Reconciling Retail: Responsible Use of Retail Space

Conference Essay

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RECONCILING RETAIL: Responsible Use of Former Retail Space

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Abstract:

As e-commerce and superstore retail continue to overtake the market share of retail sales an increasing number of brick-and-mortar retailers will struggle to keep customers and make the most profitable use of their space. Without proper planning and foresight, many retailers will go out of business and our towns will see an increase in abandoned buildings and underutilized land. There are many exciting options for owners of retail space to repurpose buildings in order to adapt or respond to the e-commerce boom if they are willing to break from the standard retail approach and embrace uncommon ideas of space utilization, brand marketing, and customer acquisition. I will explore the circumstances leading to the current state of the retail industry, detail options available to current retailers looking to adapt to the change, and provide non-retail examples that provide for financial or community profit. I hope to provide a different approach to retail with concepts that would afford the most economic use of resources.

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Retail spaces are designed to attract attention with meticulously designed logos or flashy signs, but no storefront draws attention like the abandoned shell of a failed retailer. Unoccupied buildings within a city are not only an eyesore, but a misuse of an important resource, land. Empty buildings statistically lead to similar results in a region, including reduced property value in surrounding areas, increased risk of fires, poor school performance, and an increase in crime (Lacroix, 2010, p. 228). In the past two decades the retail industry has undergone a format shift that has left an impact on the shopping landscape in every city. The growth and popularity of big-box retailers, like Wal-Mart and Target, and online shopping, has had an impact (often referred to as the "Retail Apocalypse") on cities across the United States. The construction of big-box stores impact a town's small businesses, and increased use of e-commerce with websites like Amazon.com impact all retailers, including big-box stores. E-commerce has the advantage of a broader customer reach with fewer employees, and higher productivity (Syverson, 2015, p. 109). Online retailers do not have to cover the overhead costs of large parking lots, rows of staffed cash registers during peak hours, or loss prevention from access to merchandise to the public. Over the past two decades the retail shift has resulted in overwhelming abandonment of retail spaces. Seventy-one percent of regions saw an increase in the retail vacancy rate during the second quarter of 2018 (Fox Business, 2018, p. 1). In previous years a retail vacancy typically represented a store that closed due to mismanagement or a change in consumer desires, and the vacancy would often be filled by a retailer who recognized a different consumer need in the region. E-commerce requires less infrastructure, so as stores fall victim to the retail shift, there are no longer other retailers looking to occupy that space.

Current and future retailers must adapt to the retail shift in order to remain relevant through changes in the industry, while owners of commercial retail property must anticipate future closures and plan ahead with resourceful ideas aimed at meeting non-retail needs. Most current retail stores have a layout and business model similar to the one they used twenty, thirty, or even fifty years ago. Retailers that fail to adapt to change will not remain viable into the next decade. Understanding, anticipating, and planning for the problem can lead to the best use of space and resources. Many innovative options exist for current retailers to remain relevant and productive, but they require the owners to think differently about the future. Available approaches range from business-oriented to community-focused. Many retailers have shown an inability to adapt to the e-commerce shift in retail demonstrating a need for improved planning that embraces consumer needs and an industry-wide change in format.

Adaptation to change has been the key to success in retail since the general store changed the way tradesmen and farmers sold their merchandise. There was no bigger change in the retail landscape than the creation of the shopping center. Indoor shopping centers, today referred to as shopping malls, were created in the 1950s as a means of easing the travel burden of consumers who had to make lengthy trips to a downtown area for merchandise like apparel or specialty goods. Developers originally conceived of shopping malls as a means of expanding the reach and customer experience of downtown retailers, not as a means of putting them out of business (Cohen, 1996, p. 1055). The opposite occurred with downtown shopping areas losing customers and in many cases going out of business when they could not compete with indoor, air-conditioned shopping centers, but it wasn’t only the small downtown areas that were affected. Large retailers in New York had long reaped the benefit of consumers travelling into the big city for a shopping experience. As shopping centers became more popular and abundant in the surrounding towns, the flagship retailers of New York felt the sting. Rather than battle the new format, they embraced it by attaching branch stores to the shopping centers, creating the first anchor department stores (such as Macy's or J.C. Penney) that would become the cornerstone of a mall's success. Rather than losing business to shopping centers, the presence or lack of department stores became the reason malls as a whole would succeed or fail respectively (Cohen, 1996, p. 1067). As shopping malls grew in popularity they became as common a city feature as a town hall or post office. The problem with good ideas is that they often spark a chain reaction of innovation, and one-stop shopping centers in every city were about to move beyond shopping malls.

