



NORTHERN ILLINOIS UNIVERSITY

## Center for Governmental Studies

*Outreach, Engagement, and Regional Development*

# Dynamic Trends in the Current and Future Retail Environment

**Illinois Financial Forecast Forum:  
Private Sector Views that will Impact the Public Sector**

January 22, 2021



The**Retail**Coach.



**The Retail Coach is a national retail recruitment and development firm that combines strategy, technology and retail expertise to develop and execute high-impact retail recruitment and development plans.**



## 2020 Holiday Retail Sales

**Facing unprecedented challenges from a spike in the COVID virus, state restrictions on retailers and heightened political and economic uncertainty, consumers demonstrated incredible resilience this holiday season.**

- Holiday sales grew 8.3% to \$789.4B (4.1% increase in 2019)
- Online sales grew 23.9% to \$209B (14.6 increase in 2019)
- Last 2 weeks were key to increase (too late for deliveries) with consumer taking advantage of quick in/out trips, BOPIS and curbside
- Building materials & garden supplies - up 15%
- Sporting goods - up 15.2%
- Grocery & beverage stores - up 9.6%
- Health & personal care - up 5.4%
- Furniture & home furnishings - up 2.2%
- General merchandise - down 0.1%
- Electronics & appliance stores - down 14.4%
- Clothing & clothing accessories- down 14.9%



# Retail Parallels

## 2008 Financial Crisis

Lenders said they will never make speculative retail loans again

Developers renegotiated leases

Retailers modified prototypes and reduced store footprints

Bankruptcies and liquidations

Worsened the wealth divide

Pressure on mid-market retail

## Covid Crisis

Developers are worrying about receiving tenant rent payments and are renegotiating leases

Retailers are modifying prototypes for post-COVID realities

Restaurants are modifying restaurant for post-COVID realities

Alternative delivery methods are being expedited

Lenders are worrying that debt will be serviced

Bankruptcies and liquidations

Worsened the wealth divide

Pressure on mid-market retail







## Retail Knee-Jerk Reaction Committee





Many say consumers have forever changed how they shop and the return to “normal” may never happen again

