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Retail's Invisible Sales

By Jeanine Poggi
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NEW YORK (TheStreet) -- Online retail is no longer an anomaly. Good, bad or indifferent, nearly every major retailer has an e-commerce site.

Regardless, once a month analysts and investors still measure the health of retailers solely based on their in-store productivity.

On Thursday the International Council of Shopping Centers said August same-store sales slipped 2%. But same-store sales, or sales at stores opened at least a year, do not account for growing e-commerce businesses at most companies -- or for the fact that those growing online sales, by their nature, pulll business from the stores themselves.

In the most recent quarter, the majority of retailers reported slumping comparable results, which were punished by investors. But increases in online sales went largely unnoticed.

Gap(GPS Quote), for one, is a quintessential example of a retailer that is seeing lower comps and higher online sales. In its second quarter, which ended Aug. 1, its same-store sales decrease 8%, while its Web sales spiked 17% to $191 million.

Even more telling, Gap's Internet sales now account for nearly 7% of total sales, up from 5.5% in the year prior.

Other retailers also saw some modest gains in their online businesses: Barnes & Noble(BKS Quote) saw second-quarter comparable sales sink 6.9%, while online sales inched up 2.2%; Nordstrom(JWN Quote) reported a same-store sales decline of 9.8%, while web sales for the second quarter grew 3.5%.

None of which means that buoyant Internet sales are compensating for what has been one of the worst consumer pull-backs of a generation, but their growing relevance should make investors and analysts rethink how much weight they ascribe to same-store sales reports.

"In order to get an accurate picture of the health of a company you need to incorporate online sales, even if it's in a different column," says Jack Hendler, president and founder of Net Worth Solutions, a fashion and retail M&A advisory firm.

Indeed, comparable sales have long been a poor indicator of both retail and economic productivity, even before the increased presence of online sales, because they are so open to manipulation and are measured differently from one company to another, says Craig Johnson, president at Customer Growth Partners.

A bevy of companies have already acknowledged the inconsistencies in comps by eliminating monthly reports all-together -- Wal-Mart Stores(WMT Quote) most recently, and notably.

And while most retailers exclude online sales from same-store sales results, since there are no generally accepted accounting principals, Macy's(M Quote) and Children's Place (PLCE Quote) actually include these numbers.

It's not hard to see why: In August Macy's reported same-store sales that tumbled 8.1%. But online sales during the month soared 15.1% meaning comparable results on an existing-store basis were actually much lower.

Ultimately, though, the question remains: Will online sales ever encompass a big enough share of total sales at fashion players to matter? Currently online sales comprise just 5% of total retail sales, and Hendler, for one, doesn't think that figure will ever reach a significant level -- at least not among the true fashion players.

"If you need an appliance, electronic, even a basic t-shirt, there is no reason to go out to a store," he says. "But for true fashion it's a bit different. The luxury shopper is not an online shopper. For them going shopping is an event that can't be replicated with a computer."

For this reason high-end retailers like Saks(SKS Quote) are not seeing large volumes of sales coming from the Internet.

And even if retailers were able to boost online sales to comprise a meaningful piece of the pie, this doesn't mean Wall Street will easily give up its addiction to comps.

Retailers with the largest percentage of online sales (greater than 10%) like J.Crew(JCG Quote), Urban Outfitters(URBN Quote) and Coldwater Creek(CWTR Quote), are still heavily judged by their same-store sales.

"The Street is not forgiving at all when they miss the same-store sales mark, even if profits and sales are robust," UBS analyst Roxanne Meyer says.

But eventually retailers will need to decide if it's more beneficial to open new bricks and mortars (which could pad same-store sales) or focus on Web sales. And should they opt to launch new sites, as opposed to open new doors, that approach itself will likely negatively affect same-store sales.

Which perversely enough means, as Meyer says, that same-store sales will never be completely irrelevant.

"If online sales continue to grow and comps start to suffer as a result, it may be a sign that the company has too many stores and is maxed out on productivity," she says. This would give same-store sales a new purpose: a metric for deciding when to shut down stores.