TROUBLE AT THE MALLS AND IN RETAIL STORES

Store based retailing is going through an agonizing transformation with an uncertain future. Not since the recession of 2008 have we seen numerous store closings, bankruptcies, and consolidations for both retail stores and malls.

Brokerage firm Credit Suisse paints a troublesome picture of the retail sector in a recent report. Store closings are at an alarming rate with 5,077 stores closed in 2015, 2,056 stores closed in 2016, and an estimated 8,600 stores set to close in 2017. The current rate of 2017 closings exceeds the closing rate of 2008 during the recession when 6,163 stores were shut down.

The closings affect all types of retailers including Macy’s (15% of stores closed) American Apparel, Staples, CVS, Payless, Guess, Abercrombie and Fitch, Sears/K-Mart, and many others. Starbucks just announced the closing of its Teavana retail tea stores due to lower mall traffic. Chains such as Sports Authority, Gander Mountain, Limited, hhgregg, Gymboree, and Radio Shack have filed for bankruptcy.

Several factors account for these issues:

• Retailers rushed to open new stores in anticipation of increased consumer spending and to counter competition.

• As shopping mall construction increased, retailers saw opportunities to locate in new high traffic areas. The result of the mall overbuilding is a dramatic difference in malls in the United States versus other countries. According to Zero Hedge, the US has 24 square feet of retail footage per capita versus 16 for Canada, 11 for Australia, 5 for the United Kingdom, 4 for France, 3 for China and 2 for Germany. This overbuilding compounded by the closing of many anchor stores, has caused a glut and bubble with the prediction by Credit Suisse that 25% of malls will close by 2022.

• The changing consumer and the rise of e-commerce are both a threat and an opportunity for brick and mortar retailers. Consumers are pressed for time, want convenience, and want an easy way to make a purchase. Online allows them to sit down in front of the computer or mobile device to find the right product at the right price, in the right place. According to Berkeley Research Group, excluding the impact of e-commerce which increased 13.4% in 2016, brick-and-mortar retailers increased sales only 2.5%. Online shopping grew 17% CAGR since 2010 with online sales share newly doubling to 10.6% in 2017.

• Savvy consumers figure out the place to shop. About half of them do showrooming, that is, go into retail stores check merchandise and pricing, and then purchase the product online. About two thirds of consumers admit they research online and then purchase at retail. Online offers 24/7 access to product information and product ordering. Amazon Prime just reminded me that I saved 15+ trips to retailers by ordering online with them.

WHAT CAN BE DONE

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• Large mall owners such as Simon are increasing investment in their A malls, modernizing them and adding new outlets to replace those retailers going out of business. The new outlets fall into two new categories, innovative retailers such as fast fashion outlets such as Primark, Zara, Uniqlo, and Forever 21. They have added over 200 restaurants to their malls including Cheesecake Factory, all to enhance their customers’ experience.

• Consumers need reasons to come to malls beyond retail shopping. Adding an exciting environment with events, special displays, fashion shows, art exhibits, entertainment, and other community activities helps bring in traffic. Adding nontraditional mall services such as medi-centers, fitness centers, gourmet grocery stores, pharmacies, banking, Apple and Microsoft stores, Tesla showrooms, as well as smaller specialty stores will build traffic for the malls.

• Mall operators such as Simon have divested B and C underperforming malls and placed greater emphasis on high traffic, high-volume malls. If divestiture is not possible, mall owners are exploring whether the mall can be repurposed into another facility such as a medical center, apartments, distribution center or other types of business.

> For retailers faced with this changing environment:

• Retailers need to continue to rationalize non-productive outlets by eliminating marginal stores. Productivity metrics must be used to determine the optimum number and location of outlets. Rethinking store size and merchandise mix may be important for retailer survival.

• The omni-outlet customer requires new services to allow online ordering and home delivery, online ordering and in-store pickup, as well as in-store returns regardless of the point-of-purchase. Major improvements in computer systems and logistics are required to achieve high levels of expected customer service. In-store service delivery of online orders, handling online returns, and processes for product exchanges require new in-store facilities ranging from storage space for online orders to be picked up, computer terminals, and well-trained employees to handle the service desk. Importantly, signage at the store entrances must direct people to where they can pick up their online ordered merchandise.

• Customer experience is key to increasing store traffic. Retailers must stay current in changing customer lifestyles and merchandise changes that drive altered shopping behavior. Having high demand items in stock and enhancing the shopping experience as a treasure hunt can increase traffic and the number of items...
bought. Surprise customers with a small gift or token of appreciation. A local grocery chain offers a free cookie to children when they approach the bakery department. Compete on the basis of customer experience and merchandise selection rather than price.

- Retailer websites must be inviting, easy-to-use, and above all engaging. According to research cited by HubSpot, 81% of shoppers for high ticket items conduct online research before making their purchase, 44% of people go directly to Amazon to start their product searches compared to 34% who use search engines such as Google or Bing. Therefore, it is imperative that retailers use search engine optimization and other tools to make sure that their websites and product offerings show on the first one or two pages of search results. Beyond the inviting website, retailers must develop a strong social media presence and use it to communicate new merchandise and promotional offerings. Digital media can be used to drive in-store traffic.

- New merchandising techniques need to be added. Consumers who order online miss the ability to touch, feel, and try on merchandise before they buy. Several merchants are offering customers the ability to order online several different items, select the one they want, and return the others at no return shipping charge. Amazon is testing Prime Wardrobe which allows customers to do this. Warby-Parker allows customers to receive up to five eyeglass frames to try prior to purchase. Customers of Trunk Club and Stitch Fix receive merchandise for selection and return.

- Offering unique or highly customized merchandise can add value and exclusivity. High quality store brands such as Costco’s Kirkland brand now accounts for 25% of the retailers sales. Many Costa HDTV and other electronic products have unique model numbers making comparison shopping difficult. Retailers who can develop unique or customized products can compete more effectively.

- Clarity of brand positioning is critical. Having the consumer know who you are and what you stand for can differentiate the retailer mean the difference between success and failure. Retailers such as T.J. Maxx and Marshalls have clarity in positioning as outlets for newly available brand-name merchandise on a regular basis at competitive prices. Walmart has low everyday prices, but service is low on consumer expectations. Publix Super Markets are well-positioned for convenience, customer service, fast checkout and helpful employees.

- Using market research and data analysis studying customer behavior can be turned into actionable marketing strategies to increase traffic. Insight into customer loyalty, what influences them to buy and to buy again, why customers are lost, should be used to enhance marketing decision-making.

- Mobile apps are a critical part of the communications with customers. According to Internet Research, mobile commerce makes up 30% of all United States e-commerce. Mobile devices have replaced computers. Careful use of mobile apps can help build consumer engagement and the selective use of emails can increase online sales, store visits, increased order size, and should be part of business building marketing strategies.

- Strategies to reduce showroooming must be developed and implemented to turn a shopping customer into a purchasing customer. Matching online pricing or providing added services such as extended warranties can be used as an added value to the customer to keep them in the store and prevent them from going online.

The world of retailing is changing dramatically from the anticipated growth rates of the past. Malls and retailer overbuilding have caused issues in this sector. The changing consumer and e-commerce have had a dramatic impact in industry restructuring. Both malls and retailers must move quickly and decisively to reconstruct their marketing to be assured of having a profitable future.

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