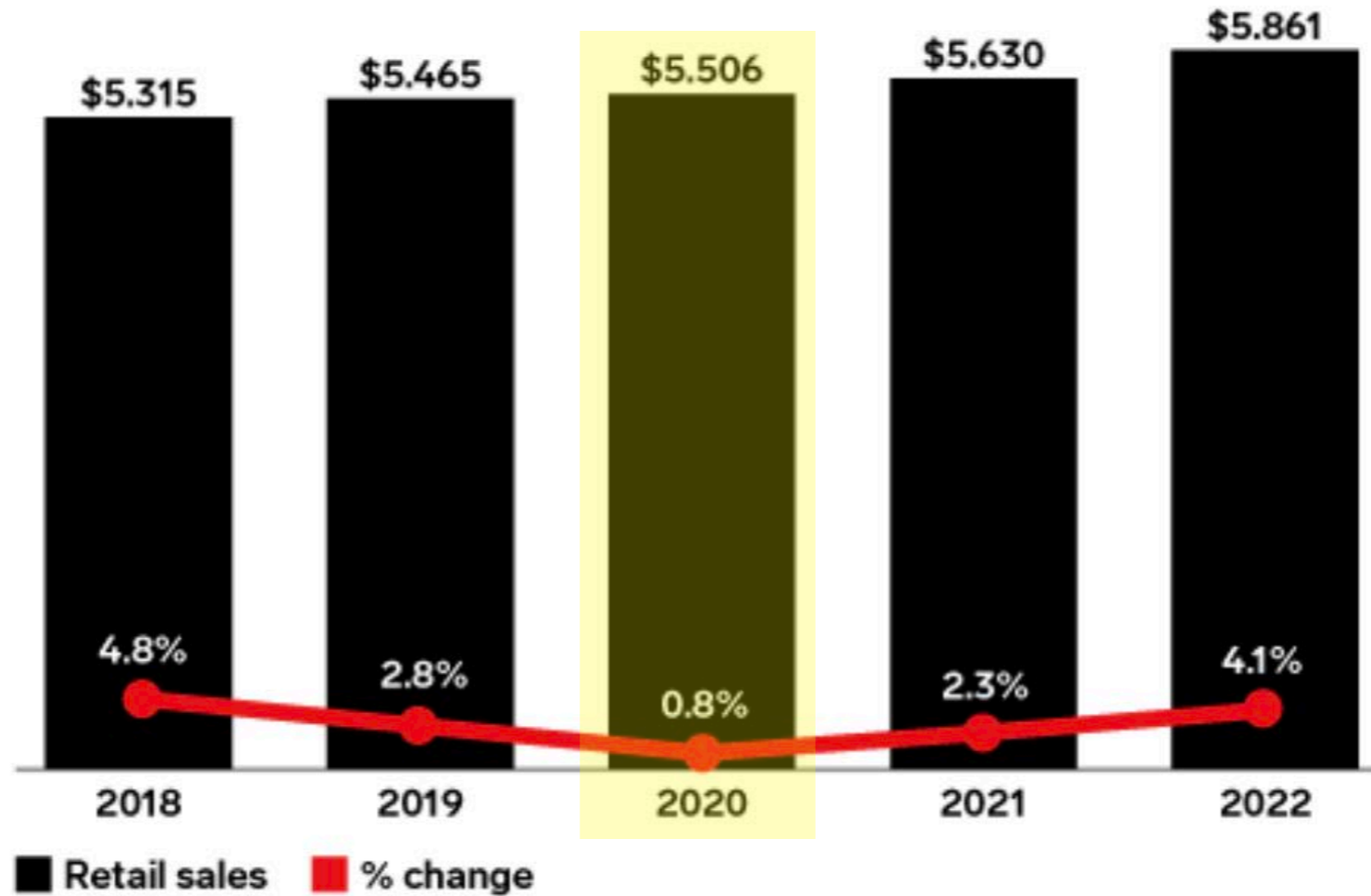


Retail Knee-Jerk Reaction Committee



## US Retail Sales, 2018-2022

trillions and % change



Note: excludes travel and event tickets, payments (such as bill pay, taxes or money transfers), food services and drinking place sales, gambling, and other vice good sales  
Source: eMarketer, Sep 2020

260792

eMarketer | InsiderIntelligence.com





# 1

## 2021 Trends

### Touch-Free Shopping Is the New Norm

#### Pre-COVID

Retail was all about creating an experience for consumers (Experiential Retail)

#### COVID/Post-COVID

Retail all about consumers avoiding surfaces and limited interactions with other customers and employees

- Contactless checkouts
- Scan & Go Smartphone Apps
- Buy Online, Pick Up in Store (BOPIS) & Buy Online, Return in Store (BORIS)
- Drive-thru lanes
- Walk-up/Take-out



