Deep Dive: Retail Revolution—US Apparel Shifts in 20 Charts

Deborah Weinswig
Managing Director,
Fung Global Retail & Technology
deborahweinswig@fung1937.com
US: 917.655.6790
HK: 852.6119.1779
CN: 86.186.1420.3016

As part of our Retail Revolution series, this report brings together significant data points that chart the changing nature of the US apparel market and allow us to dig deeper into some established narratives and preconceptions. Top takeaways include:

1) Despite some reports to the contrary, Amazon is not among the top 10 apparel retailers in the US, by revenues, if we consider what it retails in its own right.

2) H&M has grown substantially, but it is now experiencing deep declines in its US comparable sales, according to analysts’ estimates.

3) Primark could achieve just under $1 billion in US sales by 2020.

4) The off-price apparel specialist segment grew revenues by 39% between 2011 and 2016, and now accounts for 22.5% of all apparel specialists’ sales.

5) By shopper numbers, Amazon is the sixth-most-popular retailer for womenswear, the second-most-popular for menswear and the top-ranking retailer for footwear in the US.
Introduction
The revolution in US retail is perhaps more evident in apparel than in any other category. E-commerce players, international “invaders” and off-price retailers are creating a whirlwind of disruption for middle-ground incumbents.

In this report, we bring together data from company filings, market-research firms and consumer surveys to illustrate in 20 charts the shifts in the US apparel market. We also use data to explore some established narratives, including those about Amazon’s scale in apparel and the growth of fast-fashion retailers.

Among the subjects we cover are consensus expectations for growth at the biggest apparel retailers in fiscal year 2018, H&M’s sharp downturn in US trading, estimates for store numbers and revenues at Primark, and data on where US consumers shop for womenswear, menswear and footwear.

The following sections cover:

• The Top Retailers
• Amazon and E-Commerce
• Off-Price
• Fast Fashion
• Athleisure
• Store Closures
• Where Consumers Shop

For the purposes of this report, apparel includes clothing, footwear and accessories. All data are for the US only, unless otherwise specified.
The Top Retailers

Figure 1. Top Retailers’ Sales of Apparel, FY16 (USD Bil.)

<table>
<thead>
<tr>
<th>Retailer</th>
<th>FY16 (USD Bil.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walmart (a)</td>
<td>23.3</td>
</tr>
<tr>
<td>Macy’s (b)</td>
<td>22.7</td>
</tr>
<tr>
<td>The TJX Companies (a)</td>
<td>16.7</td>
</tr>
<tr>
<td>Kohl’s</td>
<td>15.7</td>
</tr>
<tr>
<td>Target</td>
<td>14.0</td>
</tr>
<tr>
<td>Gap Inc.</td>
<td>12.2</td>
</tr>
<tr>
<td>Nordstrom</td>
<td>12.1</td>
</tr>
<tr>
<td>Costco (c)</td>
<td>10.4</td>
</tr>
<tr>
<td>JCPenney</td>
<td>9.7</td>
</tr>
<tr>
<td>Ross Stores (d)</td>
<td>9.0</td>
</tr>
</tbody>
</table>

All data are for fiscal year ended January 2016, except for Costco, which is for fiscal year ended August 2016. All data are for US revenues only.
(a) Including jewelry; TJX total is $13.1 billion excluding apparel accessories and jewelry.
(b) Including cosmetics
(c) Softlines, which include apparel and small appliances
(d) Including jewelry and fragrances

Source: Company reports/Fung Global Retail & Technology

We begin with a ranking of America’s 10 biggest clothing, footwear and accessories retailers. Walmart overtook Macy’s to become the top apparel retailer in the year ended January 2016, we estimate. Two of the top 10 apparel companies are off-price retailers: TJX Companies, which includes the T.J.Maxx and Marshalls chains, and Ross Stores. Value retail is further represented by Walmart, Target and Costco, and four of the top 10 are department store retailers: Macy’s, Kohl’s, Nordstrom and JCPenney. Only one, Gap (including Old Navy and Banana Republic), is a specialized nondiscount retailer.

Amazon, with an estimated $5.5 billion in apparel retail sales in 2016 (excluding third-party sales on its site), fails to make the top 10. But if Amazon can grow its first-party sales by around 20% a year, it will be retailing an estimated $9 billion of apparel by 2019.

