How Stuff Works

Your Favorite Clothing Brand Is Dying Much Faster These Days

by Dave Roos
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Step aboard the HowStuffWorks time machine and take a trip back to the late 1990s, when the suburban mall was king. Back then, you went to the mall to buy the latest Janet Jackson CD from Sam Goody, browse the rude T-shirt selection at Spencer's and grab a slice of Sbarro in the food court. And it's also where you flocked every August for back-to-school fashion from hot brands like The Limited, Wet Seal, and (yes) GadZooks.

Such was the state of the retail universe before the internet had to go and ruin everything. As a sign of how far our mall heroes have fallen, The Limited announced this January that it's closing all 250 of its remaining brick-and-mortar stores. The Limited closures followed a year that saw bankruptcy filings from American Apparel, Aeropostale, PacSun and more, reports The Washington Post.

The demise of mall-based retail brands started in 2008, when the economic downturn claimed 20 major retail bankruptcies in a single year. Since then, a host of economic, technological and fashion forces have combined to create a perfect storm — a "mall-pocalypse," if you will — that has already sunk many once-powerful brands and will like claim many more.

Ronald Friedman says it wasn't always like this. For the past 46 years, Friedman has worked as an accountant and business advisor in the retail apparel space. He's now a partner with the public accounting firm Marcum, where he's co-leader of the firm's National Retail & Consumer Products Industry group.

"Most brands had a 10- to 15-year life," says Friedman, talking about the apparel scene in the '70s, '80s and '90s. "The typical brand would start in the better stores and eventually move into the Targets, Wal-marts and Costcos of the world, and that's where they would ultimately end their life cycle."

But Friedman was also part of the push for brands to go from wholesale to retail, not only manufacturing their own apparel but selling it in their own stores. This was in response to pressure from big department stores like Macy's and Bloomingdale's, which basically rented out space to clothing brands and demanded a big cut of the sales price.

"When [the department stores] were beating up our clients, retail was the way to go," says Friedman, who told wholesale brands that by opening their own stores, they could go from gross profit margins in the range of 20 to 40 percent to margins as high as 75 percent.

Friedman wasn't the only one in the 1990s who was bullish on vertical integration, the idea that brands should manufacturer, market and sell their own products in branded stores, primarily in malls.

"Back then there was an explosion of brands, particularly vertically integrated specialty retail brands," says Liz Dunn, chief executive of retail consulting firm Talmage Advisors. In the late '90s and early 2000s she was as an investment banker working with retail clients. "Every brand thought they were going to be a billion-dollar brand and every retailer thought they were going to have at least 1,000 stores. No one thinks that anymore."

Instead, we're witnessing an "unwinding" of the mall goldrush that happened 20 years ago, Dunn says. She notes that the U.S. retail sector is wildly "overstored," with 23 square feet (2 square meters) of retail space per person compared to single-digit square footage per capita in countries like Japan and England. That's a big reason why we're seeing so many high-profile bankruptcies.

"The only way to get rid of retail stores is to file bankruptcy," says Friedman. "In bankruptcy, you can buy out a lease for 15 cents on the dollar. That's what the courts provide."

To survive the mall-pocalypse, brands not only need to shed physical stores, says Dunn, but they need to adapt to a new fashion sensibility fueled by social media. The old brand strategy was to release two new seasons a year where the entire clothing line fit roughly the same style, sensibility and color palette. That's way too slow and stodgy for a generation that lives and breathes "new" and "fresh."

"Think about Gap in 1999, with their commercial, everybody in khakis," Dunn says. "They literally had a commercial with 20 or 30 people jumping around in the same outfit. That doesn't exist now. Nobody wants to be in a uniform. Everybody wants to be more individualistic. Everyone from a high school student to a mid-career professional woman."

That means more brands will have to go the route of H&M and Zara, churning out fresh new tops, dresses, shorts and shoes on a monthly or even weekly basis. To make it profitable, most fast fashion brands make their clothes very cheaply on the backs of low-paid labor in places like China and Bangladesh. Environmental watchdogs complain that the cheaply made garments fall apart after a few washes and are tossed in the trash. As more brands rush to this model, it could mean a flood of so-called "landfill fashion."

In the short term, expect more retail carnage, says Dunn.

"We're going to see a lot of retailers closing many, many stores," says the retail analyst. "If they can close enough stores cost-effectively, not completely gut their balance sheet, and still get to a profitable level and reinvest dollars in online capabilities, there's a possibility that they'll survive. But I think we're going to see more failures than survivors frankly."

Now That's Interesting

If you're thinking about launching an online fashion retail business, start hitting up friends and family for money. While you'll certainly save money on rent, Friedman says you should expect to spend $20,000 to $40,000 a month just for online marketing. He estimates the entry price for an online fashion startup to be $1 million.