Michaels: "Maker Space" for free demonstrations, classes, customer projects

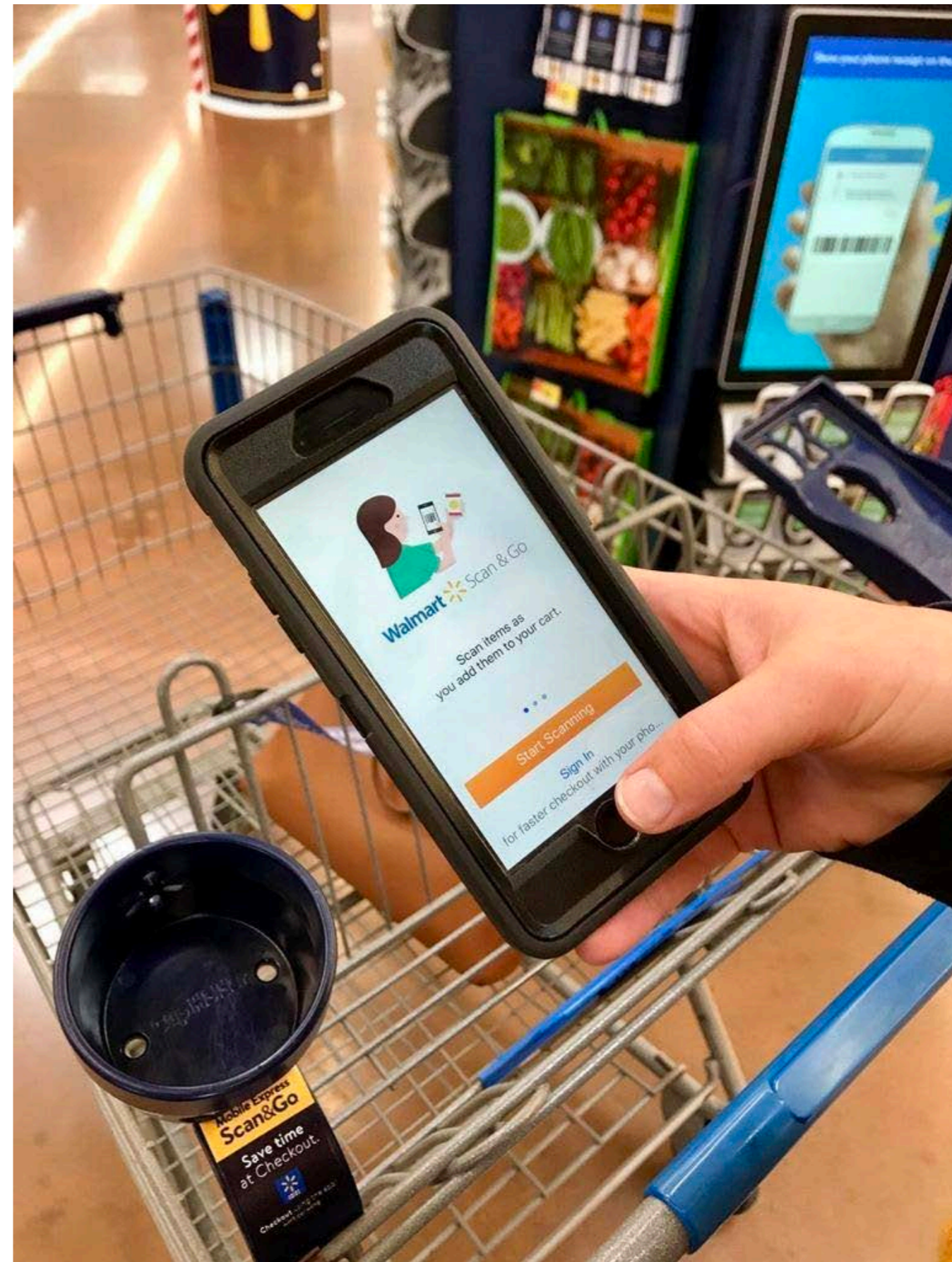




Touch-Free Shopping is the New Norm

## Scan & Go

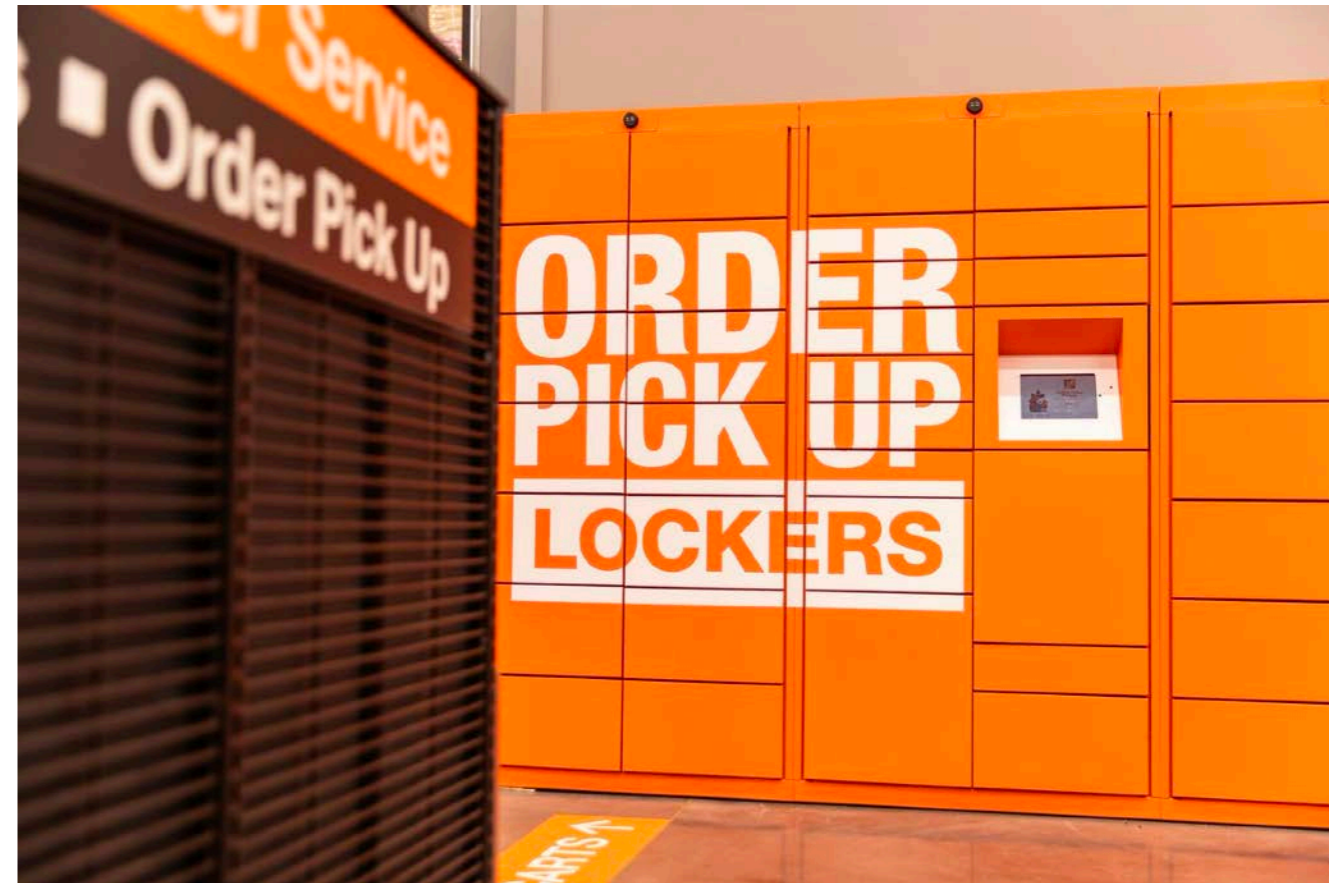
- Eliminates check lanes
- Reduces “touches”
- Requires less staff
- Faster checkouts
- AI (Artificial Intelligence) technology can personalize consumer shopping experience



