Retail review

Introduction

A retailer is a company or individual that sells goods or services directly to consumers, typically in small quantities for personal or household use. Positioned at the final stage of the supply chain, retailers reach consumers through brick-and-mortar stores, digital platforms, or a blend of both. While the beginning of the year is traditionally a slower period for retail, the end of Q1 presents a timely opportunity to assess the state of the sector and consider its short- and long-term outlook. This article also highlights global brands that have recently gained momentum or seen their performance decline.

Snapshot of the industry

The global retail industry has navigated a series of significant challenges from 2022 through 2024, including elevated inflation rates, rising interest rates, and enduring supply chain disruptions stemming from the COVID-19 pandemic. These factors have collectively exerted pressure on consumer spending and operational dynamics across various regions.

United States: Despite persistent inflation, U.S. consumers have demonstrated resilience. In February 2025, retail and food services sales rose by 0.2% month-over-month, though this fell short of the 0.7% consensus estimate. This comes after a downwardly revised 1.2% decline in January, which was the biggest drop since November 2022. Consumer sentiment declined for the third month in a row in March 2025 to hit the lowest since November 2022, reflecting concerns over economic policy and tariffs. Notably, the retail sector's default risk increased from 2.4% to 3.4% between mid-February and mid-March.

Europe: The European retail landscape has faced more stringent conditions due to energy price spikes and higher mortgage rates which squeezed household budgets more severely than overseas. Retailers with strong discount value propositions (e.g. budget supermarkets, dollar stores) or those catering to affluent demographics (e.g. luxury boutiques) fared better, highlighting a fragmented consumer base. In 2025, cautious consumer spending is anticipated, with purchasing volumes projected to grow modestly but remain below 2019 levels.

Asia: In Asia, retail trends were mixed. China has experienced a deceleration in consumer spending, attributed to factors such as the fading effects of previous economic stimuli. Nevertheless, in the first two months of 2025, retail sales grew by 4%, suggesting some resilience in consumer demand. Conversely, emerging markets in Southeast Asia are exhibiting robust growth, driven by increased digital and mobile commerce adoption. India's retail landscape is witnessing significant shifts, particularly in the quick commerce sector. In 2024, quick commerce accounted for over two-thirds of all e-grocery orders.

Retail Setbacks: Companies Feeling the Pinch

The past year has exposed weaknesses in several retail giants, as they falter under shifting consumer behavior, digital disruption and financial strain.

Forever 21

The US-based fashion retailer Forever 21 announced in March 2025 its Chapter 11 bankruptcy process filing, just 6 years after the previous bankruptcy procedure in 2019. Back then, the company had been acquired by Authentic Brands Group, the Simon Property Group [NYSE: SPG], and Brookfield Asset Management [NYSE: BAM], with the intent to turn around the company. Within the reasons behind the failure of Forever 21, the company outlined several factors, among them the e-commerce development of ultra-fast fashion companies and the shift in consumer preferences.

The company has faced increasing competition from the ultra-fashion online stores, mostly Shein and Temu, which could benefit from the so-called "de minimis" exemption. This saying refers to the US loophole that allows importers whose goods are valued under $800 to avoid tariffs. Additionally, Forever 21 had positioned itself as a low-priced and latest-trend follower, whose competitive positioning was strongly affected by the ultra-low prices of clothes available on the Chinese competitor's platforms. The company's owners tried to adapt to the new competition by partnering with Shein in 2023. The Chinese company started selling products from Forever 21 on its website, but this did not yield material benefits.

After being bought out in 2019, Forever 21 showed signs of revamp and registered $165m of EBITDA in 2021. The financial position, however, quickly deteriorated, and losses totaled around $400m over the last three fiscal years. At the time of the filing, the company had over $1.5bn of debt outstanding, with maturities across 2026 and 2027. Despite numerous efforts to find buyers, no actual interest was found in the market and thus, the company decided to file for bankruptcy. It has already started to wind down stores in the US, although the company keeps looking for potential buyers.

The bankruptcy procedure, though, will be limited to the US stores and will not impact the international operations of the company, which are instead handled by third-party licensees. Authentic Brands Group, one of the actual owners, will maintain control of the intellectual property rights.

