



Retail

United States | 2017

Bagged or Boxed? The Future of 13 Retail Categories

Retail Research Point of View



Bricks or Clicks? The Future of 13 Retail Categories

point of view

Online growth will vary by retail product categories

E-commerce has been growing for years, averaging 15.5 percent growth annually from 2009 to 2014¹. Yet, many goods and services are sold in physical stores and will be for decades. Going to a physical store is still the preferred method of shopping for most products. Modern consumers expect to shop across multiple channels of a single brand and retailers are racing to adopt omni-channel strategies to serve them.

We expect that online retail sales will grow by an average of 15.1 percent annually between 2015 and 2020². However, the percentage of retail sales that will occur online versus in-store will vary by retail category. This report looks at consumer opinion data, store closure statistics, same-store sales growth and e-commerce penetration. It concludes that different product categories will shift online at different rates and levels.

Understanding shopper values can help us determine if a certain sale is more likely to occur online or in a store.



Image Source: Shutterstock

¹ US Census Bureau
² 2017, eMarketer, inc.

Time

How quickly do you want the product? How much time are you willing to spend shopping?

58.0 percent of consumers said they shop online because they are able to buy a product anytime and anywhere³. But, time constraints can also send a shopper to a physical store. When a person needs a loaf of bread right away, there is no faster method than stopping at the grocery store. 34.0 percent of shoppers say they choose physical stores to get a product immediately, instead of waiting for a delivery. The curation offered at a physical store can also be a time saver. A shopper may opt to skip the labor of sifting through the 337 garden shears for sale online⁴ and instead stop in at a local store and quickly choose from the several on display.



Image Source: Shutterstock

³ KPMG, 2017 Global Online Consumer Report

⁴ homedepot.com. Retrieved July 05, 2017, from <http://www.homedepot.com/b/Outdoors-Garden-Center-Garden-Tools-Shears-Pruning-Tools/>

Touch

Do you need to try on the product? And touch and feel it? Do you need a sales person?

When buyers want to touch a product, in-store shopping is the clear winner. The top reasons shoppers say they choose physical stores is to see and touch the product (56.0 percent) and to try the product (55.0 percent). When the product is a commodity that the buyer is already familiar with it becomes a low-touch buy, and online shopping is a better use of time. For example, three-quarters of shoppers say they prefer to buy books and electronics online⁵ because they're in search for a specific item—like Harry Potter or a 36-inch flat screen TV.



⁵ Walker Sands Future of Retail Study 2016

Money

How much are you willing to spend?

