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Commentary

One Size Does Not Fit All

In this EXCLUSIVE commentary, our source discusses how brick-and-mortar retail is far from dead, that it is far from being wounded and how retailers and owners need to be flexible in an ever changing marketplace to stay relevant and competitive.

By Natalie Dolce

Spencer Bomar, principal and member of Avison Young's national retail services group, was recently moderating a panel at a retail real estate conference in late 2016 when a member of the audience stood up and asked: "What about online purchases? Are you not going to talk about online purchases?" He responded that the question was a great segue to a point he wanted to make about the ways that retailers are adjusting their brick-and-mortar models.

In the below commentary, Bomar discusses how brick-and-mortar retail is far from dead and far from even being wounded. The views expressed below are the author's own.

Home Depot is a prime example. If you asked 100 people on the street to list the retailers with the greatest online sales, I doubt that many of them would say Home Depot. Not only is Home Depot in the top 10, but the home-improvement giant continues to expand its digital profile, growing its online sales at approximately 40% annually for the last several years – a trend that actually sped up in 2016. And yet, for all of Home Depot's virtual successes, its brick-and-mortar business continues to drive the greatest percentage of its total revenue.

Brick-and-mortar retail is far from dead. It's far from wounded. In fact, one can argue strongly that it is more important than ever. Online and mobile sales still only make up about 8% of all retail sales, and making an online revenue stream profitable has proven to be surprisingly difficult for many, if not most, retailers. That said, retailers are adjusting to new realities. And at a time when there is a great deal of discussion and debate about how traditional brick-and-mortar stores can co-exist with an emerging, evolving and expanding digital marketplace, we don't have to look too far to see the ways that brands

Spencer Bomar at ICSC New York in late 2015. (Photo: Avison Young)

and businesses are adapting their brick-and-mortar models.

Successful retailers are continuing to do what they have always done: testing different approaches to determine what works best for themselves and their customers. The relatively rapid emergence of the omnichannel retailing model is a testament to that flexibility, and to the enduring practicality and value of brick-and-mortar retail.

What is particularly interesting is that there appears to be no single one-size-fits-all solution. Instead, different retailers are using different approaches, making strategic changes and calculated decisions about everything from how they merchandise to how to strike a balance between experience and convenience, and what consumers want now and in the future.

The physical configuration of the brick-and-mortar store itself is one area where retailers are experimenting – and in, some cases, clearly succeeding – in adapting their models to operate efficiently and effectively in an omnichannel world. Some retailers are contracting, some are actually expanding, and others are staying the same size but changing the way they allocate and use their space.

Perhaps the most interesting thing to note about how retailers are restructuring the physical store environment is that none of them have it altogether figured out. Businesses, like the industry itself, are still evolving – still experimenting.

One size does not necessarily fit all. That makes sense, of course, because each retailer is unique. After all, shoes and soft goods are different from tractors and lawn mowers and plumbing equipment. Smart retailers are choosing their own paths – not just following a formula, but figuring out the right balance for themselves.

In the case of Home Depot, for example, the retailer is keeping its brick-and-mortar buildings the same size. However, it *is* reorganizing some stores to have a section dedicated to fulfilling online purchases. Home Depot has done a nice job recognizing that consumers who order a 150-pound fire pit are going to have different priorities and preferences regarding shopping, selection and delivery compared to shoppers who are simply looking for a new sprinkler part needed as soon as possible.

Other retailers, like Kroger, are actually getting bigger, although maybe the most common response is to reduce store size in an attempt to become more efficient. Target falls into the latter category. The iconic retailer is rolling out smaller prototypes with more flexible spaces, creating store layouts designed to allow the chain to enter into denser urban markets that it otherwise could not penetrate due to either the lack of space, or cost and scale considerations.

These new stores are being rolled out from coast to coast. The markets include Chicago; Philadelphia, where a new two-story, 21,000-square-foot location opened in Rittenhouse Square in fall 2016; New York, where a number of new stores are opening, including a multistory 45,000-square-foot store in Tribeca; and several major college towns like Gainesville, FL, Cambridge, MA, and Chapel Hill, NC – all set to open in 2017.

In fact, most new Target stores that opened in 2016 were the brand's smaller TargetExpress or CityTarget formats, stores that are designed to deliver new experiences, merchandising layouts and services like Target Mobile and Order Pick-Up.

One change that we are seeing across the board relates less to physical space and more to strategic flexibility. Retailers are recognizing that the industry is evolving so quickly that it is in their best interests to stay agile.

Not long ago, retailers would regularly lease a space for 10 (or more) years, but brands are recognizing that locking themselves down to a location and a store format for an extended period might not be the wisest course of action. At a time when new and emerging technologies have the potential to change the way that people shop in a relatively short amount of time, it can literally and figuratively pay off to keep your options open. Perhaps more than ever, retailers need to think not only about what meets their needs today, but what they may need next year, five years from now, and 10 years from now.

When we see familiar brands successfully using a range of different sizes and strategies to adjust and adapt to an evolving omnichannel industry, it seems clear that one size does not fit all.

Instead, a number of different solutions will allow brands to survive – and thrive – in the retail landscape of tomorrow.

Natalie Dolce*, national executive editor of GlobeSt.com, is responsible for working with editorial staff, freelancers and senior management to help plan the overarching vision that encompasses GlobeSt.com, including short-term and long-term goals for the website, how content integrates through the company's other product lines and the overall quality of content. Previously she served as editor of the West Coast region for GlobeSt.com and Real Estate Forum, and was responsible for coverage of news and information pertaining to that vital real estate region. Prior to moving out to the Southern California office, Natalie was Northeast bureau chief, covering New York City for GlobeSt. Dolce's background includes a stint at InStyle Magazine, and as managing editor with New York Press, an alternative weekly New York City paper. In her career, she has also covered a variety of beats for M magazine, Arthur Frommer's Budget Travel, FashionLedge.com, Co-Ed magazine and the Daily Orange newspaper. Dolce has also freelanced for a number of publications, including MSNBC.com and Museums New York magazine.*