
Off-Price Retail Deep Dive

In the earlier days of COVID, many expected off-price retail to be one of the harder-hit sectors. It was hard to predict otherwise considering the lack of online presence and near-complete reliance on brick-and-mortar stores, along with a pandemic-accelerated global slump in apparel sales. Even the 'treasure hunt' experience - so central to its success - should potentially turn into a negative in this social distancing environment.

Yet, location data and foot traffic insights from throughout the pandemic reveal an entirely different picture. Since Q3 of 2020, leading off-price retail brands have witnessed an impressive recovery pattern, both [in foot traffic](#) and [sales](#).

Whether it was the sector's unique ability to provide a [value-oriented apparel option](#) in times of economic uncertainty, or an opportunity to grow at the expense of struggling department stores and apparel brands during the pandemic, one thing is clear: off-price retail leaders leveraged unique advantages in difficult times. Consequently, the off-price sector is quickly paving its way back to normalcy and toward growth in the years to come.

This report presents an overview and location analytics perspective of the off-price retail sector since the pandemic's onset. After reviewing the various aspects of shifting industry patterns, we will drill down to leading off-price retailers' performances and discuss the sector's current unique balance of power.

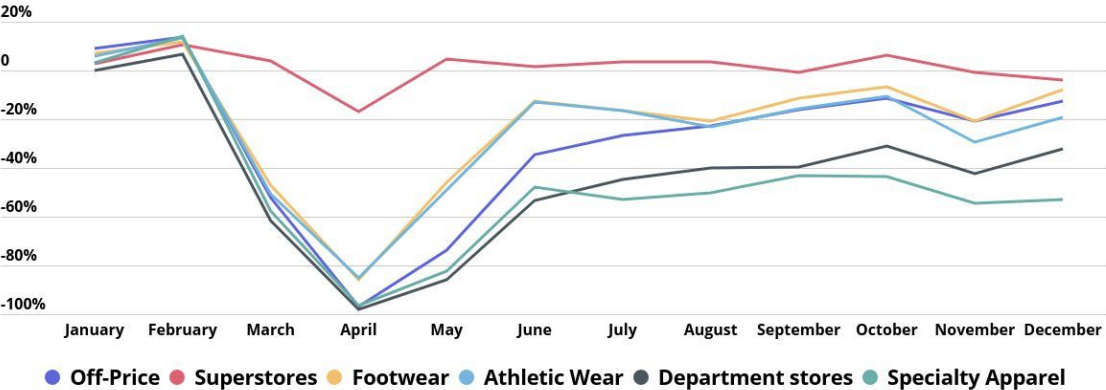
Investigating the Industry

Rising Against All Odds

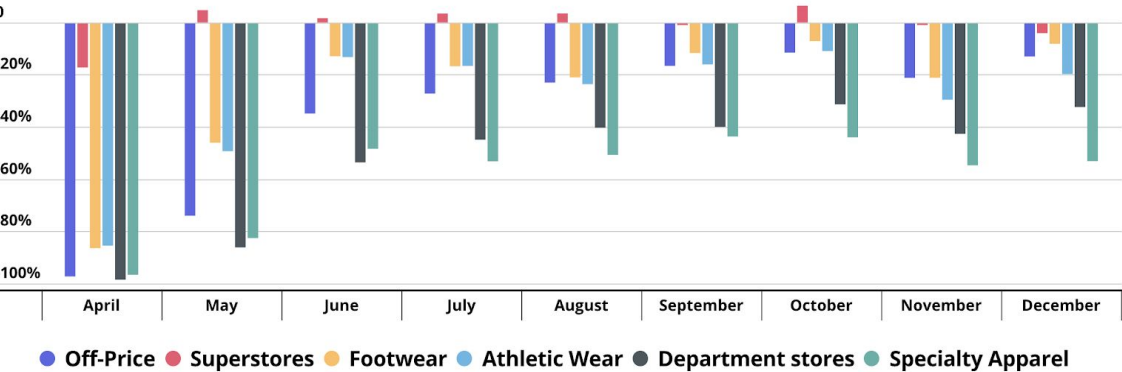
Comparing the year-over-year visit rates of other apparel sub-sectors highlights the impressive recovery of off-price retail during the pandemic. Many apparel sub-sectors' year-over-year visits plummeted by nearly 100% amid temporary store closures in April but then steadily built back up in the spring. Some apparel categories performed better and reached a higher rate of stabilized year-over-year visits during the summer. In October, for example, footwear and athletic wear saw year-over-year visits down by only 6.7% and 10.5%, respectively, while department stores and specialty-apparel retailers experienced year-over-year drops of 30.9% and 46.7%, respectively.

