

The Carnegie Counselor

THE CARNEGIE INVESTMENT COUNSEL NEWSLETTER

FIRST QUARTER 2017

Retailing's Evolution

At the end of the first quarter, Investor's Business Daily ran a headline claiming, "The Death of Retail" noting declining store sales. Much has been published on the decline of retail over the last decade as formerly proud malls have been shuttered across the nation.


The initial blow to retail occurred when the grand department stores in city centers were closed with the mass flight to the suburbs. Retailers then courted customers with department stores and boutique stores in enclosed malls. Appearing next was the proliferation of strip malls offering discounted retail with many specialty retailers. Eventually the idea of an outlet mall swept the merchandising world and, interestingly, some retailers opened more outlet stores than standard stores. The internet is the latest dagger to retailing, offering transparent pricing, infinite selection, free shipping and convenience. While the money spent by the consumer continues to rise, how and where we spend our money has always been an evolutionary cycle.


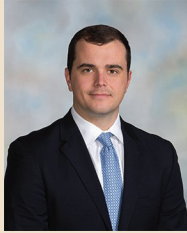
The Greatest Generation remembers the downtown shopping experience with large, glamorous stores. Joseph Horne & Company in Pittsburgh once had full-time doormen and a waiting room for chauffeurs to compete with Kaufmann's during the holiday season. Wannamaker's in Philadelphia installed the first escalator and had elegant Gimbel's as a rival. In Cincinnati, H&S Pogue and L.S. Ayers battled with Federated, the survivor who consumed Macy's

of New York. Dayton had Rike's and Akron supported Polsky's and O'Neil's. Cleveland enjoyed Higbee's, Halle's, and the May Company as destination shopping experiences. Chicago was home to Marshall Field's and Columbus proudly hosted the Lazarus chain. Eventually all these stores folded into Dillard's or Macy's and both are now struggling. Even Neiman Marcus hired an investment banking firm last month to bolster their balance sheet.

The Baby Boomers filled their suburban homes by shopping at gleaming new air-conditioned malls. Most malls were anchored by a Sears, JC Penny, Montgomery Ward and/or a local department store fleeing the central city. These stores aspired to sell everything from tools to clothes to appliances. After Sears bought Dean Witter in the '80s, they proudly offered everything from "socks to stocks" with brokers manning desks within the cavernous stores. Adjacent to malls were stand-alone competitors like Zayre, Best, Hills Department Stores and Gold Circle. Their concept was the beginning of the discount store, but they did not have Sam Walton's vision.

By the time Generation X came along, Wal-Mart was already





Chad Warmbein **Michael Woomer**

Michael Woomer and Chad Warmbein join Carnegie.

Please welcome Mike and Chad to our Pittsburgh Office. We are excited to have these two experienced professionals as part of the Carnegie Family.

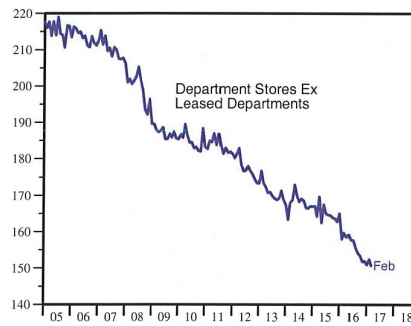
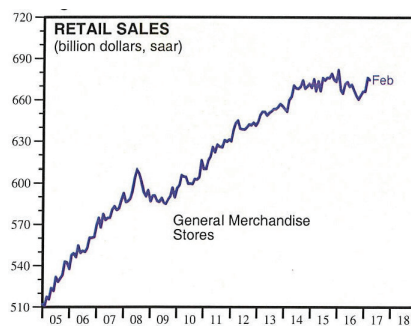
building superstores across the nation combining large selection and low prices. This big-box mentality was successful in home construction with Home Depot and Lowe's, consumer electronics with Best Buy and office supplies with Staples. The latest advancement in retail has been by companies not in the retail industry. The combination of services by eBay, MasterCard and FedEx allows a pair of Nike shoes to be purchased during

a lunch break and delivered to your home the next day. Millennials have learned to expect this immediate gratification to be applicable to all demands. Downloading music, sending selfies, ordering tickets and making dinner reservations can all be done within a minute on smart phones.

When a pair of Nike shoes can be bought at a Macy's, Target, TJ Maxx, Dick's Sporting Goods, or Nike outlet, the only differentiator is price. Now all of those retailers are offering shoes on line; however, Nike makes the largest margin at their website. This will be the future as brand names go directly to the consumer eliminating the retailer altogether. The U.S. has six times the retail square footage per capita as Europe. Firms that do not change will be added to the long list of former retailers. Over the last decade, over 13,000 stores have closed and, according to analysts, another 6,000 are expected to close soon. In January, all U.S. employers cut 45,934 jobs and nearly half were by retailers. The top four companies eliminating positions were retailers: Macy's, The Limited, American Apparel and Wet Seal. Just this week Payless Shoes filed for bankruptcy and Bebe Stores closed all 168 locations, planning to only continue via their website.

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Amazon and eBay have changed the shopping experience for their customers. They deliver merchandise on-time, often with free shipping, at the best available price. Wal-Mart spent \$3 billion last year buying boutique on-line retailers to stay relevant. Department stores once had 30% of merchandise sales; that number is down to 12% today. On line retailing has grown to 29% of the market and growing as Generation Z commences spending. Retailing isn't dead; it has just evolved, as has our holdings in the retail sector. The winner in this evolution is clearly the consumer; what is missing is the socialization experience of a day shopping at the mall with friends. However, this involvement has been replaced by Snapchat, Facebook and Instagram. Technology is changing all aspects of our lives and the retail experience is just another example of its transformative impact. While some may yearn for the shopping experience of their youth, ordering while in your pajamas for same-day delivery is marvelous.



Did you know...

Trading just got cheaper? All three of the major discount brokers recently lowered equity trading commissions by 40-60%. If you have accounts at traditional high cost brokers, consider moving these accounts to save costs. Contact us today to discuss further.

For more info, contact
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Source: US Department of Commerce, Bureau of the Census



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