Top 10 Retail Brands to Watch in 2022

‘Rightsizing’ is a term that has come to be seen as a euphemism softening the harsh blow of announcing the closing of locations. Yet, for many, the approach is truly about optimizing a chain's retail footprint. However, rightsizing is likely just as connected to those retailers looking to expand their presence.

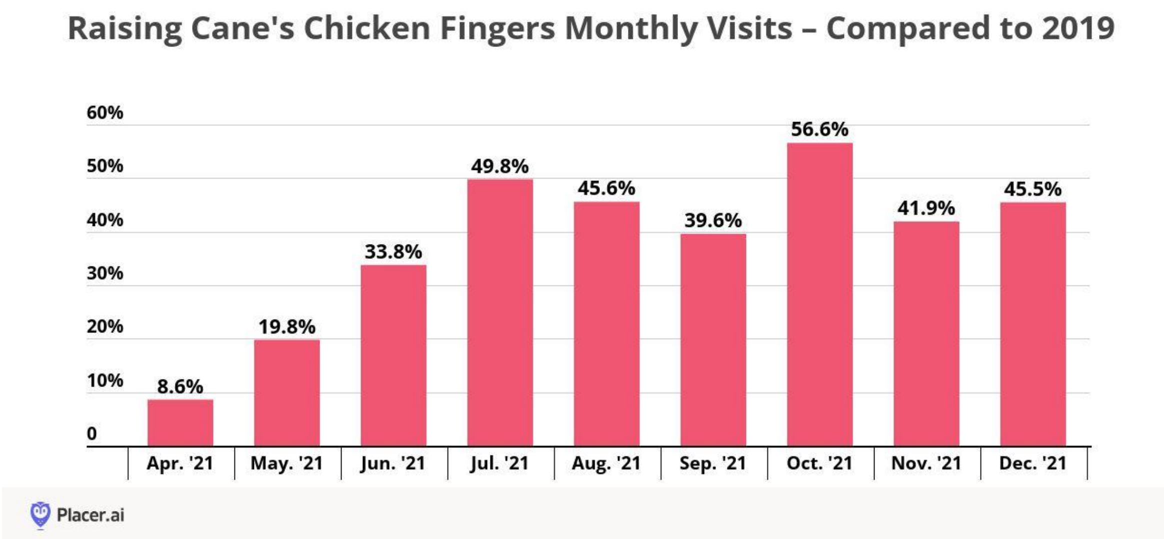
With that in mind, we broke down ten expanding retail brands to watch in the coming year with an emphasis on those who seem to be hitting the mark with the new, aggressive push.

Raising Cane’s Chicken Fingers

Despite the overall downturn in dining visits over the past two years, Raising Cane’s Chicken Fingers has emerged from the pandemic stronger than ever. The brand has benefited from two key trends in the restaurant industry post-COVID: drive-thru and menu simplicity. The company has drive-thrus at nearly all its locations and is ahead of the curve with its multi-lane drive-thru locations, which will become more prevalent across the industry in the years to come.

Raising Cane’s has been expanding like crazy and plans to grow its store fleet even further in 2022 by adding another 100 stores to the approximately 600 stores it has today. So far, the increase in locations doesn’t seem to have reduced the crowds at the brand’s existing venues – the brand’s average visits per unit numbers have climbed by 23.7% between Q4 2019 and Q4 2021, indicating that these new stores are likely to meet a ready demand.

And contrary to the QSR industry movement toward more franchised locations, Raising Cane’s growth is expected to come from an increase in company-owned locations – giving the company a major advantage when competing with less-capitalized franchisee groups for new properties.



