

INSIGHTS FROM THE BDO RETAIL & CONSUMER PRODUCTS PRACTICE

5 RETAIL REAL ESTATE SURVIVAL TIPS FOR 2019

Thrivers are digitally savvy, customer-centric, and think like urbanists

It's been a rough few years for many brick-and-mortar retailers, with several high-profile bankruptcies altering the face of local malls with [thousands of store closures](#). Despite strong underlying economic fundamentals and high consumer confidence, many large malls have faced significant headwinds. Retailers in outdated malls, or those that have lost anchor stores, have been hardest hit. Even in cities like New York, retailers are feeling the pain of declining traffic in brick-and-mortar stores. According to [BDO's Real Estate and Construction compass](#), vacant retail space in New York City climbed to over 12 percent in 2018, on par with the national average. It's becoming clear that even the most prominent retail hubs in the country aren't immune from brick-and-mortar woes.

Traditional retailers are facing an uphill battle against pure play e-tailers that exclusively operate within digital channels. One in five department stores are struggling to compete, according to findings from [BDO's Retail Rationalized Survey](#) of 300 retail C-suite executives. More than half (54 percent) of traditional retailers—including big box, department store, discount and specialty retailers—say they are just surviving, defined as stable

and breaking even. Meanwhile, the overwhelming majority of pure play e-commerce businesses (84 percent) consider themselves to be thriving.

Despite national vacancy levels at a 10-year high—more than 14 percent in 2018—there are reasons for optimism. Disruption is igniting a new age of retail that emphasizes personalization, interactivity and convenience. Thriving retailers are changing up their business models and spaces to appeal to next-generation customers, who are younger, digitally savvy and value experiences as much or more than products themselves.

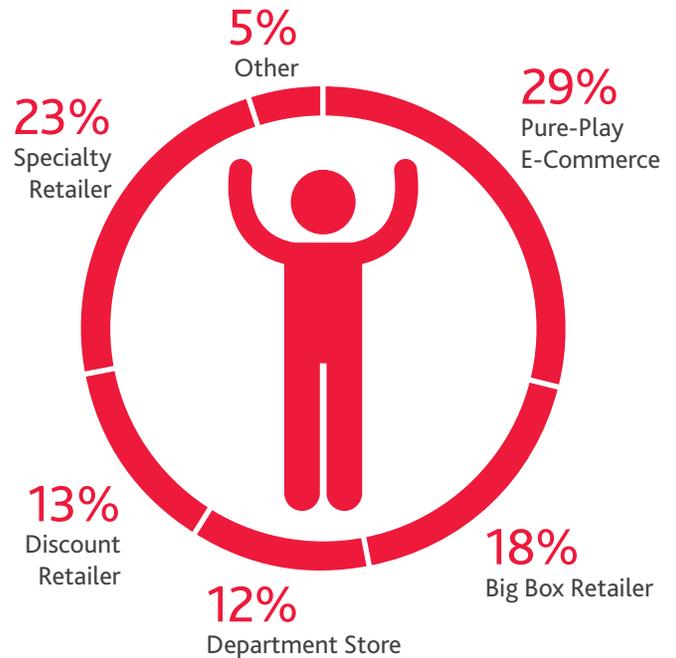
WHAT STEPS CAN BRICK-AND-MORTAR RETAILERS TAKE TO SURVIVE?

BDO's *2019 Real Estate and Construction Compass* puts past, present and future trends in context with practical insights on what actions retail tenants can take to survive, and ultimately thrive. In response to rampant e-commerce growth, emerging trends to watch include: the use of experiential retail, new urban opportunities, and the shift towards local distribution centers.

Who are Thrivers?

PORTRAIT OF A THRIVER:

- ▶ E-commerce-centric
- ▶ Technology early adopter
- ▶ Exclusive products as competitive advantage
- ▶ Cite less convenience as greatest weakness
- ▶ Planning ahead for the worst



Source: [BDO Retail Rationalized Survey](#)

SURVIVAL TIP #1:

CREATE MULTI-USE SPACE FOR ENTERTAINMENT AND CONVENIENCE

To compete more effectively with e-commerce businesses, traditional retailers are rethinking how to boost foot traffic, especially in malls. Many are partnering with complementary brands to make shopping more convenient or experiences more memorable. And, as many malls add dining and entertainment options to draw customers, savvy retailers are finding that capitalizing on this trend means tailoring their shopping experience to a new type of consumer. By creating a seamless transition between play and purchase, retailers are finding themselves at the forefront of the reimagined mall and renewed brick and mortar success. For street-level retailers that are unable to rely on neighboring entertainment options, it may be necessary to develop experiential spaces in-house.

