

## 6 Grim Realities Facing Today's Retail Stores

**Date :** April 15, 2020

While many of us are living, working and existing at home, retailers and the companies that depend on them are in big trouble. People in the U.S. love to go out and shop, and they just can't do it right now. "The U.S. is a consumer-driven economy, and 65% of our Gross Domestic Product or GDP is consumption," says Wharton management professor Mauro Guillén. Due to the coronavirus pandemic, however, consumers are restricted from leaving their homes. Many Americans have lost their jobs or experienced reduced pay, so they don't have the money to go shopping, either in person or online. And physical retail stores and malls are closed tight.

Consequently, the retail industry just reported the sharpest one-month drop in retail sales on record. The U.S. Commerce Department on Wednesday said retail sales plunged 8.7% in March, the biggest decline since the government started tracking the series in 1992, after falling by a revised 0.4% in February.

Barbara Kahn, a Wharton marketing professor and retail expert, recently joined the [Wharton Business Daily radio show on SiriusXM](#) to talk about retail's grim reality. Here are 6 of her key takeaways:

**Retail is reeling.** "Most retailers were not set up to pivot to a 100% e-commerce world. Even though we saw a big growth in e-commerce, as much as 80% of shopping is still done in physical stores. Those physical stores are all closed. Even those that are doing well like Walmart and Amazon because they were well positioned for the e-commerce part of it [are having problems]. Amazon is only doing essentials and has concerns for the health of its workers. It's not a clear win for Amazon. It is the same for Walmart, which is taking a very risk-averse approach."

**Inventory overload.** "Inventory is sitting in physical stores unsold. They can't just take that inventory and put it into warehouses and have it delivered. They don't have the workforce and the systems to change that. Which means they have all this inventory from quarter two [April 1-June 30] that they have to do something with. You're seeing massive discounts from favorite retailers with these very deep discounts to try to get rid of inventory."

**Holding on for the holidays.** "Quarter two and quarter three are going to be difficult. These retailers are going to have to plan for a successful quarter four, the holiday season. The problem with retailing is that it is so seasonal. You have annual costs: annual employee costs, annual rent costs, annual supply chain costs, but you make the bulk of your revenue in the fourth quarter. That is really the make-or-break quarter, and many retailers are doing planning six months in advance."

**Supply chain effect.** "Retail is a very big industry sector for the U.S. What's happening to the brands that are providing the inventory that is sitting on the retail shelves? That hurts the apparel industry. Then, who makes those brands? That goes to the manufacturers...It's not a good situation."

**Sad shoppers.** Before the coronavirus, "retailers were finally getting the idea of what physical shoppers wanted in this new world where e-commerce was taking a strong position. The new Nordstrom that opened in New York City was a fantastic retail establishment. Nike withdrew from Amazon and other wholesalers [and opened] fantastic, amazing stores. They were delivering real customer value. For someone like me who loves to shop and loves retailing, this is a really sad situation."

**What tomorrow brings.** "A lot of people are saying that now that everyone is shopping online, does that mean that everyone will start shopping online? Some of the people who weren't shopping online now see how easy it is...I think when people are cooped up in their houses, they're going to be excited to run out and go to stores. A lot of what people

think is fun about living in a town is a Main Street or living in a city is all that exciting retail and restaurants. It might make sense for government or private individuals to help support the retail sector, because it brings so much quality of life to our cities and our small towns. If we could do something to keep those establishments still in business, I think the smart, savvy retailers who understand what customers are going to crave in physical shopping can still survive. There are a lot of 'ifs.'”