Only a decade after the creation of shopping malls, in 1962 Sam Walton opened the first Wal-Mart store. Rather than bringing a selection of stores under a single roof, Walton brought the selection of multiple stores under one roof, while sending the profits to only one pocket. Wal-Mart equally created a problem for downtown shopping centers and small businesses, and although the chain has been around for 56 years, it was Wal-Mart's rapid growth in the 90's that changed the retail landscape. The company has opened over 3,000 stores, more than 68% of its total stores since 1990 (Stephens, 2017, p. 8). Wal-Mart appeared to have found the retail model of the future, the ultimate general store with a global infrastructure, unrivaled selection, and prices so low that no retailer could compete, at least not without the adaptation of some kind of new technology.

In 1994, Jeff Bezos started a website to sell books in the garage of his rented home. Amazon.com, under Bezos' intuitive product expansion and detailed growth plan is now one of the most successful businesses globally, and Bezos is currently the wealthiest person in the world. Amazon's revenue per employee reached three times the level of Wal-Mart's in 2015 (Stephens, 2017, p. 10). In the same year, Amazon overtook the retail giant as the world's most valuable retailer. These milestones were based more on selection than price, with Wal-Mart's total inventory representing a miniscule four percent of the selection that Amazon offers. Upon the inception of e-commerce, brick-and-mortar retailers laughed at the suggestion that consumers would prefer to shop for any item online. Those retailers have repeatedly been proven wrong as e-commerce continues on a path to become the predominant shopping method, nearly eliminating entire markets along the way. While Amazon stands as the industry giant, they are not the only e-commerce supplier to rattle the market.

Blockbuster once held 30 percent of the video rental market before being wiped out of existence by Netflix and on-demand video services within a decade (Stephens, 2017, p. 2). The entertainment industry has been forced to adapt, as physical formats of music, movies, and video games are decreasing near the point of obsolescence, with 79.6 percent of music and movie purchases, and more than half of all book and magazine purchases now occurring online (Syverson, 2015, p. 98). Music and video stores were likely willing to adapt, but instead became examples that some industries will not be able to adapt to technology and will simply be replaced by it. Media is easily converted for distribution online, but even with products and services that cannot be digitized, the internet has influenced competition, choice, availability, and price for the consumer (Longley, Cheshire, & Singleton, 2018, p. 97). Retailers are unable to compete with the selection and readily available product information and reviews that are easily incorporated into online shopping and e-commerce continues to grow. U.S. retail growth has never exceeded 9 percent in a year, but in 2015 e-commerce grew 21 percent from the previous year, with more than two-thirds of consumers shopping online monthly (Stephens, 2017, p. 23). The innovation and incorporation of technology into the retail market shows no sign of slowing.

Technology is increasingly being created to close the gap on brick-and-mortar retail categories that were once thought safe from e-commerce. Subscription retailer Dollar Shave Club has forced industry titan Gillette to reformat their methods and pursue new techniques. Similarly, Blue Apron rattled the grocery industry with their home delivery ingredients kits, and both Costco and Sam's Club are feeling pressure from the 2013 startup Boxed Wholesale, an app-based, membership-free bulk wholesaler (Stephens, 2017, p. 29). No retailer is safe from the growth of e-commerce, and most successful retailers now offer an online presence. Consumers have already noticed an increased presence of "bricks-and-clicks" hybrid stores that combine e-commerce and physical stores (Syverson, 2015, p. 90). Many stores allow for online ordering with in-store pickup as a result of the forced adaptation to the retail industry's new methods.

At the turn of the millennium, many retailers scoffed at the idea of e-commerce, largely based on the consumer's desire for immediacy. Initial customers of online merchandise were often satisfied if they received their purchase within a few weeks, or even months. Delivery of merchandise was considered the largest problem facing e-commerce, but delivery speed has only increased with more adaptation by parcel delivery services to keep up with the increased demand that online shopping has created for shipping industries. Amazon has maintained its dominance by maintaining a delivery infrastructure that is near impossible to compete with. Amazon continuously finds innovative ways to decrease delivery wait time, eliminating the ability of competitors to keep up; however, as Amazon grows and sales increase, they have created a customer expectation that requires a constantly evolving infrastructure to meet (Stephens, 2017, p. 31). The success of Amazon's swift delivery has become a double-edged sword elevating consumer expectations for rapid delivery that Amazon itself has a hard time keeping up with.

