History of Retailing in North America

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Editor's Notes

This article, which was originally written in 2005 for the Chinese export market, and re-edited in 2011, is just as relevant today as when it was written. In just six years, we have seen tremendous changes in the North American retail industry, exacerbated by the equities and real estate crash and "great recession" of 2008-201X? (the end has yet to be written). Retail business models also are crashing, brought on by overstoring, depression-like economics, high unemployment, and stale retail models. Beyond that, we have the ascendancy of disruptive Internet shopping. A few examples: Amazon vs. booksellers., the Apple Ipod vs. music retailers, Netflix vs. Blockbuster and video stores, Zappos/Amazon vs. shoe retailers. The pace of change is so fast that in just a few short years, Netflix video by mail killed the video stores, and now video streaming is killing the video-by-mail business. The most successful online or brick-and-mortar business models today must constantly and quickly evolve or face ruthless extinction.

History of Retailing in North America

To provide a broader perspective, we have put together a short history of retailing in the U.S., tracing its growth and development, its saturation, and the subsequent period of both consolidation and "creative destruction", which continues into the present. We will also examine some of the different retail formats that have taken root in the U.S. and what we see for them in the future.

The Pre-Modern Period (pre-1945) - During this era, mom-and-pop stores and general stores operated throughout the country. The mom-and-pops were family-run businesses (grocery stores, hardware stores, etc.) that served the needs of townspeople. "General Stores" were common and offered a variety of items that consumers could buy in one place.

Retail Development 1945-1975

During this era, the development of store chains took place, and bigger discount and department stores opened across the U.S. The names Woolworth, Sears, J.C. Penney, Wal-Mart, Montgomery Ward, and Macy's became more common in cities and suburbs.

Big Box and Category Killers 1975-1990

This period saw the tremendous expansion of discounters such as Wal-Mart and Kmart, plus other national chains like Sears and J.C. Penney. It also saw the introduction of specialty store "category killers." These chains introduced specialty superstores that covered an entire category, such as Best Buy and Circuit City (now bankrupt and out of business) in the consumer electronics business, or Office Depot and Staples in the office-supply business. Throughout the U.S., malls, strip centers, stand-alone specialty stores, and big-box general-merchandise chains sprouted up. Markets became saturated and, in many cases, overstored.

The Consolidation of Retail 1990-2000

This period was marked by rapid industry consolidation in all retail channels, where the big chains got bigger and many regional chains and mom-and-pop stores were laid to waste. Today every retail channel features several companies that capture a bulk of the market share. Wal-Mart and Target in the discount industry, Home Depot and Lowe's in the home-improvement business, CVS, Walgreens, and Rite Aid in the drugstore industry, Best Buy and Circuit City in the consumer electronics industry, and Wal-Mart, Kroger, Safeway, Ahold, Costco, and Albertson's in the grocery business. This decade also saw the rise of the supercenter and warehouse club concepts, which emphasize one-stop shopping for everything from food to clothes to electronics to tires. These big, impersonal stores with everything under one roof took root, in stark contrast to the mom-and-pop stores that had once emphasized service and community. They offered a single destination for shoppers and low prices. The supercenter became Wal-Mart's biggest growth vehicle in the 1990s and helped make it, by far, the world's largest retailer.

A retail study in 1990 predicted that 50% of all retail stores would be out of business by the year 2000, a bold prediction that, in retrospect, proved fairly accurate. The long list of venerable retailers who existed in 1990, but who are now defunct include Ames, Bradlees, Caldor, Alexander’s, Montgomery Ward, Hills Department Stores, F.W. Woolworth, G.C. Murphy, E.J. Korvette, McCrory, S.S. Kresge, Venture Stores, Jamesway Corp., Zayre, etc. The list goes on and on. The smaller mom-and-pop stores, unable to compete with the growing number of megastores on price, were affected even worse. The study recognized the impending growth and power of chains like Wal-Mart, Target, Costco, and Home Depot, and rightly projected that many small and midsized regional chains would vanish from the retail landscape. The list of retailers above once represented the core business of many midsized manufacturers. As the decade progressed, vendors found their list of accounts shrinking, with only several retailers commanding a large percentage of their business. To their dismay, these retail giants began to exercise greater power in negotiating on price and supply chain procedures, and reduce the number of suppliers. Many vendors have felt powerless to dispute or challenge the demands of the big chains for fear of losing a significant portion of their business.