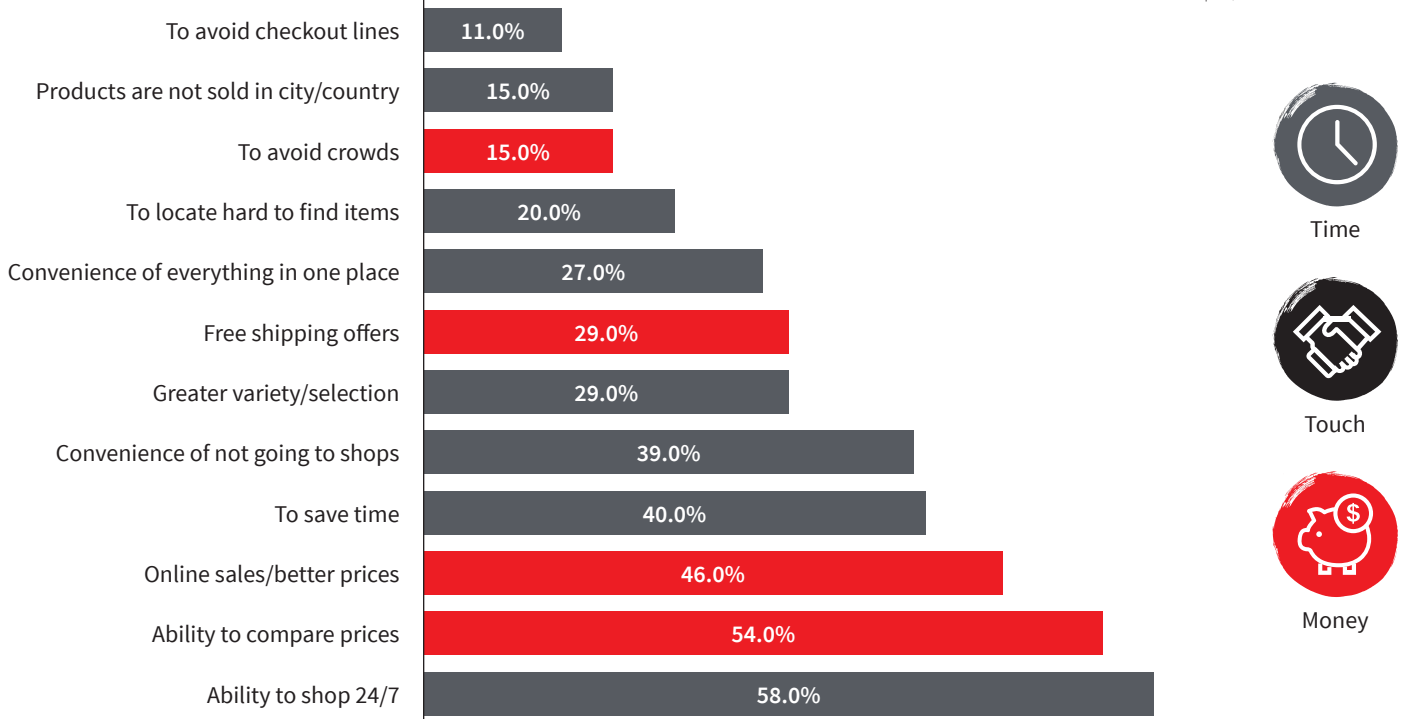
All things being equal, most shoppers will choose the cheapest option. But, all things are rarely equal and shoppers must decide if saving money is worth the sacrifice. Sometimes shoppers see e-commerce as the least expensive option. 54.0 percent of shoppers said they go online to compare prices and 46.0 percent said they go online to save money. Yet, many shoppers find price considerations pushing them to physical retail. Last mile delivery of bulky goods can be expensive. Retail categories with thin margins, like grocery and prepared foods must increase prices and tack on delivery fees that turn off price sensitive shoppers. In fact, 25.0 percent of shoppers said that avoiding shipping costs was an important factor in buying in-store.



As we examine the future outlook for each of the following retail categories, we've paid special attention to how shoppers value time, touch and money – be it in person or online. For our analysis, we used consumer opinion data, store closure statistics, same-store sales growth and e-commerce penetration.

