

High-profile retailers are shuttering stores, but that doesn't mean a broader 'retailpocalypse' is imminent

Article

The trend: Several prominent retailers plan to significantly reduce their store counts this year.

- **Gap Inc.** aims to close roughly 350 stores, or about 43% of its North American Gap and **Banana Republic** locations, by year-end.
- **Macy's** plans to announce 10 store closures this month as part of its plan to shutter 125 locations, about one-fifth of its fleet, over the next three years.
- **Bed Bath & Beyond**—which is reportedly in the early stages of planning for a chapter 11 bankruptcy filing—is in the midst of closing 150 stores, about 16% of its store count.
- Makeup brand **Morphe** is shuttering all of its 20 US stores.

Perception versus reality: Those store closures suggest an abrupt shift from the prevailing trend last year, when there were 5,103 major US store openings announced, compared with just 2,603 announced store closures, according to Coresight Research data reported in Insider. And they also could spark the resurgence of a narrative focused on the so-called retail apocalypse (or retailpocalypse)—when retailers such as **Bon-Ton** (parent company of merchants such as **Carson Pirie Scott** and **The Boston Store**), **Toys R Us**, **JCPenney**, and others closed thousands of stores. However, the reality is far more nuanced.

- **Some are adjusting their store mix.** While Gap closes many of its Gap and Banana Republic stores—particularly in malls that no longer generate strong foot traffic—it is on track to open 30 new **Athleta** stores and 10 **Old Navy** locations in fiscal 2022. Similarly, Macy's is shifting away from some of its traditional on-mall locations, as it expands its off-mall small-format **Market by Macy's** concept. It is also replacing some large **Bloomingdale's** locations with smaller-format **Bloomie's** stores.
- **Others are dealing with idiosyncratic challenges.** Bed Bath & Beyond faces self-inflicted wounds from former CEO **Mark Tritton's** attempt to boost the company's margins and differentiate its offerings by pivoting away from national brands and launching private labels. And Morphe is dealing with the aftermath of scandals that forced it to sever ties with the social media stars who helped it reach a \$2 billion valuation.

At the same time, several retailers continue to expand their physical presences. For example, **Five Below** plans to open over 200 locations in fiscal 2023 and is also converting over 400 stores to its **Five Beyond** concept, which features higher-priced items, per Chain Store Age.

What's really going on: As always, the retail landscape is changing. Malls are evolving, retailers are investing in experiential stores, and direct-to-consumer brands like **Allbirds** and **Brooklinen** are expanding their store counts.

- While the ratio of openings to closing may narrow, consumers continue to find value in physical stores.
- We expect physical stores will account for 84.2% of retail sales this year, down slightly from 85.3% last year.

Digital vs. In-Store Share of Holiday Shopping
According to US Internet Users, Sep 2022
% of total budget



Note: n=4,986; numbers may not add up to 100% due to rounding; *other retail channels (e.g., catalog or direct mail promotion)
Source: Deloitte, "2022 Deloitte Holiday Retail Survey," Oct 19, 2022

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The big takeaway: There are some serious challenges facing mid-tier retailers, which is evident as merchants such as Macy's and **Chico's** recently lowered their Q4 outlooks.

- Yet that doesn't mean that we're headed toward a large-scale shuttering of brick-and-mortar stores.

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