INSIDER INTELLIGENCE | eMarketer

JUN 28

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Reimagining Retail: When big brands go out of business—Who's innovating to avoid this and who's at risk

Audio

On today's episode, in our "Retail Me This, Retail Me That" segment, we discuss big brands going out of business: what happens to the brand, the opportunity for competitors, and whether a brand's bankruptcy can change consumer behaviors surrounding life milestones. Then, for "Pop-Up Rankings," we rank retailers or brands that are innovating really well and brands that are at risk. Join our analyst Sara Lebow as she hosts vice president of content Suzy Davidkhanian and analyst Carina Perkins.

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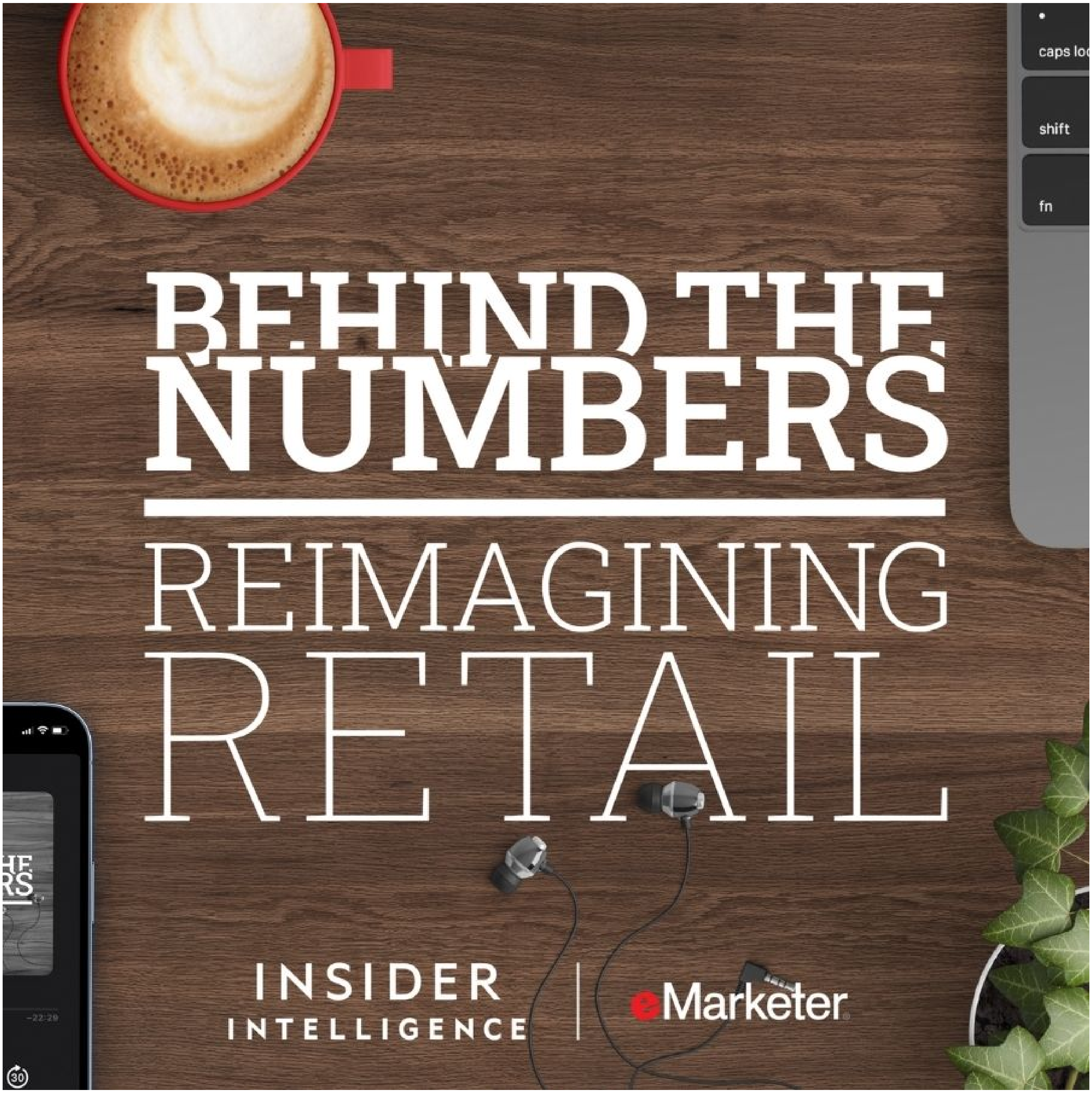