While it initially seemed like off-price retail would join the latter group in its slower recovery rates, the retailers in this segment saw a dramatic improvement in year-over-year visits during the summer months. And by December, the off-price group saw year-over-year visits down by just 12.6%, compared to its drop of 34.5% in June and 96.9% in April.

Year Over Year Foot Traffic Changes by Sector



Year Over Year Foot Traffic Changes by Sector

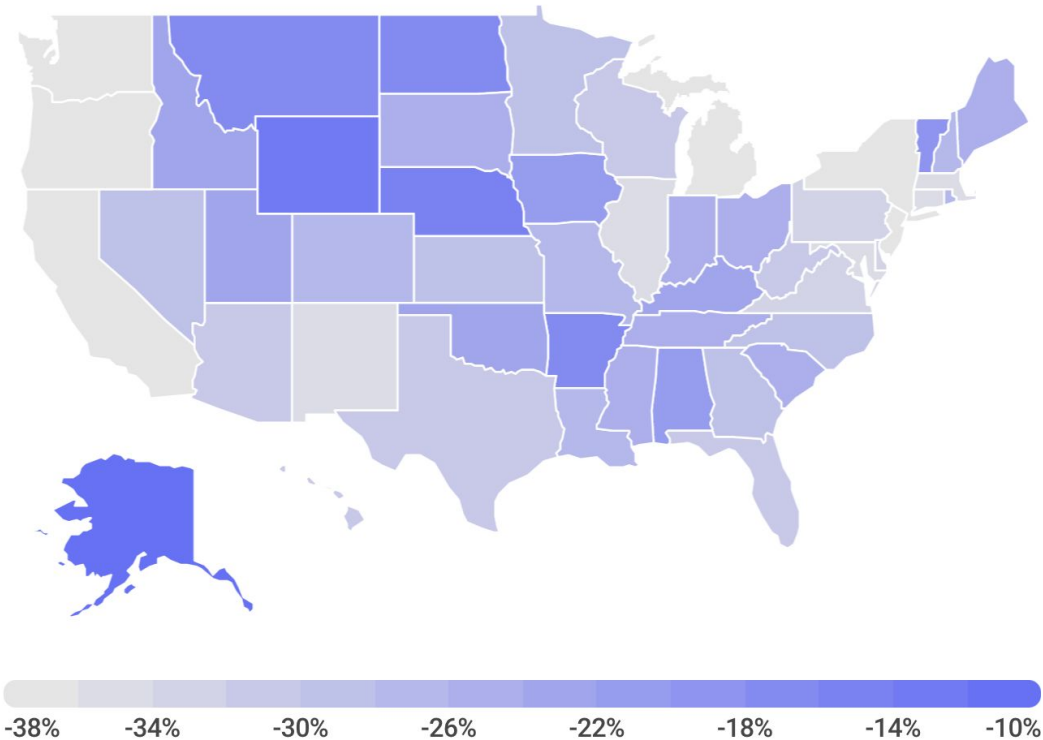


Although not a classic apparel category, one of off-price retail’s main competitors and rising stars during the pandemic is the superstore segment. Big-box stores like Target and Walmart, which provide pandemic-ideal one-stop-shop shopping experiences, compete with off-price retail’s high-value orientation. As the recovery proceeds and the end of the pandemic hopefully draws closer, a major question will center around whether off-price retail brands can strengthen their competitive advantage over big-box giants by

personalizing and providing a unique value-oriented treasure-hunt shopping experience of familiar, beloved brands.

