Dynamic Trends in the Current and Future Retail Environment

2020 Illinois Financial Forecast Forum

January 2020
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.

NATIONAL CLIENT STATES

- 20+ Years
- 625+ Clients
- 37 States Served
- 85% Repeat Clients

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Agenda

1. Trends Impacting Retail in 2020 & Beyond

2. National Brand | Local Retail Recruitment Needs
2019 Holiday Sales

Retailers benefited from strong employment and higher wages (offsetting six fewer shopping days) resulting in higher-than-projected holiday sales.

- Holiday sales grew 4.1%, amounting to $730.2 billion
- Online sales during the holidays increased 14.6% to $167.8 billion
- Home centers, electronics, sporting goods, pharmacies and grocers had strong sales
- Department stores lags
Holiday Sales in 2019 are 4.1% over 2018

Historic Holiday Sales (in Billions)

Source: NRF, Internet Retailer, U.S. Commerce Department,
NATIONAL BRANDS ARE SCRAMBLING TO COUNTER AMAZON BY INVESTING MILLIONS TO BILLIONS OF DOLLARS ON THEIR COMMERCE PLATFORMS. MAJOR NATIONAL BRANDS CAN AFFORD THE INVESTMENT … BUT WHAT ABOUT LOCAL RETAILERS?

THE RETAIL SECTOR HAS BEEN TURNED UPSIDE DOWN BY NEW TECHNOLOGIES AND THE EVER-
Amazon is Still King

Amazon is impacting all retail categories and concepts - but local retailers, department stores and aging malls appear to be the most impacted.

- Dominant leader in ecommerce
- More than 47% share
- Going physical with GO, books and Whole Foods
- Forcing developers to alter retail development designs - smaller and lifestyle-oriented
- B&M retailers still struggling with how to compete
Amazon vs Walmart

WALMART HAS BEEN INVESTING HEAVILY IN ITS ONLINE PLATFORM - PRIMARILY IN ITS GROCERY CATEGORY.

“Walmart finally drew the line in the sand, with subscription grocery, ‘saying we aren’t letting Amazon go any farther.’”

Gerald Storch, former Toys “R” Us CEO

1. US ecommerce grew 40% in 2018 (43% in Q3) due to expanded grocery

2. EOY 2020 - planning for pickup service at 2,100 locations and delivery service at

3. Launched Delivery Unlimited ($98/yr) in 1600 locations
Top 10 Ecommerce Retailers in the US (2019) by % share of total ecommerce sales

- Amazon: 47.0%
- eBay: 6.1%
- Walmart: 4.6%
- Apple: 3.8%
- The Home Depot: 1.7%
- Costco: 1.3%
- Wayfair: 1.3%
- Qurate Retail Group: 1.3%
- Best Buy: 1.3%
- Macy's: 1.2%

Source: eMarketer
Ecommerce Sales

Ecommerce represented 14.6% of all retail sales in 2019 - and it's since 2017 - more than 50 percent of traffic to retail websites happens on mobile devices making mobile the dominant retail shopping.
US Ecommerce Penetration
US Ecommerce sales as % of total retail sales

Source: Internet Retailer, U.S. Commerce Department, NRF
Mobile Is King

Shoppers use mobile devices to search for the best prices while shopping in-store.

**RATINGS & REVIEWS**

45% of shoppers routinely check a product’s ratings & reviews before purchasing in B&M stores.

**SPEED IS KEY**

53% of shoppers will leave a mobile site if it takes longer than three seconds to load.
Online to B&M

Many online retailers are making the leap to brick-and-mortar stores.

- Amazon with Go, Amazon Books and Whole Foods
- Bonobos (Walmart owned)
- Warby Parker
- Away Luggage
- Untuckit
- Modcloth
- Casper

“The top 100 digital-native brands they looked at have announced plans for at least 850 stores over the next five years.”

Source: JLL Research
Rise of the Influencers

Shopping continues to be a social experience.

