

Retailing at the Crossroads

The continued growth of online sales is changing the look and size of retail spaces and tenant mixes.

JANUARY 2012 | BY [MARIWYN EVANS](#)



Understanding the impact of online sales is an imperative for retail business owners. While overall retail sales grew 7.2 percent in the year ending October 2011, according to the U.S. Census Bureau, e-commerce retailing has made double-digit leaps every month during that period, says Abigail Rosenbaum, economist with CBRE Econometrics in Cambridge, Mass. E-retailing sales are also rebounding from the downturn faster than bricks and mortar, she says, with sales gaining 13.7 percent between the third quarters of 2010 and 2011. Much of that gain has come in what Rosenbaum terms “discretionary” categories such as books, clothing, music, and sporting goods.

Yet, there are still categories in which bricks and mortar prevail. One secure niche: luxury products. “Luxury is still all about the experience,” says Naveen Jaggi, senior managing director for CBRE Retailer Representation in Houston. When you buy a luxury item, the service, the store’s appearance, the lovely packaging, and the refreshments served are all part of the purchase, he says.

Melding Online with Bricks & Mortar

At Best Buy, 40 percent of online purchases are picked up by customers at the store. The advantage for retailers is that customers may well buy additional merchandise there.

“Your decision to shop online or offline is based to some degree on how convenient offline shopping is for you,” says Barbara Kahn, director of the Jay H. Baker Center for Retailing at the University of Pennsylvania’s Wharton School. She points to a study by her Wharton colleagues David Bell and Len Lodish that found shoppers’ physical environment and proximity to affordable retailers affects their online purchasing habits.

Consumers’ need for quick and frequent access has protected grocery stores from significant online competition. To be profitable, online grocers need high population density to make the delivery process more efficient. But this is the case in relatively few U.S. markets today. One model gaining attention involves the grocery kiosks set up by British grocer Tesco in subway stations in Seoul, Korea. Shoppers

waiting for trains use smart phones to scan and buy grocery products, which are delivered to pick-up points the same day.

From Big Box to Mini

Online competition has been a factor in retail downsizing. “The biggest trend in retailing today is the shrinking of store footprints to lower retailers’ occupancy costs,” says Mez Birdie, CCIM, CPM, director of retail & investment services at NAI Realvest in Orlando, Fla. He points to new concepts like the 10,000 to 15,000-square-foot Walmart Express, as well as the scaling down of the Walmart Supercenter concept from an average of 180,000 square feet to the new 105,000-square-foot prototype, as well as Staples’ decision to drop the average size of a store from 25,000 to 16,000 square feet.

Smaller size makes smaller markets more feasible and profitable for national retailers, says Marla Chaliff, ccim, senior vice president of The Trilogy Group in Atlanta. “If a retailer can’t find the deal it wants in a major city, it can opt instead for a prime location in a secondary market,” she says. For example, Sears is rolling out an 8,000-square-foot “Home Town Store” in markets with populations of around 25,000, says Samuel Fung, ccim, principal of Oregon Commercial in Medford, Ore.

“Retailers have figured out that stores can serve more as showrooms for online sales and be effective at half their size,” says Peter Colvin, broker with Sperry Van Ness Silveri Co. in Grand Rapids, Mich.

Many retailers have found that increasing square footage didn’t increase sales. That makes the small-size trend likely to continue even amid an improving economy. Retailers who broke up brands—like Gap and Gap Baby and Gap Kids—are also reducing space use by reconsolidating, notes Jeff Green, CEO of Jeff Green Partners, a retail consulting firm in Phoenix. Stores are also shaving space by leasing kiosks within their existing retail space, says Chaliff. She points to Starbucks units in Kroger grocery stores as an example. It’s a win-win, she says, because the partnership lowers the risk for the kiosk retailer and provides income for the principal lessee.

A Need for the New

Retail experts say fresh concepts would be welcome these days as “there’s a lack of newness in the retail space today,” says Jaggi. Most retailers are sticking to the tried and true. “They’re improving, not reinventing,” he says.

What new concepts there are often center on value, led by such rapidly expanding retailers as Family Dollar, Dollar Tree, and Dollar General. Value-chic retailers like Forever 21 and H&M are also making gains, as are thrift and resale stores like Goodwill and Savers, says Jim Rosen, CCIM, vice president, brokerage for Pace Properties in St. Louis.

Another notable trend propelling retail expansion is the desire for healthier food, says Green. Smaller produce-heavy and organic groceries like Sunflower are snapping up 20,000 to 25,000-square-foot boxes vacated by former retail giants like Circuit City and Borders.

Finding Offline-Online Balance

Perhaps the biggest change in online versus offline purchasing today is that the two are no longer adversaries. Says Kahn: "Shopping is becoming more omni-channel, with each person deciding what combination of online and offline works best."

Retail properties are also finding that online buyers are their best customers, says Jane Lisy, senior vice president of marketing for Cleveland-based Forest City Enterprises, a national real estate company focused on the development and management of retail properties. A company survey of shoppers in the company's malls found that those who shopped both online and off made more frequent visits to the shopping center and spent more per visit than shoppers who bought exclusively online or in a store.

Social media, especially accessed through mobile phones, has also assumed an increasingly important role in marketing in-store sales. A summer 2011 survey published by Chain Store Age found that 53 percent of retailers planned to use opt-in proprietary databases and social media to reach out to customers over the next 12 months. Specialty retailers, such as apparel stores, were most likely to use databases; home improvement retailers opted for contact on Facebook.

"Mobile phones that let retailers pinpoint your location [using an opt-in feature] and provide product information instantly through QR codes are changing the nature of shopping, says Kahn. Shoppers may also be able to see who else is in the store and connect immediately. "It's shopping and entertainment melded together," she says.

The next challenge in mobile marketing: finding ways to "connect and cross pollinate" between the shopping center's and the retailer's social media efforts, says Lisy. Forest City Enterprises recently launched a new version of its Shoptopia network, which integrates a center's and retailers' social media feeds. Customers can view store information on a local and national level through the Internet.

"Retail landlords are the natural aggregators of lifestyle and brand," Lisy says, "and social media provides a way to enhance value for both retailers and retail owners by linking the two."

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