

Fashion Manuscript

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Ask Marcum

Ron Friedman
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Nick Antonian, Lori Rock, Ron Friedman, Lenny Gordon. Photography By Darren Friedman

When It Comes to the Questionable Future of Retail, Marcum, LLP Has All the Answers

Here we are in April the beginning of spring and what an exciting time of year. Basketball playoffs are just beginning in the next couple of weeks and baseball season has just kicked off. That is what makes spring so exciting and with all this excitement comes the Second Annual Marcum Retail Symposium. Last year's event was a smashing success according to all of our friends, and even those folks who don't even know us. Now the challenge is having a second successful symposium and making it better. We are going to try and do just that!

On the cover of this issue with me are my teammates from Marcum—Lenny Gordon, Lori Rock, and Nick Antonian. Marcum, established in 1951, is one of the top 20 accounting firms in the country. We serve every industry you can think of, but this amazing team that I work with focuses on consumer products. Our clients are manufacturers, wholesalers, importers, distributors, and retailers, and we assist these clients from birth to growth and to the ultimate sale

or cashing out time. Some of these great clients even allow us to take them public through an SEC filing. Clients come to us not just because we are good accountants, but rather because we know their business and we can guide them through the thick and thin of running a business. You need something? “Ask Marcum.” Need to meet an attorney? “Ask Marcum.” Need a banker or factor? “Ask Marcum.” Need just about anything? Yes, just “Ask Marcum.”

Now let me give you my perspective of the marketplace in early 2018.

Retail has been weak for many years, but we finally saw some light at the end of last year. Sales for the holiday season were very good as consumer confidence continues to improve. Retailers need to change with the times and their survival will depend on it. We can expect that of the 900 malls in the United States, 300 will be gone in the next five years. The remaining 600 malls are being or will be remodeled to create an entertainment venue that is completely different from malls of today. The Westfield Century City Mall is a great example of what is ahead for retail. Malls that were once one apparel store after another will be replaced with a different variety of stores. We can expect to see more restaurants, health clubs, movie theaters, bowling alleys, bars, clubs, health care offices, and concert halls. At Marcum’s Second Retail Symposium, Westfield will be a panelist that will explain how they see the future with malls in the U.S., and I look forward to hearing from them.

Consumers are more interested in entertainment and they will shop where the entertainment is. Tax reform has put more money in the average American’s pocket. But the real question is where will they shop? This country has too many retail stores, and tax reform is not going to change that. We have over 25 square feet of retail per person in the United States, while Europe and Japan have less than 10 square feet per person. Until we get right-sized with the number of retail stores, the landscape will continue to be difficult.

Online retailers have been growing in excess of 15 percent per year and as of 2016 they represent about 12 percent of all retail sales of consumer products. This is the fastest segment of retail that is growing, and what we are seeing at Marcum, is that online furniture retailers are performing very well. Millennials are big purchasers of online products because they do not have the time available for shopping at brick-and-mortar stores, and they prefer to use their iPhone and iPad to do their shopping. This generation wants to be entertained when they go out on the town, and with the pressures on them from work, purchasing furniture, and other items, online saves them time.

Millennials are very busy people looking for convenience. This generation and future generations may want to live, work, and play in one location. One of our panelists, Brookfield Properties, has purchased the three mart buildings in downtown Los Angeles, and we can expect to hear their plans for these buildings. We may just find that these buildings might be multiple-use buildings. We are seeing this in other parts of the country where malls are being converted into office and living spaces to go along with retail stores.

The retailers that will thrive during these changing times will have to change to meet the needs of the consumer. I agree with Albert Einstein when he said, “The definition of insanity is to do the same thing over and over again and expect different results.” The results of this act are the

decline in the number of retail stores in the country. Retailers must change with the buying trends of their customers, and we are not seeing enough change at retail. The retailer must ask, “Who are the customers we want shopping in our stores and how do I get them to visit the store?” Shoppers are looking for an experience, so give them one. Create events at stores that may include evening entertainment with wine and cheese, private events for special customers, personal shopping with your best customers. Be creative and think of being different from everyone else.

One of our panelists, Mark Werts from American Rag, will be speaking about this change in the retail environment. Mark has spent his career in the retail sector and nobody knows the market better than Mark.

Today’s business requires more capital than ever before. The early-stage manufacturer has a real challenge in raising money. At Marcum, we are realistic that start-up companies need to look for the initial money from family and friends. Most investors and bankers do not want to provide the capital to launch a new company. The exception that we have seen is the entrepreneur who has been in the business for years and is launching a new company. The early-stage company and growing companies can work with a factor and bank for accounts receivable and inventory financing and also use purchase order financing for production against customer orders. Financing consumer products is changing and two of our panelists will be addressing how to navigate these waters. We will have CIT and Chase Bank on our panel of experts to guide us through these issues.

I don’t want to forget about logistics. Today’s consumer wants instant gratification when shopping. Whether shopping online or at a brick-and-mortar store, the retailer must be able to deliver the product just in time. With the high cost of rent, we will be seeing retailers with a smaller store, which will allow the customer to try on a product that will be shipped to their home the next day from a centralized warehouse. Inventories at the stores may be nothing more than just a showroom. Dynamic International, one of our panelists, will be discussing how warehouses must be able to fill the logistic needs for fast delivery to the stores and the customers.

Our keynote speakers at the Second Annual Marcum Retail Symposium are Leslie Ghize, Executive Vice President, TOBE and Beth Goldstein, Executive Director, Industry Analyst & Client Development, The NPD Group. These two speakers will enlighten and challenge your thinking about the future of consumer products. Do you want to know more? Then join us on April 19th at the JW Marriott, LA Live, Los Angeles.

Let me leave you with these final thoughts.

California is a vibrant state with a GNP that is the sixth largest in the world. That all sounds good but there are major challenges that we face as a state. We have one of the highest state income taxes in the country and with state taxes no longer deductible on your federal income tax returns, the cost of doing business in the state is more expensive. The minimum wages for our workers is also amongst the highest in the country. One question every business will need to decide is if

they want to stay in the state or relocate to a state with more favorable tax rates and minimum wages.

On the positive side, California is a great state to live in with great weather, beaches, mountains, recreation, and life style. My bet is that people and businesses will stay and work hard, and every business will need to be efficient to be successful.

As I tell all manufacturers and retailers, we face many challenges doing business in California, but if you are not having fun doing this business, then do something else.

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