Macy's

The US retailer Macy's [NYSE: M] is also undergoing a restructuring process because of the latest trends in the sector. Back in 2024, the company announced the closing of around 50 stores within the same year, as well as the target of closing around 150 stores by 2026. As of January 2025, the company confirmed the closure of 66 locations. In addition, the company had to postpone the release of its 2024 Q3 results as the management found out that one of its employees had hidden around $150m in expenses.

The latest financial results gave a contrasting picture on the current situation of the retailer. On the one hand, the company missed expectations on revenues, which declined around 2% on a like-for-like basis compared to the previous year, but showed higher EPS than Wall Street expected. However, the focus was on the performance of the restructuring plan the management team is trying to implement. Specifically, the so-called "First 50" locations comprise the stores where Macy's decided to invest to improve the quality of the locations. Sales within these stores were up 0.8%, marking the fourth consecutive quarter of positive results. As a result, the company is increasing the breadth of this renovation program to 75 other stores, hoping to continue this positive trend.

Hudson's Bay

Still looking at North America, the Canadian retailer Hudson's Bay, one of the oldest companies in the country, has also filed for bankruptcy last week. The judge ruling the process has given permission to the company to start the liquidation of all its stores, but 6.

Behind the failure of the long-standing retailer, the inability to respond to a shift in consumer preferences was one of the main drivers. The e-commerce development led to a decrease in the stores' footfall, which in turn negatively affected the company's operating results. The Covid 19 pandemic further exacerbated the crisis, and the increase in remote working resulted in a significant drop in sales from the flagship stores, which had historically seen massive activity from commuters. Despite efforts to improve its online presence and e-commerce, Hudson's Bay's financial position continued to deteriorate, leading to bankruptcy.

Douglas

Finally, by looking at Europe, the CVC-backed IPO of Douglas [XETRA: DOU] has had a very poor performance so far. The share price has almost halved since the listing, going from an IPO price of around €22 down to €11. The drop was mainly due to a weaker-than-expected financial performance of the company. In a revision of the guidance provided for the Q1 2025 results, in fact, Douglas announced that it expects to report a net income of €175m compared to a previous forecast above €225m, while sales should top €4.5bn down from €4.8bn. The management mentioned the increase in economic and geopolitical uncertainty as a reason for the decrease in consumer demand and sentiment. The news sent the share price down more than 20%.

Thriving in Retail

In the competitive retail landscape, some companies have managed to stand out, successfully navigating economic turbulence and shifting consumer demands.

Inditex

Inditex [BME: ITX], best known for its brands like Zara, Massimo Dutti and Stradivarius, has remained a leader in fast fashion. Its success lies in its omnichannel approach of blending physical stores and online shopping. With more than 5,700 stores globally, Inditex has created a model that integrates convenience and luxury, where consumers can effortlessly browse online, pick up in-store, and return items. This agility has helped Inditex retain market share despite rising competition from online disruptors like Shein and Temu.

Its business model reflects Inditex's broader strategy of balancing cost efficiency with premium in-store experiences with larger, luxury flagship-style stores, a strategy that significantly increased sales per square meter by 28% between 2019 and 2024. Though Inditex's sales growth has slowed in recent months, the company's operating margins remain the envy of competitors like H&M. Zara in particular has stayed competitive, capitalizing on its in-store experience and streamlined supply chain.

Despite strong fundamentals, Inditex's recent stock performance has shown signs of decelerating. A weaker-than-expected sales growth in early 2025 caused a 7% drop in stock price, pointing to the challenges that market leaders face in an unpredictable macroeconomic climate. Part of this slowdown can be attributed to US tariff concerns, particularly under President Donald Trump's trade policies, which create uncertainties for a company that imports all its products to its second-largest market, the US. While the company's rapid post-pandemic growth may now be normalizing, Inditex's geographic and product diversification still positions it well to navigate ongoing economic uncertainties.

Uniqlo

Uniqlo, the primary subsidiary of Fast Retailing, has also managed to establish itself as a market leader, especially in Asia. While many Western companies have struggled post-pandemic, Uniqlo has capitalized on emerging markets. Its designs, focused on simplicity and functionality, align with regional preferences for affordable yet high-quality clothing. Even as China's retail sector faces declining consumer spending, Uniqlo's brand loyalty remains strong.

