

EPISODE 221: GREG MELICH – RETAIL IN 2024

Greg Melich

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Female Voice

From William & Mary in Williamsburg, Virginia. This is Leadership & Business, produced by the William & Mary School of Business and its MBA program. Offered in four formats: the full-time, the part-time, the online, and the executive MBA. For more information, visit wm.edu.

Ken White

Welcome to Leadership & Business, the podcast that brings you the latest and best thinking from today's business leaders from across the world. Sharing strategies, information, and insight that help you become a more effective leader, communicator, and professional. I'm your host, Ken White. Thanks for listening. We interact with it on a regular basis, some of us daily, some weekly. Whatever the frequency, it's a major part of life and spending. Retail. Whether it's discount stores, department stores, online, or brick-and-mortar, retail is a massive sector. And for the most part, since the beginning of the pandemic, things have been good for retailers. For much of his career, Greg Melich has studied and analyzed retail. He's partner and senior managing director at Evercore, a global independent investment banking advisory firm. On a recent visit to William & Mary, he sat down with us to discuss the state of retail, the hot topics, and where things are headed. Here's our conversation with Greg Melich, partner and Senior Managing Director at Evercore.

Ken White

Well, Greg, thanks for your time. It's great to have you with us on the podcast. Nice to see you here.

Greg Melich

It's great to be here, Ken.

Ken White

What have you done? You've been here a couple of days.

Greg Melich

I'm here almost a week now. I was here for the William & Mary Women's Stock Pitch Competition. I'm on the Boehly Center Board of Advisors, so came down for that and actually stuck around most of this week for the Parents Council meeting that's happening this weekend.

Ken White

Excellent. Well, it's great to have you on campus. We mentioned what you did a little bit on the introduction to our listeners, but we'll let you say that. What is it you do? What is your role?

Greg Melich

I'm a partner and Senior Managing Director at Evercore ISI, and I cover the retail industry, which means I cover 20 plus retail stocks and have for 20 years.

Ken White

All publicly traded, obviously.

Greg Melich

Publicly traded companies trying to figure out if the stocks are going to go up or down. That's what I do during the day.

Ken White

We often hear broad lines, hard lines, hard soft. What are your definitions for that?

Greg Melich

I like to say soft lines is, think of it, if you pick up something in a store that covers a soft line, and I threw it at you, and it didn't hurt, it's a soft line. So my partner, Michael Banetti, covers Nike and all the Lulu and all those soft lines companies. I do broad lines and Hard Lines. So Broad Lines is covering everything. So think of Walmart, think of Amazon, might have apparel, but might also have everything else. Also Home Depot, Best Buy, O'Reilly automotive. So basically, if it's in the store and I threw it at you and it hurt, it's a hard line.

Ken White

Retail, what do you like about it?

Greg Melich

What I love is it's always changing. Retailers and the companies that make the products that are sold at retail always have to be changing, being on top of consumer trends, and really trying to service their needs. So to me, that's what's always made an exciting business. It's always changing.

Ken White

Speaking of change, how are things overall in retail here as we're recording in April of 2024? How are things going?

Greg Melich

We're called at a choppy bottom in the first quarter that is now a choppy bounce into the spring. What that means is we had several years. I mean, COVID was generally good for retailers. Why? Government sent out trillions of checks and then said, but you can only spend these 12 places. Retail sales popped for a couple of years with COVID and then the stimulus. Frankly, with inflation now, it's come back, but retail sales have been growing for the last four years above the long-term trend, which is around three and a half percent. This year, we think we'll grow three percent. We're finally getting back to the long-term trend, but we think the bottom was in the first quarter where we grew about just over, well, almost two percent in the first quarter.

Ken White

Now, that's US. Is that where most of your

Greg Melich

That's defining. Great question. That's defining US retail sales, which is about a \$5 trillion market. The way we think about it is consumption is over \$20 trillion, and retail is just over 20% of overall US consumption. It's a big, important industry where you're on the cutting edge, and things are always changing.

Ken White

Yeah, very interesting. Yeah, of course. And growing up in that space with a family business it was fun. You learn a lot of things in retail, no question. Lots of people ask, when they read something regarding the mix, what's the percentage of online sales? What's the percentage of brick and mortar sales? Is there a number?

Greg Melich

Yeah. Using that five trillion market, it's around 21% of it is now transacted on online. And we would estimate about 40% of that now is multi-channel. So you may have bought it online, but then you went and picked it up at Target.

Ken White

Yeah.