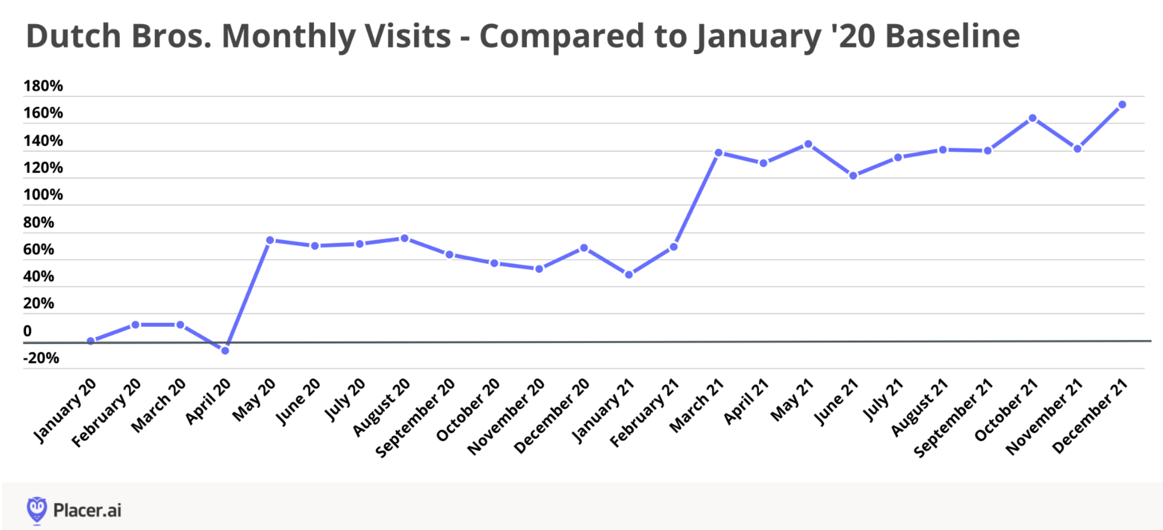
Dutch Bros. Coffee

We're hard pressed to find a restaurant chain with greater longer-term unit expansion opportunities than Dutch Bros., which entered the public markets in 2021. Dutch Bros. is now the 3rd largest coffee chain in the U.S. – trailing Starbucks and Dunkin' – moving up from the 4th place position it occupied in 2020. Dutch Bros. also boasts exceptional unit-level economics, including average unit sales ($1.7M) that exceed Starbucks ($1.5M) and Dunkin' (almost $1.0M).

In its IPO registration filing, the company cites the potential for 4,000 units over time – which may seem like an ambitious goal, but recent loyalty trends reinforce Dutch Bros.' massive growth potential. In 2021, Dutch Bros. locations received an average of 27.8K quarterly visits per unit in 2021, more than a 50% increase from pre-COVID levels. This is also well ahead of its closest comparison – Dunkin' – which averaged almost 15K quarterly visits per unit pre-COVID and is pacing for about 16.3K visits per unit in 2021.

At present, there are over 500 Dutch Bros. locations which are fairly evenly split between company-operated locations and franchise units – although company-operated shops accounted for the vast majority of new units opened in 2021. Heading into 2022, the company plans to open "at least" 112 locations, with the company-owned locations continuing to account for the bulk of new shops.

