

# How can American malls survive the e-commerce onslaught?

# At a glance

With the proliferation of sales in the e-commerce industry, malls are facing a tough time in selling their products, resulting in the closure of malls. Mall owners are implementing various solutions to curb this change:

## **Analysis of mall traffic**

Understand the foot traffic in different types of malls and customer behaviour.

## **Identify the factors that impact mall condition**

E-commerce and other brick & mortar stores that affect the sales in malls.

## **Retail giants have managed to survive the retail apocalypse**

The big stores have come up with multifarious methodologies to battle the retail shutdown.

## **Introduction of food retail and entertainment centres**

Food courts and grocery stores inside the malls has changed the customer traffic in malls. Setting up of Entertainment centres has decreased the burden on mall owners.

Did you know that between 20% and 25% of American malls will close within 5 years?

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Malls are a big part of the American heritage – known not only for shopping, but also as gathering places with entertainment centres and a diversity of food choices. There was a time when shopping malls flourished in the United States, but now many of them are shutting down with minimal or no solutions to save them. Some of these dying malls are also being called “Ghost Malls”, in a reference to their emptiness and lifelessness.

The phenomenon of the death of American malls has been on a steady rise since the “Retail Apocalypse” of 2009. This decline is driven by an increase in vacancy rates resulting from lower traffic, changing customer expectations and the adoption of on-line shopping since the early 2000s.



**Figure 1 Ohio's Randall Park Mall: Opened in 1976 with nearly 2.2 million square feet of space, it was once the largest mall in America, supplanted only by Minnesota's Mall of America. But it closed after only 33 years and was demolished less than 40 years after**

Do you know that e-commerce constitutes about 12% of total retail sales?

Popular anchor stores like JCPenney and Macy's, themselves struggling with lower profits and higher debts, are shutting down stores, leading to a reduction in foot traffic. Another contributing factor has been the changing attitude of the people towards malls. In today's busy world, people are not interested in driving to malls and purchasing products. They prefer big box stores and e-commerce retail stores, which offer a time-saving advantage.

The shift of consumer shopping preference towards e-commerce has enormously impacted the brick and mortar stores.

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However, the story is not all that bleak. Not all malls are declining – there are some malls that are surviving. Malls are often divided into classes based on their sales per square foot of area. Class ‘A’ and ‘B’ malls, the ones with the highest per square foot sales which are the most trending malls, are far from shutting down. They have survived the retail disaster. However, Class ‘C’ and ‘D’ malls, which represent about 30% of the malls, are heavily battling the decrease in customer traffic, increase in vacancy rates, minimal sales and steady closing rates of stores. To compensate for the empty spaces in malls, owners are renting them out to offices and gyms. Entertainment centres have been set up inside malls with food courts which offer a variety of foods to increase mall traffic.

While e-commerce sales are expected to capture ~25% of the retail sales by 2025, the bigbox stores like Walmart, Target, Kroger, Costco and Home Depot, even during the retail apocalypse have managed to keep their sales high. The annual revenue of Walmart for 2018 was \$500.343B, a 2.98% increase from 2017<sup>ii</sup>. This growth is due to their focus on improvement of their physical stores, the introduction of an easy-to-use online website and provision of super-fast home delivery of products. The annual revenue of Kroger for 2018 was \$122.662B, a 6.35% increase from 2017. Kroger has connected digital and in-store elements through services like ClickList Pickup, which allows customers to order their groceries online and pick them up curbside<sup>iii</sup>. The annual revenue of Target for 2018 was \$72.714B, a 3.48% increase from 2017<sup>iv</sup>. Target’s growth is at a 13-year high due to the boom in sales of toys and home goods, thanks to the bankruptcy announcements from Toys “R” Us. Target’s strategy of “speed up same day delivery” has also increased its sales.

The store closures in 2019 are expected to be more than what it was in 2018. The vacancies in malls are escalating quickly. The major rationale behind this change is the proliferation of online sales and a few companies going bankrupt. In 2019, Gymboree closed 749 stores. In 2017, it had closed 380 stores in a move to survive<sup>v</sup>. Due to the store closures, Gymboree was able to shed more than \$900M of debt<sup>vi</sup>. On the other hand, J.C Penny grappled over the years 2015 to 2018 as their total debt increased from \$83M to \$968M<sup>vii</sup>. It had made a net loss of \$1.37B which increased to \$1.68B in 2015. The numbers came down to \$383M in 2018. Sears is another company battling the debt it had incurred. It had a marginal increase in debt from \$5.39B to \$5.43B during 2015 to 2017. The numbers declined to \$4.94B in 2018. It suffered a loss of \$1.68B in 2016 and the figure reduced to \$0.38B in 2018<sup>viii</sup>. Sears announced 72 store closures in 2019. Other retail companies like Macy’s, Shopko, Chico’s, and Kmart suffered a severe hit due to the compounded debt.

Have you been observing that retail stores like Gymboree, Shopko and Sears are getting washed out every month?

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The rise in e-commerce sales is one of the factors that has impacted brick and mortar sales. As per the American Census data, in the year 2000, e-commerce sales constituted only 0.9% of total retail sales. Whereas in 2018, it is 9.7% of total retail sales. The online sales rose from \$27.4B in 2000 to \$512.5B in 2018<sup>ix</sup>. The holiday season in the US is marked as the period where online sales increases rapidly. In 2016, online sales proclaimed a 20% uptake dominating the offline retail stores during the holiday season. There was a massive hike in Amazon's sales with a 38% increase in the holiday season of 2015 and 2016<sup>x</sup>. By 2024, the turnover generated by e-commerce is expected to grow exponentially, to the detriment of retail. This however should not be a catastrophe to all the brick and mortar stores. Stores are a direct point of contact with the brand that allow customers to see the products in person. Showrooming is the practice which allows customers to see and find the products they like in stores while giving them the possibility to purchase them online.

