Retailers today are confronted by a more complex and diverse business environment. With more information at the hands of consumers, new ways they engage with products and brands and a more dynamic competitive landscape, traditional retail is going through a period that is more akin to a revolution than an evolution. The old guard of retailers will need to take drastic measures to remain relevant in this new retail order that is defined by information and technology.

In this report, we look at the value proposition of brick-and-mortar retailers from the perspective of convenience, how the old guard is changing as a result of the retail revolution and the drivers of the future retail landscape.
Convenience No Longer Means Being Physically Close to the Consumer

According to the International Council of Shopping Centers (ICSC), the number of malls in the US grew by more than 300% from 1970 to 2016, reaching 1,221 shopping centers. Many of these are B, C and D malls which used to benefit from their proximity to sufficiently large-enough populations, and provided a go-to place for people to shop, socialize and entertain themselves. With much of social interaction having moved online and with the ubiquity of e-commerce and free delivery options that have proliferated over the past ten years, it is easier than ever for consumers to avoid going to lower-tier malls altogether. In fact, B and C malls account for only 28% of all mall sales, despite representing 45% of all shopping centers of this type.

Figure 1. Number of Malls in the US, 1970–2016

Malls that do not occupy prime locations and cannot offer creative entertainment are no longer attractive from a consumer’s viewpoint. Naturally, operators have already started repurposing B malls as A malls, and closing many C and D malls altogether. It is highly likely that at least 30% of US malls, or more than 350 of them, will go down as casualties of the retail revolution, in our opinion.
Department Stores have Become the Old Guard

Department stores have traditionally served as mall anchor tenants and have been scaling down to reposition themselves in the new mall landscape. In 2016, Macy’s announced that it would close 100 stores, or 15% of its fleet. Sears announced that it would close 50, or 7%, of its stores, and JCPenney said it would close seven stores.

Figure 2. Number of Department Stores in the US, 2015–2017E

Source: Company reports/Fung Global Retail & Technology

Some specialty retailers have also announced store closures over the past year. The women’s apparel and teen categories have been hit hard. The mid-tier women’s apparel category is struggling with a lack of differentiation in a saturated market. Banana Republic and Gap—where women traditionally shopped for wardrobe staples—have all announced store closures. The Limited filed for bankruptcy after announcing it will close all of its 250 stores. The teen category has also struggled, with five retailers declaring bankruptcy in 2015 and 2016. Express reduced its store count by 21% and American Eagle Outfitters reduced its by 10% from 2015 to 2016.

Against this backdrop, the winning retailers, or the new guard, are those that are extremely consumer centric, highly integrated and make smart use of technological innovation.

Amazon’s increased focus on the apparel category is a clear indication of what is to come. Euromonitor International and Forrester Research expect Amazon to triple its share of the US apparel market over the next five years.
We believe Amazon will continue to increase its apparel market share at the expense of department stores and traditional apparel labels, thanks to consumers’ increasing comfort with purchasing online, the convenience Amazon offers and the value of its private-label offerings.

**Will Improving the In-Store Experience Stifle the Revolution?**

The consensus that has formed among retail professionals is that the biggest opportunity for brick-and-mortar retailers is in improving the in-store experience, including through the use of new technologies. We agree better service offerings, more in-store events and improved store environments are all weapons that brick-and-mortar retailers can wield in the battle against the growing threat of players such as Amazon. And there is significant potential for some retailers—notably, some of America’s major department-store chains—to improve their proposition.

In addition, brick-and-mortar retailers also have an ever-increasing arsenal of technologies available to use to their advantage in creating better experiences such as mobile payment solutions, chatbots, robots, augmented- (AR) and virtual-reality (VR) entertainment, and location-based technologies, to name just a few.

But we must not get carried away with believing that experience alone will save brick-and-mortar stores. If a consumer wants cheap electronics, or urgently needs to buy groceries, or simply wants to collect a purchase that was made online, then the store experience may be completely irrelevant to that consumer. Moreover, some retailers may find it difficult to change their focus to the quality of the in-store experience, due to their traditional positioning and corporate cultures.

Source: Euromonitor International/Forrester Research
After the Revolution: Convenience, Collection, Destination

Experience is not the only opportunity for stores. In our view of the future of retail, three core functions will drive shopper traffic once e-commerce has established a major share:

1. **The new convenience**: Shoppers will make distress purchases of goods needed quickly, often at stores close to home.

2. **Collection**: Shoppers will go to a store to pick up online purchases.

3. **Destination**: Leisure shoppers will still make trips to those stores that they like to visit rather than have to visit.

Our vision of the future includes a mix of formats, store sizes and retail propositions. Smaller, more local stores will serve demand for convenience, and maybe collection, too; we are already seeing retailers such as Target open these kinds of stores. Meanwhile, high-quality flagship stores will be the ones that focus on the customer experience in order to attract leisure shoppers who are looking to spend some enjoyable time browsing and buying.

Large-store retailers that offer relatively few compelling reasons for shoppers to visit will face the most difficulty in this retail landscape. These include the hard-hit department stores and other retailers whose traditional USPs have been breadth of choice or low prices. These kinds of retailers must consider how their stores will meet shoppers’ needs in the future: this may mean not only fewer stores, but also stores that cater to how consumers shop in a digital age. By focusing on one or more of the themes of convenience, collection and destination, we believe such large-store operators may be able to successfully reposition themselves for the future.
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