Regional Gaps - Advantage for Low Scale

While an overall recovery is undoubtedly en route, the magnitude of the recovery is expected to differ by states and regions. Off-price brands performed best in states located in the northwest and north-central regions with low off-price store presence. Year-over-year visits in Wyoming, Nebraska, Montana, and North Dakota, states that host only a few dozen off-price stores, declined by only 13.6%, 15.2%, 16.6%, and 17.5%, respectively. In contrast, off-price brands' performance was weaker in states with a large presence. Year-over-year visits in California, New York, Florida, and Texas, states that host hundreds of off-price stores, declined by 38.5%, 36.8%, 30.3%, and 31.2%, respectively. This is a very powerful indication of the sector's even greater potential in 2021. As these key states recover, the chance for an even more rapid and significant visit recovery is on the horizon.



Shifts in Consumer Behavior Patterns

The off-price industry has witnessed a change in its consumers' lifestyles and shopping patterns during the pandemic. In addition, many shoppers' desire for the classic discount treasure-hunt shopping experience has been replaced by a new preference for mission-driven and necessity-focused consumption.

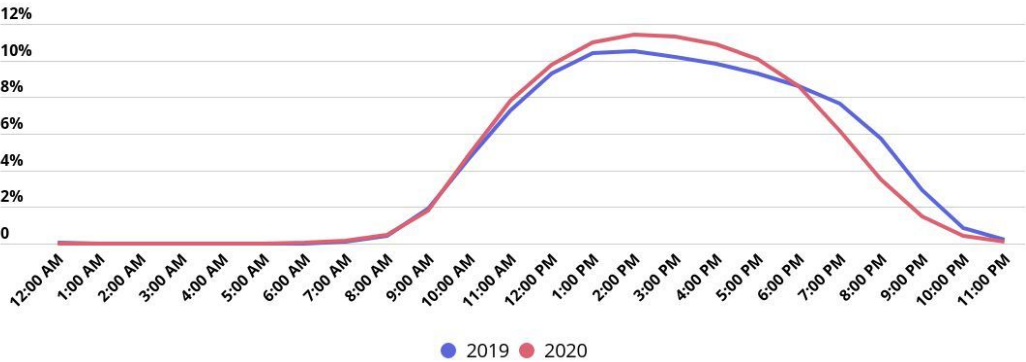
Off-price brands that are quick to internalize these new shifts and challenges will pave the way for a speedier recovery.

Which were the main pandemic-driven shifts that took place in the off-price space?

Earlier Hours and More Weekdays

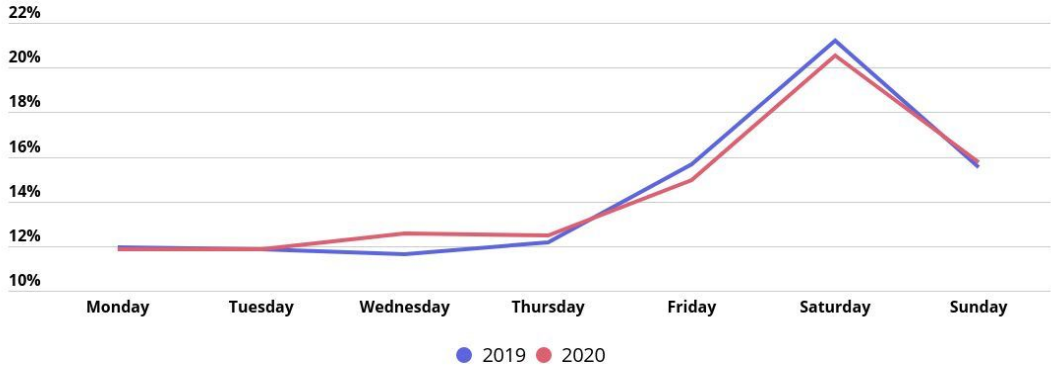
Looking at the location data of six leading off-price chains between January 2019 and December 2020 showed significant changes in preferred shopping hours between the two years. Although the visiting peak hour remained steady at around 1:00-3:00 PM, the entire visitation trend shifted earlier than the year before, showing a clear consumer preference for afternoon trips rather than for evening visits. Visit share increased by around 1% each afternoon hour between 3:00-5:00 PM compared to the same period a year prior. Evening hours saw a decline in visit share, with 1%-2% fewer visitors between 6:00-9:00 PM. In fact, the existing midday preference combined with more attention on this time period could be a significant and ongoing strength for the sector.