Figure 2. Consensus Estimates for Top Apparel Retailers’ Total Revenues, FY18 (YoY % Change)

<table>
<thead>
<tr>
<th>Retailer</th>
<th>FY18 (YoY %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The TJX Companies</td>
<td>6.9</td>
</tr>
<tr>
<td>Ross Stores</td>
<td>6.8</td>
</tr>
<tr>
<td>Costco</td>
<td>5.6</td>
</tr>
<tr>
<td>Nordstrom</td>
<td>4.6</td>
</tr>
<tr>
<td>Walmart</td>
<td>1.8</td>
</tr>
<tr>
<td>JCPenney</td>
<td>1.6</td>
</tr>
<tr>
<td>Target</td>
<td>1.8</td>
</tr>
<tr>
<td>Kohl’s</td>
<td>0.1</td>
</tr>
<tr>
<td>Gap Inc.</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Macy’s</td>
<td>(4.0)</td>
</tr>
</tbody>
</table>

As of February 7, 2017. Data are for total company revenues, including any nonapparel revenues and non-US revenues.
Source: S&P Capital IQ/Fung Global Retail & Technology

Above, we chart analysts’ consensus expectations for total revenue growth among these retailers in fiscal year 2018. We look ahead to 2018 because fiscal 2017 has finished for all but one of the top 10 retailers (Costco is the outlier; its fiscal 2017 year ends in August).

It will surprise few readers that the off-price and discount channels are set to be the strongest performers among the biggest retailers. The anticipated revenue decline for Macy’s is in the context of store closures (an issue we cover later in this report).
Amazon and E-Commerce

Many analysts have attempted to estimate Amazon’s sales in the apparel category, but these estimates are typically based on little hard data. The picture is complicated by third-party (3P) sales, which now make up half of Amazon’s total sales.

According to Euromonitor International estimates, clothing and footwear sales made through Amazon US totaled $13 billion in 2016. This was a $9 billion increase from five years earlier. However, $7.56 billion of the 2016 sales were Amazon Marketplace sales. Amazon fails to make our ranking of the top 10 retailers because it functioned as simply a portal, not a retailer, for more than half its sales.

As estimated by Euromonitor, apparel accounted for about 13% of Amazon’s 2016 US gross merchandise volume (GMV), which seems a sensible ballpark figure to us.

Euromonitor estimates that around 17% of US apparel sales will be made online this year, which equates to around $62 billion in sales.

E-commerce’s share of apparel category sales in the US lags its share in peer countries such as the UK and Germany, and this effect is expected to persist over the coming five years.

• Later in this report, we include consumer survey trend data that show how many US consumers buy apparel from Amazon.
Off-Price

The off-price apparel specialist segment grew revenues by 39% between 2011 and 2016. Its $44 billion of sales in 2016 accounted for nearly one-quarter of total apparel specialist sector sales.

Between the years ended January 2012 and January 2016, segment leader TJX Companies grew sales at its US T.J.Maxx and Marshalls chains by 30%, to $19.9 billion.

Source: Euromonitor International/Fung Global Retail & Technology

Fiscal years ended January
Source: Company reports

The major off-price retailers grew their store numbers by 23%, to 4,463, between the years ended January 2012 and January 2016. This compares with 2.2% growth in store numbers across the total clothing and footwear specialist sector, bringing that total to 118,561 in calendar 2015, according to Euromonitor.

New entrants such as Macy’s Backstage and Find @ Lord & Taylor are not included due to lack of trend data.
Figure 7. Consumer Survey: Shoppers Who Use Off-Price Formats as Part of Apparel Shopping Routines, by Where They Shop, March 2015 (%)

![Figure 7](image)

Source: Kantar Retail

Around half of US consumers buy from off-price retailers; the proportion is slightly higher among the subgroup that also shops at Kohl’s and Macy’s. Off-price specialist retailers, such as T.J.Maxx, continue to be shopped more heavily than off-price or discount divisions of department stores, such as Nordstrom Rack and Saks OFF 5TH.

Fast Fashion

Figure 8. US Revenues of H&M, Inditex and ASOS (Left Axis; USD Mil.) and H&M’s US Market Share of Clothing, Footwear and Accessories (Right Axis, %)

![Figure 8](image)

Data for H&M and ASOS are for the nearest fiscal years to calendar years. H&M includes sales tax.
Source: S&P Capital IQ/Euromonitor International/company reports/Fung Global Retail & Technology

In recent years, European fast-fashion specialists have been perceived as a significant threat to incumbent apparel retailers. H&M has led the charge of international fast-fashion invaders. Its $3.2 billion in revenue in 2016 gave it an apparel market share of just under 1%.

Among apparel specialists, H&M ranks between privately owned Forever 21, which generated $4.4 billion in sales in 2015, according to press reports, and American Eagle Outfitters, which turned over $3.1 billion in the year ended January 2016 (latest).

Inditex (Zara) remains much smaller and, in terms of revenue, is in the same ballpark as British online-only retailer ASOS.
Despite its substantial medium-term growth, H&M’s US performance has recently nosedived, with total sales growth supported by continued store openings. A number of brokers estimate that comparable sales were negative in 2016, and were deeply negative in the three most recent quarters. For comparison, the chart above shows H&M’s total US sales growth versus total sales growth in the clothing specialist sector, as recorded by the US Census Bureau.