Although online shopping has become increasingly ubiquitous, physical stores are sometimes essential to provide the in-store experience to the customer. For the benefit of online and offline retail, Kohl's and Amazon partnered in the spring of 2017 where Kohl's started selling Amazon's gadgets like smart-home products in few stores. Kohl's also started to accept returns of Amazon products at no additional cost for the customer at about 80 locations. The returned products will be sent back to Amazon's return centres. The stores handling Amazon increased up to the count of 100. Now the company is planning to implement it in more than 1,150 locations. Kohl's stock has hiked about 22% over the past 12 months.

The introduction of grocery stores has increased a great deal of traffic<sup>xi</sup>. Kohl's is also trying out new ways to boost productivity and foot traffic. In the recent years, stores are trying to reduce the energy footprints. This has resulted in extra rooms. To fill up these vacant spaces, Kohl's came up with a solution to partner with grocery stores. Kohl's associated with Aldi and opened their first grocery store on February 7, 2019. The stores belong to the same building but have different entrances. Kohl's has recognized more than 300 stores where they can introduce Aldi to the crowd. The company is planning to expand their chain to 2,500 locations by the end of 2022.

**Food retail is the essential survival kit for collapsing malls.**

Retailers like Wegmans and Wholefoods have taken over empty mall spaces which have highly intensified the mall businesses. This has introduced a concept of "mall marts". These stores offer an advantage to malls mainly because of the low rent and the multiplicity of foot traffic. Although retailers are struggling in this e-commerce era, food marts still dominate all other categories of stores in the US.

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E-commerce businesses are always looking for opportunities to steal a march over offline stores. The introduction of online grocery shopping has hiked up the sales of e-retailers tremendously. By 2022, online grocery has been forecasted to be a \$100 billion business, representing over 12% of the projected total U.S. retail food and grocery business in the respective year. Key retailers are always looking to expand their markets through the food sector. Amazon bought Whole Foods for \$134.7 billion dollars in 2017 and started super-fast delivery of groceries through the “Prime” feature. Two months prior to this, Target announced its plans to buy Shipt, a same day delivery service. Kroger partnered with Ocado to speed up delivery<sup>xii</sup>. Many companies are working with Instacart to deliver groceries from their stores. Some stores like Walmart and Kroger have introduced a new concept of “click and collect” where consumers choose their products online and then drive to the stores to pick them up. This has an advantage for customers to see the products before buying and offline stores are not left empty.

A physical space allows new brands to meet customers where they live and deliver the brand in front of new shoppers. It is a direct way to encourage sales. A pop-up shop is an example of this type of retailing. It is a short-term temporary retail space where brands, usually ones without a physical presence can interact in person with current customers and communicate their message to potential new ones. A pop-up looks like a regular store, but many brands use them to create a unique and engaging physical shopping experience.

Macerich, a major U.S. mall operator came up with a new concept called “BrandBox” which intends to allow young online retailers to open physical stores in malls. The retailers must pay a small monthly fee to Macerich for service, which includes foot-traffic tracking, sales and other analytical tools. This allows brands to monitor various aspects such as a physical store’s impact on their online sales in the same zip code<sup>xiii</sup>.

Many retailers are partnering with start-ups to offer unconventional services to improve customer reach. Waymo, an alphabet company has come up with an exceptional ride share service. The company offers driverless cars to customers who order from Walmart website. The customers can hop into Waymo cars and take a ride to the nearby Walmart store for grocery pick up when the order is ready. It is also used to run small errands like shopping at retail stores. In addition to this, the idea has allowed people to use more self-driving cars<sup>xiv</sup>.

On one side, retailers are trying different techniques for its brick and mortar stores to add value to customers. On the other hand, many malls are re-inventing themselves to survive. In five years, we hope to see a completely different mall and retail landscape – the ones (malls and retail companies) which adapt fast to the change by using new technology and business approaches will continue to stay relevant while others will perish.

- i: <https://thasosgroup.com/wp-content/uploads/2018/02/Thasos-Q2-2017-Mall-REIT-Foot-Traffic-Report.pdf>
- ii: <https://www.macrotrends.net/stocks/charts/WMT/walmart/revenue>
- iii: <https://www.supermarketnews.com/online-retail/kroger-unveils-its-own-online-grocery-delivery-service>
- iv: <https://www.macrotrends.net/stocks/charts/TGT/target/revenue>
- v: <https://www.nytimes.com/2019/04/12/business/retail-store-closings.html>
- vi: <https://www.cnbc.com/2019/01/14/gymboree-reportedly-close-to-bankruptcy-to-liquidate-all-stores.html>
- vii: <https://ir.jcpennney.com/financial-information/balance-sheet>
- viii: <https://www.nasdaq.com/symbol/shos/financials?query=balance-sheet>
- ix: <https://www.digitalcommerce360.com/2018/04/16/online-sales-grow-an-estimated-16-2-in-march/>
- x: <https://www.businesswire.com/news/home/20180201006454/en/Amazon.com-Announces-Fourth-Quarter-Sales-38-60.5>
- xi: <https://www.cnbc.com/2019/04/23/kohls-will-offer-amazon-returns-in-all-of-its-stores.html>
- xii: <https://www.theatlantic.com/technology/archive/2019/02/online-grocery-shopping-has-been-slowcatch/581911/>
- xiii: <https://www.forbes.com/sites/andriacheng/2018/11/13/a-new-face-of-brick-and-mortar-retail-mall-owner-macerich-tries-a-date-with-online-brands/>
- xiv: <https://techcrunch.com/2018/07/>



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