Uniqlo differentiates itself from other retailers by emphasizing timeless basics in its clothing designs, which makes the company less dependent on short-term trends. This allows the company to operate with less waste and employ more efficient supply chains, which attracts environmentally conscious consumers, especially in Western markets. Additionally, Uniqlo's emphasis on innovation, such as the breathable AIRism and insulating HEATTECH fabrics, has given it an advantage over competitors who rely on more traditional offerings.

Uniqlo's aggressive global expansion also reinforces its competitive position. In 2024, it opened 100 new stores, focusing on prime locations in North America and Europe. Its strategic entry into new markets is coupled with flagship stores that elevate brand visibility. This has allowed Uniqlo to make significant steps toward its goal of becoming the world's largest apparel retailer by sales.

Costco

Costco [NASDAQ: CSCO], a leader in the warehouse retail sector, has taken a distinct approach to growth, prioritizing customer loyalty, efficiency, and sustainable growth. The company's membership-based business model fosters a sense of exclusivity, encouraging consumers to return to the store to maximize their value. The membership fee also generates a reliable revenue stream, which allows Costco to offer lower prices while maintaining profitability.

While other retailers chase rapid growth, Costco has focused on sustainable expansion, maintaining operational efficiency through bulk offerings and private-label products. This strategy yields higher margins while appealing to price-conscious consumers.

Despite being known for its massive physical stores, Costco has embraced the digital shift, investing in e-commerce capabilities. Its e-commerce sales growth reached a three-year high, reflecting a well-executed digital strategy. The company increasingly focuses on implementing innovations such as different features in the Costco app and personalizing marketing efforts targeting members based on their previous shopping experience. As it integrates more technology and expands its global footprint, the retailer's disciplined approach ensures its leadership in the warehouse retail sector.

These companies' successes do not merely result from following the status quo. They reflect deliberate choices to prioritize long-term strategies. Each demonstrates how agility, sustainability, and customer loyalty are central to remaining competitive in today's volatile retail environment. These characteristics also play a vital role in the outlook of the sector.

Industry Outlook

Cautious optimism defines the retail landscape for 2025. Despite market recovery and stabilizing inflation, retailers face cost challenges with increased national living wage and insurance contributions. Most notably, retailers must also confront an increasingly value-driven, price-conscious consumer. Consumers now hold high expectations for their shopping experiences, with pressures for seamless, personalized omnichannel services. For instance, 6 in 10 executives expect price to override brand loyalty in 2025. It marks a pivotal sector shift from "macro to micro", where retailers are forced to move from a supply-driven approach to demand-driven, individualized consumer experiences. So, to attain a competitive advantage and navigate these hurdles, retailers must seek to harness digital technologies and target M&A opportunities.

Digital transformation is the top priority for retailers in 2025, despite 80% of shopping still occurring in-store. Integrating digital platforms, especially AI, will allow companies to drive cost efficiencies and optimize consumer experiences. With hiking labor costs, utilizing AI to automate tasks allows for savings and improves operational agility, with 6 in 10 retail buyers noting that AI-enabled tools improved demand and inventory management in 2024. Those retailers who have already embraced these technologies are reaping the rewards. Retailers who used Gen AI during Black Friday in 2024 gained a 15% conversion rate boost. However, retailers should not ignore other digital technologies when targeting value-driven consumers. Shoppable media, i.e. the TikTok shop, presents a significant growth opportunity for retail. Retailers can leverage digital technologies to build loyalty among different consumer demographics.

However, the digital transition will not be easy for retailers. Updating or replacing legacy systems will be complex, costly, and time-consuming and to compete in attracting value-driven consumers and tackle rising costs, retailers must also explore strategic M&A targets. More than half (53%) of retailers expressed plans to make moderate-to-major investments in M&A in 2025 versus 30% in 2024. Retailer's fears of high digital transition costs have made them particularly keen on unlocking digital business capabilities. As such, Retail Media Networks (RMNs) help discern consumer spending patterns and have proven popular M&A targets with 20% projected annual growth through 2027. However, considering steep interest rates, partnerships will likely be the most prevalent across retail. This strategy is more attractive, allowing retailers to increase their captive audience and synergies while circumventing the acquisition premium.

With increasingly value-driven, price-conscious consumers and economic pressures marking 2025, retailers must act by investing in digital platforms and seeking M&A or partnership opportunities. Those who embrace these strategies and master "macro to micro" will capture personalized value and gain a competitive advantage over their peers.

TAGS: Retail, consumer

