

Vukile Property Fund

A PERSPECTIVE ON THE RETAIL LANDSCAPE AND HORIZON

(Attributed to Laurence Rapp)

Retail has always been vibrant and dynamic, but the past year has seen the sector in upheaval. The COVID-19 pandemic has been a crash-course in retail reinvention. And, this is exciting. Far from the so-called 'retail apocalypse', it is now increasingly recognised that retailing is on the edge of a renaissance and entering an era that is substantially different from the past with even greater possibility.

Changes in consumer behaviour triggered by the pandemic will remain with the retail industry in many areas. No one really knows the extent to which retail will return to its 'old' normal, and many views are driven by nothing more than speculation. What is certain is that the future of retail is generally becoming faster, both in decision-making and the adaptability of concepts.

While there is much change in the retail landscape, there is still much that will be familiar about future commerce. The marketplace may be different – transformed, as international consultancy Kearney suggests, into 'consumer engagement spaces' with mixed-use commerce designed to meet the needs of new and future generations of shoppers - but merchants, artisans, food stalls, salespeople and, most importantly, shoppers will all endure.

The most detailed future trend analysis is meaningless without a solid foundation. Having the foresight to focus on shifts to adapt and take advantage of new opportunities is as important as ensuring all the tried-and-tested basics are in place. Shopping centres need to be attractive, clean, secure and operate smoothly with retail mixes that match shopper preferences. Shops still have to offer the right products, stock levels, prices and service. Even in our increasingly digital worlds, these basics are a given for retail success.

Digital transformation

2020 saw more digital transformation than the entire last decade. People embraced a more digital reality out of necessity, including online shopping in some form or another. Similarly, retailers and manufacturers were forced to change and rapidly. What started as quick fixes during a temporary situation have rapidly morphed into habits and set the bar for the future of retail.

In the 20 years since the dot-com revolution, South Africans have been slow to make the change from traditional retail to online shopping. In fact, it's estimated that online sales make up only 2% of total retail sales compared with 16% in the rest of the world. This is despite the increased number of online shoppers during the lockdowns.

In Spain, e-commerce penetration has remained at much lower levels than the rest of the northern and continental countries in Europe. In 2019, online sales reached 6% of total retail sales, which represents all categories, including those that are not traditionally shopping centre tenants in Spain, such as travel and ticket sales. Only 36% of total online retail sales are from categories usually found in shopping centres.

Some attribute the lower ratios to the weather and culture. Others say Spain lags behind other European countries. But, it isn't gaining ground. For the past six years, e-commerce in Spain has shown a tendency to remain at lower levels, which isn't expected to change soon. CBRE, in its most recent report, forecasted Spanish e-commerce would still be below the 10% mark by 2024.

Even so, the lockdown saw more people dabbling in online retail for the first time. E-commerce penetration has, in just a few months, reached levels that had been expected to take years, while lockdowns and limitations saw bricks-and-mortar retailers failing.

Yet, the global e-commerce 'explosion' definitely didn't herald the death of the physical store. As soon as they were able to, many people flocked back to shopping malls. Value retail – across categories – is thriving in-store. After Covid-19 is brought under control, the pace of e-commerce growth is expected to slow as people return to more familiar ways.

Some new online shopping trends gaining ground that warrant a brief mention include social shopping and live streaming.

The rise of smartphone penetration is boosting the popularity of social commerce – e-commerce transactions on social media. It makes it easy for people to buy in a place they are active and engaged. Facebook, Instagram, TikTok, Pinterest, and more – they now all offer seamless selling.

Nothing beats the experience of shopping in person, but live streaming is the closest thing we've got to physically connecting with some customers during the pandemic, and thus it has stepped into the spotlight. A growing lineup of brands and retailers are incorporating live streaming among their sales and engagement channels.

Platforms such as Shopify have made it easier than ever for retailers – from big brands to tiny start-ups – to get everything they need to start their own online store almost instantly. This

saved many retail and restaurant businesses, which were quickly able to respond to forced coronavirus closures. Others chose selling through mega-sites such as global giants Amazon and Uber Eats, or local South African players like Takealot and Mr Delivery.