## BOPIS & BORIS

**Consumers desire to limit trips to stores have encouraged retailers to enhance (or roll-out) curb-side and inside pickup**

- Customers buy online - through website or app
- Store fulfills the online order
- Customer picks up the order in-store, curb-side or remotely
- Pick-up lockers or designated “protected” registers
- Brick & Mortar stores have become mini fulfillment centers
- Customers make returns in-store at designated same designated registers



Home Depot



Touch-Free Shopping is the New Norm

## BOPIS & BORIS

- Drives in-store foot traffic
- Eliminates the cost of shipping & returns
- In-store associates shift to pickers and packers
- Delivers a safer, convenient shopping experience

**68% of consumers say they are going to use curbside pickup more in the future**

**60% will collect more of their online purchase from inside stores**





## Drive-Thru Lanes

- While dine-in restaurants were shuttered and social distancing enforced, drive-thrus provided a crucial revenue stream
- Many with drive-thrus returned to pre-COVID levels of business
- Having no drive-thru forced many independent restaurants to close
- Going forward, multiple drive-thru lanes will be incorporated in most new restaurant prototypes
- If restaurant properties don't have a drive-thru, they are being added
- Not just for QSR's - casual sit-downs restaurants are incorporating drive-thrus

**But is this helping the big picture concerns for healthy living when it promotes a sedentary auto-centric lifestyle?**

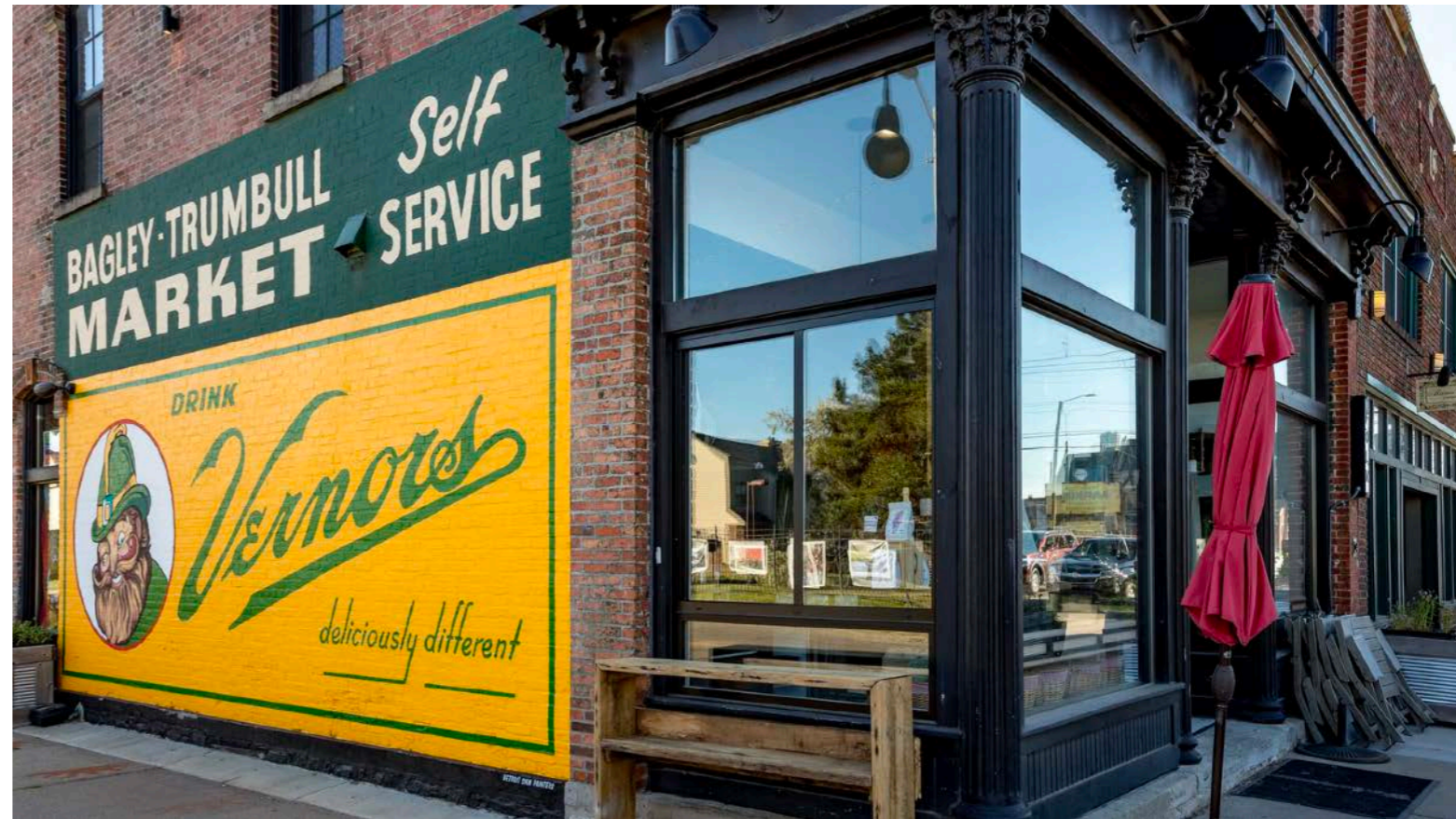


Touch-Free Shopping is the New Norm

## Walk-Up/Carry-Out

Local businesses in downtown/urban settings are struggling to adapt with cost-effective modifications

- Sliding windows gaining in popularity
- Affordable retrofit
- Promotes pedestrian walk-ups and online orders
- Included in most new QSR prototypes





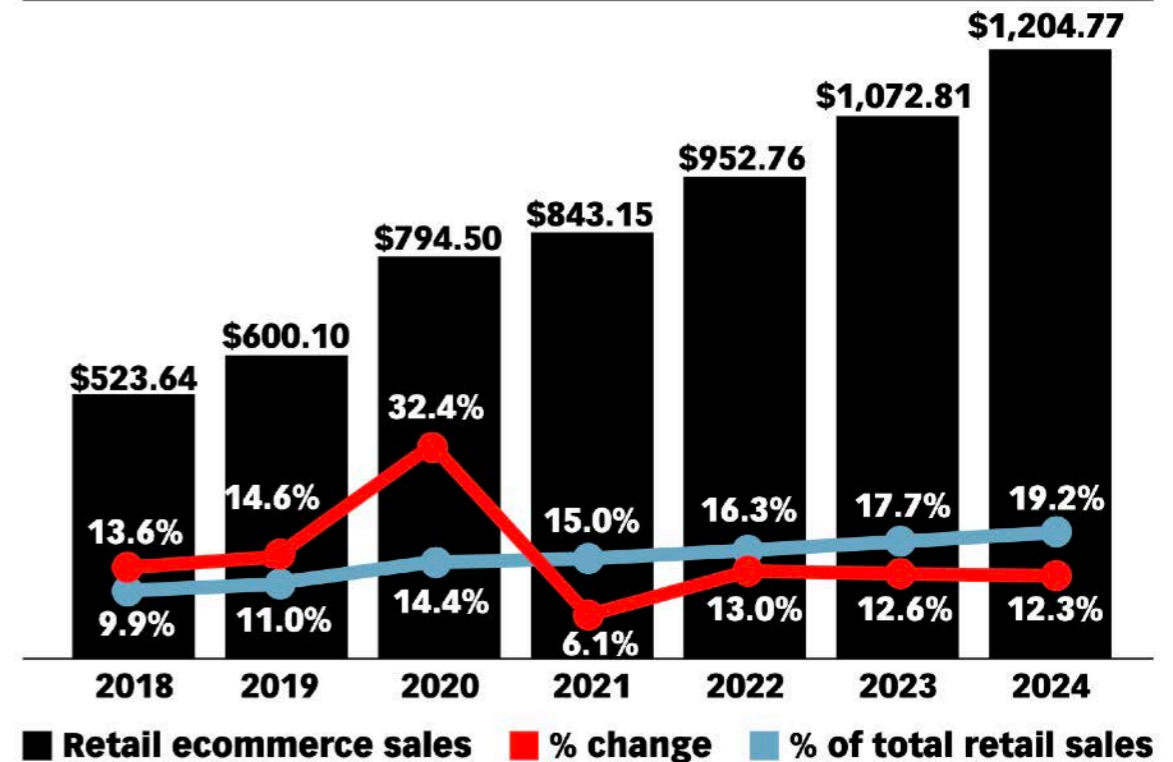
# 2

## E-Commerce Will Continue to Shape Retail

US e-commerce sales forecasted to jump 32.4% in 2020 - 14.4% of total retail sales

- Surge did not make up for the overall hit to the retail sector
- E-commerce sales will continue to rise as consumers continue to look online
- No longer just Gen-Xers, Millennials & Gen-Yers driving online sales - Baby Boomers were forced online during COVID

**US Retail Ecommerce Sales, 2018-2024**  
billions, % change, and % of total retail sales



Note: includes products or services ordered using the internet, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes or money transfers, food services and drinking place sales, gambling and other vice goods sales

Source: eMarketer, Oct 2020

259467

www.eMarketer.com





## E-Commerce Will Continue to Shape Retail

### 2020 US Quarterly E-commerce Sales Increases

(as compared to same period in 2019)