Earlier Visits



The favored days for off-price shopping days also changed. There was a decrease of around 1% in the daily visit share for Saturdays, with off-price customers showing a stronger preference for Wednesday and Thursday visits.

More Weekdays

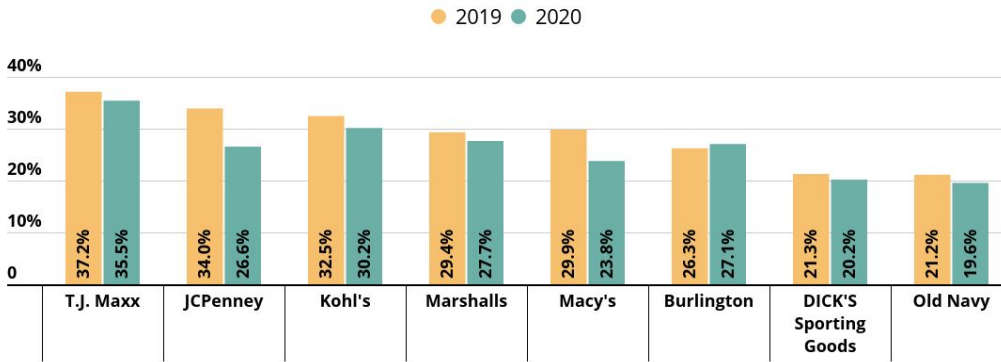


Competition Intensified

Comparing yearly cross-shopping data reveals another interesting shift. In 2020, leading off-price retailers had often experienced a decrease in the percentage of their shared customers with other leading off-price and apparel brands. For example, Marshalls saw an average decrease of 3.2% in its shared customers with other leading off-price brands. As off-price store visits decreased during the pandemic, many consumers who in the past would have visited two or more off-price stores began to visit just their one favorite store. As the competition between the different off-price brands over once-shared customers has grown, the pressure to leverage competitive advantages has also increased. This also speaks to the huge potential for the sector in 2021, as this mission-driven shopping orientation is likely to become a remnant of the COVID era.