Maintaining a system of rapid delivery is an expectation of the consumer as a result, and all retailers must adapt to the consumer's desire for rapid service and delivery.

Rather than simply continuing with their already successful model, online retailers are attempting to address and remove the benefits of brick-and-mortar retailers, particularly the ability to see, smell, and touch merchandise. Retailers are heavily investing in research programs that will allow for the use of virtual and augmented reality, virtual fragrances, and even haptography, which is the ability to simulate touch sensations through gloves that convert surfaces into vibrations that stimulate specific brain synapses correlated to different materials (Stephens, 2017, pp. 90-95). The ability to incorporate the five senses into the online shopping experience eliminates many of the few remaining benefits of brick-and-mortar retail, but the investment in technology does not end there. Retail Futurist Doug Stephens claims "3D printing technology is not only changing the way we shop, but the way that products are created" (Stephens, 2017, p. 111). From shoes, to automobiles, 3D printers are allowing a level of customization in products that may reduce the long term viability of brand names altogether. 3D printing allows a level of customization and personalization that results in a more rewarding product for the consumer. Research is heavily underway by the e-commerce industry to improve the consumer experience and wise brick-and-mortar retailers will invest in research of their own to do the same.

With e-commerce leaders actively researching methods to speed up their conquest of the retail industry, brick-and-mortar retailers must adjust the way they do business through an understanding of where e-commerce is heading and playing to their strengths. In 2003, the Urban Land Institute (ULI) tackled a similar problem in inner cities as suburban residency became more popular and retailers followed the customers leaving behind empty storefronts. ULI claims that this exodus results in communities that cannot be sustained in the long term (Beyard, Pawlukiewicz, & Bond, 2003, p. iv). Residents who could afford to move did so when the retailers they relied on vacate the area. The institute employed a solution similar to that of successful retailers today, focusing on benefits of urban retail that suburban retailers could not mimic. Their restoration initiatives defied suburban zoning regulations by combining residential, entertainment, and business into a single walkable area (Beyard, Pawlukiewicz, & Bond, 2003, p. 7). Thinking outside of traditional methods, ULI was able to focus on bringing back consumers first and the retailers followed.

Technology investor Marc Andreessen, co-founder of Netscape Navigator and renowned Silicon Valley investor, claimed in 2013 that "retail chains are a fundamentally implausible economic structure" (Andreessen, M. quoted in Stephens, 2017, p. 2). His observation is based on the fact that brick-and-mortar companies combine the volatility of the real estate and retail industries, at the same time maintaining an inventory, amplifying the single-industry risk. Real estate prices and changing tax dynamics can be hard to forecast, especially while focusing a company's planning efforts on the drastically changing retail environment, all the while maintaining an inventory that is relevant, safe from spoilage and the elements, and secure.

Fortune Magazine's *Year in Retail* article proclaimed 2017 as the year in which the retail shake-up has finished, with retailers that have not adapted to the changes moving into their final stages of viability as they continue to slowly close their remaining stores. Those that remain, according to Fortune, are the retailers who have embraced and reacted to change and will begin to see sales improve as long as they continue on their path of adaptation (Wahba, 2017, p. 1). The term "e-resilience" is used to measure a retailers vulnerability and ability to accommodate changes in technology based on the company's infrastructure, function, and ownership (Longley, Cheshire, & Singleton, 2018, p. 104). Many of the remaining retailers have demonstrated their e-resilience and are trying to adapt to e-commerce, offering their own apps and online markets, while others appear to be raising the white flag and creating a partnership with the competition to remain viable. Kohl's is testing an approach in 82 of their stores that will now function as outposts to return Amazon merchandise, and Best Buy has created a partnership to increase floor space dedicated to Amazon's smart home products (Wahba, 2017, p. 3). Beyond simply embracing the technology, retailers must also become aware of the impact it has already had on the retail industry.