3rd Quarter 36.7% or 14.3% of total retail sales

2nd Quarter 44.5% or 16.1% of total retail sales

1st Quarter. 14.8% or 11.8% of total retail sales

**Table 1. Estimated Quarterly U.S. Retail Sales: Total and E-commerce<sup>1</sup>**  
(Estimates are based on data from the Monthly Retail Trade Survey and administrative records.)

| Quarter                     | Retail Sales<br>(millions of dollars) |            | E-commerce<br>as a Percent<br>of<br>Total | Percent Change<br>From Prior Quarter |            | Percent Change<br>From Same Quarter<br>A Year Ago |            |
|-----------------------------|---------------------------------------|------------|---|--------------------------------------|------------|---|------------|
|                             | Total                                 | E-commerce |   | Total                                | E-commerce | Total   | E-commerce |
| <b>Adjusted<sup>2</sup></b> |                                       |            |   |                                      |            |   |            |
| 3rd quarter 2020(p)         | 1,468,927                             | 209,533    | 14.3                                      | 12.0                                 | -1.0       | 7.0   | 36.7       |
| 2nd quarter 2020(r)         | 1,311,345                             | 211,595    | 16.1                                      | -3.9                                 | 31.9       | -3.5  | 44.5       |
| 1st quarter 2020            | 1,364,197                             | 160,414    | 11.8                                      | -1.1                                 | 2.4        | 2.1   | 14.8       |
| 4th quarter 2019            | 1,379,984                             | 156,581    | 11.3                                      | 0.5                                  | 2.2        | 3.8   | 16.6       |
| 3rd quarter 2019(r)         | 1,373,032                             | 153,224    | 11.2                                      | 1.0                                  | 4.7        | 3.8   | 17.3       |
| <b>Not Adjusted</b>         |                                       |            |   |                                      |            |   |            |
| 3rd quarter 2020(p)         | 1,472,165                             | 199,439    | 13.5                                      | 10.5                                 | -0.6       | 6.9   | 37.1       |
| 2nd quarter 2020(r)         | 1,332,066                             | 200,646    | 15.1                                      | 4.6                                  | 36.9       | -3.3  | 44.4       |
| 1st quarter 2020            | 1,273,055                             | 146,539    | 11.5                                      | -12.8                                | -21.1      | 2.9   | 14.6       |
| 4th quarter 2019            | 1,459,855                             | 185,700    | 12.7                                      | 6.0                                  | 27.7       | 4.1   | 16.3       |
| 3rd quarter 2019            | 1,376,996                             | 145,474    | 10.6                                      | 0.0                                  | 4.7        | 4.4   | 18.0       |

(p) Preliminary estimate. (r) Revised estimate.

<sup>1</sup> E-commerce sales are sales of goods and services where the buyer places an order, or the price and terms of the sale are negotiated over an Internet, mobile device (M-commerce), extranet, Electronic Data Interchange (EDI) network, electronic mail, or other comparable online system. Payment may or may not be made online.

<sup>2</sup> Estimates are adjusted for seasonal variation, but not for price changes. Total sales estimates are also adjusted for trading-day differences and moving holidays.

Note: Table 2 provides estimated measures of sampling variability. For information on confidentiality protection, sampling error, nonsampling error, sample design, and definitions, see [http://www.census.gov/retail/mrts/how\\_surveys\\_are\\_collected.html](http://www.census.gov/retail/mrts/how_surveys_are_collected.html).



## E-Commerce Will Continue to Shape Retail

### E-commerce explosion has created challenges

- Shipping has become a fulfillment issue - reason for some retailers move to identify localized fulfillment centers
- Shipping is a cost issue
- USPS, FedEx and UPS are beyond their limits
- Third-party delivery services are popping up
- Demand for drivers, warehouse pickers and packers
- Amazon hired approx. 350,000 in 2020
- UPS planned to hire more than 100,000 during the holidays





### E-commerce explosion has created challenges

Merchandise Returns top \$428B in 2020

- Returns accounted for 10.6% of total US retail sales
- More than doubled as compared to 2019
- 5.9% of all returns were fraudulent (\$25.3B)
- COVID keeping consumers out of stores was the major reason

**Amazon, Walmart, Target and other major retailers have determined there is no cost benefit to processing returns - and cheaper to issue refunds and allow customers to keep the product**





# 3

## Big-Box Stores Rule

- Big-box retailers benefitted from being “essential” and keeping stores open during the lockdown
- “One stop shop” retailers like Target, Walmart, Best Buy, and Lowe’s have seen their sales soar
- Benefitted from the DIY trend
- Consumers tended to skip the mall and specialty retailers and their sales suffered
- Off-mall, “everything stores” are likely to continue to thrive



# 4

## Restaurants Morph to Less-Touch

More restaurants will focus on smaller building footprints with amped-up delivery, walk-up/takeout and drive-thru operations.