In Spain, the most popular online marketplace is still Amazon, and they have seen increased sales in recent years, especially during the lockdown. However, it is curious that Chinese online selling giant, Alibaba, chose Madrid for its first physical store test for Europe. The big retail brands in the Spanish market have invested in their own online platforms and seem unwilling to sell through others. They complain about the lack of brand image control in third-party marketplaces and argue that their own platforms sufficiently represent them online. We disagree. Working with other platforms expands brand awareness and leads to more significant sales. This retailer sentiment is a key reason why other shopping centre landlords' digital marketplaces have failed. They cannot succeed without the participation of the big brands.

The rise of omnichannel

The future is both online and offline, and the amalgamation of offline and online retail – omnichannel - is perhaps the most tangible trend affecting shopping. There has been a movement towards better online-offline integration for several years, and the results can be seen clearly now.

Omnichannel makes shopping easier for the consumer by being more convenient and easily adaptable to their time, mood and circumstances on any given day. It joins together physical and digital strategies as part of the same customer-focused ecosystem.

However, for retailers, this requires paying rent and operational costs for both physical and online spaces. Now they have to offer the services that customers have traditionally performed themselves – picking products and taking them home – retailers are now having to take on extra processes and costs for delivery and pick-up, return collections and drop-offs. Omnichannel profitability is a struggle. In addition, this digital selling space has become more competitive than ever, and regulatory scrutiny is catching up with online commerce. Digital services taxes are already being levied in Europe to ensure that businesses contribute to the tax base where their consumers are.

When considering omnichannel, there is a misconception that its rise is due to a one-way flow of retailers moving online. This is not the case. Digital native businesses are also expanding offline by opening shops. For example, Walmart (physical native) and Amazon (digital native) have both gone omnichannel. There are good reasons that big online retail names – from Amazon to Alibaba - have zoned in on brick-and-mortar stores. China's biggest

tech platforms – Alibaba and jd.com – are both building vast supermarket chains, and offline assets are becoming hot property.

Also, it would be a mistake to assume that the split of sales is equally weighted across all channels in an omnichannel strategy. For instance, big brands have reputations that encourage customers to seek them out, and they fatten their profit margins with lean supply chains and by leveraging their stores as distribution and returns centres, and online sales are often processed through stores.

And, while omnichannel may be a definitive trend, it isn't for everyone. Low-cost fashion chain Primark is one example of a big-name brand that doesn't sell online. It believes that its stores are more efficient, lower-cost, lower-carbon methods of fulfilment.

In an increasingly omnichannel world, shopping centres are starting to play an increasingly important role in retailers' other sales channels too. Progressive landlords are reinforcing their tenants' efforts by optimising shopping centres as logistics hubs, enabling collection point services and emphasising the marketplace experience.

Nonhomogeneous markets

Culture and lifestyle contribute substantially to shaping commercial property development. Retail dynamics are not only location-specific but asset-specific.

What is happening in the US malls, for instance, is unlikely to be happening in South African or Spanish malls because they are such different markets. Similarly, it is a mistake to read headlines about big global retail names – many that don't operate outside the US or UK -- and superimpose their stories and dynamics onto our markets.

Differences in GDP, demographics, consumer sophistication and rural/urban split, ingrained consumer behaviour and bargaining power between landlords and tenants differ across markets. More recently, access and completeness of consumer information, data collection, algorithm development, and tapping into social media, have also become deciding performance factors. Context, as always, must be fully understood.

For instance, the US is dramatically over-retailed, whereas many other markets have a good retail balance, and some even lag behind demand for retail development.

Mobile technology and internet shopping occurred at much faster rates in some countries, especially those in Asia. Many Asian department stores successfully transitioned their business models starting as early as the 1990s. Thirty years later, this is proving to be a challenge in other markets such as the US and UK where failing large department store

anchors are causing shopping centres to fail. It is not because shopping or retail is dead but because the department store format is dead and occupies too large a footprint in an oversupplied market. For too long now, market commentators have not made this critical distinction, and this has led to a 'one-size-fits-all' mindset towards retail on a global basis.

Small living quarters in both Asia and South Africa mean that many people gather outside the home. In Asia, this is often indoors at restaurants and mall-based sporting facilities because of the bad air quality. In South Africa, this can equally take place outdoors because of the great climate. American malls are situated to optimise main arterial road access, in Asia proximity to foot traffic and transportation hubs are viewed as ideal locations.