H&M’s relatively small overall market share belies its strength in its core consumer segment: it ranks much more highly among younger shoppers than among the overall population of shoppers. According to data from our research partner, Prosper Insights & Analytics, some 6% of Americans surveyed said they had shopped for womenswear at H&M in the past 90 days in 2016. That figure, however, was 12.6% among 18–34-year-olds (and 13.5% among 18–24-year-olds, a range not charted above).

• Later in this report, we include more survey data on where consumers shop for womenswear, menswear and footwear.
Primark looks to be the next big challenger to incumbents. It opened its first US store, in Boston, in September 2015, and had opened five stores by its latest year-end, September 2016.

Based on Primark’s expansion in significant continental European markets, we estimate it will open approximately seven US stores per year. Based on average sales per store in non-UK markets, that would take its US sales to just under $1 billion by the fiscal year ending September 2020.

The company does not break out revenues by geographic market.

Athleisure

Athleisure remains an important driver of total apparel sales growth. Euromonitor recorded very strong performances across sports clothing and footwear in 2016, and it forecasts that this growth will strengthen this year.

Data from Euromonitor and The NPD Group suggest that the strongest growth has been seen in sports-inspired products rather than in performance products (see also Figure 13).
In 2016, The NPD Group found that growth in the athletic footwear market was driven by the “classics” segment (the fashion segment) rather than by the “performance” segment. The classics segment includes retro and sports-inspired lines. Performance running shoes recorded zero growth and performance basketball footwear sales declined by an unspecified amount in 2016.

According to The NPD Group, total market growth was impacted in the fourth quarter due to the bankruptcies of Sports Authority and Sports Chalet.

Source: Euromonitor International/Fung Global Retail & Technology

Sports apparel accounts for 30% of the total US clothing and footwear market. This share has risen by approximately one percentage point per year over the past five years.
Store Closures

Figure 15. Major Apparel and Department Store Retailers: Announced Number of Store Closures

<table>
<thead>
<tr>
<th>Store Closure Acronym</th>
<th>Number of Closures</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Limited*</td>
<td>250</td>
</tr>
<tr>
<td>Wet Seal*</td>
<td>171</td>
</tr>
<tr>
<td>Aéropostale</td>
<td>154</td>
</tr>
<tr>
<td>American Apparel</td>
<td>110</td>
</tr>
<tr>
<td>Kmart</td>
<td>108</td>
</tr>
<tr>
<td>Macy's</td>
<td>100</td>
</tr>
<tr>
<td>Kenneth Cole</td>
<td>63</td>
</tr>
<tr>
<td>Abercrombie &amp; Fitch</td>
<td>60</td>
</tr>
<tr>
<td>Sears</td>
<td>42</td>
</tr>
<tr>
<td>Perry Ellis</td>
<td>15</td>
</tr>
</tbody>
</table>

*Represents all of the company’s stores

Store closures announced in the third quarter of 2016 or later

Source: Company reports

Major names such as Macy’s have joined a raft of retailers that are closing stores. The closures charted above are those announced since the third quarter of 2016, so, for companies such as Sears, this is not the grand total. Macy’s announced 100 store closures in August 2016, and the company recently said that 68 of these will close by mid-2017.

Sears has been one of the most aggressive retailers in terms of closing stores: it reduced its store count by 926 between the year ended January 2014 and its fiscal third quarter of 2017 (latest), according to company filings. Its latest closures, announced in January 2017, total 150 stores across the Sears and Kmart chains.

The time periods in which these closures will occur vary and some companies have not specified when they will close stores.

Figure 16. Percentage Uplift in Share of Typical Kmart/Macy’s Shoppers at Rival Retailers When a Kmart or Macy’s Store Closes, 2017 (%)

When Kmart Closes Stores
- T.J. Maxx: 47
- Walmart: 8

When Macy’s Closes Stores
- Dillard’s: 29
- Marshalls: 20
- Kohl’s: 10
- JCPenney: 10

Data refer to the percentage increase in named retailers’ share of “typical shoppers” at Kmart or Macy’s in the nine months following store closures.

Source: Foursquare

Where do shoppers go once their favorite department store closes? The data above show that T.J. Maxx gains the most when Kmart closes stores and that Dillard’s mops up the most shoppers proportionately when Macy’s shutsters stores.
Where Consumers Shop
In this section, we showcase survey data from our research partner, Prosper Insights & Analytics, on where consumers shop for apparel.