Chick-fil-A and Sonic successfully implemented less-touch long before COVID





### Burger King of the Future

- Generally smaller concepts
- Double or triple drive-thrus with digital menu boards
- One designated lane for delivery drivers
- Walk-up windows for ordering & pick-ups
- Designated parking spots for app ordering & food delivery to car
- On-premises dining - one concept replaces traditional dining with shaded patio for outside dining
- Curb-side delivery
- Pick-up lockers
- One design option provides for suspended kitchen and dining room - smaller footprint for urban locations





## Restaurants Morph to Less-Touch

### Taco Bell Go-Mobile

- Smaller than the traditional concept (1,325 sq. ft vs. 2,500 sq. ft.)
- No dining room - drive thru only
- Optimizes ordering ahead
- Double drive-thru lanes
- One lane designed for priority pick-ups for app orders
- Curb-side pick-up
- “Bellhops” with tablets to expedite ordering





## Restaurants Morph to Less-Touch

### KFC Drive-Thru

- First pilot drive-thru in Australia
- Pre-Covid design
- Five drive-thru lanes
- Designated pick-up lanes for customers who order and pay through the app or website
- Designated lane for on-the-spot ordering



## Restaurants Morph to Less-Touch

### Buffalo Wild Wings Go

- 1,320 sq. ft. - 1,800 sq. ft. prototype
- Digital menu boards
- Delivery & takeout
- Walk-up counter
- Limited seating for customers waiting on orders
- Heated takeout lockers for those who order online/call ahead





# 5

## Extreme Pressure on Middle Market Retail

**Wealthy consumers are saving money by working from home, not eating out and not traveling.**

**Less fortunate consumers are flocking to deep discounters and forced to cutback even more.**

**Mid-market department stores and specialty stores are struggling most.**



## Extreme Pressure on Middle Market Retail

- COVID worsened the wealth-divide
- Highlighted the divide between retail and spending
- Wealthy consumers splurge online while others look to get the most bang-for-their buck
- Consumers more-likely to buy one quality item or a bunch of cheaper items - instead of buying a few “just okay” items that are not as exciting
- Mid-market consumer base will continue to shrink
- Will lead to more store closings, bankruptcies, mergers and acquisitions