Greg Melich

Right. So to us, it's getting harder to define what is e-commerce, but hopefully that gives you the number. The 21% here online then is maybe 13%, something like that, where you never went to a store, you bought it online. Another way to look at that is that Amazon, depending on how you define it, is roughly 9 or 10% of total US retail sales. And they're a majority of that direct online.

Ken White

Omnichannel, more retailers getting into that space?

Greg Melich

Yeah. If you're not an omnichannel, you're not in business anymore as a retailer. Because even if you're not selling online, it's just a major customer acquisition port at this point. I was at an auto parts conference earlier this week, and that was one of the things you were talking about is people don't buy a lot of auto parts online, but at least half the people that do look up on the website, well, are you in stock with this ignition coil? Why would you go down to the auto parts store and go make that trip unless you at least knew they had what you needed? And so that's where I think omnichannel is truly. It's the only way of doing retail now.

Ken White

You talk about change. It wasn't that long a long ago, you had to go to the store. Now you can, like you said, go online, and it tells you what aisle it's in and if they have it. That's pretty fascinating.

Greg Melich

It is. And just seeing how some of these retailers are innovating are always impressive to me. Just like the app on a Home Depot app, where now you can walk around a store, and it tells you which bay to go to. You could tell they're even starting to use artificial intelligence. It's starting to know better than any traditional inventory system or even stock-checking person; wow, are we going to be out of stock or not of coat hangers in aisle three? It's amazing.

Ken White

You mentioned AI. How big of a role is that playing right now in retail?

Greg Melich

It's playing a huge role, this omnichannel shift, because if you're not ahead of it, then you're going to be behind. And so I think what we're seeing is it was true pre-COVID, but

even post. It's those companies that won traffic and won customers during COVID and then found a way to get them to come more frequently, that they're the ones that are really winning. So it's just a huge part of the business.

Ken White

You mentioned COVID. What were some of the things we're seeing now that the pandemic caused or the effects the pandemic had on retail here in 2024?

Greg Melich

There's so many, but to isolate it down to retail, I think what we're still learning is we're in the wake of certain categories had once in a 100-year spikes in demand. We're seeing: do we need to go all the way back to what pre-COVID demand was, or how much of it's sticking? For example, I think golf rounds played are up 30%. Well, now they're starting to go down again year on year, but they're still over 20% above where they were. That has implications for golf club sales, golf balls, et cetera. I use that as an example. You could go through fishing poles, fire pits. Think of a lot of things that we bought as a society that, okay, will we ever have to buy again? That's where I think a lot of retailers are. It's a challenge, but the best ones get through it.

Ken White

We often hear when we read about retail or hear about the sector, about ESG, sustainability. It's important to the companies, important to the customers. How do you look at that?

Greg Melich

I frame it this way. ESG is important. It's always been important, but define it for me because I would say it's an acronym, ESG, and what society defines as important on E can change over time. I used to cover European autos, and at the time, it was considered that diesel was going to save the world by having more fuel-efficient cars. Twenty years later, Volkswagen was paying billions of dollars of fines for basically cheating our laws, saying that their laws were better. I look at it and go, define E for me because even that can move. Same thing with social, same thing with governance. I always look at it as a finance guy, which is that at the end of the day, there is no successful business that doesn't take care of its customers, take care of its associates and employees, and therefore become a bigger, more profitable enterprise 5 or 10 years from now. That's what companies should do. There's always going to be some part of governance and other factors that are a key part of that.

Ken White

We'll continue our discussion with Greg Melich in just a minute. Our podcast is brought to you by the William & Mary School of Business. The Financial Times, Bloomberg Business Week, Princeton Review, and US News & World Report have all named the

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Ken White

Customers, the expectations seem to change from time to time. What are you seeing in that realm?

Greg Melich

One constant, I would say, with consumers over the well, 30 years I've looked at consumers, but also 20 years in retail. In retail, specifically, it's three things. It's price, assortment, and convenience. Those are the three things people care about. You mentioned ESG before. It's like people will say that they care about what particular topic of the year is or decade. But at the end of the day, that's table stakes, right? That you're taking care of your customers and you're doing the right things for society. Okay, I need it. I need it. Is the price good? Do you have the assortment? And can I get it now? How convenient is for me? The rankings will shift. Sometimes, right now, the consumer has been strapped, and so value has really risen up in terms of importance. But those three are in every survey we do of consumers, those always show up as the top three.

Ken White

Well, and that makes sense, right? I think most of our listeners would say, of course, that's what I look for.

Greg Melich

Sometimes, the most simple things are worth repeating because it's this one.

Ken White

Customer service in a brick and mortar location still important?