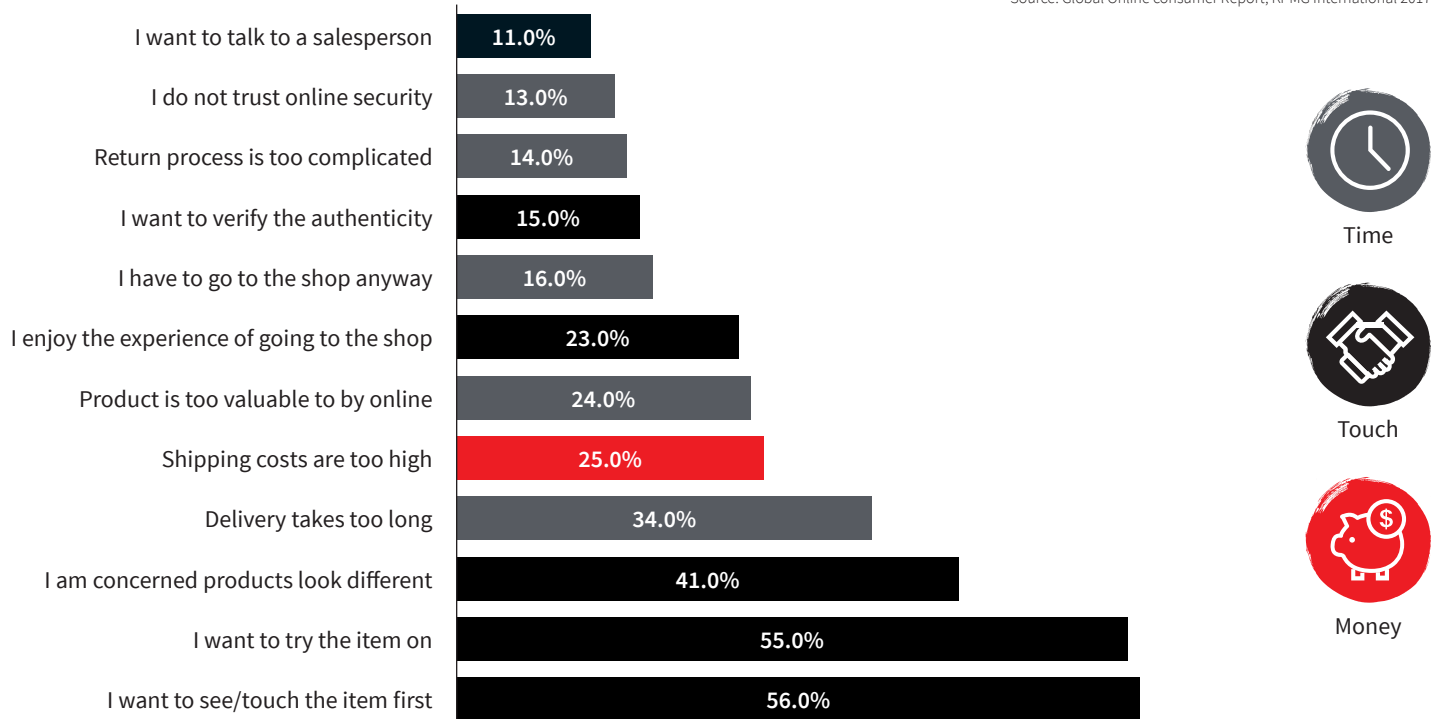
Why shoppers go online

Source: Global Online consumer Report, KPMG International 2017



Why shoppers go in-store

Source: Global Online consumer Report, KPMG International 2017



Bagged via Brick-and-Mortar

The future of these categories are likely to remain entrenched in brick-and-mortar due to their ability to create experiences and joy, or thin margins that can't absorb shipping costs.

Diners love restaurants for fresh food and socializing

Freshly prepared food is meant to be consumed immediately. So, restaurants are insulated against most e-commerce penetration. Meal subscription services are set to push consumers away from traditional in-person dining to dining at home. Ordering online and picking up takeout will also be a factor in increasing e-commerce penetration for this category. However, the social aspect of dining out and the relative low cost and high quality of fast casual restaurants will keep this category firmly in the physical space.

Online outlook: The immediacy of freshly prepared food will keep this category entrenched in bricks-and-mortar. The social nature of humans and their nearly universal love of dining with family and friends will hold up against emerging competition from online subscription and meal delivery services, in-person dining will remain strong, due to its convenience and ability to create joy.



Image Source: Shutterstock



Off-price retailers beat the Internet at the price game

Consumers look for value when making their purchases, so the unique model of off-price retailers like Ross and TJ Maxx/Marshalls makes it very profitable to operate in the physical space. By offering brand-name fashion and quality goods at low prices, these retailers are seeing strong performance. Ross and TJ Maxx/Marshalls have announced 70 and 65 new locations, respectively. E-commerce penetration is a negligible 1.0 percent in this retail category, while same-store sales growth in 2016 was 3.4 percent.

Online outlook: Off-price retailers offer an in-store treasure hunt at low prices not easily replicated online. Shoppers overwhelmingly prefer to buy clothing, apparel (76.0 percent) and household goods (71.0 percent) in person. In-store shopping will continue to dominate this category.

Dollar stores' deals appeal to consumers of every income level

Dollar stores' appeal lies in convenience and low prices, a universal attraction to shoppers across all income levels. In fact, households with an annual income of more than \$100,000 make up 19.0 percent of the revenue at dollar store chains, compared to 23.0 percent from households with an annual income of less than \$25,000⁶. Same-store sales for the category saw 1.8 percent growth, while e-commerce penetration is practically non-existent. Retailers in this category are aggressively expanding, planning 1,250 new stores in the next 12 months.