Social media has emerged as the third buying channel - alongside in-store and online.

57% of online shoppers have purchased a product they heard about on social media. Consumer generated content (CGC) like photos and videos that showcase products are flooding social media - all in hopes of receiving high ratings and reviews.
Millennials Matter

Millennials are having - and will continue to have - a huge impact on the evolution of retail.

• Make up 25% of population
• 88% live in metro areas
• They are frugal - 94% use coupons
• 60% prefer generic brands over flashy brands to save money.
• Make approximately 54% of purchases online
• $1.4 trillion purchasing power
Gen Z Saviors

Gen Z is already driving the way retailers think about technologies and tools they will need to enhance shopping experiences.

- Make up **25%** of population
- **81%** prefer to shop in stores
- **73%** discover new products in stores
- Stressed out as a whole - concerned about their health and mental state
- Physical store shopping is therapeutic - looking for social media alternative
- Offer **optimism for B&M retail**
Retailers Must Make Shopping

**UP TO 43% OF SHOPPERS SAY RETAILERS NEED TO DO MORE TO OFFER PERSONALIZED SERVICES**

SHOPPERS DEMAND PERSONALIZATION BUT ARE RELUCTANT TO OFFER PERSONAL INFORMATION

**58% OF RETAILERS SAY THEY DO NOT FULLY KNOW OR UNDERSTAND WHO THEIR SHOPPERS ARE - EVEN WITH TECHNOLOGY AND AVAILABLE CONSUMER DATA**

RETAILERS MUST FOCUS ON WHAT CONSUMERS ARE BUYING - NOT JUST WHO THEY ARE.
B&M Store Comeback

IS THE RETAIL APOCALYPSE FACT OR FICTION?

- In 2018 - 675 retailers increased stores/1,065 in 2019 (up 56%)
- Chains closing stores peaked in 2018 at 612 - 206 for 2019 (66% drop)
- Of the 9,300 stores that closed in 2019, 10 chains represented 66% of the closings
- In 2019 - retailers planned 2,965 more openings than closings
- Department Stores continue to struggle - have lost 20% of stores since 2016, many mall anchor stores
- C & D malls are losing retailers - no retail market for vacant anchor store (change-in-use likely)
- Restaurants (QSR/Fast Casual/TSR) continue rapid growth patterns - regardless of the economy consumers eat out
- In 2015 - dollars spent on eating out exceeded grocery store sales
- Retail market is saturated with Apparel - resulting in sector closings
Plans for 2019 Retail Store Count Growth

- Dollar General: 975
- Dollar Tree: 500
- O'Reilly Automotive: 210
- Walgreens: 200
- Couche-Tard: 200
- AutoZone: 155
- Marathon Oil: 150
- Five Below: 145
- Old Navy: 116
- Aldi: 100
- Great Clips: 100
- Ulta Beauty: 80
- Harbor Freight: 80
- Ross Stores: 75
- Aerie: 70
- Hobby Lobby: 65

Source: BHL Group, Company Reports
Retailers Searching for New B&M

• TARGET IS SEEKING NEIGHBORHOOD LOCATIONS WITH SIX FIGURE INCOMES

• 23% OF TARGET SHOPPERS EARN OVER $100,000 ANNUALLY

• SMALLER STORES

• AIMING TO CAPTURE SHOPPERS NOT SHOPPING AT TARGET ON REGULAR BASIS

• 30 SMALL STORES A YEAR

• SEEKING URBAN AREAS, DENSELY POPULATED SUBURBS & NEAR COLLEGE CAMPUSES
Mashups Transition Stores to Destinations

CREATING AN EXPERIENCE BEYOND OUTDOOR CLOTHING & GEAR..

- Hosts in-store workshops and discussions on environmental matters
- Offers free yoga classes
- Hosts sewing workshops
Mashups Transition Stores to Destinations

HOSTING IN-STORE SLEEPOVERS IS TAKING EXPERIENCE RETAIL TO A NEW LEVEL.