Greg Melich

Absolutely. I think having people talk about omnichannel and e-commerce and how big and important it is. But remember, almost 80% of sales are still not online. And even the ones that a portion of them, 40% it are, are somehow fulfilled with the store. So to think that you can not have stores and actually have 30% share of retail is I don't think it's going to happen, which is why Amazon, I think ultimately, will have stores again. They've tried and tested. They have Whole Foods that they own. There's a portion of that experience for the consumer that I think a store is a critical part.

Ken White

Yeah, DICKS Sporting Goods. We had one of the leaders from DICKS on, and some of the things they're doing to change the whole experience, actually making experience stores. You mentioned Amazon. What kind of effect, and this is a tough question because the effect has been gigantic, but what an effect have they had on retail?

Greg Melich

Wow. Well, they are neck and neck with Walmart now as total GMV share, Gross Market Value. So it's about 10% of US retail sales. And we estimate that close to 100 million households out of 135 are Amazon Prime members. And those two things. I think that just shows you the impact, right? So they are now as big as Walmart. They still grow double digits. And if you're a retailer, I would even say a company making something that sold to consumers or even Google an advertising business, if you're not watching what Amazon is doing, you're putting yourself at risk.

Ken White

Theft in retail. We're reading a lot about this and seeing a lot about that, also known as shrink. What can you tell us about that? Because it certainly seems to be growing, at least if we're looking at the media.

Greg Melich

Yeah, it's a great question. There's no easy solution to it, but that's why it's one we're going to keep getting. I'll use Target as an example because they've given some of the numbers. It's been a particular challenge for them, but that's because they have a lot of stores in more densely populated areas, and those stores have been subject to a lot of shrink, and they've given the numbers out in such a way that we know that it's been over a billion dollars of incremental hits. Just to frame that, that's shrink was for them probably 1% of sales five, six years ago, and now it's over two. When people say, what does that mean? It has so many implications. I mean, one is just, well, there's some inflation right there. If you're a retailer, you have to price it through, or you're going to go out of business. What do you do for your employees? How do you keep it safe for them? Do you decide to keep a store open until eight o'clock or do you have to close it at five o'clock? There's so many decisions that have to be made given the strength challenges that the industry's faced.

Ken White

What's ahead? What are you thinking? What might we see three, four, five years from now that we're not seeing necessarily now in retail?

Greg Melich

I think there's always been an innovative fast change business. I think the pace of that is just accelerating. It's why, if we talk about Amazon getting a 10% share. I don't see why

they couldn't get to 20. I don't know if it's going to take 15 years or five, but you need to be thinking, what could they do to get it there? And what do I pivot to do a guess? I would think the biggest thing is going to be the pace of change; I don't think it necessarily slows down. And it could be; it probably has to do with AI. Still don't know where or how, but it's going to have to do with that, would be my guess.

Ken White

In your role, what do you specifically spend your time on when you're looking at companies?

Greg Melich

I've grown up as a bottom-up fundamental analyst, and one of the things I always liked and kept me in this equity research job for 30 years now is I'm always excited, and I love just visiting a company or learning about a business. To dig deep, I always felt like a private investigator, almost an investigative journalist of what can we figure out that the market hasn't figured out. The tools all change because we have email now. I'm old enough to have not email when I started. So, the toolkit and the golf bag changes, but what you're after is the same. To me, there's nothing more interesting and exciting than learning about a new company and business and how it can grow and innovate.

Ken White

I often ask our guests, because I'm seeing it as you're talking, that how important is it that you're passionate and you love what you do?

Greg Melich

It's everything. I have two daughters, and this I tell them, I haven't sucked either one of them into the Wall Street gig. But I think the key is you're going to be successful in whatever you're doing if you're passionate about it if it's what you like. And look, that's the best way to get work-life balance is: make your work part of your life and make sure you enjoy it along the way. That's how you get there.

Ken White

Any other advice you might want to give young professionals or working professionals on how to enjoy, how to succeed?

Greg Melich

Yes. I think your first job is not your last job. Make sure wherever you are, you like the people you work with and that you're learning along the way. As long as you find what it is, as you're learning, and you find what you really like, then you'll know where to let those passions take you. That's how to keep it fun.

Ken White

That's our conversation with Greg Melich, and that's it for this episode of Leadership & Business. Our podcast is brought to you by the William & Mary School of Business, home of the MBA program offered in four formats: the full-time, the part-time, the online, and the executive MBA. Check out the William & Mary MBA program at wm.edu. Thanks to our guest, Greg Melich, and thanks to you for joining us. I'm Ken White, wishing you a safe, happy, and productive week ahead.

Female Voice

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