At a time when traditional department and specialty stores are floundering, off-price retailers have emerged—and their business is booming. In new research released by The NPD Group, a global industry analysis and advisory services company, roughly two-thirds of consumers who shop for clothes do so at off-price retailers. Their purchases at these off-price outlets represent 75% of all apparel purchases—across all retail channels.
An off-price retailer can be defined as a retailer who provides high quality goods at significant discounts, every day. Two of the largest American off-price retailers, TJX (owner of T.J. Maxx and Marshalls) and Ross, each reported second quarter 2016 sales increases of 7%, whereas their traditional “full-price” counterpart Macy’s Inc. reported decreased sales of 4% for the same period. Ross is slated to open a total of 90 new stores in 2016, while Macy’s recently announced plans to close 100 full-line Macy’s locations.

To understand why off-price retailers are thriving, we first must recognize the differences between off-price retailers and traditional full-price retailers, such as department stores. Fashion is not the key driver for the off-price retailer, as it is for department stores. The off-price retailer’s success is driven by scale, operational expertise, and vendor relationships. The off-price sector makes purchases at a larger scale, buys a high volume of inventory, and then distributes it to its network for quick turnaround, which contrasts with the low-supply, high-demand inventory model at full-price retailers.

But off-price retailers must accurately predict what products will sell quickly, because their product margins are thin. This operational expertise, along with a smaller physical footprint and higher sales per square foot, helps them maintain their lean cost structure. They also have developed strong relationships with wholesalers and designers to ensure a continual flow of merchandise, whether that merchandise is general excess inventory or inventory that was specifically produced for the off-price retailer.

Several different elements have led to the growth of the off-price sector. In today’s marketplace, fashion trends move quickly, which does not mesh well with the generally slow purchasing model at full-price retailers. Department stores are left with outdated and inappropriate stock, which benefits the opportunistic buying strategies on the off-price side. Climate change, generally thought of as a negative occurrence, also benefits the off-price sector. Less accurate weather forecasts, combined with the longer purchasing cycle of full-price retailers, mean more excess stock is available for off-price retailers to buy at a discount. In recent years, mild winters have left winter coats, boots, and sweaters on department store shelves awaiting markdowns. Off-price retailers have avoided this situation by purchasing in-season, which they can do because of their significantly faster purchasing cycle.

The age of consumers is another variable to contend with. Per the NPD group, consumers aged 45 and older make up more than 50% of consumers shopping at off-price retailers. Older Millennials (aged 25 to 34) represent another 16%, and this percentage is expected to rise in the future. Millennials are prioritizing spending on technology and experiences over fashion. A lower-cost option to the traditional department store appeals to them, because it allows them to get their fashion fix with cash to spare. In a similar vein, Millennials fear a looming recession or potential lack of employment, and therefore prefer to shop on as-needed basis, wherever they can find the best deal. Off-price retailers offer discounts every day, so there is no need to wait for the next big department store sale. Also, Millennials are considered to be “real-time” shoppers, so the in-season inventory mix at an off-price retailer is often a better fit.

In recent years, department stores have begun opening their own off-price outlets. As of the second quarter 2016, Nordstrom had 121 full-price stores and 208 Nordstrom Racks, their off-price counterpart. Although dipping into the off-price sector can raise overall profitability of the company, it does not benefit each chain’s primary business. Off-price retailers’ current success means traditional retailers that want to stay afloat must either reconsider their purchasing cycle and sales model or establish clear differentiators between them and the off-price sector, such as offering an exceptional service model, a variety of merchandise, and an improved shopping experience.

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