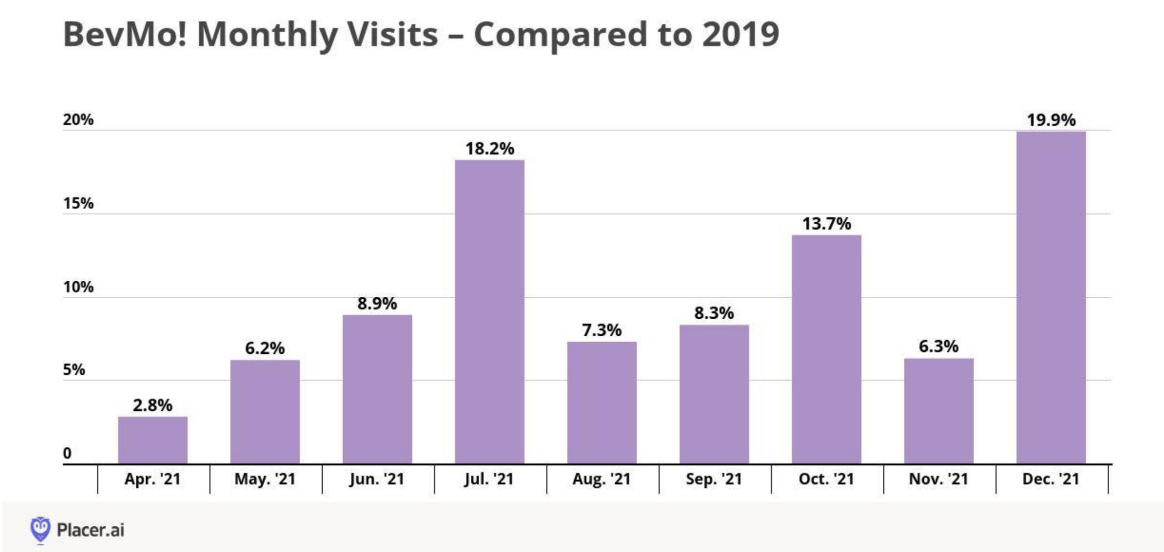
The fact that both dining concepts on this list – Dutch Bros. and Raising Cane's – have chosen to expand by opening more company-owned stores rather than through increased franchising opportunities might indicate that, for all the advantages of growth through franchising, company-operated stores may have an easier time of quickly adapting and maintaining brand integrity in a highly dynamic and constantly changing environment.



Gopuff

Digital convenience store company Gopuff has started to open its micro-fulfillment centers to the public, including locations in San Francisco, Texas, and Florida, on top of acquisitions of 161 BevMo! stores in California, Arizona, and Washington and 23 Liquor Barn locations in Kentucky in 2021. This signals a much more aggressive retail expansion plan in 2022, both organically and via acquisition.

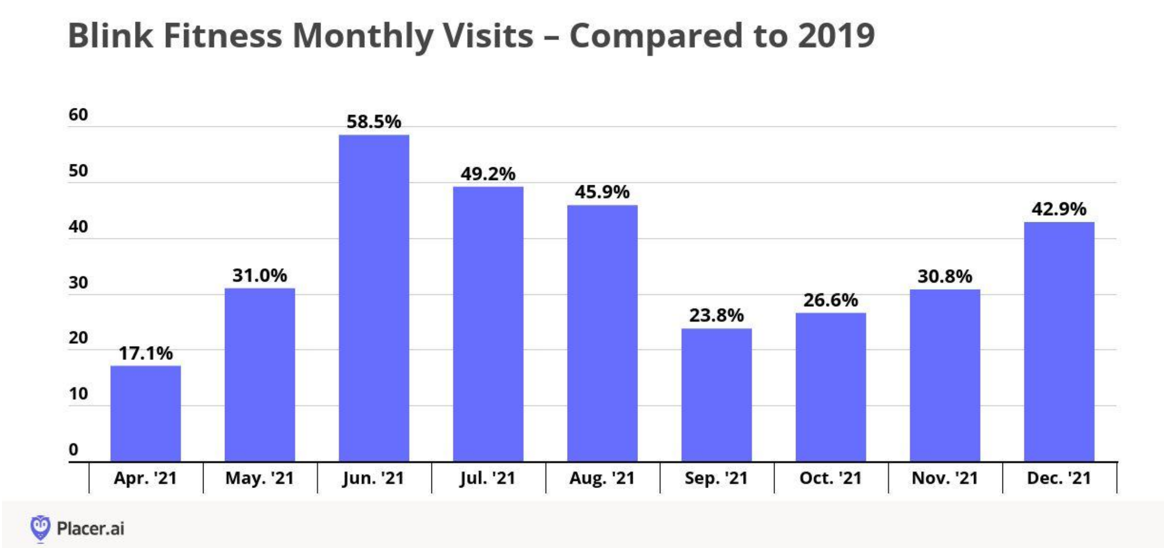
From a size perspective, the average Gopuff center is roughly 12,000 square feet, about the same size as CVS' expected retail closures – so as Gopuff continues its brick and mortar expansion, the company is a clear one to watch for those who could pursue some of these vacated locations.



