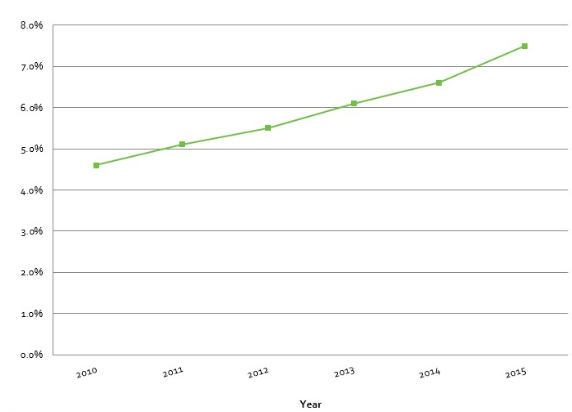
Before the Great Recession, which occurred between December 2007 and June 2009, consumer spending increased as a percentage of GDP for 40 years, approaching 70 percent by 2006. When economic conditions worsened, consumer spending declined to levels not seen since World War II. A lack of consumer confidence shifted people's habits towards saving rather than spending.[3]

Although "dollar" stores and other discount retailers benefitted from the recession as disposable income dropped and middle-class families sought lower prices and better deals, growth in this sector is expected to decrease as economic conditions improve and consumer confidence increases.[4] Warehouse clubs and "supercenters" also gained a loyal customer base during the recession as people sought discounts. This sector has matured and continues to grow as consumers gravitate towards the convenience of one-stop-shops even as the economy strengthened.[5]

Going Online

One of the most prevalent trends in the retail industry is the growth of e-commerce. Despite the decrease in retail spending between July and August 2016, e-commerce spending continues to increase. E-commerce increased 10.9 percent from August 2015 to August 2016.[6] Fast delivery, easy return policies, and free shipping promotions are all contributing to the shift from brick-and-mortar store purchases to digital transactions.

E-Commerce as a Percentage of Total Sales



Source:
https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

The increasingly large proportion of online sales has significantly changed the retail industry. 2015 was the first year that shoppers made more purchases online than in stores, with 51 percent of purchases made online. Traditional retailers such as Nordstrom, Macy's, and Kohl's are struggling in the new market, reporting decreased sales during the second quarter in 2016. This trend is expected to continue as online retailers, particularly Amazon, focus on the sale of apparel and fashion.[7]

A relatively new platform, mobile phone shopping ("m-commerce"), is developing in the retail industry. This is primarily a trend seen in millennials, those born between the late 1970's and the early 2000's, with 63 percent of millennials using their smart phone to shop. Customers spend more time shopping online on phones than computers, and this trend is expected to continue as smart phones become faster and stores focus on creating applications optimized for smart phones.[8]

The strategic use of advertisements on social media has also contributed to impulse buying online. Retailers are using the large amounts of data they can gather to better understand customer preferences and promote relevant products. For example, Target created an algorithm that predicts how likely it is that a woman is pregnant based on the products she purchases. As a result, stores are better able to advertise suitable products.[9]

Security

Although customers spend more time browsing on smart phones, customers prefer to make their purchases on computers rather than phones, with 85 percent of online purchases made on computers. One of the primary reasons people prefer to purchase goods on a computer, even if they find the product on a mobile device, is security. Approximately eight percent of all data breaches in the U.S. are in the retail industry, raising questions about the integrity of debit and credit cards and the payment systems of retailers.[10]

There have been numerous high-profile security breaches in recent years that have alarmed customers. For example, during the 2013 holiday season, 42 million Target shoppers had their credit or debt card information stolen, with the personal data of a total of 61 million people stolen.[11] Neiman Marcus, Michaels, and Home Depot are some of the other major retailers that suffered data security breaches in recent years. The National Retail Federation is working to reduce the number of security breaches.

One way the industry is working to combat security breaches is through the adaptation of "chip-and-PIN" cards in the U.S. These cards have been in use in Europe since the 1990s, but are just becoming common-place in America. Retailers that have not updated their payment systems to accept these types of cards are now responsible for any fraudulent charges made at their stores. Chip-and-PIN cards are significantly more secure than traditional magnetic-strip cards.[12]

Conclusion

The retail industry has a positive outlook as the economy continues to expand after the 2008-2009 recession. Online purchasing platforms and strategic use of large amounts of customer data are changing how the industry operates and causing retailers to modify how they connect with consumers. With these major changes in technology, customers are increasingly concerned with the security of their data, wary of entrusting their personal data, and worried about the precautions being taken to protect it.

Appraisal Economics has performed valuation services for clients in the retail industry for more than 25 years. Our team of independent valuation experts includes appraisers, accountants, economists, and engineers with significant expertise in a wide range of valuation and appraisal matters. We have appraised numerous retailers, including companies focused on food, clothing and accessories, home goods, furniture, pet supplies, and toys. If you are looking for an appraisal firm that has a deep understanding of your industry and need a valuation for accounting, tax, transaction, or litigation purposes, please give us a call at +1 201 265 3333.

Endnotes:

1. https://www.thebalance.com/us-retail-industry-overview-2892699
2. http://www.kiplinger.com/article/business/T019-C000-S010-retail-sales-consumer-spending-forecast.html
3. http://www.bls.gov/opub/mlr/2014/article/consumer-spending-and-us-employment-from-the-recession-through-2022.htm
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