

THE ROBIN REPORT

WHEN DREXLER SPOKE EVERYBODY LISTENED But No One Heard (The Real Point)

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by Robin Lewis



Following the panel discussion of the now iconic Financo annual seminar and cocktail party held this week, Gilbert Harrison, host and owner of Financo, called on Mickey Drexler to make a comment on what had been discussed by the

participants (Chris Burch, founder and CEO of C. Wonder, Susan Lyne, Chairman Gilt Groupe, Kevin Plank, founder and CEO Under Armour, and Walter Robb, co-CEO Whole Foods).

Of course, Mickey does not pull any punches. Indeed, when he speaks, everybody does listen. However, no one really heard his enormously important and scary point, including the press. But, I was there and I did. His opening comment, “I don’t know what the optimism is about,” (responding to the panel’s rosy view going forward), citing “enormous apparel deflation” due to “...too many units in apparel,” (too many stores and too much stuff), and “more cheap players entering the marketplace than ever before,” led to one of the most discounted Christmases ever. Essentially, he sees everything on sale 24/7.

And, while all were listening to this point, it was suddenly lost when Mickey simply used an example of one of deflation’s *symptoms*. Yes, I said “symptoms,” not the ultimate result. He referred to the margin squeeze on everybody, and used malls as an example of not only maintaining their rent levels, but also rolling out kiosks (degrading the shopping experience), and not innovating enough to build more traffic.

Well, with Robert Taubman, Chairman of Taubman Centers, and David Simon, Chairman and CEO of Simon Property in the audience, the point Drexler was driving toward was immediately lost to a noisy, but good-humored volley between Mickey and the developers: Taubman at one point saying: “Mickey, God bless you. It’s not like you haven’t made a living off shopping malls, maybe two livings compared to a lot of us.”

So, his game-changing point, in my opinion was lost, as it was a couple months earlier at a smaller gathering of CEOs, who at least paid it “lip service” but who failed to truly grasp the depth of what he was getting at.

The point, and one I’ve been beating on for some time (with people listening but not getting: read *From Inflation to Stagflation*

to Deflation), is that deflationary pricing, at best, is “lowering all ships,” potentially sinking a lot of them.

At its worst, if it moves from a financial problem to a psychological one among consumers, wherein they see a 70% discount today and hold back buying, anticipating an even greater discount tomorrow, it then moves to an economic problem — the dreaded deflationary cycle that Japan fell into and still has not fully recovered from. The root cause of this is simply too many stores and too much stuff – i.e., unprecedented overcapacity, and now exacerbated by an unknown number of new website stores launched every day, onto a distribution platform that has virtually no barriers to entry. And, each of those new sites has a discount “deal” bigger and better than the one before it.

So, as opposed to trying to juice the demand side for consumption growth (i.e., the Fed’s stimulus programs and ridiculous deflationary pricing), we should be addressing the supply side conundrum. Simply, a new retail paradigm now exists, with a perpetual disequilibrium of too much supply driving an unrelenting downward pricing spiral.

As I’ve stated many times, everything is on sale all the time and shipped for free. Retailers have shifted their pricing structures (good, better, best) down. Outlet stores are growing faster than full price stores, even in the luxury sector. ‘Flash sales’ and ‘Groupon’ and all other kinds of on-sale online models are proliferating at the speed of light. What’s more, if you wait for two seconds, your smart phone will beep with an ad or a friend telling you where you can get whatever it is you’re thinking of buying, cheaper.

And, of course, the biggest undertow of them all is housing. Across the entire marketplace, value is being recalibrated – down.

Can lower interest rates or extra dollars in the pocketbook stimulate consumer purchases in such an environment? I think not, at least not enough to absorb the relentlessly growing and excessive amounts of stuff being tossed into the marketplace, which has many markdowns built into it before it even hits the shelves, and tomorrow, and the next day, and the next, even lower. I’ve been listening Mickey, and I’m hearing and I’m understanding. What’s to be done? Do we hire pricing police? Oh no, that would not be right in a free market capitalistic economy. But, I ask you, do we have a true free market economy? The answer is no, because if we did, we might have more businesses fail, getting rid of the excess capacity so a supply/demand equilibrium would provide a level and robust competitive playing field for those who create real value vs. lower prices.