In order to survive the "retail apocalypse," companies will not only have to adapt to e-commerce, but perform beyond the scope of what the online marketplace can offer. Retailers must focus on eliminating every aspect of physical shopping that can be seen as a hassle, like long lines, poor customer service, or sold-out inventory (Tuttle, 2017, p. 1). Retail created the advertising industry, and has solely relied on it for brand recognition, but retailers must acknowledge the impact technology has had on marketing. Information is overwhelmingly available to consumers through smart phones and attention-span has become the victim. Audiences increasingly turn to their devices during TV commercials, or install ad-blocking technology to avoid marketing altogether when on their computers. Facebook, one of the largest online marketing outlets available with over one billion active users has admitted that its advertisements don't really reach many people. Video advertisements on Facebook are only heard by the fifteen percent of users who browse with their volume turned up and the advertiser must pay for a view if as little as three seconds of a video plays (Stephens, 2017, p. 52). Selling a product or service in only three seconds to someone who isn't listening is understandably difficult. People visit social media sites for information about people, not products. In order to gain brand recognition, companies will have to rely on word of mouth by people, or experiences that can be linked to a particular brand or product, experiences so incredible that they are worth sharing on social media.

Industry experts agree that the future of retail space will be based on providing a memorable experience to the customer through hands-on demonstrations. In many places this shift is already underway. In an effort to focus on customer experience, Nordstrom opened a store in late 2017 that did not stock merchandise for purchase. The space of Nordstrom Local in Hollywood, California is dedicated to trying on clothes for sizing, having conversations with on-site stylists and fashion consultants, getting a manicure, or enjoying a drink from their bar. (Tuttle, 2017, p. 1). The "store" allows you to purchase items online for same-day delivery either in store or to your home. Similarly, Samsung has opened a 40,000 square foot store in New York City that functions purely as a hands-on experience of Samsung products from home theater, to multimedia, and a demo kitchen for testing their smart appliances (Tuttle, 2017, p. 4). The location hosts events throughout the year including conferences and private gatherings, with each event bringing the public into a unique consumer experience surrounded by advertising. Consumers are no longer drawn by brand names, but brands can use luxurious experiences to form a lasting association between the brand name and comfort.

Relevant retailers will highlight the importance of emotions and social interaction in the shopping space. Doug Stephens argues that "as we become more immersed in a technology driven world, our desire for more emotionally engaging experiences will grow. Online algorithms suggest specific items or experiences for us that are compatible with customer shopping behaviors. While this process is very convenient, it removes the aspect of spontaneity from our shopping experiences" (Stephens, 2017, pp. 118-119). There is an undeniable internal feeling when a shopper finds a great deal on something that they didn't know they needed. Black Friday shoppers annually demonstrate their desire to shop in a crowd, with many looking strictly for deals, but a large number participating purely for the experience. A 2015 article by Chad Syverson and Ali

Hortascu claims that physical retail is a "necessary social and public process" (Syverson, 2015, p. 110). There is still hope for the retail store if managers can move away from margins and inventory and toward emotions, experiences, and socialization.

The physical retail store will never become obsolete, a sentiment that even Amazon seems to share. One indication that brick-and-mortar retailers should not fear extinction is Amazon's continued entry into ownership of physical stores. Amazon recently purchased Whole Foods, looking to bring delivery and order pickup to the forefront of the grocery industry, and they continue to construct physical book stores and cashier-free stores with shelf space dedicated to the highest rated merchandise on their website (Wahba, 2017, p. 4). The solution for retailers that don't want to give up is to open their minds to a new process, or perhaps just notice how boring the old process is. Most department stores look exactly the same as competing department stores inside. Shopping malls from one city to the next are not noticeably different. Retail is so trapped in its investors demand for profits as measured by sales per square foot, that they are unwilling to make the changes necessary to adapt by giving up shelf and rack space to provide something memorable or remarkable for the customer (Stephens, 2017, p. 139). Focusing again on attention spans, consumers often walk by racks or shelves of merchandise without paying much attention. Convincing the customer to stop and notice the merchandise could require a demonstration, something entertaining, or something unexpected.