- STARTED AS A PRANK BUT RESULTED IN SLUMBER PARTY TO PROMOTE HEALTHY SLEEP HABITS
- SLEEP SPECIALIST LEAD WORKSHOPS
- PRODUCT DEMONSTRATIONS
- GUIDED MEDITATION SESSIONS
- KARAOKE, GHOST STORIES, MOVIES AND MIDNIGHT SNACKS
Mashups Transition Stores to Destinations

LOOKING FOR INVENTIVE IDEAS TO INCREASE CONSUMER TRAFFIC AND BECOME A LIFESTYLE CENTER.

- EACH B&M STORE IS UNIQUE IN STYLE AND EXPERIENCES
- OFFERS FREE YOGA CLASSES
- HOSTS SEWING WORKSHOPS
- FAST CASUAL FOOD OFFERINGS
- COFFEE SHOPS
- ON-SITE LIVE MUSIC & EVENTS
- HANGOUT SPACES FOR SOCIAL CONNECTING
- SALON SERVICES

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Mashups Transition Stores to Destinations

NOT JUST AN ART GALLERY - ALSO A COMMUNITY GATHERING PLACE.

• PAINTINGS, POTTERY, JEWELRY, FRAMING, GIFT REGISTRY, IN-HOUSE CONSULTING
• HOSTS WORKSHOPS & DEMONSTRATIONS
• COCKTAIL PARTIES & DINNERS
Mashups
Transition Stores to Destinations

A SOMETHING FOR EVERYONE STORE.

• LOCAL ART, GIFTS, HOME, BABY,
• HOSTS CREATIVE WORKSHOPS & DEMONSTRATIONS
• HOSTS PARTIES & DINNERS
Mashups Transition Stores to Destinations

AN OUTDOOR LIFESTYLE SHOP.

- OUTDOOR APPAREL & GEAR
- ROCK CLIMBING GYM
- REGIONAL CYCLING HEADQUARTERS
- RUNNING, CYCLING, CLIMBING FLY FISHING, CAMPING AND WATER SPORT GEAR
New Stores Must Be The Sure Thing

NATIONAL RETAILERS ARE LOOKING TO BOOST ONLINE SALES - WHILE REDUCING STORE SIZES AND “LIMITING” NEW STORE GROWTH.

• THE RIGHT SITE
• THE RIGHT MARKET
• THE RIGHT SHOPPER PROFILE
• THE RIGHT LEVEL OF COMPETITION
• THE RIGHT DISTANCE FROM EXISTING STORES
• THE RIGHT TRAFFIC COUNTS
• THE RIGHT VISIBILITY
• THE RIGHT ACCESS
• THE RIGHT SIGNAGE
• THE RIGHT PRICE
Keys To Retail Success

IDENTIFYING AND TARGETING THE APPROPRIATE RETAILERS FOR OUTREACH IS KEY.

1. DATA
   Data must be current, accurate and relevant.
   - Retail Trade Area
   - Demographic Profile
   - Psychographic Profile
   - Gap Analysis
   - Consumer Buying Analysis

2. REAL ESTATE
   Maintain a database of all available retail properties and sites along with detailed site-specific information.
   - Consider highest-and-best use of well located properties/sites.

3. RECRUITMENT
   Using data and real estate sites, determine a list of retailers to target for recruitment.
   - Make certain targets are a “fit”
   - Proactively recruit targeted retailers
   - Email data and site information then followup with a personal call
   - Attend retail industry events

4. LOCAL RETAIL FOCUS
   Do not overlook your local retailers
   - They must understand retail trends and be educated on how to adapt
   - They must embrace change and make data-driven decisions
   - National brands and local retailers can co-exist
Retail Trade Area Must be Accurate