All this shows that, on a granular level, retailing and retail property needs to be assessed on a disaggregated basis, taking into account all the various factors that make a market or a mall unique.

Closer landlord-tenant relationships

The relationship between landlord and tenant will continue to become even closer in future. This comes down to understanding the business model of the other side more precisely by carefully listening to the strategies, plans, needs and aspirations of the other party. Working together for joint location strategy development in future is likely to emerge as a success factor for both shopping centre and retailer.

More customer-centric

The future is customer-driven. Shoppers now have more influence over what they buy, and there has been a massive shift in favour of the customer. People have never had so many things to buy, or ways to buy them. Consumers also expect to co-develop and design the goods and services they buy. We have entered an era where consumers 'pull' rather than producers 'push'. The consumer is now in charge. Step aside, retailer. Stand back, manufacturer.

It is true though that consumers can't always say what they want, and retailers have to orientate them on a product or service. From there, consumers become the best source to improve the product or service to validate it before rollout.

In the landlord's world, tons of tests are being done for shopper services, and these are in the process of being validated to implement them. As in the start-up world, fewer than 1% of projects end up seeing the light of day.

It is no longer a case of retailers competing with each other over shoppers' attention. Producers and consumers are closer together than ever, thanks to new communication platforms via social media, messaging services and apps and, of course, data that tells manufacturers what shoppers want. This data also drives advances in logistics so that producers can deliver their on-trend and personalised goods right to customers' doorsteps. In-mall and in-store retail needs to offer more than the product to avoid being squeezed out.

For instance, Pinduoduo Inc., China's largest agricultural platform, is transforming the way food is grown, transported and sold by connecting millions of farmers directly to consumers. Its users benefit from fresher and safer produce at lower prices. In the six years since it was established in 2015, Pinduoduo had connected more than 12 million farmers directly to nearly 800 million users by the end of 2020. In another example, Nike is moving away from selling its products in multi-brand spaces. It is instead staying close to its customers by focusing on its own branded stores.

Customers are more diverse and multi-generational than ever before. There is increasing demographic complexity. We need to understand our customers as a whole and as specific market segments to develop retail offerings that appeal to each and all. Retail has become about connecting buyers to their individual and collective values and aspirations.

For retail to flourish, we have to know what shoppers want and give it to them, and here data plays a pivotal role.

Everything is data-driven now

The data-driven shopping upheaval is unstoppable. It is changing the nature of stores so that physical and digital shopping seamlessly interact. It is also disrupting marketing because online ads can target digitally connected shoppers more accurately than any billboard. It is even transforming manufacturing. More on-demand manufacturing helps brands respond faster to changing shopping trends. It enables personalisation and customisation – and more customer-centricity.

Like frequent online searches for a particular item can prompt a retailer to offer new products and ranges, the same information can result in introducing new retailers or categories to a mall to make its retail mix more relevant.

Data are the building blocks of the retail renaissance. But, until recently, data remained uncollected, underutilised and poorly handled. Retailers kept very few tabs on in-store behaviour. The rivalry between the physical and digital side of the same brand, each under different teams and objectives, meant they didn't share data. It saw, for example, online teams claiming sales picked up in a store. Gradually there is more integration in this regard.

However, many big brands still have some way to go before achieving a complete omnichannel strategy in which both worlds communicate and work together.

Today more data is being collected. Free WiFi offered in Vukile's South African shopping centres, which only requires a simple registration process to access, is a significant source of shopper data.

The next frontier is more data sharing between shopping centres and their retailers. Together, they will exploit customer data for more effective marketing and sales campaigns and joint location strategies.

The volume of retail data globally is expected to rise astronomically in the next few years. It is important to remember that data is only as valuable as what you do with it, and the key is to make good use of it to add stakeholder value. Even the most sophisticated digital infrastructure can only route data. Making data robust requires the right software and analytical tools

Loyalty, service and experience

Loyalty cards assisted with collecting customer data, and now retail apps are taking this even further and enabling much better connection between retailers and shoppers. These apps record shoppers' habits both in-store and online. They help retailers with what stock to carry and even what products to manufacture.

