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Flailing retailers roll out big deals

But discounts aren't expected to save many from closure after worst gift season in decades.

Jaclyn Trop / The Detroit News

Final sales figures for the holiday season won't be available until later this month, but gift card redemptions, merchandise returns and deep discounts aren't expected to rescue retailers in Michigan or elsewhere from what looks to have been one of the worst holiday retail seasons in decades.

Stores are expected to begin aggressively marking down already reduced merchandise today, but "the difference between 75 and 80 percent is not going to be enough" to save holiday sales, said Marshal Cohen, chief retail analyst at NPD Group, a market research firm in Port Washington, N.Y.

Jim Hallan, president of the Michigan Retailers Association, said anecdotal evidence suggests this was the direst season in 25 years; the group's final numbers won't be available until late January.

"We expect the numbers to show it was a very difficult, very soft holiday season," he said.

Slumping sales despite discounts during and after the holidays mean many retailers will be forced to close or downsize in the next six months. Retailers are being squeezed from both sides -- falling consumer confidence and job security mean fewer shoppers, while the credit crunch means merchants will have trouble getting new loans and refinancing debt.

"A lot of stores will go dark," said Birmingham retail consultant Ed Nakfoor. Some stores may close as early as this month, he said.

Michigan has been in a recession for three holiday seasons, but "the worst is yet to come," said Ken Dalto, a retail analyst in Farmington Hills.

The state is in worse shape than the rest of the country because consumer confidence here has been hit by uncertainty in the automotive sector and a withering job market, he said.

The International Council of Shopping Centers predicts 73,000 store closings for the first half of 2009. In total, the group expects 148,000 store closings for 2008 and 115,000 store openings. The net loss represents 3 percent of the nation's approximately 1.11 million stores.

Retail profits are expected to shrink for the fifth consecutive quarter.

"I'm not optimistic," said Michael Niemira, chief economist for the New York-based council.

Among the retailers that have sought bankruptcy protection in 2008 are Circuit City, Linens N Things, Sharper Image, Steve & Barry's and KB Toys. Other stores, including Ann Taylor and Talbots, have reported plans to close underperforming locations or downsize their retail space.

But 2009 could be even worse.

AlixPartners LLP, a global business advisory firm in Southfield, reported that 25.8 percent of the 182 U.S. retailers it tracks will be facing trouble this year.

Gift card redemption doesn't seem likely to throw retailers a lifeline, either -- gift card sales fell a couple of percentage points short of the 17 percent of holiday spending they constituted last year. "The underlying worry that a store will close" dissuaded shoppers from purchasing store credit, while early discounting enticed them to buy merchandise instead, Niemira said.

Ultimately, retailers will need to adjust their size and product mix to find the optimal formula to withstand the recession, Niemira said. However, store closings may reflect a location's demographics more so than a retailer's balance sheet.

"If it's not attracting the consumer, you need to rethink whether that's a viable property," he said.

Metro Detroit's shrinking population may cause national chains to take a harder look at the area, said Jeffrey Stoltman, a marketing professor at Wayne State University. Grand Rapids, which is in a growth phase, may not see as many closings, he said.

Experts are loath to identify specific stores in danger, but those most at risk are highly leveraged chains or ones with high fixed costs and debt coming due, said Marianne Wilson, editor of the trade magazine Chain Store Age. Retailers that have grown cautiously will be able to weather the economic downturn better than "the other players who have opened too many stores and too many concept spin-offs," she said.

The gigantic Mall of America in Bloomington, Minn., may be one of the only shopping malls in the U.S. to close 2008 on a high note. The shopping center, which includes an aquarium, indoor amusement park and more than 500 stores, had more than 150,000 shoppers on peak days over the holidays, said spokeswoman Julie Hansen.

Hansen said shoppers were attracted by discounts -- which range from 20 percent to 75 percent at many stores -- and Minnesota's lack of sales tax on clothing.

"We're up 2 percent for the year," Hansen said. "People are shopping in droves."