



THE NEW WORLD OF BRICK-AND-MORTAR RETAIL

Stacy Engles Wipfler
Partner; Retail Institute Chair
Husch Blackwell LLP



In addition to the decorated trees and

looping tracks of “White Christmas,” last year’s holiday season featured one account after another of the retail industry’s impending doom. But, there are a few contrarian voices out there that see fresh green shoots sprouting from the imagined rubble.

THE NEW WORLD OF BRICK-AND-MORTAR RETAIL

In March, 2018, the management consulting firm A.T. Kearney published a report exploring the future of the shopping center, concluding that retail has “an industry future that has never looked better, at least for those brave (and wise) enough to pursue it.”

So, what does this brave new world of retail look like?

The answer to this question centers on the very thing that distinguishes brick-and-mortar stores from their online competitors: real estate and its various applications and uses. We have long been told that the United States is “overstored.” This is the term of art trotted out to describe every retrenchment or restructuring within the retail industry. When Walmart, Macy’s and Kohl’s announced store closures in the spring of 2016, a Washington Post headline read “There really are too many stores. Just ask the retailers.” One year later the same newspaper announced “America is ‘over-stored’ and Payless ShoeSource is the latest victim.” But what some people see as the albatross hanging around the neck of retail can also be its salvation.

“People say there are too many stores, but I think that demonstrates a lack of imagination and information,” said Melissa Setser, a senior vice president of The DESCO Group, a commercial real estate development and services company. “Reality is that to stay relevant in the retail evolution, it’s critical that retailers deliver what the customer wants, when and how the customer wants it. Retail

5 TRENDS IMPACTING BRICK & MORTAR

1. Buy online, pick up in store

with stores like Macy’s adding lockers for easier pick up

2. Talking technology

similar to Amazon Alexa or Google Home

3. Showroom stores

such as Nordstrom Local

4. Experiential retail

such as sports apparel stores offering in-store exercise classes

5. On-site food services

with retailers offering their own coffee shops and cafés

has shifted from product supply to product demand, driven by customer interests. Customers have such a broad array of choices these days, retailers must systematically embrace the idea of change to stay relevant.”

One area that is seeing increased attention is the customer experience of being in a store. The previous generation of retailers focused on the scope and scale of the products on offer inside of a store. The “big box” concept was ascendant, but as the variety and volume of in-store inventory soared, other aspects of the in-store experience suffered. Sales representatives per square foot flattened or declined, and their experience with proliferating product lines diminished.

The aesthetics of the big box, while not altogether displeasing, left little room for brand differentiation; and increasingly, the scale of the big box, as grand as it is, simply cannot compete with the limitless spaces of the digital world. Retailers are now exploring — or rediscovering — the virtue of small stores by envisioning retail spaces as not merely the physical place where shoppers exchange money for products,

*“5 Research-Backed Retail Concepts to Embrace This Year.”
National Retail Federation, March 30, 2018*

but where retailers have an unrivalled opportunity to build closer relationships with their customers.

Store design is certainly a big part of the re-visioning process, but it must be design driven by an underlying purpose, or as Goldman Sachs analyst Kevin Fassler suggested last summer, "...stores that present a brand immersively, experientially, and interactively will still be able to battle for consumers' attention."

While store design is shifting, the context of the store is changing, as well. The real estate industry is experiencing a period of category-busting projects that are redefining how we look at and experience a variety of spaces, and retail plays a big role in the process. This trend can easily be seen some recent larger projects, such as SunTrust Park and the new Atlanta Braves baseball facility in Cobb County, Georgia. More than a baseball park, SunTrust Park anchors a 60-acre green space and mixed-use development that contains a \$400 million entertainment district. From concept to delivery,