Episode Transcript:

Sara Lebow:

Listen up marketers. If you're not taking advantage of retail media, you're missing out. That's why eMarketer has launched Retail Media Weekly. The first newsletter focused on the rapid growth of retail media. Get deep insights and exclusive data you won't find anywhere else. Gain the edge you need to explore this explosive marketing channel. Visit insiderintelligence.com/retail-daily and subscribe today. Hello listeners. Today is Wednesday, July 5th. Welcome to Behind the Numbers: Re-Imagining Retail, an eMarketer podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is what happens when a big brand goes out of business. First, let's meet today's guests. Joining me for today's episode. We have VP of content for our retail desk, Suzy Davidkhanian. Welcome back Suzy.

Suzy Davidkhanian:

Hi, thanks for having me.

Sara Lebow:

Thanks for being here. Also, here today is senior analyst for our retail desk, Carina Perkins. Hey Carina.

Carina Perkins:

Hi Sara. Good to be back.

Sara Lebow:

Good to have you. Let's get started with our first segment, news and reviews, where I give the news and our guests tell me their reviews. Today's story is a June 28th semaphore article titled, TikTok is opening its own online US store. This isn't too surprising. TikTok has been hinting at e-commerce in the US for a while and it's a major part of the business model of its parent company ByteDance in Asia. Now TikTok will be competing with the likes of Amazon as well as companies like Shein and Temu for US e-commerce. Suzy, your review of this story in 60 seconds is...

Suzy Davidkhanian:

I actually am a little bit surprised that TikTok is moving away from being a social platform that enables sales with their shop to an actual retailer because the biggest difference here is that they're going to own the logistics and also the inventory. So it's kind of weird that they're embedding their website, their store, their actual store into their app. It's also going to be available online, just in general. They're saying it has to do with poor customer service. It just seems like it's so expensive to put up your own retail shop versus just hiring people for a call center or thinking through how do you make that experience a little bit better on TikTok and ensure that people are having a positive experience without having all of these extra expenses, which I'm not even sure that they're going to be able to have economies of scale on.

Sara Lebow:

That's a great point and it definitely draws a lot of attention to TikTok in the US where it's receiving a ton of scrutiny. Carina, your review of this story in 60 seconds is...

Carina Perkins:

Sure. So I think this is a really interesting move and they're trialing something similar in the UK called Trendy Beat. So they're basically watching what items are popular and then making them themselves and selling them direct. So like Suzy, I think it's interesting in one way because they are essentially having the complexity now of becoming an e-commerce retailer, but they also have the ability to then take the profit from all of the sales rather than just earning a commission off sales, which is what I assume is driving this. And also because they can lean in on their data, they can really track what's popular and potentially I guess even create their own trends by promoting products to the top of people's feeds. Although that's something they're going to have to be a little bit careful with with the regulators and their use of data and things like that is going to be something that will be watched fairly closely I imagine.

Sara Lebow:

Trendy Beat is such a TikTok name for something like-

Carina Perkins:

I love it.

Sara Lebow:

It's so similar to TikTok style to me. Now it's time for our next segment. Retial me this, retail me that, where we discuss an interesting retail topic. Today's topic is what happens when a big brand goes out of business. It's happened before, it'll happen again. Bed, Bath & Beyond and Party City are two of the more recent retailers to declare bankruptcy. We've also seen store closures this year from Foot Locker, Tuesday Morning, Gap, Banana Republic, Bath & Body

Works and more. According to UBS, more than 50,000 stores that are now open in the US may be closed by 2027. We're going to break down every piece of what happens when these big brands shutter their doors. So let's start with the physical location and we can look at this in the US and the UK. What happens to the property when a big brand closes a store or many stores? Suzy, why don't you start with that one.

