How Retail Evolution Confounds Even The Best Pundits

A front page story in the December 22, 1985 issue of *The New York Times* carried the headline "The Overstoring of America" and predicted a grim future for the nation's retailers. Drawing on Commerce Department statistics and exhaustive real estate surveys, a cross-section of experts persuasively argued that between 1950 and 1985, retail square footage expanded at a much faster pace than total retail sales. The data, they concluded, pointed inevitably to a looming crackup, with scores of retailers going bust and a landscape dotted by empty storefronts. Although their logic was compelling, their timing proved unfortunate. The article had the misfortune of coming out just as the "big-box" retail concept was starting to gain traction. Paced by Wal-Mart, Home Depot, Toys R Us, and Staples, the following decade saw an unprecedented explosion in store space. This "bigger is better" approach simultaneously was embraced in the music products industry by chains including Guitar Center, Sam Ash, MARS, and numerous independents that built 30,000-, 40,000-, and even 50,000-square-foot stores.

Like a broken clock that tells the correct time twice a day, the 1985 "Overstoring of America" forecasts look somewhat prescient today. In the past two years, a number of prominent retailers, in and out of the music products industry, have gone bust and, according to a study by the commercial real estate firm C.B. Richard Ellis, retail vacancies are at a three-decade high. There is no disputing that this has been a tough couple of years for retailers. However, we would argue that it is only marginally due to "overstoring." The more immediate cause has been a major recession and a serious credit crunch. Total U.S. retail sales are still slightly below peak levels achieved in 2008. Adding to the economic issues, brick-and-mortar retailers have been besieged by new competition in the form of online sellers.

Thanks to a number of distinct advantages—shopper convenience and the absence of sales tax, to cite just two—internet merchants have been the fastest growing segment in the retail arena. While total retail sales declined slightly in each of the past three years, a slew of research studies demonstrate that online sellers have gained serious market share in recent years. These findings are borne out by the Top 200 retail sales ranking featured in this issue. The fastest growing music products retailers on the list are predominantly online operators.

E-tail's rapid growth has prompted a number of experts to predict that the future of retail is all online and that "stores" as we have known them for centuries are on the way toward extinction. Before putting too much stock in these grim forecasts, remember that experts also warned of the "Overstoring of America" on the eve of the big box store explosion. Twenty years from now, we suspect that these impeccably reasoned arguments on behalf of a coming virtual retail world will prove to have landed wide of the mark. Online sales aren't going away, but we doubt they will ever come close to achieving complete market domination, in the music products industry at least.

Hot trends attract new entrants like flies to honey, and the internet boom is no exception. In the past five years, dozens of online music products retailers have sprung up in an effort to catch the wave. Recently, though, there are indications that internet growth is slowing. Rising fuel prices mean higher shipping costs, an increasingly crowded internet makes it more difficult (and costly) to attract website visitors, and automated shopping programs encourage withering price competition. These trends don't bode well for the less effective online operators.

Over the past decade, we have chronicled a steady increase in the number of brick-and-mortar retailers selling online, either through their own sites or through eBay or Amazon. Now, in an interesting reversal, we are witnessing internet retailers opening brick-and-mortar outlets. Apparently, they are concluding that there is value in providing customers with a hands-on, real-world experience. Guitar Center is working to create synergies between its brick-and-mortar stores and its direct response operations, as are dozens of independents. Even Apple, the company that invented the online music business, is investing heavily in a highly effective network of retail stores.

These shifts in store formats are a natural, if occasionally uncomfortable process. New technologies and fickle consumers have always forced retailers to modify their business models or risk being left behind. Henry Ford's automobile effectively doomed the downtown department store, to cite just one example. Once upon a time in the music industry, mall stores were considered a ticket to big profits, a huge volume of pianos were sold off the back of a truck, and downtown corner locations were coveted. What we are witnessing now is the development of entirely new retail models that strive to blend the convenience of the internet with the excitement and personal touch of a good in-store experience. Unlike the experts in the columns of *The New York Times*, we lack the courage to make sweeping predictions of what retail formats will look like ten or even five years from now. However, we are confident that, regardless of the shape or look of the store, those who provide a mix of value and service will find a place.

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