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RETAILERS REINVENT THEMSELVES AS SHOPPING HABITS CHANGE

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The 2015 holiday season was good to retailers with healthy sales, both online and in brick-and-mortar stores. According to MasterCard, retail sales were 7.9 percent higher between Black Friday and Christmas Eve than in 2014. More notably, online shopping was up 20 percent during the same period, and Amazon reported Cyber Monday sales rose 40 percent in 2015.

When and how consumers make purchases is changing the way many retailers do business, and in some cases, the way they utilize commercial real estate. Brian Landes, a research specialist at Transwestern, shares what's in store for retailers and consumers as the American shopping experience continues to change its style.

REDEFINING THE HOLIDAY SELLING SEASON

The 2015 holiday season may mark the beginning of the end of Black Friday's importance. The shopping season has become more diffuse, and discounts once reserved for certain days have been spread out across the season. If anything, the day after Christmas has become the new Black Friday. According to the National Retail Federation, 65.9 percent of shoppers planned to shop the weekend following Christmas. It is predicted that the day after Christmas, which is a popular shopping day among millennials, eventually could eclipse both Black Friday and Cyber Monday in sales receipts.

EXPERIENTIAL RETAIL IN VOGUE

The average consumer is pressed for time and disposable income so they often shop based on price, which favors online versus brick-and-mortar sales. This can limit a retailer's ability to interact with consumers, gain upselling opportunities and create brand loyalty. As storefront retailers continually look for ways to increase foot traffic and compete with online sales, experiential retail – which could span providing samples to testing products to creating an immersive experience that gets customers excited about the brand – has increasingly become a driving force in the industry.

At the very least, retailers give online consumers the option to find their product in local stores and return online, providing an incentive to interact with the retailer in a live setting. REI and Nordstrom are two stores that excel at this. On a more advanced level, higher-end retailers, in particular, are creating immersive experiences to bring in patrons. Restoration Hardware provides an excellent example with its recently opened flagship store in Chicago's Gold Coast neighborhood. The "store" showcases the company's retail goods, but also features a performance space, wine bar and restaurant, as well as plans for a possible hotel. This approach creates a lifestyle destination rather than simply a retail store.

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ONLINE SHOPPING CHALLENGES INFRASTRUCTURE

The 2015 holiday season was a boon for many retailers, online marketplaces and their respective delivery services. Deliveries from online shopping were expected to increase approximately 8 percent this holiday season over last, with UPS, FedEx and the U.S. Postal Service estimated to deliver 1.2 billion packages in December alone. Yet according to consulting firm Kurt Salmon, orders placed on Nov. 30 from 62 retailers were delivered in an average of 6.9 days, which was 20 percent slower than in 2014. Why the slowdown? Five-day delivery has become old hat, prompting some retailers to offer free or low-cost next-day delivery and even same-day delivery in certain urban areas. As this level of service becomes the norm, the existing logistics network is having trouble keeping up with consumer demand.

Some retailers are looking into alternatives to meet shoppers' expectations. Early in 2015, Amazon launched Amazon Flex — a program that uses outsourced drivers to make deliveries. And Uber, not satisfied with simply delivering people around town, created its own urban delivery service called UberRush. However, Amazon and Uber may run into headwinds in the near future. Many states are increasing regulations on contract employment that could eat into profit margins. Also, next-day and same-day delivery may be profitable for shippers when gas prices are low, but if oil and gas prices spike, these services become more expensive. Retailers will either have to absorb the increased cost or pass it on to the consumer.

NOT YOUR FATHER'S INDUSTRIAL PROPERTY

While retailers continue to establish 1 million-square-foot distribution centers at the exurban fringe to serve a metropolitan area, they are rapidly building upon that model to meet consumer and business demand for faster delivery times. In some cases, retailers are using their existing stores as mini-distribution centers and shipping products directly from those locations. Other retailers are adding facilities with smaller footprints in urban areas where deliveries can be made more quickly. Considering this infill industrial space comes at a reasonably high cost, the increased demand could benefit big-box retailers that have excess real estate for sale or sublease as a result of downsizing. The trend also could result in improved leasing and rental rates for owners of small, urban industrial buildings.

BRIAN LANDES provides GIS and demographic research to the West region team. He specializes in real estate consulting and retail site selection working with multiple bank and retail tenants. Brian provides analysis related to site selection, land use, retail analytics, and logistics analysis.

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