Blink Fitness

According to the National Health & Fitness Alliance, over 20% of pre-COVID fitness club locations have permanently closed since the pandemic began – which means that there will be significant unit expansion opportunities for the fitness chains that have managed to weather the storm. And certain brands – specifically low-cost concepts, that offer memberships starting at $10 per month compared to competitors in the $30-$60 range – are already stepping into the gap. Planet Fitness, for instance – one of the original low-cost gyms with a nationwide reach, opened 132 new units in 2021. Chuze Fitness, an earlier-stage chain, has also been taking over some of the vacancies left by now-shuttered fitness clubs.

But the real growth story belongs to Blink Fitness. The chain, which has only been around since 2011, has seen its Yo2Y visits skyrocket this year, with Q4 '21 visits 33.0% higher than they were in Q4 '19, and Q4 '21 visits per unit up 11.8% compared to the same quarter in 2019 – and no sign of slowing down. As consumers cautiously return to gyms in 2022, many will look for affordable, low-commitment alternatives to their now-closed health club – and more affordable club options such as Blink, Chuze, and Planet Fitness may receive a disproportionate portion of these visitation gains.

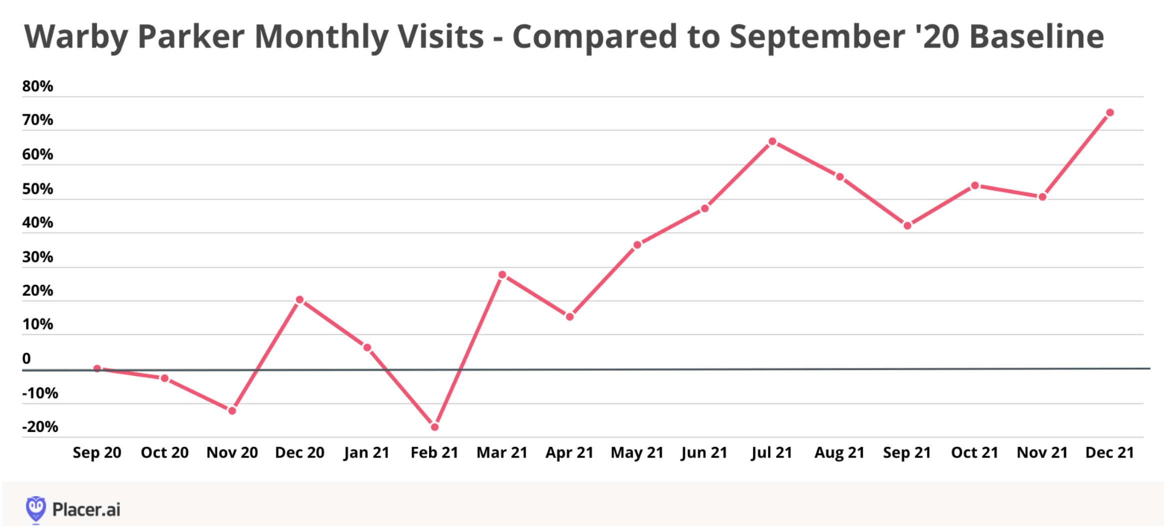


Warby Parker

Warby Parker was one of the first retailers to make the DTC to brick and mortar leap, and it looks like the brand's holistic omnichannel strategy is continuing to pay off. The brand's stores may be small – averaging almost

1,600 square feet on average – but they drive substantial traffic and impressive sales volumes, with mature stores generating $2900 in sales per square feet compared to the retail industry average of around $350/sq. ft. Warby has over 160 stores today, including 35 new stores opened in 2021, and there is no reason for the brand to slow down its pace of expansion in 2022.

