

TRENDS IN THE RETAILING INDUSTRY

The retailing industry is ever changing, responding to consumers' shopping habits, behavior and economic and demographic composition. Today, several new retailing forms are emerging and some have staying power that will prove to be competitive to the traditional retail form. The department store, traditionally the dominant retail medium, is now undergoing some stress due to competition from other retail types, notably value-retail and specialty store types. Consolidation of department stores is now occurring. This section of the Friendship Heights Retail Study presents excerpts from several industry trade journals which reflect on the emergence of retail forms and other trends in the retailing industry. Some of these trends are evident in Friendship Heights. Identifying them enables us to better understand the direction retail is going in the study area and to be able to plan for these forms in the future.

The following excerpts are from The International Council of Shopping Centers: "Guide on Trends in the Shopping Center Industry."

Entertainment/Leisure Components to Retail Malls

1. Developers are adding entertainment and leisure facilities to the traditional mix of retail stores in an effort to lure families to their shopping centers.

The leisure-retail concept has been found, in some cases, to boost traffic. Shopping centers that normally market to adults may soon become destination stops for the entire family. Several developers across the country are adding entertainment to their retail developments. LJ Hooker Developments, Atlanta, added entertainment to about half of their six regional malls. Western Development, Washington, negotiated to add entertainment to a mall in Pennsylvania.

2. By locating in a shopping center, theme park operators hope to reduce the seasonality of their business by drawing from the crowds that visit year-round.

Not only does the mall realize a gain in its traffic, but the entertainment provider also can realize stability in a seasonal business. If a deal can be negotiated, the venture could be a win-win situation.

3. In turning to entertainment and leisure facilities, developers are hoping to duplicate the impact of the major anchor.

"We are trying to produce an entertainment box which will have the impact of an anchor tenant," said Boyd Simpson, president of LJ Hooker Developments. "We have taken things normally found in shopping centers, such as movie theaters, food courts and game rooms, and enhanced them." Because mall development has slowed over the last several years, mall developers are looking to create value in the existing centers. Entertainment is one way to do that.

Rather than just being a shopping environment, centers now have all kinds of ancillary activities. Some malls already have churches, dentists and doctors. Some experts believe that eventually, malls will have city halls, as well as arenas and museums.

4. Entertainment and leisure facilities are a way to differentiate a center, combat sterility and improve market share says Stan Eichelbaum of JMB/Federated Realty.

In Memphis, a competing center was building an ice-skating rink, so JMB/Federated decided to build a performing-arts amphitheater, which can seat more than 1,000 at it's mall. Over 250 community performances are done there yearly, ranging from symphony and ballet to telethons. Research showed that over a three-month period, roughly 20 percent of the trade area acknowledges having attended the center, primarily drawn by the desire to attend center-stage events. It has been a good counter to the rink, says JMB/Federated.

At the same mall, JMB/Federated added a specially designed, two-level European carousel, which was used by 316,000 people in its first seven months. The \$275,000 mall amenity generated a 16.1% rate of return to the developer.

5. Entertainment components can add traffic but entertainment doesn't necessarily mean a lot during traditionally slow periods of the week.

Weekends normally see the biggest gains in traffic at malls offering entertainment/leisure facilities. Weekends are most important to retailers, the part of the week when many retailers realize 50 percent of their business.

6. Generally, entertainment facilities in the mall generate enough revenue to cover operating costs and a little extra to apply toward capital costs.

Big profits on entertainment are not likely. Some mall developers are willing to lose money on the entertainment component. They hope to make that up in additional traffic, which should be reflected in percentage rents and eventually higher rental rates. Viable entertainment attractions should result in repeat business and significant increases for tenants.

Impact on Friendship Heights

Both Mazza Gallerie and Chevy Chase Pavilion might benefit from some type of entertainment/leisure component. The essence to getting a boost in customers from an entertainment component is understanding the demographics and lifestyles of the market and choosing entertainment that appeals to families. Chevy Chase Pavilion already has a food court. Mazza Gallerie offers a movie theatre. An assessment of the demographic composition of the market area might yield some type of niche, perhaps interactive entertainment catering to families. The entertainment could be educational; for example: virtual-reality games or sophisticated laser and animatronic shows and motion-simulation rides. Other new attractions could include interactive theater for children and "life enhancement" tenants that focus on health and well-being. Differentiation can no longer be achieved with just the tenant mix. A new and unique entertainment/leisure offering, along with both unique and popular tenants, could enhance the image of Friendship Heights in an ever changing, competitive retail landscape.

The Trend in Upscale Malls/Specialty Stores

Upscale Malls Move towards Specialization

The following section is derived from a Shopping Center World magazine article by Michael Hirschfeld, chairman and CEO of the Hirschfeld Cos., Inc., a retail real estate leasing and marketing firm.