Suzy Davidkhanian:

Sure. So I think the interesting thing here is in addition to the 50,000 stores that UBS was talking about, they also talked a little bit more about what types of stores will be most impacted by those closures that they're projecting. It is still only 5% of total stores in the US so we do need to keep that in mind. And we all know that online is still a fraction of sales here in the US. I know it's different in the UK, but the stores are big empty shells. So depending on the store that goes out of business, different types of stores may come in or different types of services may come in.

I know for Bed Bath & Beyond, Planet Fitness has started going into their store space, just like other very large outlet type stores because Bed Bath & Beyond typically very large stores off mall. So I think the question is so broad because it'll all just depend on where that shell of a store is located, how big it's located, if it's in a mall. We're starting to hear stories around pet shops are already there, but now adoption centers in Canada, we have malls that have DMVs and libraries, and so I think we're going to start seeing a lot more mixed use case malls, which will help drive traffic.

Sara Lebow:

Is that the same case in the UK Carina?

Carina Perkins:

Similar in some ways and different in others, I would say. Some of the retailers that we've seen go out of business in this country have smaller High Street locations. We've seen a lot of them taken over by coffee shops and quick service restaurants. We've also seen quite a lot of pop-up retail pop-ups. So landlords are renting them out to online retailers and designers as a pop-up store so they can test the waters. In some cases we've seen other retailers taking over the them, so IKEA is opening up in one of Topshop's Oxford Street store, and it's also taken over the King's Mall in London and leased back the stores to other retailers and created its own kind of really city focused store that is a bit different to your typical IKEA store.

And then we've seen MNS is opening much bigger stores in former Debenham sites. So we've seen quite a lot of different retailers go into those stores and open them as a slightly different format to what they usually have. And there's quite a lot of efforts here to really revive the High Street in the UK and the UK government is actually considering plans to force commercial landlords who are sitting on empty shops to auction the rental rights to the property if they're empty for a really long time because obviously empty stores are bad for everybody.

Sara Lebow:

Sure. So we have new stores, new experiences coming in and filling those places and hopefully not just empty shelves of stores sitting around.

Suzy Davidkhanian:

I think Sara, one of the distinction is around scarcity of the space. So the mall is harder, and I guess High Street is very different if we think about flagship streets or Union Square in San Francisco, which is a whole other story, but mall space I think will get a lot more different types of businesses to help drive foot traffic because the mall is not quite as popular and it's a little bit of a chicken or egg. Do we revitalize the mall or do we figure out the stores and the composition of the stores? But in the case of Bed Bath & Beyond and Toys R Us, those stores were in off mall so it's so much more lucrative to be in that space and there aren't that many great off mall properties. And so I think those will, like Carina was saying, get filled by other retailers because it's a good spot.

Sara Lebow:

Okay. So speaking of Bed Bath & Beyond in particular, when businesses declare bankruptcy, that's not usually the end of their story. So Bed Bath & Beyond as an example, last week, Overstock.com announced that they were going to rename themselves to be Bed Bath & Beyond. My question for both of you is when a brand goes out of business, shutters stores, what happens to the brand itself? How does it live on? Carina, why don't you kick that one off?

Carina Perkins:

Sure. So we've seen a fair amount of this kind of example of consolidation in the UK where other retailers are buying these brands out of administration, not necessarily always the stores, but sometimes just the intellectual property. So we've seen that with a couple of retailers in the UK. Next has bought a few brands including Cath Kidston and Jules. In the case of Jules, it's still operating some of those stores, but it's also bringing the website under its umbrella brand. We've also seen some of them snapped up by online retailers.

