Brick-and-mortar retail has faced significant challenges over the past few years. Some industry experts believe this downward spiral could continue for the foreseeable future, and there are signs of the “four horsemen” that could ultimately lead to the brick-and-mortar “retail apocalypse.”

### HORSEMAN #1: SALES SHIFT

Consumer spending continues to shift away from brick-and-mortar and towards e-commerce.

<table>
<thead>
<tr>
<th>3rd Quarter 2018</th>
<th>4th Quarter 2018</th>
<th>1st Quarter 2019</th>
<th>2nd Quarter 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>$140</td>
<td>$150</td>
<td>$150</td>
<td>$160</td>
</tr>
<tr>
<td>Percentage Change Year-Over-Year:</td>
<td>Percentage Change Year-Over-Year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td>15%</td>
</tr>
</tbody>
</table>

- **E-commerce as a % of Total Retail Sales**
- **Spending Via E-Commerce**

Source: www.census.gov, Retail (1) Results are revised estimates as outlined in the most recent press release for the second quarter of 2019.
(2) Total retail sales exclude sales of automobiles, gasoline, and restaurants.

### HORSEMAN #2: OVER-STORED AMERICA

Many retailers are operating too many stores, especially with the recent shift to e-commerce spending. Retailers affected by this shift are right-sizing locations across the U.S. In some instances, retailers have shuttered under-performing locations, while other chains have liquidated entirely. Most of the store closings are in B and C level malls.

Number of Retail Store Closures

Source: UBS, Coresight Research

### HORSEMAN #3: DEBT

High levels of debt have caused many bankruptcies, which have affected brick-and-mortar businesses. But not all who have filed for bankruptcy have closed their doors; some have adapted by right-sizing their store base.

### HORSEMAN #4: TARIFFS

The U.S. has announced tariffs on virtually all goods imported from China, representing approximately $550B in goods.

- **25% tariffs on ~$250B of Chinese imports***

On September 1, 2019, the U.S. placed a 10% tariff on an additional $125B of Chinese imports, with a 10% tariff slated for December on an additional $160B in goods.

*As of May 2019.*

### STRATEGIES TO OFFSET TARIFFS

- Negotiate with Vendors
- Bring in inventory ahead of tariff implementation/increases
- Move production outside of China
- Leverage currency rates
- Pass increases on to customers

It is estimated that the average U.S. household will have to spend $901/year to cover the increase in price from tariffs.

Source: Federal Reserve Bank of New York, Wall Street Journal

*YTD through August 2019.

** DEPARTMENT STORES
-4.5%

** HOME FURNISHINGS
-0.5%

** ECONOMIC STORES
-4.1%

** SPORTING GOOD STORES
-3.9%

Retailers have reported mixed results in recent quarters, with many specialty apparel retailers, department stores and other retailers reporting declining comparable store sales.

Source: U.S. Census Bureau

Note(s): (1) Results are revised estimates as outlined in the most recent press release for the second quarter of 2019.
(2) Total retail sales exclude sales of automobiles, gasoline, and restaurants.

Over $1 Billion*

$5 Billion

Over $500 Million

NINE WEST

Over $1 Billion

SAMUEL JEWELERS

Over $1 Billion

FOREVER 21

FULLBEAUTY BRANDS

$1.3 Billion (Bankruptcy 2019)

3rd Quarter 2018: 18%

4th Quarter 2018: 16%

1st Quarter 2019: 14%

2nd Quarter 2019: 12%

Havoc on the Horizon

With the four horsemen advancing in what is a growing economy, it remains to be seen how retailers will fare if a recession were to hit. Store closures will likely continue in the coming years, with some predicting as much as 30% of retail space shuttering as companies brace for a potential retail apocalypse. Store closures result in lost jobs and decreased spending power. Tariffs drive prices up, and all of this combined could wreak havoc on retail sales and the fate of brick-and-mortar.