Room for Innovation

Nature hates a vacuum, and therefore new concepts and ideas will always emerge, despite the reality of consolidation. Retailers that were not in existence in 1990 are thriving now, and the same pattern will likely repeat every decade. Retail always did, and still does, attract entrepreneurs, and for a few, their risk taking will be rewarded.

The growth of the Internet, the fastest-growing frontier in retailing, will also fill the vacuum as brick-and-mortar chains fall by the wayside. Having endured a shakeout of poor online performers during the “Dot com” era, the online shopping sector is here to stay.

The Future Takes Shape 2000-2005

Industry consolidation has had profound effects on merchandising strategies, on shopping patterns, and on suppliers. One result has been the loss of clout of brand names as the big suppliers, as well as retailers’ private brands, converge in the middle of the market. On the one hand, discount and mass retailers are finding it advantageous to introduce exclusive, name-brand merchandise lines, while higher- price department stores are trying to lower costs and increase unit sales by developing store brands, which offer consumers essentially the same quality as brand names without the higher price tag (and with higher margins for the retailer).

Shoppers Combining Shopping Experiences

Consumers are finding it advantageous to buy their groceries in the same places that they buy electronics, toys, shoes, and auto parts. Time-pressed consumers can avoid spending all day traveling to various stores to do their Christmas shopping. To accommodate this, big-box retailers are expanding their offerings.

Discounters are selling food and drugs; drug chains are selling food and items for the home; home improvement chains are offering electronics and appliances; and supercenters and warehouse clubs offer everything under the sun.

Costco - A good example of the evolution of shopping can be seen at Costco. This warehouse club operator offers limited selections of high-quality goods at low markups. And it makes a handsome profit by keeping its operating costs at a minimum. Consumers can buy items in bulk, thus reducing the amount of shopping trips while saving money. The addition of gasoline has put warehouse clubs into competition with gas stations and related convenience store operators like Circle K and 7-Eleven. Wal-Mart Supercenters and its Sam's Club division provide similar experiences for lower-income shoppers.

The Mass Merchandisers – The unrelenting consolidation that has characterized the world of mass merchants continues to this day. Even though their growth has slowed, Wal-Mart continues to expand its supercenters, putting local merchants out of business. We see retail consolidation among mass merchants and in other channels continuing unabated.

Retail Business Models

Below are some of the retail business models that are prevalent in the U.S. today.

Mass Merchandisers – Dominated by Wal-Mart, Target, Costco, and the like, these retailers operate in markets throughout the U.S. and are quickly making inroads in international markets. They operate large stores, selling a variety of items, including apparel, sporting goods, toys, electronics, lawn & garden equipment, and videos.

Category Killers - These are the giant retailers that dominate one area of merchandise. They are able to buy bathroom tiles, file cabinets, electronic goods, or pet food in such huge volumes that they can then sell them at prices even fairly large competitors can't match. The outlook for this category is better than for many of the more general discounters, but the same employment caveats apply. For most job seekers, these companies offer earn-and-learn experiences with vendors and distributors before onward and upward movement. Other examples of category killers include Home Depot and Lowe's in the home improvement industry; Amazon, Borders (bankrupted by Amazon's ascendancy in 2011), and Barnes and Noble in the bookselling industry; PetSmart in the pet supply category; Bed Bath & Beyond, (who pushed Linens 'n Things into bankruptcy) and Best Buy (who pushed Circuit City and others into bankruptcy) in consumer electronics.

Warehouse Clubs – The big players in this industry include Costco, Sam's Club, and BJ's Warehouse Club. These retailers operate massive warehouse-style stores with many items on pallets, allowing consumers and businesses to buy items in bulk at low prices. Similar to supercenters, they offer one-stop shopping experiences, covering various categories such as groceries, electronics, computers, furnishings, auto parts, and gasoline. They offer low prices and a limited number of SKUs. The key to their profitability is in maintaining extremely low operating costs. The successful chains like Costco are expected to thrive for a long time, so it is important that suppliers learn how to do business with them, delivering very high quality and value, and low prices.