So Boohoos been buying some high street businesses and turning them into online only operations such as Karen Millen, Coast, Oasis and Warehouse. And in some cases though, we are seeing brands which have formally closed stores and disappeared returning to the high streets. So an interesting one is Toys R Us, which closed its UK branches in 2018, but it has now opening up concessions within WHSmith stores in a partnership with the retailer. And similarly, Gap, which closed its UK stores in 2021, has a joint venture partnership now with Next and is opening Gap concessions in Next stores. So we're seeing several of those brands coming back by working in partnership with other retailers.

Sara Lebow:

So a lot of purchasing, a lot of partnerships.

Carina Perkins:

Yeah.

Sara Lebow:

Suzy, what's this look like in the US?

Suzy Davidkhanian:

It's more or less the same. I think the first question though is, is the brand worth saving? Maybe the stores, the business model, sometimes it's easier to declare bankruptcy and start all over again than it is to try and figure it out and have to pay all your creditors and everybody else that you need to pay. So I think a lot of brands that are strong go into bankruptcy with the hope of being able to come out obviously. And so, one of those ways like Carina's saying is companies buying you and your property, intellectual property and then deciding what to do.

In the US one of the things that I thought was interesting is, and it's not new, Authentic Brands Group, which is one of these umbrella companies that buys a lot of brands and then tries to run their business separately, teamed up with one of our mall properties, Simon Property

Group, to create a venture backed sort of joint venture company called Spark and they've been buying brands as well and trying to figure out. I don't think there's a one hit wonder solution. I think it really does start with the, is this brand worth saving? If you think about RadioShack back in the day, them too, they went out, but the intellectual property was bought. That is probably the easiest way to revitalize.

Sara Lebow:

Yeah, I think that's why it's such an interesting move that Overstock.com would call itself Bed Bath & Beyond because I don't know, is this brand worth aligning yourself with?

Suzy Davidkhanian:

I think so, right In the US Bed Bath & Beyond is often associated with a lot of big, big life chapter things, going to college, your first apartment, potentially getting married and a wedding registry, a baby registry. So I do think that there's probably a lot of brand value and brand love and everybody was probably very shocked. Bed Bath is one of those where they really had a tough time coming out of these difficult business decisions that they made and opted out. And so the surprising part for me is it's not like a one two because Overstock here is a pretty big brand, so I'm shocked also.

Sara Lebow:

Well that's a great point about what Bed Bath & Beyond is associated with. In Amanda Mull's story in the Atlantic called You Will Miss Bed Bath & Beyond, she wrote about exactly this, how Bed Bath & Beyond is associated with these life milestones. I know that when I went to college, the first thing we did when we got to Ann Arbor was stop at Bed Bath & Beyond and pick up my shower caddy. So does the brands' bankruptcy change how consumers behave around life milestones? Does that behavior move online or does the behavior moving online, is that what causes the brand's bankruptcy?

Suzy Davidkhanian:

So I actually, I think what happens is the life moments will stay. You will always have that life moment, but maybe now you'll go to a Macy's instead of going to Bed Bath & Beyond.com. And so I think what happens is when these brands start to falter and divest or close down completely or get closed down temporarily to get bought back other similar brands, retailers try to rally around it and try and get that customer. So for example, Victoria's Secret decided to come out of their swimsuit business a long time ago. And so all of the in mall properties that sold swimsuits tried to rally around and welcome the Victoria's Secret bathing suit customer to their stores. So I don't think life moments will change. I think consumers just will find different places and then it's up to retailers to try and remind the customers and capture those customers. When all the JCPenney stores started closing in the mall, all of the big anchor tenants should have been going to the JCPenney's of the world and trying to capture that customer into their store.

Sara Lebow:

That's a great point. Closures obviously open up opportunities for competitors like the Container Store is letting customers cash in on those Bed Bath & Beyond coupons, the ones that my mom keeps in a giant Ziploc bag in the center console of her car or Bed Bath & Beyond's closure could boost Amazon's 50 billion US home furnishings e-commerce market. So I guess my question here is what is the opportunity for competitors when big brands close? And Carina, I'll go to you first on this one.