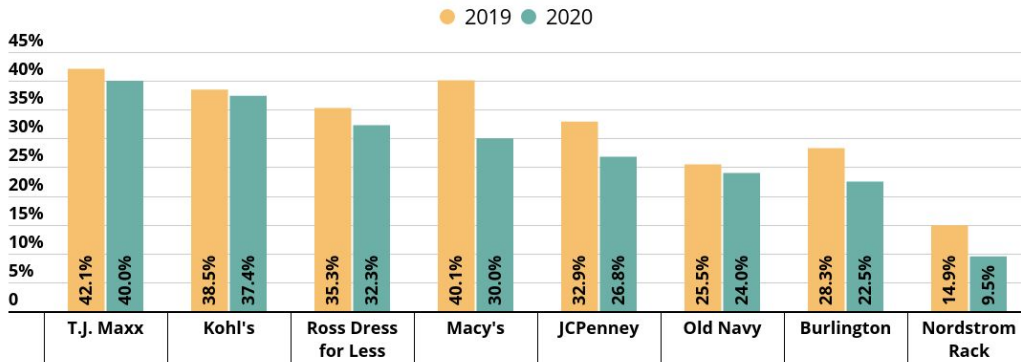


Ross Dress For Less - Shared Customers



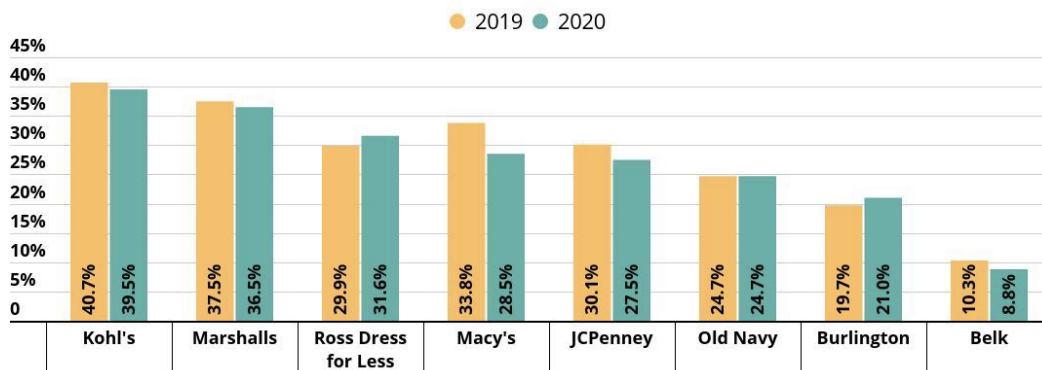
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Marshalls - Shared Customers



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T.J. Maxx - Shared Customers

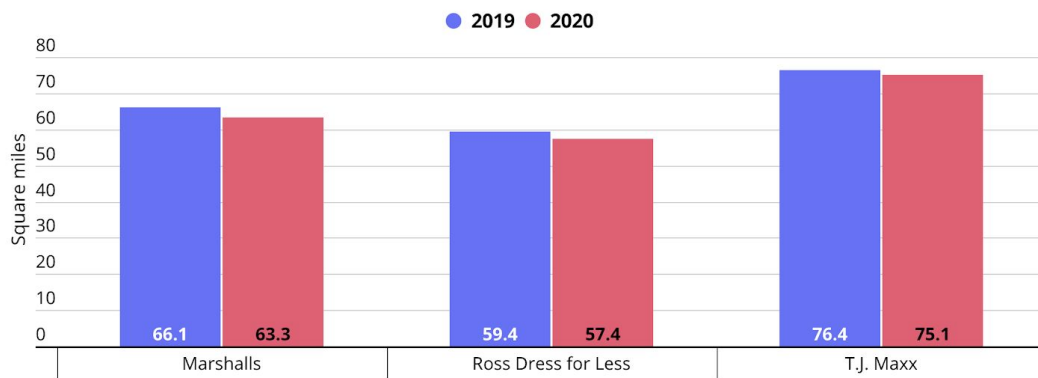


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Closer to Home Shopping

The off-price space has also seen a change in the distance its consumers were willing to travel during the pandemic. Location data shows that more shoppers prioritized proximity to home when choosing where to go in 2020. Leading off-price brands saw their average true trade areas decrease by as much as two to three miles. This pandemic-driven trend reflects shoppers' increasing preference for familiarity and avoidance of travel-related risk and inconvenience, as well as the loss of 'normal' commutes that would take visitors to other areas.

Yearly Changes in Average Trade Area Size



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Brand Drill Down

As many consumers have reduced their off-price shopping to one destination, the brands that adapt quickest and best to pandemic-driven shopping behavior changes will profit most. Which off-price brands performed best during the pandemic and are positioned to reach full recovery in the near future?