The company's unique strengths lie in its vertical integration and its ability to leverage data. The vertical integration gives Warby fast-turning production capabilities and enables the brand to sell merchandise that is consistently on-trend and in-style, with inventory turns of 5 times annually versus the traditional industry standards of 2 times. Warby's deep understanding of its omnichannel potential, which led the brand offline in the first place, has also been instrumental to its success, as the brand uses its abundant data to pinpoint customer needs, provides exceptional on- and off-line customer service and uses all available channels to maintain a brand and approach that authentically resonates with millennial consumers.



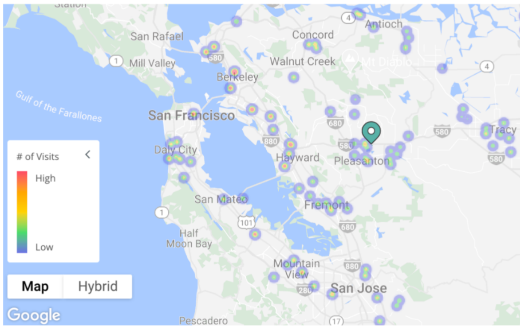
Allbirds

Like Warby Parker, Allbirds originated as a DTC digitally native brand and has successfully transitioned into an omnichannel retailer. The company opened its first brick and mortar store in 2017 and now operates over twenty US locations across the country, with a likely expansion rate of 10-15 stores a year over the next couple of years, and plans to grow its store fleet to "hundreds of potential locations in the future."

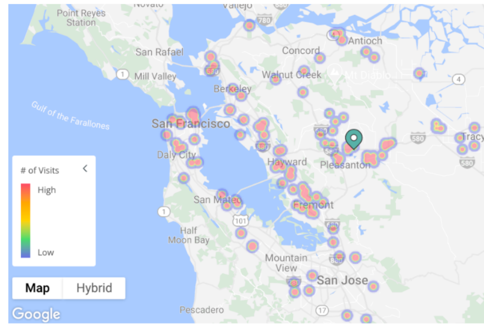
An average Allbirds store produces about $4.6M in revenue, or roughly $1,400 per sq. ft. – more than triple the industry standard for footwear retailers, which averages between $300 and $400 per square foot. And the value of the stores does not just lie in in-store sales – Allbirds has found that omnichannel repeat customers spend 1.5x more compared to digital-only repeat customers.

It should be noted that pandemic-related supply chain challenges have created an inventory challenge for the athletic footwear sector as a whole this year, and so the retail footwear industry's gross margin rates will likely increase in 2022 as many of these challenges get resolved. Looking beyond this year, Allbirds will likely be able to raise its average selling price and margin rates even further, as Nike, Adidas, and other larger brands drive an industry trend towards higher-quality revenue – which should allow Allbirds to scale into an incredibly favorable industry backdrop.

