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WHAT TO WATCH: THE 2018 FORECAST

Retailers Riding Change

- Wal-Mart, Macy's, J. Crew, Target and Lands' End are transforming.

BY DAVID MOIN

An industry always in flux is about to see an unprecedented level of change.

Watch what happens at J. Crew, Macy's, Wal-Mart, Victoria's Secret, Lululemon, Lands' End, Kohl's, QVC and Target. They're at tipping points, in some cases stacked with new management but in all cases imbued with an urgency to innovate.

In addition, Nordstrom will resume its quest to go private; Nine West is up for sale; Bon-Ton is under financial pressure to restructure, and Sears Holdings continues its slow disappearing act. Women's specialty chains primarily aimed at Baby Boomers such as Ann Taylor, Gap and J. Jill are scrambling to regain relevancy, though retailers during the holiday season said consumers are renewing their interest in fashion.

Adding to the swirl of activity are several accelerating trends: mobile shopping, personalization, voice activation, pure-play online brands breaking ground on brick-and-mortar, buy online and pick up in store, and deepening commitments to private label and exclusive offerings.

Widespread high-level executives changes last year portend strategic shifts in merchandising, marketing and corporate culture. According to Kirk Palmer, founder and chief executive officer of Kirk Palmer Associates executive search, "2017 has been a year of significant change at the ceo and division president levels. We tracked over 350 moves at these levels in our proprietary database – about half were ceo's, the rest were division presidents. Fifty-eight percent were within fashion, footwear and beauty, the rest were in hard goods or other sectors."

Some experts see retailers and brands partnering up more. "Companies like Target and Barnes & Noble are currently testing the 'brand-adjacent waters' to enhance visibility and bring customers through the door," observed Robert Glazer, founder and managing director of Acceleration Partners. "These alliances will increase customer traffic and accessibility to brands while offering products meant to enhance the experiential shoppers' journey." Target and Barnes & Noble recently enacted a 'college essentials' program for buying online and picking up in-store, Glazer noted. "Shoppers can place orders on Target's web site and pick them up in Barnes & Noble's physical locations. The new year will see an influx of similar partnerships as retailers continue searching

Saks Fifth Avenue has become more competitive with more luxury offerings.



for new ways to connect with customers outside of the transactional relationship."

Amazon and Kohl's have a similar partnership.

The biggest story of 2018 could be at Wal-Mart, where the strategy of buying smaller online businesses under Marc Lore's e-commerce umbrella "demonstrates their desire to learn and understand various niches to quickly build platforms across different and new businesses," Palmer said. "They are not rolling over to Amazon by a long shot."

About a year and a half ago Lore sold the company he founded, Jet. com, to Wal-Mart Stores Inc. for \$3.3 billion, and as part of the deal, joined the retail giant as president and ceo of U.S. e-commerce. Wal-Mart's growing portfolio of smaller businesses including Bonobos, Modcloth and Jet. com helps differentiate the retail giant and provides learnings. The company is also beefing up its food business in the wake of Amazon's \$13.7 billion purchase of Whole Foods by providing delivery and pick up convenience aspects, and a higher quality assortment of fresh foods and meals.

At Macy's, "There's a new generation with new thinking," said a former retail ceo. Jeff Gennette, a veteran of the business who succeeded Terry J. Lundgren as ceo last March, is "extremely capable but the question is whether his new team has the knowledge and experience. They're fresh leaders from outside the box." Experts say Gennette's approach transcends generations. "He's not going to do explosive, risky things," the source said. "Jeff respects the tradition of the store and its strong penetration of major categories – cosmetics, ready-to-wear, accessories, shoes. Macy's will use working capital to shore up these major strengths, but they have to start thinking more seriously about customer service."

Macy's will continue to explore real estate divestitures and reuses, roll out its Backstage off-price format and enhance its

assortment with more exclusives, leased businesses and categories not sold before.

Palmer said that at J. Crew Group, Jim Brett, who succeeded Mickey Drexler as ceo last July, "brings a proven track record of turnaround from West Elm along with more rigorous process and discipline than what Crew has had in the past." Changes at J. Crew should be evident in six months to a year. The challenge is to change the fashion story after the exit of creative director Jenna Lyons, recover lost customers and add new ones, while retaining the brand heritage.

At Lands' End, Palmer added, Jerome Griffith, who became ceo a year ago, "is focused on bringing stability to Lands' End, which has suffered from tremendous ceo turnover in the past decade. Jerome has great respect for the brand heritage and knows how to position that heritage in a relevant and modern way." Lands' End is cooking up retail strategies. The company only has 11 freestanding outlets, selling primarily full-price merchandise as well as some discounted goods. The retailer also has 188 branded shops inside Sears stores, but those have been steadily closing as Sears Holding shutters units.

At Target, the spotlight is on the rollout of smaller formats, as small as 12,000 to 13,000 square feet. The strategy demonstrates that despite the size of the company, it can be flexible and agile in building stores and choosing locations, and will better understand how to conduct business on a more local level. The retailer also made adjustments on thousands of core items so they're "priced right daily" and moved away from the ups and downs of promotions, although there are still special offers, especially during the holiday season. Last October, ceo Brian Cornell said Target is doing more regular-priced business and that market share was restored in the personal care and household categories. The retailer is also modernizing its store

operating model, and has been changing how sales associates work so they have greater expertise in designated areas including apparel, rather than roving from apparel one day, for example, to electronics the next and beauty after that. Target raised hourly wages to \$11 in 2017 and will bring hourly wages up to \$15 by 2020.

At the prestige department store level, Saks Fifth Avenue is getting more competitive, having in recent seasons broadened their luxury assortment with Prada, Celine, Dior, Gucci and other luxury brands. "They now have pretty much everybody they have wanted," said one former Saks executive. "The store is looking a lot more modern. Saks has upped their game in terms of fashion sensibility. It's a bit more chainwide, and they certainly have improved their major stores like Bal Harbour, Atlanta and Beverly Hills. They've done quite a bit of remodeling."

The company is also moving forward on the renovation of the Manhattan flagship, with the next phase relocating beauty to the second level from the main floor, which will house primarily accessories.

After putting itself up for sale last year and then calling it off, Neiman Marcus seems to have turned a corner, though it's still highly leveraged, limiting improvements it can make to its stores. The company is seeing some improved selling trends and is moving forward on creating its first Manhattan unit, a three-level store scheduled to open in 2019 in Hudson Yards, which is under development.

At Nordstrom, "If they go private, they will be able to step out a little more and be more experimental," one retail consultant said. "They have a fantastic image with their customers so if the economy is going to continue to be better, there's no reason why Nordstrom can't be more successful." Nordstrom revealed plans to explore going private last June, but suspended the plan in mid-October after investors proved wary and the costs of the debt to do the deal became prohibitive.

"Retailers are coming to the realization that their main target demographics – Millennials and, increasingly Gen Z – connect with brands that are proactive in engaging them," Glazer said. "In 2018, we'll see more brands looking to create free-flowing channels of open dialogue and product customization options with audiences to deepen brand connections and drive product interest. Retailers will leverage feedback and connectivity through social media and messaging platforms, frequent points-of-contact with both demographics, while also leveraging customization. Both tactics will encourage consumers to express their individuality and create a more intimate relationship with shoppers."