NON-RETAIL TENANT CONCEPTS CONSUMERS VISITED IN THE PAST THREE MONTHS BY SHOPPING CENTER FORMAT

	Malls	Open-Air Centers
Food & Beverage Services	<ol style="list-style-type: none"> 1. Food courts (66%) 2. Casual/fast-casual (48%) 3. Fast-food/coffee/yogurt (46%) 4. Food halls (26%) 5. Independent restaurants (20%) 	<ol style="list-style-type: none"> Casual/fast-casual (60%) Fast-food/coffee/yogurt (55%) Independent restaurants (46%) Craft breweries/beer gardens (28%) Market halls/farmers markets (27%)
Leisure/Entertainment	<ol style="list-style-type: none"> 1. Movie theaters (66%) 2. Bowling alley/billiards/arcade (28%) 3. Aquarium/amusement parks (19%) 4. Museum/cultural center (19%) 5. Sports/recreation center (18%) 	<ol style="list-style-type: none"> Movie theaters (61%) Performance/event gathering space (36%) Bowling alley/billiards/arcade (34%) Aquarium/amusement parks (32%) Museum/cultural center (27%)
Medical/Health/Wellness	<ol style="list-style-type: none"> 1. Dentist/eye care/hearing center (40%) 2. Gyms/fitness centers/yoga studio (34%) 3. Massage parlor/spas (33%) 4. Primary/urgent care clinic (31%) 5. Imaging centers/radiology (25%) 	<ol style="list-style-type: none"> Primary/urgent care clinic (51%) Dentist/eye care/hearing center (50%) Gyms/fitness centers/yoga studio (40%) Imaging centers/radiology (27%) Physical therapy/chiropractor (26%)
Other Services	<ol style="list-style-type: none"> 1. Hair/nail salon (43%) 2. Banks (37%) 3. Copy/print centers, pack & ship (20%) 4. Dry cleaners/laundromat (19%) 5. Pet grooming/animal care (19%) 	<ol style="list-style-type: none"> Banks (64%) Hair/nail salon (42%) Pet grooming/animal care (28%) Repair/maintenance shops (27%) Dry cleaners/laundromat (24%)

"Shopping Centers Becoming Consumer Centers." International Council of Shopping Centers, April 12, 2018

the new park redefines what a stadium project can be by reimagining it from the inside out and clustering "experiences" into the available real estate.

Former retail spaces like malls and shopping centers are undergoing a similar shift. The mix of tenants and purposes associated with shopping centers and malls is becoming far more variegated.

Traditional retailers are being paired with hotels, entertainment, medical facilities, corporate offices, gyms, and multi-family residential.

"Rather than conceiving of retail real estate as a static, monolithic entity, we are experimenting with different formulas," said Amy McClaughry, vice president of legal services at Legacy Development, a retail and mixed use real estate developer. "Operating a large retail center is not just a matter of bringing tenants together under one roof, but curating the experiences of the people who visit the center, which may include food and beverage, entertainment, hospitality, and a large range of services and products not traditionally considered under the old shopping mall paradigm."



Eighty-five percent of all retail activity

still occurs in the store setting, and while online commerce is quickly expanding its share of the pie, brick-and-mortar stores are not going the way of the woolly mammoth any time soon. This circumstance provides agile and creative retailers with a huge commercial opportunity. The brave new world of retail is not hostile to brick-and-mortar operations, but it is a world that is infinitely more complicated.

Contact the Author:

Stacy.Wipfler@huschblackwell.com

www.huschblackwell.com/professionals/stacy-wipfler

©2018 Husch Blackwell LLP



About Husch Blackwell's Retail Institute

Husch Blackwell's Retail Institute was created with the belief that in-depth industry knowledge creates value, and knowledge is created through an open exchange of ideas, innovations and experiences. Our Retail Institute partners with leaders in business, public policy, education and professional associations to create knowledge and deliver value by putting industry first.

About Our Firm

Husch Blackwell is an industry-focused litigation and business law firm with offices in 18 cities across the United States. We represent clients around the world in major industries including energy and natural resources; financial services and capital markets; food and agribusiness; healthcare, life sciences and education; real estate, development and construction; and technology, manufacturing and transportation.

huschblackwell.com