MAY 27
Zak Stambor

# Q1 has been wild. Here are retail's winners and losers.

Article

**The trend:** The boom year of 2021 is over. Many retailers last year generated strong sales and healthy profit margins despite rising supply chain costs.

That's no longer the case.

The Q1 earnings season has been a mixed bag as retailers face no shortage of challenges, including inflationary pressures, supply chain challenges, global unrest, a tight labor market, and a shift in consumer behavior patterns. But several retailers have successfully navigated that difficult terrain.

**The winners:** There was no overarching theme unifying the retailers that generated strong gains, but a range of circumstances and good decisions positioned them to tap consumers' evolving needs.

- Many of the retailers that thrived—including those in apparel (**Nordstrom**, **Macy's**, **Express**), activewear (**VF** and **Deckers**), and beauty (**Ulta Beauty**)—benefited from people returning to travel and in-person events who wanted to update their wardrobes and make themselves up.
- Value-oriented retailers (**Dollar Tree**) and merchants with strong private-label brands (**BJ's Wholesale Club** and **Costco**) grew as increasingly price-sensitive consumers traded down and/or looked for deals.
- Some home goods (**Williams-Sonoma**) and home improvement retailers (**The Home Depot**) profited from consumers working from home and making improvements to their homes. Home Depot, for example, said kitchen and bathroom installation and building materials posted double-digit growth.
- Other merchants grew thanks to strategic shifts and being in more recession-proof categories. Pet supplies retailer **Petco**, for example, has prioritized health and wellness as it opened its **200th full-service vet hospital** during the quarter and purchased the remaining stake in **Thrive Pet Healthcare** in March.
- Then there are luxury retailers (**Burberry**, **LVMH Moët Hennessy Louis Vuitton**, and **Canada Goose**), which have a customer base that is less affected by inflation.

**The losers:** Just as there's no one cause that propelled the Q1 "winners," there are a host of explanations for Q1 missteps.

- Consumers' shifting behaviors softened demand for businesses that sold discretionary purchases like electronics (**Best Buy**).
- Shoppers' desire to return to stores for high-touch luxury shopping experiences hurt online luxury retailers (**YOOX Net-a-Porter** and **Watchfinder.com**).
- Rising fuel and transportation costs, staffing challenges, and a shift in consumer purchases hurt mass merchants (**Walmart** and **Target**).

- Inventory management, along with rising freight and product costs, challenged many merchants, even in categories like apparel (**Abercrombie & Fitch**) and off-price (**Burlington**) that performed well.

## Keys to retailers' Q1 performance

### Q1 winners

**The return of travel and in-person events**
Nordstrom, Express, VF, Deckers, Ulta

**Price-conscious shoppers**
Dollar Tree, BJ's Wholesale Club, Costco

**The persistence of work from home**
Home Depot, Williams-Sonoma

**Strategic shifts**
Petco

**Luxury shoppers unfazed by inflation**
Burberry, LVMH Moët Hennessy Louis Vuitton, and Canada Goose

### Q1 losers

**Softened demand for discretionary purchases**
Best Buy

**The return to in-person shopping**
YOOX Net-a-Porter, Watchfinder.com

**Rising costs and changes in consumer purchase behaviors**
Walmart, Target

**Inventory misfires and supply chain challenges**
Abercrombie & Fitch, Burlington

**The big takeaway:** This year has been a turning point in the pandemic, as a large share of consumers returned to some semblance of normalcy, putting the onus on retailers to recognize and adapt to the new normal.

- Brick-and-mortar retail's growth outpaced ecommerce for the fourth straight quarter in Q1.
- People are returning to in-person activities like dining out. **Spending on food services and drinking places rose 25.4%** YoY in the first four months of the year, per the US Commerce Department.
- But there are also **warning signs that inflation is weighing on some consumers**. While personal income rose a seasonally adjusted 0.4% in April, disposable income adjusted for inflation was flat, according to the US Commerce Department. That shows wage increases aren't keeping up with price gains and that some consumers are drawing on savings to make purchases.