Womenswear

Figure 17. Consumer Survey: Retailers Where Female Respondents Shopped for Womenswear in the Past 90 Days (%)

Womenswear accounts for around half of the clothing market, making it much the most valuable segment for retailers. Department stores continue to take leading positions for womenswear, by female shopper numbers. Amazon is comfortably inside the top 10 by number of shoppers.

Figure 18. Consumer Survey: Retailers Where Respondents Shopped for Womenswear in the Past 90 Days, All Shoppers vs. Amazon Shoppers (%)

“Amazon shoppers” defined as respondents that rank Amazon as the store they shop at the most often for any category within the survey.

When we drill down to where Amazon shoppers (male or female) buy womenswear, Amazon itself ranks much more highly, with around one-third buying womenswear from the retailer. “Amazon shoppers” are defined as respondents who stated they shop at Amazon the most often for any category about which Prosper surveys consumers (from groceries to toys to electronics to apparel).
Menswear

Figure 19. Consumer Survey: Retailers Where Male Respondents Shopped for Menswear in the Past 90 Days (%)

<table>
<thead>
<tr>
<th>Retailer</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walmart</td>
<td>8.7%</td>
<td>8.8%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Amazon</td>
<td>15.5%</td>
<td>16.2%</td>
<td>17.3%</td>
</tr>
<tr>
<td>Kohl’s</td>
<td>14.5%</td>
<td>15.0%</td>
<td>15.5%</td>
</tr>
<tr>
<td>JCPenney</td>
<td>16.2%</td>
<td>16.0%</td>
<td>16.2%</td>
</tr>
<tr>
<td>Macy’s</td>
<td>15.0%</td>
<td>14.5%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Target</td>
<td>23.4%</td>
<td>23.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>Old Navy</td>
<td>24.5%</td>
<td>24.0%</td>
<td>24.0%</td>
</tr>
</tbody>
</table>

Not Shopped

Base: 2,763–3,373 males aged 18+ in each survey period; surveys were conducted in June of each year.
Source: Prosper Insights & Analytics/Fung Global Retail & Technology

Menswear accounts for around one-third of the total clothing market. Here, Walmart leapfrogs Kohl’s to take first position and Amazon seizes second place, having registered a leap in shopper numbers between 2015 and 2016. The differences in ranking and the presence of Old Navy for menswear suggest a greater focus on low prices among male shoppers than among female shoppers.

Footwear

Figure 20. Consumer Survey: Retailers Where Respondents Shopped for Footwear in the Past 90 Days (%)

<table>
<thead>
<tr>
<th>Retailer</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>35.3%</td>
<td>34.5%</td>
<td>33.5%</td>
</tr>
<tr>
<td>Walmart</td>
<td>12.7%</td>
<td>12.3%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Kohl’s</td>
<td>9.0%</td>
<td>9.5%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Target</td>
<td>8.9%</td>
<td>8.5%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Payless</td>
<td>8.8%</td>
<td>8.5%</td>
<td>8.0%</td>
</tr>
<tr>
<td>JCPenney</td>
<td>7.9%</td>
<td>7.5%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Macy’s</td>
<td>7.9%</td>
<td>7.5%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

Not Shopped

Base: 6,178–6,809 adults aged 18+ in each survey period; surveys were conducted in July of each year.
Source: Prosper Insights & Analytics/Fung Global Retail & Technology

Amazon rates more highly for footwear than for clothing. In Prosper’s 2016 survey, respondents indicated that Amazon was the most-shopped retailer for shoes.

- Readers can find further analysis of Prosper data in our recent report US Consumer Analysis: Apparel and Footwear.
**Key Takeaways**

While off-price and e-commerce remain the major growth channels in US apparel retailing, the story for fast fashion is less clear, given H&M’s stalling growth and Inditex’s still marginal share of the market. Meanwhile, department stores remain among the most popular destinations for apparel shoppers.

Price-led retailers retain very strong positions in the market, and we estimate that Walmart overtook Macy’s in terms of annual apparel sales in the year ended January 2016. By share of shoppers, value retailers rank more highly in the menswear category than in womenswear.

Primark is a new challenger in the ultralow-price segment and could be turning over nearly $1 billion in annual US sales by 2020.

Amazon is a very popular destination for footwear and menswear, but is slightly less popular for womenswear. This is likely due in part to the fact that shopping in the menswear category is more functional and price-led in nature than it is in womenswear. Amazon is not yet among the top 10 retailers of apparel in the US, if we consider only estimates for sales that it makes itself, and not third-party sales that it facilitates. However, those first-party sales appear to be growing rapidly, and will almost certainly propel Amazon into the top 10 in the not-too-distant future.
Deborah Weinswig, CPA
Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

John Mercer
Senior Analyst

Hong Kong:
8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:
242-246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:
1359 Broadway, 9th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com