Allbirds / Livermore, CA - Growth in Visits



Q4 2020



Q4 2021

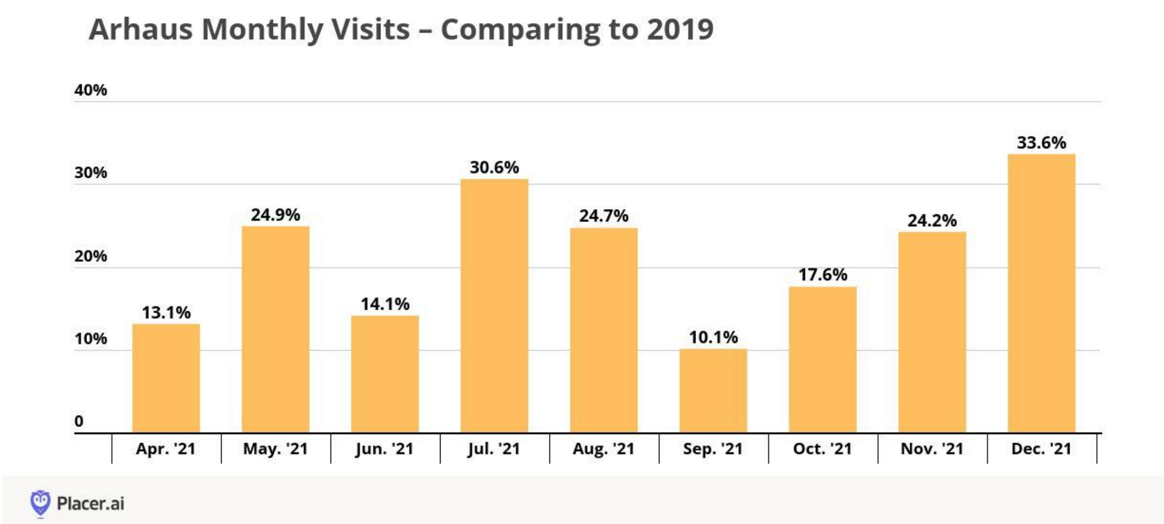
Placer.ai

Arhaus

This year is setting up to be another strong year for home furnishing and home improvement retailers, driven by several traditional factors such as home price appreciation/wealth effect, aging housing stock, strong consumer balance sheets, and low mortgage rates, as well as several "non-traditional" variables like increased housing wear and tear due to remote work, increased demand for vacation homes, accelerated millennial household formation, and baby boomers electing to "age in place".

In addition to benefiting from the broader housing tailwinds, Arhaus can take advantage of the current demographic trends. The retailer is targeting high-income households (those with household incomes of greater than $100,000), which continue to grow as a percentage of household ownership in the U.S. Additionally, the company should benefit from the population shift away from larger cities and into less-dense suburban locations.

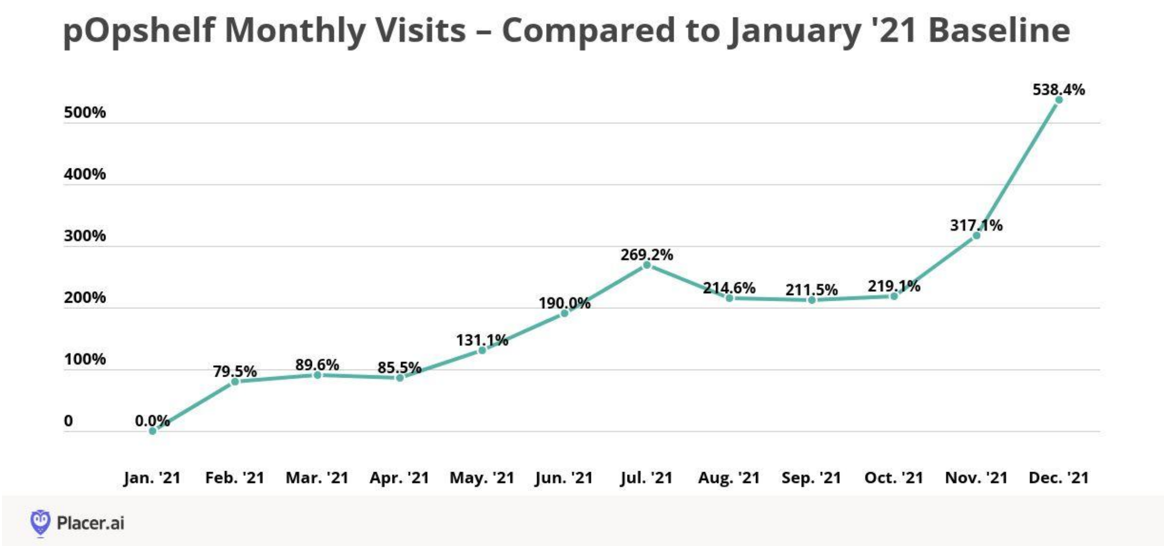
Arhaus currently operates over 70 stores, and is targeting opening between five and seven new showrooms per year for the foreseeable future, with ten showrooms already in the pipeline and an ultimate target of 165+ locations across the country. Arhaus showrooms average 17,000 sq. ft., but a new design studio format averaging 4,000 square feet could offer real estate flexibility to expand beyond its showroom targets.