JCPenney

L.L. Bean

Gap

Kohl's

J.Crew

Forever 21

Victoria Secret

American Eagle





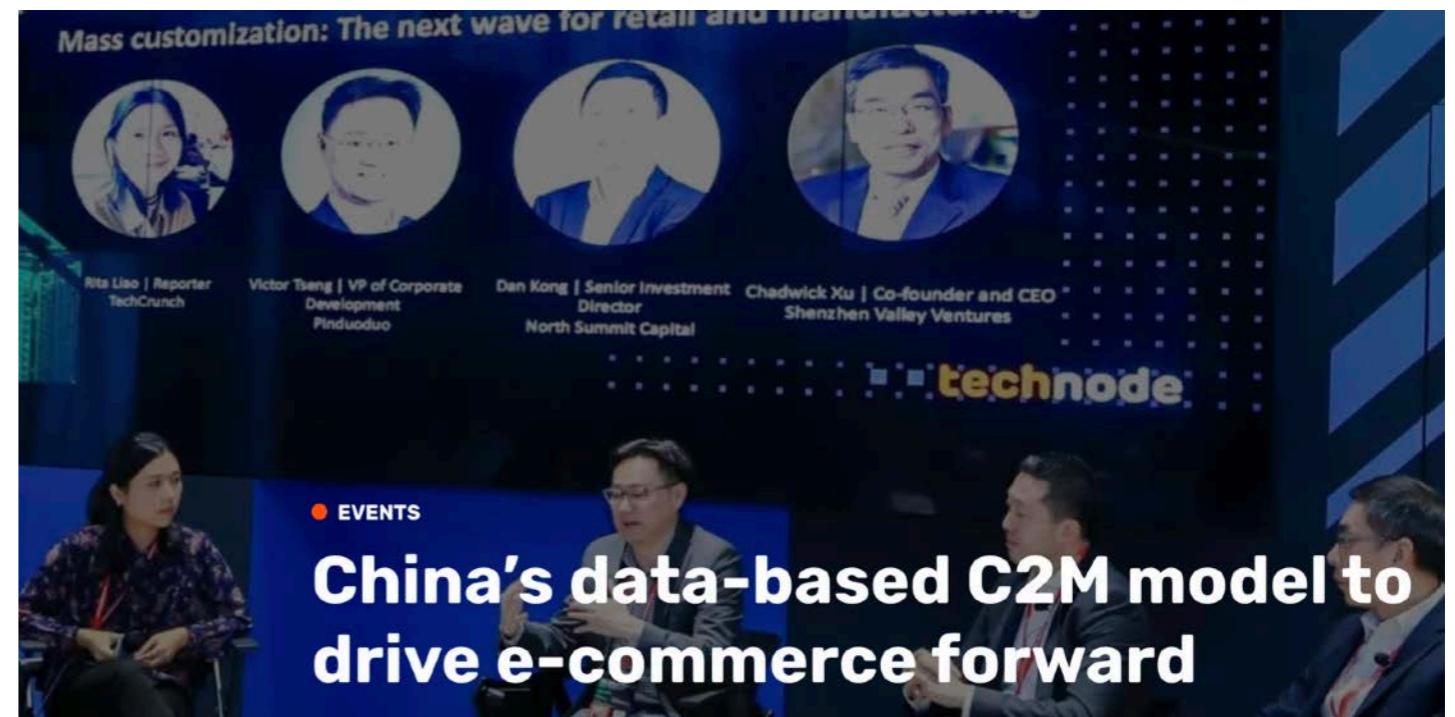
# 6

## More Startups & Manufacturing Models

Out-of-work Millennials and Gen-Zers will create new startups, new brands and develop new manufacturing models.

Development of a Consumer-to-Manufacturing Models (C2M) putting even more pressure on bricks & mortar.

- Made-to-order manufacturing
- Shift from DESIGN-MAKE-SELL to DESIGN-SELL-MAKE
- More profitable for manufacturers
- Consumers willing wait because of price



# 7

## Accelerated Decline of Enclosed Malls

Malls have been facing an uphill battle for years as consumers shifted to big-box, open-air shopping centers and online spending. COVID has just accelerated their demise.

Temporary shutdown of movie theaters, gyms, restaurants and entertainment destinations dealt a significant blow.

- Owners are collecting less rent from anchor and specialty tenants - tenants get rent from sales
- Owners are not servicing their debt
- Owners are faced with store closings, bankruptcies and liquidations (Neiman Marcus, JCPenney, Ann Taylor, Brooks Brothers, Lane Bryant, Lord & Taylor)
- Few viable options to backfill empty spaces





## Accelerated Decline of Enclosed Malls

**Class A malls will continue to thrive even though they have faced pressure as some department stores and specialty tenants quit paying rent.**

**The future is bleak for “at risk” B, C & D category malls. Malls rated C or below are not considered viable retail centers.**

**Core Research estimates that 25% of the 1,000 malls in the US will close over the next 3 - 5 years.**



## Accelerated Decline of Enclosed Malls

**Redeveloping/repurposing will be difficult in the short term.**

- Apartment development expected to be down 15.6%
- Office development down 10%
- Industrial development down 3.6%
- Retail development is down 15.7%

(Moody's Analytics REIS)

**Municipalities must explore purchasing/controlling failing and dark malls on well-located real estate.**

**These properties do not need to be purchased by speculative investment firms pretending to be developers.**





## Accelerated Decline of Enclosed Malls

**Simon Property Group & Brookfield Property Group reached an agreement to purchase JCPenney's retail/operational assets.**

**It has been widely reported they have been in talks with Amazon to convert some shuttered JCPenney & Sears mall anchor stores to fulfillment centers.**

**Municipalities must approve this as the properties must be down-zoned to industrial/distribution - and live with less tax collections.**

**Bid decision as logistics hubs are not retail and do not provide needed consumer foot traffic to support other retailers.**





# 8

## Zoom-Dressing To Continue

The sale of sweat pants, pajamas and workout apparel have spiked as employees shifted to work-from-home.

- Athleisure wear is as relevant as ever - brands like Nike, Lululemon, Outdoor Voices, Champion, Rhone and others have benefitted
- Walmart recognized in March that sales of tops were up but not bottoms





# 2021 Retail Expansion

To get consumers back into stores, they must provide unquestioned safety and an **INCREDIBLE SHOPPING EXPERIENCE**.

Consistent with previously mentioned pressure on mid-market retail, below are examples of the retailers looking to expand in 2021. For a more complete list visit [https://info.stanjohnsonco.com/rs/702-XMW-307/images/Tenant%20Expansion%20Trends\\_Fall%202020.pdf](https://info.stanjohnsonco.com/rs/702-XMW-307/images/Tenant%20Expansion%20Trends_Fall%202020.pdf)

At Home  
Burlington  
DSW  
Marshalls  
TJ Maxx  
Ross  
Old Navy  
Dd Discounts  
AutoZone  
O'Reilly'sAuto Parts

Take 5 Oil Change  
Hobby Lobby  
Michaels  
Costco  
Dollar General  
Dollar Tree  
Family Dollar  
Five Below  
Target  
Best Buy

Aldi  
Save A Lot  
Trader Joe's  
Harbor Freight  
Tractor Supply  
Company  
Texas Roadhouse  
Shake Shack  
Raising Cane's Chicken  
Sonic  
Starbucks





# C. Kelly Cofer, CCIM

c: 662.401.4327

o: 662.844.2155

[ckcofer@theretailcoach.net](mailto:ckcofer@theretailcoach.net)

[www.theretailcoach.net](http://www.theretailcoach.net)