1. Upscale malls feature retailers such as Brooks Brothers, Williams-Sonoma, Brookstone, and Crabtree & Evelyn, as well as trendy, sharply focused fashion stores like Benetton and ACA Joe.

These malls are profitable, however, not because of the small upscale stores that take the majority of the mall space, but because they have large anchors and a few non-upscale retailers that bring in a steady flow of customers. Many of the anchors are middle-image, and some stores offer less than upscale products. But the drawing power of anchors and middle-image stores is so strong that developers must rely on them to make the mall profitable.

The presence of non-upscale retailers does not necessarily lessen the image and status of a mall. Other factors, such as amenities and design elements, play a large role in creating that image.

2. Because many metro areas in the country already play host to upscale malls, new and different concepts must arise to provide development opportunities and shape a new course for retailing.

This new concept is smaller malls with a very specific focus for very specific customers. While the idea of high-end, highly focused malls is beginning to reshape this segment of the industry, the physical planning of these centers is similarly breaking new ground. One example is New York's Place des Antiquaires which takes the form of retail duplex townhouses, and each store has its own street entrance.

The advantage of a highly focused mall is that they are geared toward a specific segment of the local upscale population and market toward retailers who recognize the economies this sort of center brings to their businesses.

The basic retailing premise of "massing" also holds true for upscale retailers, because traffic generated by a collection of similar-but-unique stores not only helps generate a high sales volume but also links those retailers to an image that might otherwise be unobtainable.

However, specialization comes at a cost. Marketing time can take 24 to 30 months, and marketing costs about \$20 per square foot. The up-side, of course, is a properly located and marketed specialty mall will draw established tenants and a high volume of upper-income customers.

The Upscale Trend in Friendship Heights

The Friendship Heights/Chevy Chase area currently offers two upscale centers in Mazza Gallerie and Chevy Chase Pavilion, in addition to many free standing stores. Both of the smaller malls cater to moderate- to high-income groups from the surrounding community. However, neither of the two seem to be very focused in the niche they are trying to attract. The Pavilion caters more to younger shoppers than Mazza Gallerie which is anchored by a Neiman-Marcus and a Filene's Basement. Mazza is not designed

to attract a specific segment of the retailing market by offering a high-end retailer, Neiman-Marcus, and an off-price shop in Filene's Basement. Many believe that this lack of focus will be detrimental to its future. Others believe that cross-over shopping occurs; some shoppers at higher-end retailers also shop at the value-retailer—Filene's Basement. On the other hand, the Pavilion offers a more consistent mix of tenants, from moderate-high to high-end retailers. However, the Pavilion lacks a retail anchor, a necessity in an up-scale, specialty mall.

If Mazza Gallerie could gear its tenant mix to the nearby upscale market segment by offering another more upscale anchor, while Chevy Chase continues retenanting with retailers appealing to a younger segment, then this "massing" of retail could have a synergistic affect. The addition of an anchor in the Pavilion could also yield positive results. Agglomeration of moderate- to up-scale retailers creates an image that stores could not achieve by themselves.

Other Trends in Retailing

1. The emergence of the outlet mall, the off-price center and "category killers" are changing the way America has traditionally shopped.

These new store types have lured away the target market of many traditional retailers and have pulled customers away from traditional shopping centers. There are only so many dollars to be spent at retail stores; excess building (more stores than are needed by the market area) of retail will only result in fewer dollars spent at each retail establishment. Without the flexibility to adapt, retailing companies and traditional shopping centers lose the ability to compete and are forced out of business. Off-price centers should continue to perform well considering the following trends:

- a) the national economy continues to drive consumers to stores that offer brand-name goods at bargain prices,
- b) baby boomers are approaching middle age, their discretionary income decreases as their children go to college. Baby boomers are becoming more price-sensitive shoppers,
- c) developers are seeking more vibrant tenants, something new on the retail landscape and as department stores falter, off-price centers may fit the bill, especially since they tend to be highly promotional, and
- d) off-price centers and other value-oriented chains are opening more stores that are located in strip centers, in malls, on out-parcels and also in freestanding locations.

2. Because of excess building of retail that has taken place in the United States over the last 10 years, many retailers will fail.

Department stores could be hit hard by the recent surge in consumer satisfaction with value-retailers. Value Retail News, a retail industry journal, reports that there will be fewer department store chains as consolidation continues and marginal players fall by the wayside. This has both positive and negative effects on non-anchor retailers, reports Value Retail News. It is positive because manufacturers will want new retailers to broaden their lines of distribution. On the negative side, those department store chains that remain will have more influence with real estate developers and vendors as the supply of anchor tenants and showcase merchants dwindles.