But, shoppers can be prickly about the perceived potential for their privacy being violated. Data theft is also a big problem. We have moved to a data-driven economy, and shoppers must feel confident that their personal information is in good hands.

Customers once pledged loyalty to a mall and retailer; now, it's the other way around.

Buying has become more accessible across all channels with more options than ever before, from buy-now-pay-later to mobile point-of-sale systems that allow customers to complete the sale without queuing and contactless payments. In fact, many consumers today come armed with their own shopping technologies. Creating no-touch interactions and experiences has driven a tremendous amount of innovation during the pandemic. Shoppers have embraced the trend with enthusiasm.

Malls and shops are not just about effective, efficient transactions, but places that are full of ways for shoppers to interact with product. They are increasingly about customer experience and service. The more impersonally goods are sold online, the more shops stand out for their customer service.

The desirability of physical retail as places for retailers to connect with their customers, champion sustainability, and offer inspiring examples of entrepreneurship is rising. New consumers prefer personalised, authentic brand interactions.

Customer-centric innovations will be essential for the future. Much of e-commerce infrastructure is commoditised. Digitisation removes friction between buyers and sellers, setting a new bar for the in-store experience. Over and above this, customers want an in-person service they can't get online. And, chatbots are very limited in answering customer questions and still have a long way to go along the learning curve.

A customer who receives personalised service is far more likely to share their personal data if it means they will receive a better experience. And, with this data, malls and retailers are empowered to connect with them and better meet their needs and expectations and give them more, better-personalised service.

Before e-commerce, there was already talk of retail transformation and creating consumer experiences to forge a deeper connection with a brand to grow loyalty so that customers not only take ownership of a brand but also live it. This is still valid, however, brand impact no longer comes exclusively from the physical store but instead through several channels, most digital.

Even on the digital frontier, customers need service and respond well to innovative ideas that help their journey.

The digital revolution has brought the customer closer to brands. They have a clearer view into the different layers of brands and even study and analyse them to ensure they align with their values and preferences. There is more information about retailers than ever before, helping people understand the impact the brands they like have on them.

Yet, with all this information, it is now more difficult to capture the customer's attention - there are many distractions. So, you have to be loud and do it with love. Now more than ever, the customer is at the forefront directing and driving a brand's decisions. This is called "customer centricity" and it is based on focusing on what customers tell us, asking us, and commenting on to use the data for effective decision-making.

In the past, creating an experience meant including more leisure in your retail mix, being the same leisure of the 80s and 90s although somehow improved - cinemas and restaurants mostly. Other leisure - gaming spaces, bowling, sports facilities and the likes - are complementary and, from a real estate point of view, not very profitable. They occupy much space but can pay little rent because they are businesses with very tight margins.

Experience does not exist without an adjective accompanying it. There are good and bad experiences. The focus must be on giving our customers a good experience that excites them, therefore achieving their highly-valued loyalty.

Importantly, we must not forget our main clients, who pay the rent - our tenants. They, too, must have a positive experience. This experience goes beyond a single visit; it has to be sustained on a day-to-day basis. The role of “Hospitality Agent” is fundamental, although difficult to define. It is less manager and more relationship-based, taking care of all tenant issues at the store level. Our Spanish team is piloting this role at Vallsur, and tenants’ satisfaction has increased exponentially.

Good grocery and food anchors

Even though grocery buying became the fastest-growing online category around the world in 2020, the weekly supermarket trip is not likely to become a thing of the past. Grocery shopping is a key driver of regular repeat mall visits.

The supermarket and superstore sector have had a profitable pandemic by being allowed to remain open throughout, a shift in spend from restaurants to home cooking (a trend which is expected to continue), and from a surge in online ordering. It’s little surprise that China’s biggest tech platforms are building massive supermarket chains.