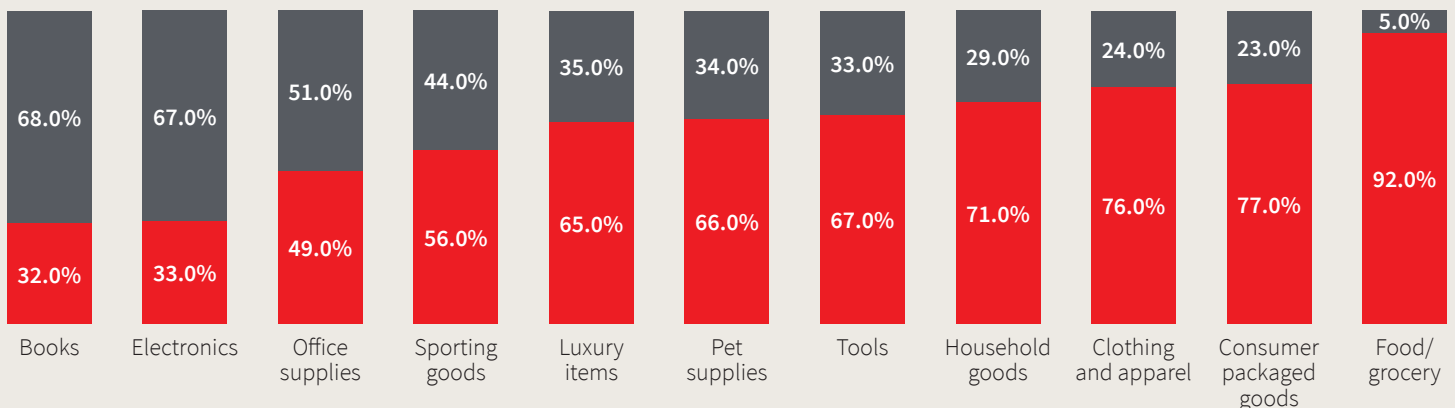
Online outlook: Dollar stores are all about saving money, and consumers across income levels appreciate value. This category will continue to flourish in the bricks-and-mortar space. New online entrants like Hollar and Brandless which offer flat-rate pricing for groceries and household goods, won't be able to match the low cost and convenience of physical dollar stores.

Consumers prefer to buy books, electronics and office supplies online

Source: Walker Sands

Do you prefer to shop in-store or online for the following products?

■ Online
■ In-store



⁶ The NPD Group, "Checkout Tracking"



Image Source: iStock Photo

Furniture showrooms let shoppers take that couch for a test spin

All things being equal, consumers want to see and try out furniture in person. Yet better options for shipping and delivery have made it easier and cheaper for consumers to order bulky products like furniture online. Many retailers offer free shipping for orders over a specific amount. Another factor for furniture purchases is that, even if consumers decide to purchase an item in store, the specific color or material may only be available online. Sales are often made through store associates, who order customized products for customers in-store. These sales are made in-store, but attributed to e-commerce.

Online outlook: Furniture stores let shoppers see and test out their merchandise before buying, which makes them very appealing for in-store shopping. Same-store sales inched up 0.5 percent in 2016, while e-commerce penetration is at 19.0 percent. This is a category that will continue to straddle the online and physical world, with some e-commerce sales taking place in-store. Yet physical retail will continue to dominate the category.

A Mixed Bag of Online + In-Store

Several categories will maintain a physical store presence, but will scale online offerings to cater to varied shopper needs.

Click-and-collect and grocery delivery are attractive options for daily needs purchases

Grocery continues to move to an omni-channel format, with delivery or pick-up options. The sheer convenience of picking up or having groceries delivered within a couple hours will keep it operating mostly in a physical space. Competition will stay fierce, as more players (like Lidl and Aldi) fight for market share, and margins get sliced thinner.

Online outlook: 93.0 percent of consumers prefer to buy food and groceries in person, thanks to the ability to see and touch fresh produce combined with the immediacy of picking up groceries in person. However, as grocers master omni-channel offerings like online ordering and delivery, sales will shift somewhat toward e-commerce. Weaker players will consolidate their space as competition heightens and those retailers able to offer a seamless online/offline shopping experience will remain in bricks-and-mortar space.



Image Source: Shutterstock

Mass merchandisers offer convenience, low prices and instant gratification

Big box discounters like Target remain very popular with consumers looking for low prices and wide selection. The variety of merchandise they sell, like groceries, apparel, home furnishings and sporting goods, makes them effective competitors across different categories. Strategic acquisitions and new store brands are further deepening their scope, allowing them to offer something fresh to shoppers. Same-store sales growth for this category was 0.2 percent in 2016. E-commerce penetration is at 4.2 percent, and set to grow as major players invest more in their omni-channel strategies.