AN ACCURATE RETAIL TRADE AREA IS THE FOUNDATION OF ANY RETAIL RECRUITMENT PLAN

- QUANTIFIES THE NUMBER OF CONSUMERS A MARKET OR SITE WILL SERVE
- PROFILES THE CONSUMER’S DEMOGRAPHIC CHARACTERISTICS & PURCHASING POWER
- ASSISTS IN SELECTING SPECIFIC RETAILERS THAT ARE A “FIT” FOR PROACTIVE RECRUITMENT

THE RETAIL TRADE AREA
DEMOGRAPHIC PROFILE
Renton, Washington

Prepared for Community & Economic Development Department
March 2019
Retail Trade Area Must be Accurate

CONSUMER MOBILE LOCATION DATA IS THE MOST ACCURATE TECHNOLOGY USED IN DETERMINING TRADE AREAS.

- TRACKS USE OF CELLULAR DEVICES
- FILTERS VISITS BY DAY AND TIME
- HIGHLIGHTS AREAS OF RETAIL LEAKAGE
- IDENTIFIES VISITOR/CONSUMER ORIGINS
- IDENTIFIES PATH TO PURCHASE

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Retail Trade Area Must be Accurate

YORKTOWN CENTER, LOMBARD, IL
RETAIL TRADE AREA ANALYSIS
- PREVIOUS 12 MONTHS
- FIVE VISITS

<table>
<thead>
<tr>
<th>Yorktown Shopping Center</th>
<th>Est. # of Customers</th>
<th>Est. # of Visits</th>
<th>Panel Devices</th>
<th>Panel Visits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yorktown Shopping Center</td>
<td>2.4M</td>
<td>10M</td>
<td>72.2K</td>
<td>221.7K</td>
</tr>
</tbody>
</table>
Know all Available Retail Sites

THE FIRST QUESTIONS INTERESTED RETAILERS WILL ASK: “DO YOU HAVE AVAILABLE SITES FOR ME TO LOOK AT?” AND/OR “SEND ME AVAILABLE SITES THAT FIT MY NEEDS.”

• SALE
• LEASE
• DEVELOPMENT PROPERTIES
• REDEVELOPMENT PROPERTIES
Retailers Must Make
Manage Expectations
Research and Target
Appropriate Retailers for
Recruitment

Traffic - 20,000+ AADT
Trade Area - 30,000 +
Min. Average HH Income - $45,000
Lot Size - .80 - 1.25 Acres
Building Footprint - 2,400 - 3,900 SF
Seating Capacity - 50 - 90 seats
Parking Required - 40+ spaces
Preferred Sites - Corner lots, shopping center pads, & interstate
Zoning - freestanding with drive-thru window and allowance of adequate signage

Traffic - 20,000+ AADT
11 Mile Population - 70,000
Median HH Income - $55,000-$70,000
Building Footprint - 1,500 - 1,800 SF
Seating Capacity - 18+ seats
Preferred Sites - Free standing, end cap, and inline. Must be on AM side of the road with strong visibility
Zoning - Easy ingress and egress with no obstruction to signage that may impact customer reaction time

3 Mile Total Population - 25,000
3 Mile Workforce - 12,000
3 Mile Median Income - $35,000
Building Footprint - 1,400+ SF
Frontage Minimum - 20 FT
Parking Required - 35 spaces
Preferred Sites - Street Exposure, end cap preferred
Desired Co-Tenants - Grocery/Supermarket, Fast Casual, Movies, Hospitals
LOCAL RETAILERS NEED MUCH SUPPORT TO COMPETE WITH NATIONAL BRANDS AND ECOMMERCE.

- THE RIGHT EDUCATION
- THE RIGHT MARKET DATA
- THE RIGHT CONSUMER DATA
- THE DESIRE TO COMPETE AND BE OPEN WHEN CONSUMERS SHOP
- THE DESIRE TO OPERATE AS A BUSINESS AND NOT A HOBBY
- THE WILLINGNESS TO LISTEN
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Sources: IHL, Deloitte, NRF, bazzarvoice, CNBC, RetailDive, Fox Business, Placer, US Commerce Department, USA Today, Market Watch