In businesses like food retailing, with already very low margins, few retailers can make money selling groceries online, considering the high cost of delivering bulky fresh produce, instead of having customers pick, pack and take them home, as they have in the past. Urban density is also necessary for costly online grocery delivery models. Spain has seen the short life of online-only grocery stores, which claim to offer better quality. Most failed, defeated by few orders and the high cost of last-mile delivery. Giant hypermarket and supermarkets chains such as Carrefour or Mercadona have implemented their online shopping channels, which seem to be performing well from the perspective of the customer journey. However, when someone else selects products from the shelves (often those with shortest expiry dates), delivery times are not always immediate. Critically, the cost of delivery is passed on to the customer. This service becomes less attractive on a daily basis.

However, customers want choice. They expect the option to pick-up in store, get home delivery, or do their own shopping.

Click-and-collect pick-up is a better option for grocery retailers than delivery, and thus is becoming a focus. This drives customers to physical retail locations. Many South African grocery retailers are partnering with on-demand retail delivery services, which charge

customers fees to be their 'personal shoppers', and which support in-store sales by picking up the order from shop shelves.

More precise mixes, flows and access

Location, location, location! It has always been the most important factor in retail. A large catchment area and seamless access to a mall are driven by its location and configuration.

The retail mix, a close second, is a serious contender for the top position. Having the desired and required brands is crucial for a successful property. However, lately, we are seeing more factors growing in importance, most of them related to satisfactory customer services.

Knowing shoppers and their preferences is one thing, but being able to assess a mall's catchment area is also essential to getting its retail mix right. Aspects such as bespoke adaptation of category mixes, regionality and, above all, the flexible composition of the retail variety will increasingly come to the fore. The differentiation of malls will become more complex, more individual, and more precise. There is no longer a uniform mix for success.

The experience of a mall begins long before shoppers arrive at the building. Mall's need to be easily accessible for public transport but also cater for increased traffic flows from ride shares, on-demand shopping services, retrieval from collections points, and more individual transport in response to pandemic safety precautions. All this has to be managed and flow smoothly, to avoid bottlenecks and obstacles to visiting.

Of course, malls also need to be accessible digitally to ease shoppers' journeys before they even begin.

The ability to evaluate and understand the needs of a local community and to be able to adapt to meet those needs quickly will be essential skills for successful mall owners. Shopping centres must sit at the very heart of a communities' specific and broad-based needs and fulfil the role of the marketplace of old for today's consumers.

Values and sustainability

All retail concepts are becoming very much about telegraphing values, qualities, and sustainability. The more authentic and credible this is, the fitter the concept. In particular, the issue of sustainability – both the property and its customer behaviour and offerings – will become a decisive success factor.

Everything that malls and their tenants do should reinforce their value proposition and continually demonstrate integrity and deep respect for the consumer.

Skills

The old shopping centre is no longer relevant; today, it's about creating meeting places and social spaces. Kearney notes this also requires the new generation of 'meeting place managers', whose tasks extend much further than traditional shopping centre managers.

Generally, the ability to learn quickly and exhibit leadership skills will be success factors, driven by consistently high operational excellence. With more automation, the sector will also be on the lookout for tech talent.

Retail-related jobs are also changing. Retailing is a huge employer, especially of women and young people. It may well be the largest private-sector employer in South Africa. As has happened as a result of the pandemic, Shedding retail jobs is disastrous for the South African economy. Some of these may be made up by e-commerce, on-demand shopping and logistics, from picking goods off shelves to delivering them.

Robots continue to learn, but there is a long way to go and things that they'll never be able to do. Friendly personal service is recognised as essential, and the future of retail jobs is oriented towards customer service – helping, advising, and sharing product knowledge. The future will see retail staff moving from shopkeepers to personal shoppers.

Shop jobs are set to become more stimulating, with many mundane tasks automated, freeing up employees to offer more valuable services to win repeat customers. They will need the skills of a stylist, interior designer, or chef to advise, inform and inspire. Salespeople have to be influencers, deliver superior customer service, inform and educate customers about the goods they sell, be honest and clear and provide all this with impeccable manners.

Experimentation and evolution

Retail is more exciting and dynamic than it has ever been, and has become a major source of innovation. A quick glance at the 'latest trends' headlines is sure to include phrases such as dark stores, ghost kitchens, micro-fulfilment centres - different uses of retail space has accelerated. Malls are changing along with their retailers, shoppers and communities. They are finding ways to stay relevant and be even more enticing.

The (old) mall is dead; long live the (new) mall!