



Downtown Economics

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Ideas for Increasing Vitality in Community Business Districts

The Future of Downtown Retail Part II – Changes on the Horizon

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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.

In part I, four trends were presented that could dramatically impact the retail sector. These trends included demographic, urban growth and sustainability, retail consolidation and internet sales. Part II describes additional ways retail is changing and how downtowns can respond to emerging challenges and opportunities.

Shoppers to make lifestyle/consumption changes

Analysts estimate that post-recession spending could return to about 85 percent of pre-recession levels, with a greater share of cash purchases. That alone has implications for retail, but we can also expect some basic shifts in behavior. Most interestingly, there is a shift from aspirational shopping with a focus on luxury, quantity, and conspicuous consumption, as we have seen in the flight of shoppers from higher-end boutiques to mid-tier and discount stores such as Kohl's and Wal-Mart. Shoppers now seek value, quality, and simplicity. These are the same adjectives often used to describe Generation X, while the tastes we are leaving behind could be more closely tied to the Baby Boomers.

Expanding on the ideas of value and quality over quantity, there is evidence to suggest that shoppers may be purchasing fewer, but more meaningful items. If what is not needed or not wanted badly is not being purchased, then consumers are buying what they truly need and what they truly desire. This can bode well for specialists who stock and offer knowledge in specialized sectors. In other words, the beneficiaries are not likely to be the mega-marts, but rather the niche retailers who are more likely to be found downtown.

Shoppers have a growing interest in community. This can be seen in preferences for green and fair trade goods, patronage for local businesses, and a desire for locally-

sources products. Often, these are perceived as supporting the local community or offering a better quality or freshness. The independent businesses and small chains that often dominate downtown retail are uniquely positioned to cater to this lifestyle trend. They can easily identify local suppliers and adjust their product mix, whereas centralized purchasing makes it difficult for chains to do the same. We should be aware that chains have recognized this and are seeking to redefine the meaning of "local" in response.

Lastly, we should note that these observations have been consistent across all ranges of income, and have been global in scope.

Seven Trends to Watch

Lifestyle and demographic trends can help predict what kinds of retailers will be growing in future. The following trends are among those to watch.

Pet products and services. Our love for pets will result in a growing number of pet-oriented businesses, from basic pet stores to pet bakeries and pet hotels.

Nesting - the home and garden trend. Since people are spending more time at home, they are purchasing items and services to create a comfortable home environment.

Health and alternative health products. First, there is a growing acceptance and exploration of alternative health products and services. Secondly, the Boomers are spending on products and services meant to help them look and feel younger.

Goods from or targeted to growing ethnic populations. Recent immigrants are among the most entrepreneurial Americans, and the stores they open will reshape the character of many communities.

Green, sustainable, organic, and local products. There is an increasing interest in stores that carry environmentally-friendly, organic, and locally-produced items. This segment of the market is still dominated by independent businesses.

Experiential retail environments. Many stores offer demonstrations, seminars, instruction, or other activities to bring people in, sell products, and build a loyal following. Still others engage the customer in preparing the product (i.e. family dinner).

Ready to go / anytime. Prepared foods is a big part of this trend but it can also be found in other services that save time or offer flexibility. In the fitness industry, this is popping up in unstaffed gyms where members have 24-hour access.

The product dynamic is changing

Discounters, big-box specialty stores, and grocers are scaling back the number of SKUs they carry in their stores. Think about your last visit to one of the office supply giants. At one point you might expect to find a wall of different papers, in many colors, finishes, and weights. That selection has been pared down considerably. The story is the same for all office supplies, groceries, hardware, and other types of products.

As a result, the top brands gain shelf space at the expense of less popular items. On top of that, private labels are surging, taking up additional space on the shelf. Smaller brands and products are being squeezed, getting less shelf space or having their products no longer carried. Alternative channels or outlets are more important than ever to these manufacturers. For some, these may be the only places where their products are carried. Downtown independents and small chains can use this chance to differentiate themselves from the larger competitors, and that leads us to the next observation.

Boredom is taking over

Shopping is a favorite activity. Whether at home or on vacation, people indicate that one of the activities they most often engage in is shopping. At the same time, people are indicating that they are dissatisfied with the shopping experience. We all know what it is like to walk into a mall, regardless of the city and state, only to find the same businesses found elsewhere. Consolidation has robbed us of variety and of the local flavor that made shopping a fun activity. Malls are no longer in fashion and lifestyle centers are losing their luster.

Downtown may be the sole exception to the "anyplace" syndrome. Downtowns, developed over decades by dozens of individuals, have the architectural and design variety lacking in the malls. Downtown has a history and a story to tell. It has unique retailers and restaurants. It has a diversity of uses and people. Hopefully, downtown is not a sanitized and boring environment like the mall. Downtown is authentic. Downtown is the real thing.

The question for us is whether we do a good job of letting downtown be that unique environment. We can make the same mistakes as the developers of malls. Our penchant for major redevelopment projects can replace a quirky and genuine block of storefronts with a bland or artificial facade. Financing can lead us to favor well-known chain names over local and unique businesses. Before long, downtown may look too much like the mall.

We should also be aware of the threat posed by developers luring downtown businesses to their malls and

other locations. Until very recently this was not likely to happen because retailers were so rapidly expanding. A developer could go to a single chain and sign multiple leases. There was less work involved in that than in trying to find, qualify, and negotiate single leases with independent merchants. In today's environment, where the national vacancy rates has hit ten percent, few chains are expanding, and many stores are closing, independent downtown businesses are looking more attractive.

Serving a neighborhood need

I can't conclude before touching on one resurging aspect of downtown retail. Downtown may be a destination for a community or region, but it is also the shopping district for its neighborhood. Over the last few decades, as population growth has occurred elsewhere and businesses have moved out, residents of the downtown area have been presented with fewer options for meeting their daily shopping needs. With the development of new downtown housing, these needs are becoming more acute. Downtown populations are often large enough to support pharmacies, food stores, and other basic retail needs. Adapting formats and identifying viable locations is often the challenge.

Downtown has an opportunity

Our economic recession and retail slump are coinciding with a convergence of trends that is reshaping the retail environment. Demographics, interest in downtown housing, unique businesses, cultural shifts, and chain retail practices are creating opportunities while retail consolidation, boredom, and financial issues are presenting hurdles for malls and the chain retailers who occupy them. Perhaps more than at any other time in the last several decades, downtowns may be in a position to recapture a share of the market that they long ago lost to malls and strip centers.

Realizing this opportunity may not be easy. Mall owners and developers will be competing, reaching out to downtown businesses and launching new formats to retain or grow market share at the expense of downtown. In our efforts to seize the opportunity, we face the prospect of making the same mistakes as the malls, wiping away the history and unique buildings and businesses that make downtown different. That would be a loss, because downtown is "the real thing", with unique experiences to offer. This is its secret, and the quality upon which its future will be built.

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