Carina Perkins:

Sure. Well, I think there's an obvious opportunity for competitors and I don't think that it's necessarily that the opportunity is only for e-commerce competitors like Amazon. I think actually quite often a very close brick and mortar competitor or one with a multichannel offering will do quite well out of it and will be able to then take those sales because I don't think that just because a brick and mortar chain has shut that suddenly people say, "Okay, we're just going to shop online." Like Suzy said, I think there's a bit of a mix. It's not necessarily only closing because everyone's started shopping online, it's also because there've been some problems with profitability along the way.

There's a lot of different factors that can feed into that. So I really think in the UK certainly the people that we're seeing benefiting from these closures are ones that have really strong omnichannel presence because actually interestingly in the UK we're seeing a bit of a high street revival where a lot of brick and mortar retailers are doing really well and online businesses are in trouble. So I think it's really those who have a really good mix and give a really good experience across both channels are the ones who seem to be doing really well at the moment and seem to benefit.

Sara Lebow:

Moving along with that conversation of whose been doing really well, I think that's a great transition into our next segment. Now it's time for popup rankings where we take a look at specific examples and we rank them. Today Carina and Suzy will each be ranking one retailer or brand that's innovating really well and one brand that may be at risk. Carina, why don't you go first with a brand that you feel is innovating well.

Carina Perkins:

Sure. And I'm going to talk about Next here, which is a retailer that I've already mentioned a couple of times today. And I think it's a really example of a business that just does the basics really, really well. It's got really good stock control, so they've avoided disruption while others haven't. They're not massively overstocked, it's clever pricing, it's affordable without being really budget. In terms of its clothing range, it's fairly middle of the road really, but that's actually what a lot of people want. It offers clothing for all the family and a few homeware bits.

It's been really good at gaining market share from other stores. It's been clever about the brands that it's been buying and bringing under its umbrella. And it was also quite quick to jump on the idea of a third party marketplace. So giving smaller brands access to its online logistics and backend operating systems and in return getting more traffic to its site, it offers a really good click and collect service and it's kept a lot of its legacy stores open because it understands the benefits of being able to service online returns in stores. So it's got a really good omnichannel strategy and I think it's just a great example of a retailer that is, as I said, doing the basics really, really well.

Sara Lebow:

For people who may not be as familiar with UK shopping like myself, what is Next comparable to?

Suzy Davidkhanian:

It's like a Old Navy slash Zara. It's like lower price point basics and it is well made-ish for the price point. It's like value driven.

Sara Lebow:

Love that Old Navy slash Zara is exactly what I need right now. Suzy, why don't you give us an example of a retailer or brand that's innovating really well right now.

Suzy Davidkhanian:

So I picked Brooks Brothers because I thought it's a heritage brand that yes, three-ish years ago went into bankruptcy, but I don't know that people realize just how old the company is. It's like, I think they were saying it's around 200 years old. It's dressed over 40 presidents. It's known as the brand of Wall Street and was for a long time. I think part of their demise, which had nothing to do with COVID was that they banked on their heritage and so they didn't move with the times in terms of the casualization of the workplace and how if you think about athleisure, that's not a new trend. So COVID obviously exasperated that.

Brooks Brother went into bankruptcy, they got bought by, like we said, that joint venture between Authentic Brands Group and Spark. They got a whole new team dedicated to the brand and now they have really come out of it on the other end in terms of better merchandise mix, better understanding what the consumer wants, better price points, good quality. And so I think they are really trying to lean into who their customer is but also just understand that times are changing and they are shifting with that. So as Carina said, it's so important as a brand if you want to be successful or a retailer, that you are flexible and that you are able to innovate with the times.

Sara Lebow:

There's this great podcast called Articles of Interest that focuses on the history of preppy clothes in the US and they talked a lot about Brooks Brothers and this evolution of preppy clothes that I think continues now. It started with these upscaled army fatigues and needed to continue innovating to now. And I think that's really what you've broken down there.

