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Ideas for Increasing Vitality in Community Business Districts

The Future of Downtown Retail Part I – Analysis of Past Trends

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The following article summarizes retail trends as presented by Michael Stumpf of Place Dynamics. His insights were presented at the International Downtown Association annual conference held in Milwaukee in September, 2009.

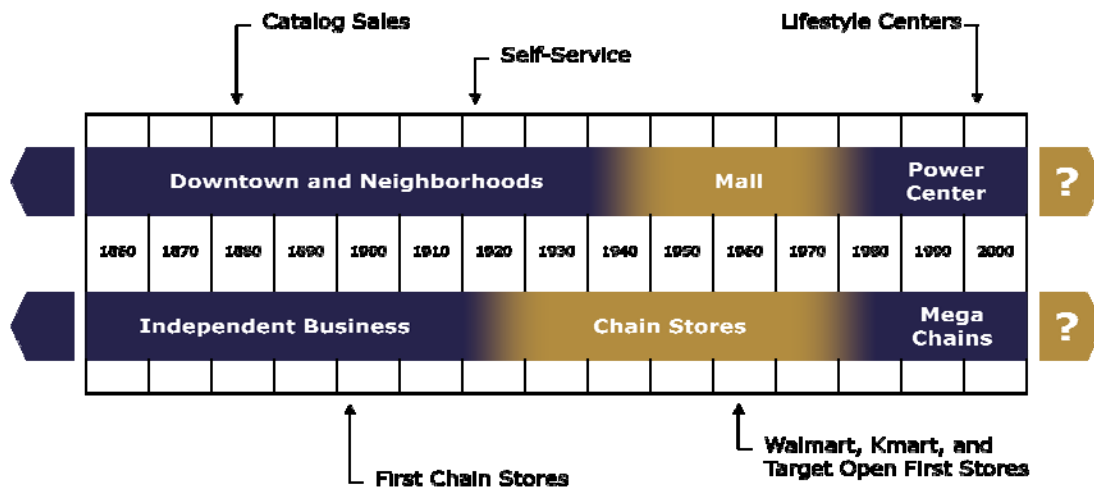
The last decade has been a period of unusually strong retail growth. This was true of sales and of the total amount of retail space covering our landscape. In the midst of a severe recession is easy to look around and say that the changes in today's retail environment are the result of a faltering economy. But to do so would be an oversimplification that fails to take notice of some dramatic changes going on in the ways in which we live, work, plan, and shop. This golden age of retail has come to an end. It is not good news, but it is not all bad either. Our downtowns may be in a better position to capture future retail development.

Let's begin by addressing the economy. Unemployment is rising, incomes are dropping even among those still employed, consumers no longer have easy access to credit, and most of us have taken a hit on our assets, including the home values that fueled a good share of total spending in the last few years. This would be enough to cause turmoil in the retail sector even if a number of more fundamental

shifts were not occurring.

A brief history of retail can help to set the stage. Until 150 years ago most retailing was done through independent small shops located in downtown business districts. This began to change with the advent of catalog sales toward the end of the 19th century. We began to see the first chain stores not long after. The growth rate could be staggering. For example, Montgomery Wards grew from strictly a catalog operation to having over 500 stores in just four years. These new chain stores displaced independent businesses and helped to spur the suburban mall development that dealt the first major blow to downtown retail.

As the "chaining" of America continued it gave birth to new formats that would further cripple downtown and lead to trouble in the mall as well. Discount stores were not new in 1962, when Kmart, Target, and Wal-Mart all opened their first stores, but these three have grown to dominate the retail landscape. Along with other big-box and mid-box retailers, they have grabbed an ever-increasing share of spending in many categories. Unlike other stores that might locate in the mall, these stores gave birth to the power centers and strip centers that pulled more customers from downtown and the mall. It is an ironic twist that in an effort to regain customer traffic the mall developers turned to a new format - the lifestyle center - which is based on the traditional downtowns that malls helped to destroy. After initial interest, research is starting to show that shoppers are growing tired of lifestyle centers.



So where are we today? Bankruptcies, mergers, and acquisitions have all but eliminated local and regional chains, and increasing concentration is robbing us of the variety that makes shopping an interesting experience. Malls are struggling, lifestyle centers do not appear to be a panacea, and the recession is making it clear that we have overbuilt many of our suburban strips. It appears as if a change is needed.

I opened this article with a statement that the changes we are seeing in retail today are more than the result of a deep recession. Four trends are converging in a "perfect storm" that will dramatically impact the retail sector.

Demographic trends

Every generation follows a spending curve. We start out as children spending very little and increase our purchases as our income grows. And then around retirement age we begin to spend less. The Baby Boom, the largest generation, is now beginning to retire. Generation X is much smaller and Generation Y is just beginning to spend. To further complicate the picture, these younger generations have much different interests and desires than the Boomers. This is equally true in work, housing, and shopping.

Growing ethnic populations are a second demographic trend shaping future retailing. We have all heard that it will not be long before minorities become the majority. They are already a major force in retailing. We are beginning to see efforts among chain retailers to reach out to these diverse populations, as well as the arrival of new or foreign chains to accompany the independent merchants serving these markets.

Urban Growth and Sustainability

Smart Growth has always been embraced by advocates of downtowns, as many see its principles as benefitting urban centers and redirecting development inward. The real test is whether the general public embraces it, and evidence is starting to pile up to say that it has. A growing segment of the

population, from retiring empty-nesters to young singles, is showing a preference for urban living. The population has stabilized, and in many communities is growing within the urban core. Walkable downtowns and neighborhood shopping districts have been reinvigorated by this trend, which most analysts believe will continue to grow once the housing market sorts itself out and begins to grow again.

Retail Consolidation

There are fewer retailers around now. Decades of consolidation have left us with a handful of department stores, three major office supply chains, three major hardware dealers, two-and-a-half discount store chains, one electronics giant, and one bed and bath outlet. We are bored. Boredom demands a counter-trend. It can happen downtown.

Internet Sales

Lastly, we should consider the Internet. A growing proportion of sales are occurring online. Certainly online sales will continue to grow, but what may be the long-term prognosis for retail in general, and downtown in particular? Will online sales lead to a scaling back of the major chains and expanded reach for smaller retailers? The Internet could be an opportunity for downtown businesses to supplement their sales and compete effectively against larger local competitors. The jury is still out on this one, though, and we will have to wait to see the end result.

The next issue of Downtown Economics will expand on these trends by discussing how shoppers and products are changing and what opportunities are available to downtown districts. Seven retail trends to watch will be offered.

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