Specialty Chains - These include Crate & Barrel, the Body Shop, and Victoria's Secret. These chains concentrate on one type of merchandise and offer it in a manner that makes it special. Some are very high-end (Louis Vuitton); others cater to the price-conscious masses (Old Navy). Many are so successful that department stores have started to emulate their buying, marketing, and merchandise-display strategies. Industry experts predict growth in this segment, particularly for home furnishings and home improvement, and it seems to attract many of the best and brightest in retail. There is plenty of room for these smaller stores to thrive, particularly in malls, but they are subject to sudden changes in consumer attitudes and can be affected more severely by these changes. For example, a specialty retailer of teen apparel or accessories may be the favorite of its targeted customers one season, and fall completely out of favor the next. They also face stiff competition from Category Killers, who sell the same type of goods, only in bigger stores with more items.

Department Stores - These are large retail stores selling many different kinds of merchandise arranged in separate departments. Although they differ individually, department store merchandise is generally evenly divided between apparel/softlines and hardlines (which include electronics, appliances, toys, and seasonal goods). They vary from midpriced chains to upscale, luxury retailers. Examples of midpriced chains include Sears, Kohl's, J.C. Penney, Dillard's, Bon-Ton, Belk, and Macy's, while some of the more upscale chains include Nordstrom, Neiman Marcus, and Saks Fifth Avenue. Luxury is a mature but lucrative industry.

For many shoppers today, the traditional department store does not have the same allure it once had. These stores often anchor the ends of malls and are virtually identical except for the name on their storefronts. There is little differentiation between stores, and there is concern among analysts and investors that there will be less and less differentiation among merchandise selections.

Many of the midpriced department stores, such as Sears, Bon-Ton, Macy's, J.C. Penney, and Kohl's have suffered from lackluster same-store sales numbers, and in some cases are showing declines. Expansion is much slower among department stores than major discounters and specialty chains and, consequently, there has been an erosion of department store market share over the past decade. On the other hand, luxury chains continue doing well.

Many analysts are not cheering the merger trend in this industry. Since inception, this writer wondered how the marriage of Kmart and Sears could create a winning combination, a question which becomes more critical by the day. And the Jones Apparel Group recent acquisition (and subsequent disposition) of Barneys New York has prompted questions about whether a manufacturer of midprice clothing should be playing in the world of designer brands.

Another challenge is that consolidation among companies can run the risk of creating uniform product at a time when consumers are rejecting major mass trends and demanding more individualized fashions. Nevertheless, analysts see a number of merger scenarios playing out. Some expect that department store operators will be looking to acquire specialty chains that target a specific lifestyle or demographic.

Growth in Online Retailing

Online retailing is growing rapidly, from about $150 Billion in 2008 to an expected $210 Billion in 2012. While still only 6-7% of total retail sales, the amount of retail business being conducted on the Internet is rapidly growing every year as consumers' trust in online shopping increases.

Companies, especially Amazon.com, which helped pioneer retail e-commerce, are being followed by brick-and-mortar retailers which are rapidly expanding retail e-commerce into new markets as consumers recognize the advantages of online shopping with next-day or two-day delivery. Almost all large traditional retailers like Wal-Mart and Starbucks have also set up online stores so as not to miss out on the revenue opportunities that the Internet offers, although online is still, for some, a single-digit sales producer. We see continued growth in online retailing - fueled by a new computer-savvy generation with almost universal access to the Internet - although we expect it to occupy only a small percentage of the total retail market for quite some time. The success of e-tailers such as Amazon, eBay, and Blue Diamond can be attributed to strong business models.

Emergence of the "Flash Sale" Channel

2010-2011 saw the emergence of so-called "Flash Sale" operators such as Gilt Groupe, Ideeli, and Beyond the Rack. These retailers have taken advantage of shoppers' reliance on their tablets or smartphones to reach out to consumers who shop on the run. By adding their app to a smart device they can reach out and touch their members with a "flash sale" of designer items at rock-bottom prices but the sale is only for a limited number of hours. The Nordstrom acquisition of HauteLook brings a new, well-financed player into this part of the marketplace.

The Future

The industry will be dominated by (i) even larger mass merchandisers with optimized supply and logistics channels that enable them to control costs, supported by large sources of supply, (ii) specialty operations that bring selection and a high- quality customer service and shopping experience, and (iii) the Internet, which has become the channel of choice for millions of shoppers, even if for limited categories of merchandise. Lastly, while we know who the big names of today are, if you examine the history of retail, you find very few that can adapt to the evolution of the species with a speed that ensures their survival. If we look back 20 years from now, it's a good bet many of today's big names will no longer be in existence.

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