The similarity of department stores and shopping malls has placed them in a state of exceptional decline. With twice as much square footage devoted to shopping centers per capita than the rest of the world, the United States leads the world with about 1,200 enclosed malls nationwide. But as a result of overdevelopment in the 20th century, approximately one-third of enclosed malls are either dead or dying (Samuels, 2015, p. 1). Shopping malls often suffer from the failure of branch department stores, the same anchor stores that were originally created to stay relevant when malls became popular. Developed using an old model that provides for 70 percent retail space and 30 percent entertainment, experts say the time has come to flip those numbers to provide an emphasis on entertainment (Stephens, 2017, p. 142). Most malls have a perimeter of retail stores surrounding pop-up entertainment zones in the middle, like water-massage chairs, virtual reality simulators or a children's play area. Establishing permanent entertainment areas in former storefronts would bring in more consumers, break up the monotony of similar stores side by side, and keep the space profitable. While that flip may seem a viable option for some, many malls are beyond the point of saving with entertainment alone and must look toward other alternatives.

Retail space is rapidly being vacated as a result of e-commerce, leading to building vacancies that are not forecasted to be filled by other retailers. The retail industry as a whole is not in decline, but the footprint required for it is. According to CityLab.com, "the square footage of America's already dead malls covers more land than the city of Boston" (Florida, 2017, p. 2). Fortunately, there are many options available for shopping mall owners with increasing vacancy and decreasing profits. Abandoned shopping centers, or "ghost malls" offer vast parking and massive buildings with separate rooms of various sizes that are ideal for repurposing. In November of 2018, there were 211 malls being retrofitted to improve their utility, often incorporating medical, education, or religious facilities (Samuels, 2015, p. 2). The solution comes from looking to fill needs that are increasing as retail needs decrease. While small retailers are struggling, small businesses are on the rise, increasing the need for flexible office space and affordable living space, and the education and healthcare industries continue to grow, including their land use needs (Florida, 2017, p. 4). Hybrid retrofits, bringing non-retail necessities into free space can bring consumers back to a once abandoned retail space enhancing the need for surrounding merchants and bring back retailers to supply those consumers.

Richard Rhodes, president and CEO of Austin Community College organized the purchase and renovation of the failed Highland Mall in Austin, Texas in order to expand the college campus. Asked what happens when malls fail, Rhodes said in an interview, “In the surrounding neighborhoods, you begin to see the crime rate increase, other homes and buildings being vacated—the whole community surrounding it begins to deteriorate.” After the renovation, Rhodes claims he has witnessed new construction, decreased crime, and new businesses in the surrounding community (Samuels, 2015, p. 3). In Austin, the mall was turned into a college campus. The increased presence of students and faculty in the area, led to a return of retailers in areas surrounding the former mall in order to capitalize on the increased consumer traffic. Similarly, in Nashville, Tennessee the Vanderbilt University Medical Center purchased the entire second floor of the 100 Oaks Mall. Customer satisfaction for the increased parking and access is positive, and the first floor retailers have noticed an increase in customer foot-traffic as a result (Samuels, 2015, p. 6). Patients find the shopping center less stressful to enter than the quiet waiting room of a doctor’s office. Owner’s of shopping malls or shopping centers with vacancy problems should search for new tenants outside of the retail industry to promote their remaining retail residents.

Ultimately, the goal for brick-and-mortar retailers is to bring consumers back through the doors. Neither the retailer or the consumer wants to see more closures of brick-and-mortar stores. Amazon represents a retailer that has adapted to technology to provide a different customer experience and physical retailers must respond with their own change. This can be achieved in shopping malls and traditional retailers by focusing on experiences, entertainment, or necessity. Retailers must find a way to fulfill their customers’ needs without using the old model of overwhelming the consumer with as much merchandise as possible, and a failure to do so would result in further closures and a market-share expansion of e-commerce that would leave a void in the desired social aspect of shopping. However, it is not necessary to view the changing retail landscape in a negative light. The retail industry has only begun its transformation in adapting to the growth of e-commerce, and the customer will be the winner in the long-run as technology and innovations are adapted to meet consumer needs. The success of the retail industry is now and has always been reliant on customer satisfaction and it will be the customer's desires and needs that will ultimately be fulfilled. Retail executives and managers who educate themselves on pertinent industry movement will be better suited for proper planning, foresight, and a willingness to adapt to the retail shift with innovative changes. Embracing the coming change will encourage a celebration of the benefit to consumers, retailers, and land owners through the reconciliation of our retail spaces in order to benefit the people, the land, and the community.

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