Online outlook: Mass merchandisers primary appeal lies in their low prices and the convenience of offering so much in one place. Consumers still prefer to purchase many of their products in-store (e.g., apparel, household goods, pet supplies and sporting goods). There are only a handful of closings for this category, balanced by higher openings. For instance, Target plans to open 30 small-format stores in the next year. This category will maintain a strong presence in the physical space.

Department stores look to regroup and reinvent

There have been considerable store closure announcements for department stores, especially for locations in underperforming shopping centers. These retailers are seeing increased competition from specialty stores, mass merchandisers, off-price retailers and the web. Furthermore, these stores tend to suffer from an “ocean of sameness.” Traditional middle-of-the-road department stores now have approximately a 40.0 percent merchandise overlap⁷. This means department stores often end competing on price, leading to decreased margins as well as shoppers who hold out for discounts. E-commerce penetration for the category has reached 13.3 percent, while same-store sales fell 4.5 percent in 2016. Retailers in this category are ramping up their omni-channel strategy and shedding excess space.



Image Source: Shutterstock

Online outlook: Department stores are set for a significant consolidation and a shift to online sales. Because of heavy competition from mass merchandisers, off-price retailers and online players, department stores need a unique experience to keep shoppers coming. Some players will maintain a strong retail footprint, but hundreds of stores will close and e-commerce penetration will continue to grow.

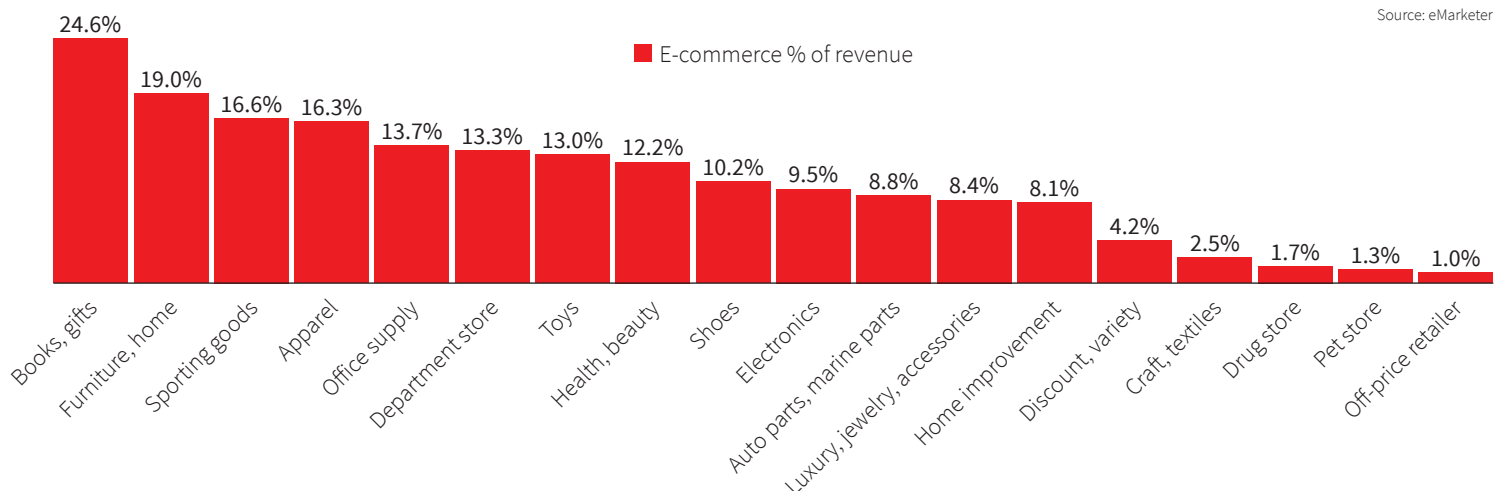
New apparel concepts and fast fashion retailers appeal to consumers

Many of the store closures we are now seeing for apparel stores are as a result of a handful of retailer bankruptcies including Wet Seal, American Apparel and The Limited. Apparel retailers—particularly junior apparel—have seen increasing competition from fast fashion retailers like H&M and Forever 21, whose low prices and speedy inventory turnover keep things fresh and appealing for customers.