pOpshelf

pOpshelf is Dollar General's new format targeted to younger, wealthier, more suburban shoppers. The concept seems to be working, as Dollar General has announced its plans to open around 1,000 pOpshelf stores by the end of 2025 – a significant leap from the 36 locations open in early December '21. The pOpshelf expansion will begin in 2022 with the addition of 100 stand-alone new stores, as well as dozens store-within-store formats that will operate out of existing Dollar General locations.

The new brand aims to engage customers by offering a fun, affordable and differentiated treasure hunt experience delivered through continually refreshed merchandise and exceptional value, with the vast majority of items priced under $5. The gross margin rate at pOpshelf stores is around 40% – eight points higher than Dollar General's.

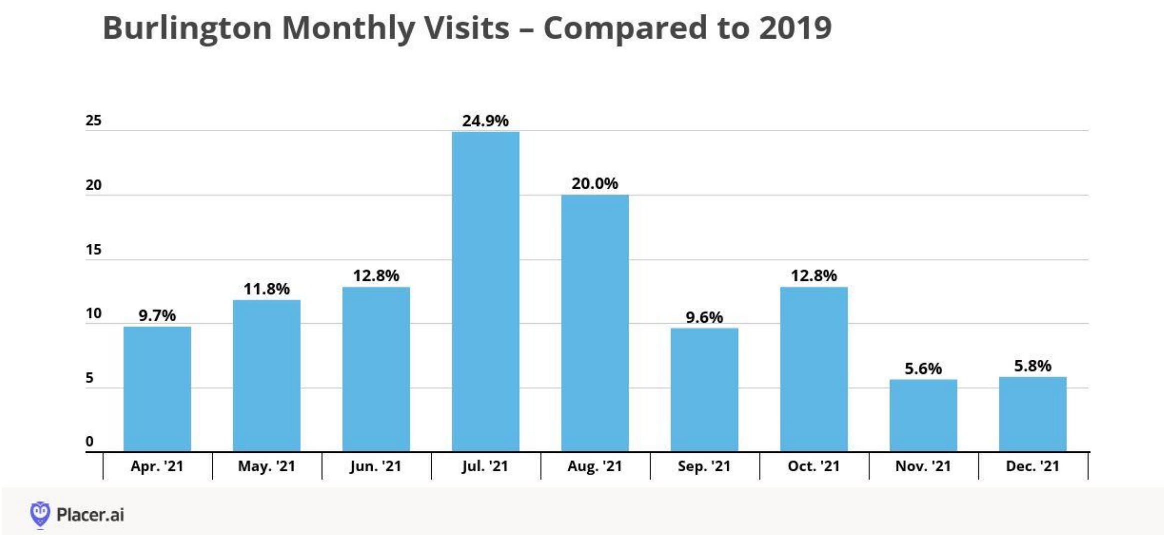


Burlington

Burlington has been doing quite well for the past couple years, and the company is now ramping up its expansion with its Burlington 2.0 initiative. While Burlington opened roughly 45 stores a year (net of closures) between 2018-2020, the company intends to open around 120 new stores in 2022, and between 130-150 new stores annually starting in 2023, while closing or relocating around 30 locations a year – an expansion of around 60% or more over the next five years.