SURVIVAL TIP #2:

DESIGN MEMORABLE IN-STORE EXPERIENCES THAT TRANSLATE TO SALES

In 2018, and still in 2019, a plethora of “Instagrammable” stores, pop-ups and other gimmicks have appeared that don’t necessarily enhance the customer experience or bolster brand image. Photo booths, flower walls and other picture-perfect fads may pique interest on social media, but don’t necessarily create a competitive advantage or drive foot traffic to retailers in the shopping center.

For return on these investments, brick-and-mortar retailers need to design in-store experiences that genuinely add value and enhance shopping journeys—a strategy that 22 percent of retail Thrivers identify as a top competitive differentiator, despite the group being largely composed of pure-play e-tailers.

Mall-based retailers in particular shouldn’t rely on their successful neighbors for foot traffic, however. Retailers looking to create a fruitful in-store experience should make sure that it aligns with their brand identity, while simultaneously providing real value to customers, giving them a reason to not only walk in the door, but to walk out with a purchase in hand. For instance, a store that sells activewear might allocate space for a yoga studio and host free classes for members of a loyalty program to spur purchasing.

When considering a new or refreshed brick-and-mortar strategy, retailers need to have a firm understanding of their strengths and weaknesses. They should be sure that investments are aligned with overall business objectives and designed to enhance their competitive differentiators, which may include exclusive products, better prices or exceptional customer service. This may mean arranging store space to promote an exclusive product, or arming staff with tech-enabled devices to help customers find what they’re looking for more quickly and easily.

Retailers' Top 3 Perceived Competitive Differentiators

	#1	#2	#3
 THRIVERS	47% Exclusive products	39% Better prices	31% Outstanding customer service
 SURVIVORS	35% Outstanding customer service	33% Memorable in-store experience	32% Exclusive products

Source: [BDO Retail Rationalized Survey](#)

SURVIVAL TIP #3:

PIVOT REAL ESTATE SPACE FOR DISTRIBUTION TO CAPITALIZE ON E-COMMERCE DELIVERY

Nearly all retailers are dedicating resources to enhance their delivery services in the next 12-18 months, according to our recent survey. As online purchasing continues to gain popularity, most customers now expect free delivery [within 2 to 4 days](#), and many stores now offer same or next-day delivery and curbside pickup to local customers. In the race to be as close as possible to the consumer's doorstep, the demand for distribution space near and in cities has increased significantly. As this trend continues, retailers in these areas may find it advantageous to repurpose some of their space for distribution, which could bring them up to speed in their in-house rapid delivery capabilities. Looking ahead, advancements in drone technologies, machine learning, robotics, artificial intelligence and other technologies present opportunities for new efficiencies and cost savings.

SURVIVAL TIP #4:

THINK LIKE AN URBANIST AND DIVE DEEP INTO LOCAL FORCES

When planning business strategies in new or unfamiliar cities, retailers need to deep dive into the local forces shaping each market. In the past decade, many cities have invested in revitalization, pouring resources into downtown areas to spur growth. Cities like Portland, Austin, Nashville and Milwaukee have some characteristics in common, but retailers would be mistaken to bundle them together when making site selection plans. Not all these rising stars are destined for long-term success, but they're often lumped into the same category of cities experiencing a renaissance. In the next ten years, we're likely to see a divergence between these secondary or emerging cities. Does the city have adequate public transportation options, or plans to build a network? How close is it to other established urban areas? Are

there popular universities, and are they growing? And, of course, companies need to examine cities under a state and local tax lens to compare their potential total tax liability between locations.

SURVIVAL TIP #5:

THINK LIKE A THRIVER, LOOK BEYOND THE HEADLINES AND EMBRACE THE FUTURE

While the retail landscape is clearly changing with additional closures expected in 2019, the reality is far more nuanced. Looking at the big picture, physical stores still comprise [over 85 percent of retail sales](#). According to most industry estimates, this number will likely remain well over 80 percent five years from now. While this may offer some comfort, change is taking place at a much faster rate than businesses are accustomed to, and lines are blurring between traditional and e-commerce channels. Continual disruption is the new normal.

How can retailers successfully navigate change to thrive in this new age? Reimagine retail experiences from a customer's perspective and be willing to take bold, experimental steps to drive sustained growth. And, in doing so, ensure that these steps remain aligned with their proven competitive differentiators, which may vary across retail category. While big box and discount retailers rely on their customer service to capture business from competitors, for instance, department stores see their physical space as their strongest assets. Regardless of where your businesses' strengths lie, to thrive, you must know that staying still spells disaster.

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