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Macy's Downsizing Reflects Larger Retail Trends

Macy's is closing 150 stores. What does that say about retail?

The retail industry is amid a rightsizing of physical storefronts. The closure of underperforming stores such as those announced this week by Macy's presents an opportunity for strategic master planning of properties for the next generation.

"Retail thrives on innovation and the arrival of new concepts to better cater to consumer needs is eagerly anticipated," according to Najla Kayyem, Executive Vice President of Marketing at LA-based Pacific Retail Capital Partners.

"While the closures are regrettable, there is optimism about the potential revitalization of Macy's many properties and the opportunity for collaboration with new partners and concepts to meet the diverse and changing needs of consumers across the US."

Macy's announcement this week to close 150 of its stores in the next few years while shifting its focus to its luxury brands is a move that comes with both excitement and risk, according to industry observers.

While a shift towards luxury represents one tactic for retailers already established, risks particularly heightened for companies with a portfolio of brands, according to Mike Riggs, Managing Principal of IA Interior Architects' Retail practice, tells GlobeSt.com.

"In any given week, headlines may highlight the decline of one brand or another," he said.

"Macy's move, however, reflects a widespread pursuit of smarter retailing: a return to the core principles of vision, informed innovation, and risk-taking that underpinned the successful growth of most retail brands.

A disproportionate amount of retail categories in the US have been suffering from the same challenge over the past three years, Riggs said: Maintaining positive balance sheets annually while experiencing a significant decline in revenue over the same period.

"This underscores the necessity of implementing a market approach that aims to counter early signs of decline, such as loss of vision and purpose, within any business," he said. "This demands determination from brands to withstand external pressures from anxious shareholders and customer bases concerned about alienation.

"For retailers aligning with a luxury segment within their portfolio, it's crucial to recognize that even this is no longer the haven from turbulence it once was."

The company will look to leverage its successful Bloomingdale's and Bluemercury brands — luxury stores that have outperformed the Macy's brand.

Macy's is getting a new, smaller, but more luxurious look designed to turn around the troubled retailer and keep the century-and-a-half-old brand relevant to rapidly changing demands from shoppers.

That cannot necessarily be found in mall space.

Stephen Bittel, Founder and Chairman of Terranova Corporation, tells GlobeSt.com that during the past decade, traditional department stores have struggled to stay relevant as shoppers increasingly opt for luxury or deep discount alternatives.

"Compounding the issue is their reliance on primary locations as rent-free anchors in regional malls, most of which are experiencing declining foot traffic," Bittel said.

"If department stores had to pay market rent on most locations, they might have folded by now. The most valuable asset they hold is real estate in major urban markets, ripe for redevelopment. However, tight capital markets hinder this transformation, leaving them with limited time to reinvent themselves."

Customers still want the experience of going to a store, choosing the product, and interacting with salespeople, a trend Macy's seems to recognize with this move, according to Will McDonough, Chairman and Founder of Corestone Capital, tells GlobeSt.com.

Retail has morphed from a shopping experience to a showroom experience. "People go to brick-and-mortar stores to try things on, more so than to make a purchase," McDonough said.

"Once shoppers know what they want, the need to attend a physical location goes away, so we are continuing to redefine what the word 'shop' means. Furthermore, in today's digital age, brands no longer need to beg for or embrace retail to be able to establish a following."

Undifferentiated Retail is Dead

The announcement is emblematic of three macro trends in retail, Mark Sigal, Chief Executive Officer of Datex Property Solutions, tells GlobeSt.com.

The first and most basic is the continued struggle that department stores have faced (as a category) in differentiating their products and consumer experience to capture and maintain viable operating margins.

"Specifically, the department store category is showing negative year over year, two-year and five-year trends for both sales per square foot and occupancy cost metrics, which is obviously untenable," Sigal said.

"Related to this is the change in consumer shopping preferences from enclosed malls, where department stores like Macy's were/are the primary anchors, to open-air retail, where the fit for a department store is a bit more predicated on tenant mix.

"On paper, targeting the luxury consumer is compelling because this is a consumer segment that is growing, and has the means, motivation, and durability to purchase upscale and well-branded goods."

Underlying all of this is the basic truth that undifferentiated retail is dead, raising the question of whether Macy's has the culture and/or brand to successfully make this pivot.

"Doing so is even more challenging at a time when vacancies in open-air retail are at historical lows, enabling landlords to be discerning on tenant fit, especially on anchor and sub-anchor spaces."

Large Stores Are Inefficient

Macy's is leaning into what is working, expanding both the luxury and small format brands, while accelerating the shuttering of many underperforming department stores, according to Brandon Svec, national director of U.S. retail analytics at CoStar Group.

He tells GlobeSt.com that it is notable that Macy's is closing approximately 25% of their selling square footage while impacting less than 10% of sales.

"This highlights just how inefficient some of these larger department stores are relative to the rest of the fleet," Svec said.

"The expansion of the Bloomingdale and Bluemercury brands leans into the relative outperformance of the luxury and personal care segments, while the expansion of the number of small-format stores highlights the early success of the strategy and how important it is for Macy's to maintain a physical presence within a market (as their investor presentation highlights over 80% of digital sales come from markets with physical stores).

"The net result for retail space markets will be a continuation of the same have and have not trends seen over the better part of the last decade, with demand increasing for mid-sized shopping center space while underperforming malls lose another major source of foot traffic."

Purging Dead Weight

Macy's appears to be rightsizing its real estate portfolio to purge dead weight, said Rick Scardino, Principal, Lee & Associates of Illinois.

He tells GlobeSt.com that the simultaneous announcement to open new Bloomingdale's and Bluemercury stores reflects Macy's efforts to expand into higher-profit luxury and near-recession-proof cosmetics.

"Hopefully this will also provide capital to update many of the remaining 350 stores that, while profitable, will only stay profitable if they get a long-overdue remodel. Macy's plans to open 50 off-mall smaller stores to fill in their coverage gap should also shake out as a strong move."

Garrett Johnson, Managing Partner, Peak Development Partners, tells GlobeSt.com that with downsizing comes opportunity, and not just for Macy's.

"Landlords/landowners and developers can now build smaller Macy's footprints as well as single-tenant and multi-tenant retail buildings to replace the big boxes," Johnson said.

"This is the new norm for landowners, developers, and retailers as the shift to smaller footprints isn't only for retailers but for fast casual restaurants as well. I foresee the continued shift to smaller footprints as the new norm across all retail asset types."

This push to smaller footprints and curated product selections, and an emphasis on the experiential aspects of the shopping environment is real.

Bob Burk, co-founder and managing partner at UrbanStreet Group, tells GlobeSt.com that brick-and-mortar is not dead, it's just evolving.

"The customer experience is at the core of everything, from individual store design and product offerings to co-tenancy and public space," he said.

The move even brings some excitement to the nostalgic.

Edie Weintraub, Managing Director with terra alma, tells GlobeSt.com, "Growing up in NJ, Macy's was a big part of my childhood, especially the Thanksgiving Day Parade. Now, I admire Macy's shift towards a more intimate shopping experience with their 'store within a store' concept and gMarket by Macy's.

"This pivot, along with downsizing 30% of their portfolio, not only streamlines their operations but also revitalizes their assets," she said.

"Given Macy's ownership of substantial real estate, this move could transform vacant spaces, offering mall owners new possibilities. I'm enthusiastic about Macy's evolution and the fresh opportunities it presents."