According to Burlington CEO Michael O'Sullivan, smaller stores will play a central role in the Burlington 2.0 strategy. In 2019, the average Burlington store size measured 47,000 sq. ft; but the brand has been testing out a small store prototype, at 25,000 sq. ft., to increase the pool of potential real estate sites for new stores and relocations and allow the company to operate with leaner in-store inventory. The brand has already begun implementing this strategy, and the average size of new stores opened dropped from 42,000 sq. ft. in 2019 to 32,000 sq. ft. in 2021.

The new store prototypes are expected to produce over $300 per square foot on a gross square foot basis and $400 power square foot on a selling square foot basis, which is more than twice the current $150 square foot average for Burlington legacy stores.



Sephora inside Kohl's

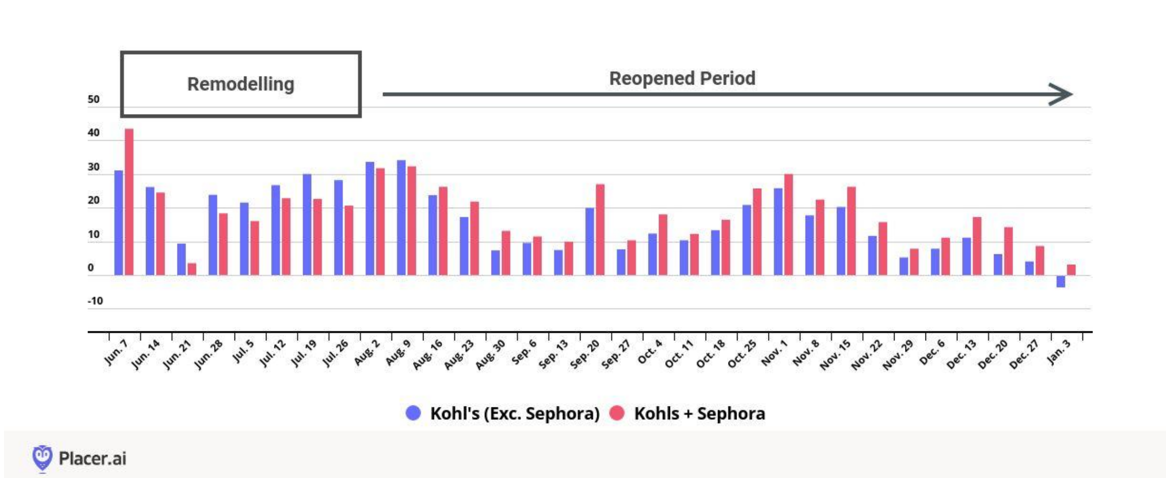
The Sephora-Kohl's partnership included a full remodel of the beauty section at select Kohl's by creating 2,500+ sq. fr. Sephora shops-in-shops that offer "a fully-immersive, prestige beauty experience," with 200 locations opened by fall '21 and expanding to at least 850 Kohl's stores by 2023. This partnership was part of a larger initiative to attract new and younger customers by catering to their specific interests, including through launching a private label athleisure line, establishing new partnerships with popular brands such as Tommy

Hilfiger, Calvin Klein, TOMS, Elizabeth and James, and Draper James (Reese Witherspoon's brand) exclusive capsule collection, expanding offerings from existing brand partnerships such as Champion, and launching exclusive collections with established brands such as Adidas to draw in trendier shoppers.

Data so far indicates that these remodels delivered on their goals. As shown in the figure below, the remodels have consistently outperformed the non-remodeled stores on a year over year basis each week since their reopening. The Sephora at Kohl's openings have produced a mid-single-digit comparable store sales lift.

Critically, this sales lift comes from new customers (25%) who are younger and more diverse, with about half of the Sephora shoppers also buying in other parts of the store. An additional 400 Sephora at Kohl's are planned for late spring 2022, and an additional 250 will open in 2023 – which should position Kohl's for even more growth in the coming years.

Kohl's with and without Sephora Weekly Visits – Compared to 2020



Which of these retailers will see the longest term benefit from their aggressive expansion plans? Visit Placer.ai to find out.