The following excerpts are from the Langer Report, a New York City based newsletter on changing values and lifestyles for marketers.

1. Upturn, not return.

The improvement a number of consumers are experiencing is significant, not dramatic. There are lingering concerns about the possibilities of more layoffs ahead--the days of downsizing are clearly not over.

2. "Buy, buy, buy." goodbye.

People who used to spend freely say they have changed their habits. They are more cautious, conservative shoppers today than five or ten years ago.

3. Refresh, refurbish, replace.

A good deal of today's spending seems to be home-centered. Consumers are fixing up their homes--doing repairs, renovating, buying new furniture and furnishings--after a long period of postponement. Several retailers in Friendship Heights, during interviews, said they were realizing an upswing in these product types.

4. Clothing shopping down.

For the most part, consumers are reporting they have cut back on buying clothing compared to several years ago. We also heard this comment during our interviews with retailers in the Friendship Heights area.

5. Bargain shopping very popular.

Some shoppers have decided that the bargain shopping they did at the height of the recession did not pay off for them. One woman said, "It's not a deal if you don't need it," Some reject the outlet stores as well--"I saw things more expensive than in the department stores--no great bargain,".

But for more shoppers, price is, without question, a dominant concern. Consumers are looking for the best value within their price range. Many consumers also believe the true cost of an item includes all of the time it takes to look for and find it.

6. Non-store shopping on the increase.

More consumers report that they are buying by phone and mail. Buying clothing by catalog is now an established habit for many. It supplements their in-store shopping or, for a segment of men, often replaces it.

7. Shopping challenges many consumers today.

Consumers don't go on shopping trips, they go on shopping missions, says Judith Langer. Consumers have a determination to find a good buy when they have a product in mind. Many continue to

be bargain hunters because they enjoy both the process and, of course, the result. Many are playing this bargain shopping game harder today than in the past. This is true even at the more affluent levels. A married woman with no children and a household income over \$75,000 described her shopping tactics:

"If I see something at a store, I write down the manufacturer, I go to other stores, or call and wheel and deal. I get catalogs from North Carolina. I call Topps (an appliance store) and say, 'This is the price I got, can you beat it?' Someone came down \$250. It's the norm that I can get it for \$100 less."

8. Upscale department stores specializing in service.

Upscale department store fans still love the "pampering atmosphere" which makes them feel special. They brag about such amenities as Nordstrom's piano, attentive salespeople who send thank you notes, spacious fitting rooms, and gracious restrooms. These stores have excitement and entertainment missing in many others.

Department store visits, however, are increasingly motivated by price promotions. Consumers have come to expect constant markdowns. Many are emphatic that they will not pay full price for clothing at department stores. They will, though, pay full price for items like cosmetics and jewelry.

Implications for Friendship Heights

The oversupply of retail stores in America, coupled with the changing ways America shops, will affect the retail industry for many years. Department stores are no longer the only medium offering a diverse selection of products to the consumer with the advent of value-retailers. Even though Friendship Heights is beginning to realize growth in value-retailers, it can capitalize on a niche in the market by appealing to the high-end households in the area by offering specialized service. Of the department stores, Neiman Marcus and Saks Fifth Avenue currently fill this niche in the marketplace. If anything, this is what is lacking in Friendship Heights, stores that offer a mid- to high-end quality product and most importantly, service that many consumers still hold dear from their earlier shopping experiences.

Value-retailing is expected to continue to challenge the department store with quality merchandise at bargain prices. The trend towards consolidating department stores is evident in the Friendship Heights market with the purchase of Woodward and Lothrop by the May Companies. The other department stores in the area remain vulnerable to value-retailing, other new retailing forms and the on-going consolidation of department stores.

Many of the retail trends identified in the Langer Report are evident in Friendship Heights. Several retailers said home furnishings products were becoming more popular, especially to the Friendship Heights market area. Retailers feel there is a niche in the market for home furnishings that would appeal to Laura Ashley's home furnishings store as well as to Crate and Barrel. While home furnishings is on the upswing, clothing is not. Several clothing retailers, notably Silhouette Blues (men's), Laura Ashley, and Rock Creek (men's clothing) have closed recently in the Friendship Heights area. Some of these stores have consolidated with other store locations in the vicinity.

Value-retail is a new alternative shopping experience in the Friendship Heights market, with the

addition of Filene's Basement at Mazza Gallerie and TJ Maxx just across the street. Bargain shopping is very popular among consumers today and is expected to be a force in retailing in the future. Some retailers in

Friendship Heights believe value retailers can mix with the moderate- to high-end retailers. "There's enough for everybody, in this market; Filene's can make it and so can Neiman," said one retailer. Another even thought that there may even be crossover shopping between value retail and higher-end retailers, such as between a Filene's Basement and Laura Ashley's Home Furnishings.