A growing number of online retailers are opening up bricks-and-mortar stores because these locations boost revenue through customer engagement. Bonobos is one online apparel retailer that has expanded in the physical space, using its guide shops to market the brand while keeping sales online. As omni-channel strategies become more sophisticated and effective, the function of stores will shift from simply enabling transactions, to actively marketing the brand and interacting with consumers in ways that simply cannot be replicated online. Although apparel retail is seeing significant closures, the sheer number of existing stores has meant that only a small percentage (1.8 percent) of all stores have closed⁸.

Online outlook: 76.0 percent of consumers prefer to buy apparel in-store rather than online. There continues to be a shift from traditional in-line retailers (especially junior apparel) toward fast fashion, athleisure and clicks-to-bricks retailers like Bonobos and Fabletics. While online subscription services and major e-marketplaces bring competition to physical stores, there will be a balance between bricks-and-mortar stores and e-commerce sales.

E-commerce penetration by category



⁷ AlixPartners

⁸ 2,408 closed stores are 1.8 percent of IBISWorld's count of 132,976 US apparel stores

Sales of Toys and Children's goods shift online, though bricks-and-mortar still dominates

Toys and hobby products saw a 16.0 percent jump in e-commerce from 2015 to 2016⁹, with 13.0 percent of sales occurring online. Furthermore, while the majority (59.0 percent) of consumers are somewhat likely to abandon a shopping cart if they have to pay for shipping¹⁰, this isn't the case for time-pressed parents. Almost half of consumers (47.0 percent) shopping for children's goods are willing to pay for shipping¹¹. Toy retailers have suffered a same-store sales decline of 1.5 percent, thanks to increased competition from big box stores and online marketplaces.

Online outlook: While toy stores and children's retailers offer the ability to interact with the products before purchasing, online retailers for this category offer huge time savings for parents. It's also important to note that very often, toys and other children's goods are given as gifts by grandparents, other relatives and friends who may not live nearby, making it easier and more convenient to purchase online. There's a lot of competition in this space, both from mass merchandisers and online marketplaces. Sales will increasingly shift online, but physical space will still be essential for the experience.



Image Source: Shutterstock

Sporting goods retailers face increased competition

Sporting goods retailers have largely been undone by intense competition from mass merchandisers, online retailers and department stores. Additionally, this category has high e-commerce penetration and declining same-store sales of 0.2 percent.

Three sporting goods companies recently filed for bankruptcy, resulting in mass closures for five retailers: MC Sports, Golfsmith, Gander Mountain, Eastern Mountain Sports and Bob's Stores. Combined, these retailers are closing 207 locations. Dick's Sporting Goods remains the prime retail player in this market.

Online outlook: While a little more than half (56.0 percent) of consumers prefer to buy sporting goods in person, this is a diluted product category, with sales taking place at mass merchandisers and online, as well as in specialty stores. The recent mass closure announcements and bankruptcies confirm this category may shift further online, with Dick's Sporting Goods keeping the majority of physical space.



Image Source: Shutterstock

⁹ ComScore

¹⁰ ComScore Custom Survey, April 2017

¹¹ Deloitte University Press, "The New Digital Divide"

Bought and Boxed Online

Consolidation and commoditization in these categories is migrating sales primarily online.



Image Source: iStock Photo

Office supplies stores consolidate rather than differentiate

Office supply stores have already seen considerable closures along with mergers (Office Depot and Office Max), reflecting a consolidation of physical space. This is also a category that sees heavy competition both online and in the physical arena from mass merchandisers like Walmart and Target. Same-store sales fell 3.5 percent in 2016, while e-commerce penetration has reached 13.7 percent.

Online outlook: We expect consolidations to continue for this category. Office Depot/Office Max is closing 300 stores while Staples is shuttering 70. Online competition is strong for this category and physical stores don't offer much in the way of experience or time and money savings. This category will continue to shift online.