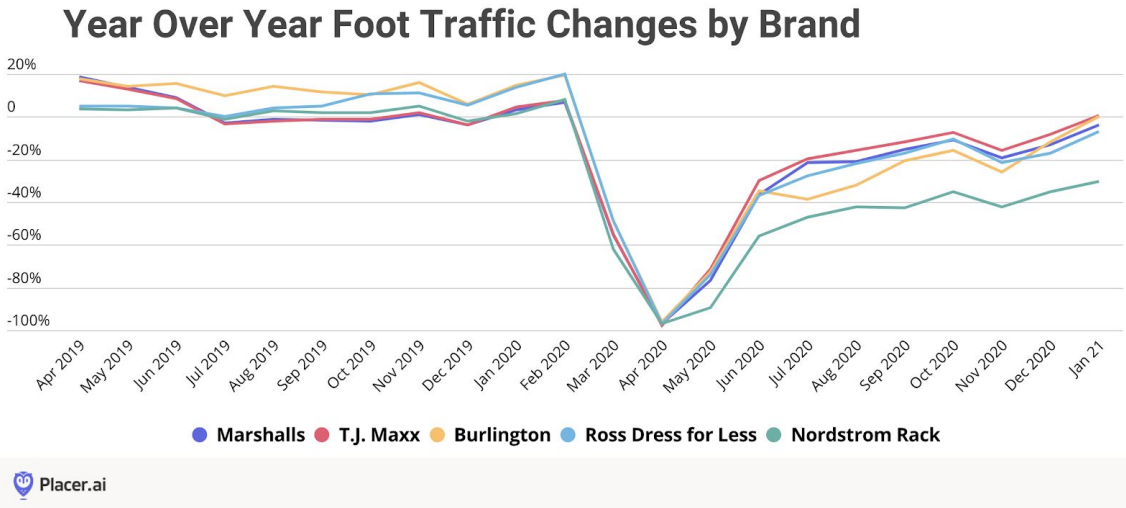
Year-Over-Year Visit Change

TJX Group's T.J. Maxx and Marshalls experienced the same dramatic drop of nearly 100% in year-over-year store visits as other off-price retailers did, with store closures in April. However, the two brands have since managed to climb a steep and steady recovery path, surpassing Ross and Nordstrom Rack in shrinking their year-over-year visit gaps during

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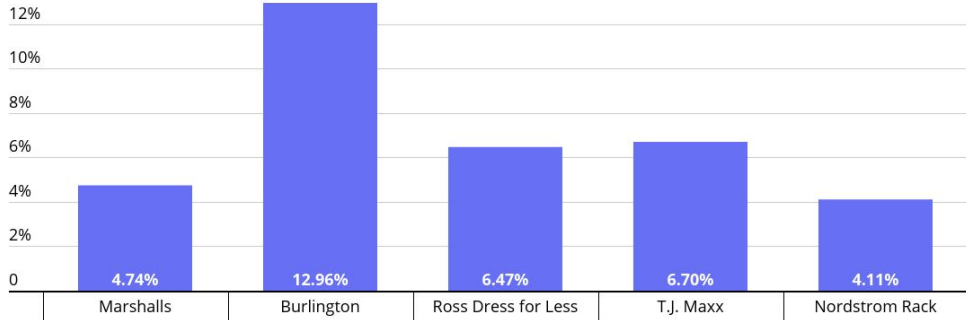
most months. In September 2020, Marshalls and T.J. Maxx saw year-over-year visits down only 15.2% and 11.6%, respectively, while Ross, Burlington, and Nordstrom Rack experienced declines of 17.2%, 20.8%, and 42.5%.

[Some analysts suggest](#) that one of the reasons behind TJX Group’s relative success during the pandemic is the wider range of off-price product categories, most important among them being the home goods category. TJX not only offers home goods at its Marshalls and T.J. Maxx stores but also runs two furniture and home goods chains, [HomeGoods](#) and HomeSense.



