Messy Reality Upends The Best Laid Plans

Online retail sales continue to expand, putting pressure on virtually all brick-and-mortar retail. Extrapolating this macrotrend, a large contingent of business writers has concluded that traditional retail is a commercial dinosaur headed toward extinction. Their arguments are supported by compelling evidence. The time consumers spend online continues to rise, and there were a record 6,000 storefront closures in 2018. Former powerhouses including Sears and Payless Shoes succumbed to online competitors. Furthermore, numerous prominent retailers from Abercrombie to Zales have recently scaled back their store count. However, some intriguing new behavioral research suggests that the obits may be premature.

A recent study conducted by the International Council of Shopping Centers suggests that "Generation Z," the 7-to-22 age cohort, is more inclined to visit a store than their elders—Millennials (age 23-38) and Generation X (age 38-54). According to the survey, 95% of Gen Z had visited a store in a three-month period in 2018 compared to just 75% of Millennials and just 58% of Gen X. More importantly, of the 6,200 Gen Xers queried, 75% said "going to a brick-and-mortar store was a better experience than online shopping." For a generation often accused of an unhealthy addiction to smartphones and social media, this preference for a traditional shopping experience is something of a disconnect. The conventional wisdom has been that kids immersed in digital and online technology would shun all physical experience. However, it's worth remembering that every generation has differentiated itself from its elders by adopting new tastes and preferences. Gen Z's affinity for stores shouldn't be any more surprising than the fact that they shun beer and want companies to take political stands.

This survey doesn't provide definitive evidence that online retail has reached a plateau or is destined to fade away. It does, however, call into question those who project online sales growth far into the future and conclude that all other forms of retail will be squeezed out. Messy real-world events and the unpredictable human race tend to discredit such neat theories. Consider the case of Martin Bucksbaum, who parlayed an enclosed shopping mall in Des Moines, Iowa into one of the nation's largest mall operators, aptly named General Growth Properties. With the same confidence of those who predict the eternal growth of online retail, in 1977 he told shareholders, "Increased leisure time and consumer purchasing power present us with nearly limitless opportunity." Then reality intruded, and in 2009, General Growth Properties became the largest real estate bankruptcy filing in history.

In the 1990s, big box stores, with their combination of broad selection and low prices, were also seen as invincible. Retail analysts dubbed them "category killers," assuming they would wipe out all other retail formats. Those bright forecasts have since been undercut by the bankruptcy filings of Toys R Us, Sports Authority, Office Depot, and Linens N Things and the financial travails of many of the survivors.

The music industry has tended to follow these broad retail trends. In the 1970s, hundreds of music retailers opened mall locations, hoping to turn foot traffic and face-to-face consumer encounters into expanded sales. A decade later there was a hasty retreat, and scanning the Top 200 ranking in this issue, you can now count the number of mall-based music stores on one hand. The "category killer" trend in the 1990s led music retailers to dramatically expand store square-footage. For a decade, our columns were filled with stories of ever-larger stores and dueling claims about which had the biggest storefront. The 2002 bankruptcy of MARS, short for Music And Recording Superstore, with its chain of 40,000-square-foot stores, put to rest the idea that bigger is better.

We lack both the confidence and insight to predict the future direction of retail. We'll make two observations though. First, any forecast based on an extrapolation of past growth trends should be taken with many grains of salt; just ask the former cheerleaders for shopping malls and category killers. Secondly, fragmentation has been the defining feature of every consumer product, service, or delivery system. From groceries to restaurants to consumer electronics to entertainment as well as the music products industry, the consumer has more choices available in both products and purchasing venues than ever before. Complaints about the "tyranny of choice" aside, we doubt consumers will be demanding a more limited selection anytime soon.

Trite as it may seem, the path to success in this environment is less about specific format and more about delivering real value to the buying public. The Top 200 includes vintage guitar specialists, violin shops, piano stores, chain operations, dedicated online stores, and numerous other formats. The successful ones are defined by the ability to understand and meet the needs of the buyer. The durable ones also have had the prudence to build a decent balance sheet to allow them to adapt when uncooperative markets upend carefully laid plans. And, if the past is any guide, we haven't seen the last of disruption.

Brian T. Majeski
Editor
brian@musictrades.com