Announced closures by category

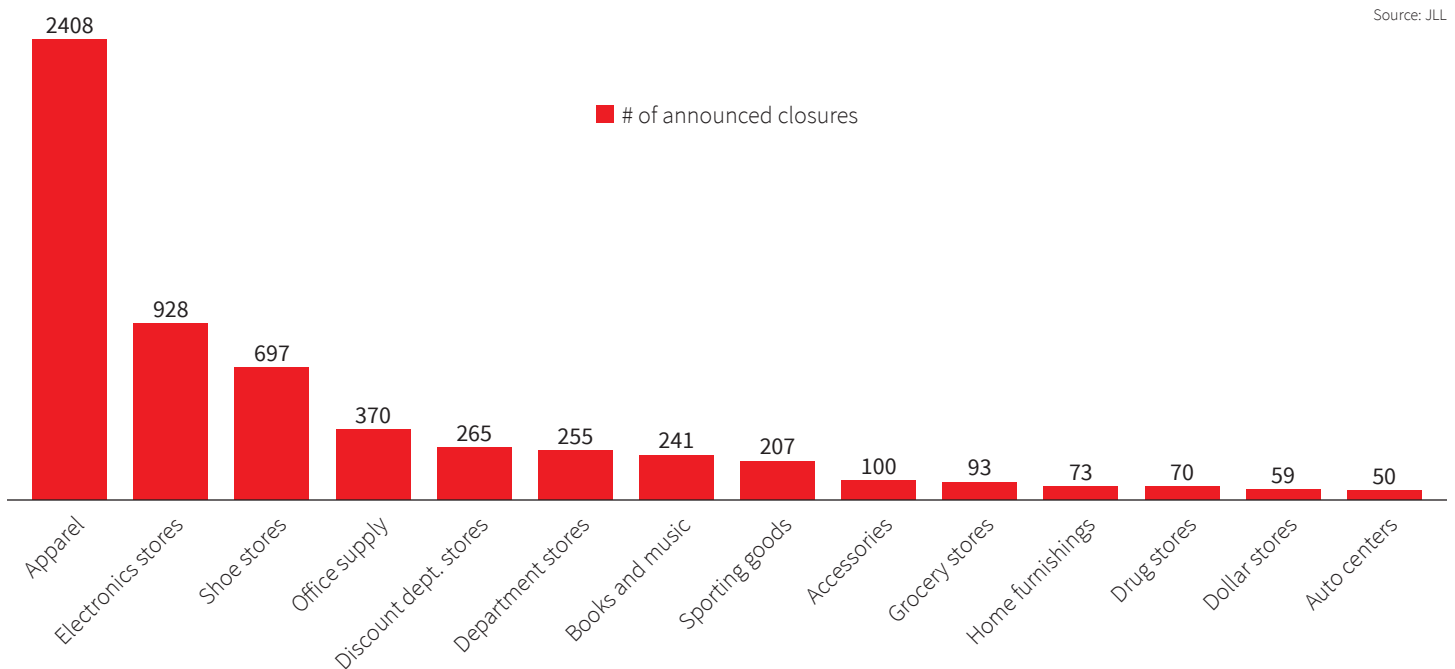




Image Source: Shutterstock

Without an immersive experience, electronics stores go bust

The mass closures of hhgregg and RadioShack, combined with heavy competition from online marketplaces, indicate that this category will increasingly move online. Same-store sales in the category fell 5.9 percent in 2016, while e-commerce penetration is 9.5 percent. Best Buy is a standout in this category; the retailer has restructured its stores by offering a high-touch educational experience along with an effective buy online, pick up in-store program. This has helped keep the retailer competitive in the physical space.

Online outlook: Only 33.0 percent of consumers say they prefer to buy electronics in store. Retailers like Apple and Best Buy offer sufficiently high-touch experiences to draw consumers to physical locations. Other retailers like hhgregg and RadioShack have fallen by the wayside, unable to compete with online prices and convenience. Sales will continue to move online.

Major book players have not seen a happy ending as reading goes digital

With the fall of Borders, large-format bookstores have already made the move online. Existing players in this category, while continuing to operate physical stores, are decreasing their store count and shifting operations increasingly online. Books, along with gifts, are number one for e-commerce penetration with 24.8 percent of sales happening online. This is not surprising given the huge success of online marketplaces like Amazon. Growth in same-store sales for the category was flat, confirming the continued shift online.

Online outlook: Like music and video, the availability of books in digital format has pushed sales online. Given the commoditized nature of physical books and the inexpensive media shipping options offered by the USPS, shoppers are happy to shop online and can save money doing so. There's little reason to believe that online won't further dominate this category in the future. Yet, independent bookstores and a few chains can continue to coexist and prosper with unique offerings, in-store experiences and new F&B options.



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