During the last quarter of 2020, off-price brands saw growth in the monthly rates of year-over-year visits in comparison to Q3. But that was not the only significant recovery sign they witnessed. In Q4, all major off-price retailers experienced a significant increase in the average number of visits per visitor in comparison to the previous quarter. There are encouraging indications that foot traffic will continue to grow with the increase in returning customers and loyalty rates, despite a decline in the numbers of shared customers and growth in direct competition. The rise in these metrics in Q4 is especially impressive as it came during a wider decline for the overall retail landscape as COVID cases surged ahead of the holiday season.

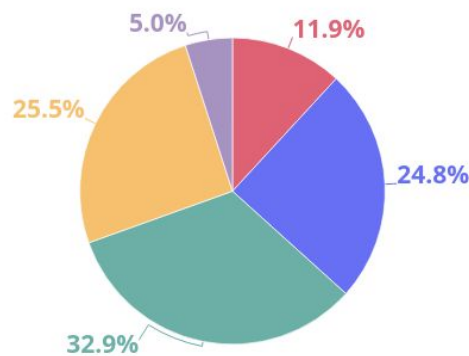
Quarter Over Quarter Changes in Avg. Visits per Visitor - Q4 2020



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Although T.J. Maxx and Marshalls outperformed other major off-price retailers in year-over-year foot traffic change, Burlington had the largest absolute numbers of visits throughout the pandemic, owning nearly a third of visits among the leading off-price brands during 2020. Even more, Burlington had a very impressive jump in year-over-year visits in January 2021, with visits back to year-over-year growth. The brand remains among the likeliest to see a major 2021. Apart from its wider alignment with key trends, the brand could see a major bump with many of its most important states among those hardest hit by the pandemic, limiting recovery rates.

Off-Price 2020 Visits Market Share



● Marshalls ● T.J. Maxx ● Burlington ● Ross Dress for Less ● Nordstrom Rack

Key Takeaways

Impressively, leading off-price retailers are experiencing a steady and strong recovery in year-over-year visits during the pandemic. In fact, the pandemic may have actually strengthened off-price retail's position and potential for long-term growth. The demand for value-oriented apparel is bound to grow as a period of economic uncertainty follows the pandemic, positioning the sector well for years to come.

With a view of this promising path to full recovery and a bright future, off-price brands must internalize the new challenges and shifts in consumer shopping-behavior patterns, including:

- **Big potential** - Off-price leaders not only drove a significant recovery amid the pandemic but could be positioned for an even stronger 2021. The wider trend of economic uncertainty will continue to place a huge premium on the value these brands provide. Additionally, the relative strength the sector showed was limited by slower recoveries in key states like California. The impact on off-price leaders could be enormous should these states begin to show stronger recovery rates.
- **New shopping schedules** – Preferred shopping hours shifted as daily routines changed for millions during the pandemic. In 2020, off-price consumers began preferring afternoon shopping over evenings and weekday shopping over weekends. For off-price stores, where there are no walls between departments, understanding and regulating foot-traffic could be key to optimizing the shopping experience for customers during the pandemic. These off-peak hour considerations could become a long term advantage considering the work/home shift may last.
- **Intensified competition** – Location data shows that, during the pandemic, off-price consumers are reducing the number of different off-price stores they visit and gracing only their favorite one or two stores with their presence. As the effects of COVID dissipate and consumers return to normal shopping patterns, this could provide another lift to the sector in 2021 as the 'more stops per visit' behavior returns.
- **Increasing customer loyalty** – While visits from once-shared off-price customers have decreased, average off-price customer visits per visitor has increased. In other words, off-price customer loyalty has risen. Off-price brands that succeed in retaining their loyal customers are more likely to recover and grow during the

pandemic. But, as this trend returns to normalcy, with stores visited per shopping trip rising, there could be a wider lift that the entire sector enjoys.

- **Broadening product range** – The data shows that in Q3 and Q4 of 2020, off-price brands with a larger array of product categories, such as T.J. Maxx and Marshalls, experienced higher year-over-year visit rates than those that focus solely on apparel. The recent shift in demand from apparel to home goods, beauty, and other categories is estimated to continue beyond 2020. Consequently, off-price retailers may benefit from broadening their product range.

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