Suzy Davidkhanian:

And the thing about poor Brooks Brothers is that you have to stay authentic to your brand, but I think what they didn't realize necessarily 10 years ago was that the competition is changing and there are so many more, as you say, preppy brands on the market that are fun and cool and still preppy. And so I think you have to continue to innovate, remain authentic, but not lose sight of what's happening. You can't have your head in the sand.

Sara Lebow:

Yeah, the concept of basics, I'm doing air quotes, but I guess listeners can't see them. The concepts of apparel basics is changing and that's something that you need to evolve with.

Suzy Davidkhanian:

Absolutely.

Sara Lebow:

Okay, let's shift to retailers or brands that may be at risk. Carina, what's an example of one of these brands or retailers?

Carina Perkins:

So I'm going to go with Wilko, which is a discount store here in the UK that sells homeware, garden ware, household products at a very low price. And it's an interesting example because it's a discounter, which you would think would probably be doing really well given we've got a cost of living crisis and the discount channel is forecast to be growing quite strongly at the moment and indeed some rival discounters are. But it is struggling a bit in what's quite a crowded market these days. It's had quite a lot of problems with stock shortages so there have been some empty shelf problems. Its stores are looking a little bit dated.

It has switched to self checkout and reduced staff in stores, in some stores I believe, which is for some people creating less of a good shopping experience because there are now some queues. It's got a lot of High Street locations, which means people can struggle for parking and that can be a problem for people if they're going to buy all of their kind of household and garden needs. And it is has now implemented click and collect, but it was a bit slower than some others to start thinking about omnichannel. So I think it's interesting as an example that just because you're selling things at very low prices, it doesn't mean that people will accept less good shopping experience in store.

Sara Lebow:

Sure, that makes sense. So is Wilko similar to a HomeGoods in the US?

Carina Perkins:

Yeah, yeah, very similar.

Sara Lebow:

So Wilko are example of an at-risk brand in the UK. Suzy, what's an at risk brand in the US?

Suzy Davidkhanian:

So I'm sad to say this one, but I would say it's Gap Inc. So GAP Inc has multiple brands under it. I think they have a really good mix of types of brands. So Gap Inc in and of itself, not sure it's at risk as much as some of its brands underneath like Gap itself and even Banana Republic. And I think it goes back to the Brooks Brother conversation. You can't rely on your heritage and Gap is very old and not as old as Brooks Brother, but has a strong history in the US. You can't rely on that and you have to think about who the consumer is today and what they're looking for. So plain and simple but expensive just doesn't cut it anymore. And so it's Gap and Banana Republic are struggling to find their space and with all of the new brands that are coming up, they're just having a tough time.

Also, both of them are mostly based in malls, then it becomes a chicken or egg. Do you invest in your stores that are in malls or do you invest in the mall in the hopes that the stores get better, which obviously they don't have a lot of control over that so I am a little bit nervous for them. They have announced a ton of store closures. Banana Republic was said to reduce 30% of its store count in a short period of time. Gap is now selling on Amazon, which is also another indicator of they need help to get their product out. So I am, they're on my lookout.

Sara Lebow:

Okay. So we're keeping watch on Gap Inc. That makes sense. Similar conversation, like what it means to sell basics is shifting and people don't necessarily need to go to Gap for those anymore. Okay, well that is all that we have time for today, so thank you for joining me Carina.

Carina Perkins:

Thanks so much.

Sara Lebow:

And thank you Suzy.

Suzy Davidkhanian:

Thanks for having me.

Sara Lebow:

Please give us a rating and review wherever you listen to podcasts and follow us on Instagram at behindthenumbers_podcast. Thank you to our listeners and to John who edited this episode. We'll be back next Wednesday with another episode of Reimagining Retail, an eMarketer podcast. And tomorrow join Marcus for another episode of the Behind the Numbers Daily.