

FALL 2020 | RETAIL SPOTLIGHT REPORT

# WHAT'S HAPPENING NEXT IN RETAIL?

AN INSIDE LOOK FEATURING SHOPIFY



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**Anjee Solanki**

National Director, Retail Services  
Colliers International | USA

**Neil Saunders**

Managing Director and Retail Analyst  
GlobalData Retail

**Nicole Larson**

Research Analyst, National Retail Research  
Colliers International | USA

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**ANJEE  
SOLANKI**  
*National Director  
Retail Services | USA*

## INTRODUCTION

No one could have predicted the level of impact the coronavirus pandemic would have on commerce, from supply chain and brick and mortar to delivery logistics and customer service. Although many things remain uncertain as retailers and restaurants navigate the phases of reopening their businesses, the pandemic has forever altered the immediacy in which retailers must innovate to maintain relevance in the changing landscape.

Adapting to changing consumer preferences and behaviors is at the core of any retail strategy and yet, many brands have been slow to shift their attention and investments toward e-commerce and mobile channels. Retailers can no longer rest on their laurels, waiting for consumers to discover their products and services. To be successful, they must embrace proven strategies to innovate and connect with consumers where they are and where they are going.

Let's explore how we see retail in the near future.

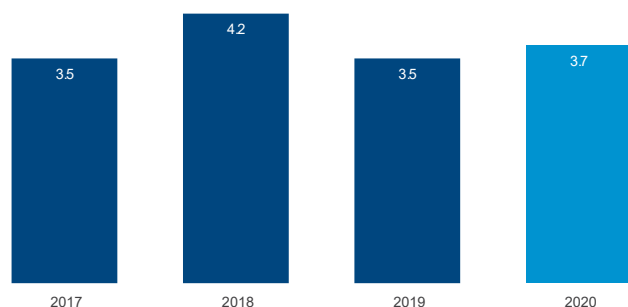
# The Impact of the Pandemic

## An optimistic turn toward growth

With strong and steady growth, U.S. retail was performing well before coronavirus hit. Our previous forecasts predicted 2020 to be another good year, with retail sales growing by 3.7% over 2019. Strong underlying consumer confidence, full employment and modest improvements in household finances all underpinned the optimism.

### Annual year-over-year sales growth for US(%)

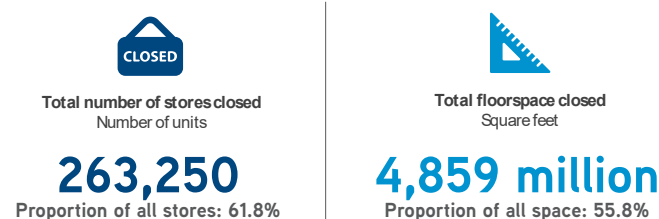
Source: GlobalData analysis



Unfortunately, the pandemic caused an unexpected interruption to the long run of growth as the economy went into lockdown. At quarantine peak, almost 62% of all physical stores in the U.S. were closed, amounting to about 4.9 billion square feet of underutilized floor space.

### Store closure metrics at peak closure

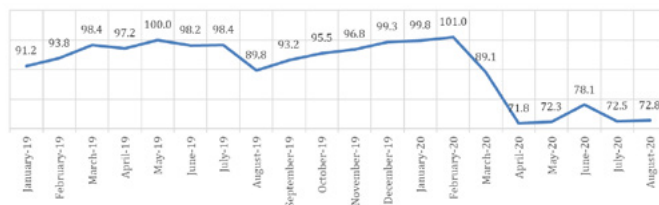
Source: GlobalData analysis



## Followed by a consumer slump

Rapidly rising levels of unemployment and, at the time, concerns about the country's economy directly impacted the financial confidence of households nationwide. The consumer sentiment index, which had been positive for years, quickly dropped into negative territory. The acceleration of the virus dramatically affected confidence levels in the space of a month, surpassing the global financial crisis of 2008/2009.

The marginal increase in consumer confidence in early August adds to the message that any negative impact from the expiry of the additional Federal unemployment benefits at the end of July has so far been offset by a positive impact from the downward trend in new virus cases nationwide, as well as the stock market, with the S&P 500 closing in at record highs.



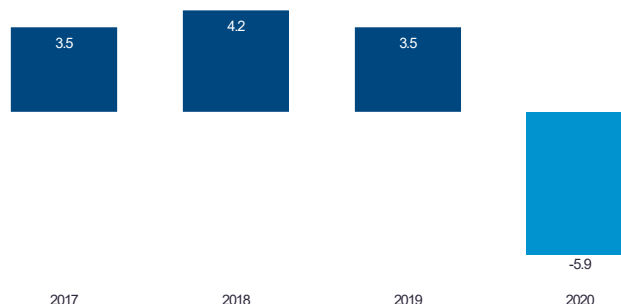
Source: University of Michigan Consumer Sentiment

## An adverse financial forecast

For the first time in a decade, annual retail sales will see a sizable deflation. Overall, we anticipate that sales will be down just shy of 6% compared to 2019. Despite an initial forecast for 3.7% growth, the number is remarkably resilient, considering the crisis' overall footprint. One bright side: government stimulus checks and higher unemployment benefits have helped prevent a more significant contraction.

### Annual growth in total US retail sales

Source: GlobalData analysis



The U.S. retail market has seen nearly 15.8 million square feet of negative space absorbed since the beginning of 2020, a 31% increase since the first half of 2009, where there was a total of 12 million square feet of negative absorption. The 4.8% retail vacancy rate is slowly climbing up from previous quarters but is still significantly lower when compared to the previous recession, where it averaged 7.1% in 2009.



Source: Costar

# The Trend Report

As retailers look to the future, understanding how things will shift is paramount. Wild speculations about what the sector might look like sprouted during the height of the lockdown. And now that things have settled down in some places, it is sensible to ascertain that although the normal we once knew may no longer exist, there are brighter roads ahead.

## Key considerations

Source: GlobalData analysis

**Don't confuse short term necessity and long-term desire**

**Don't extrapolate current trends and patterns**

**Don't believe the friction doom mongers**

**Don't assume things will remain the same or revert to form**

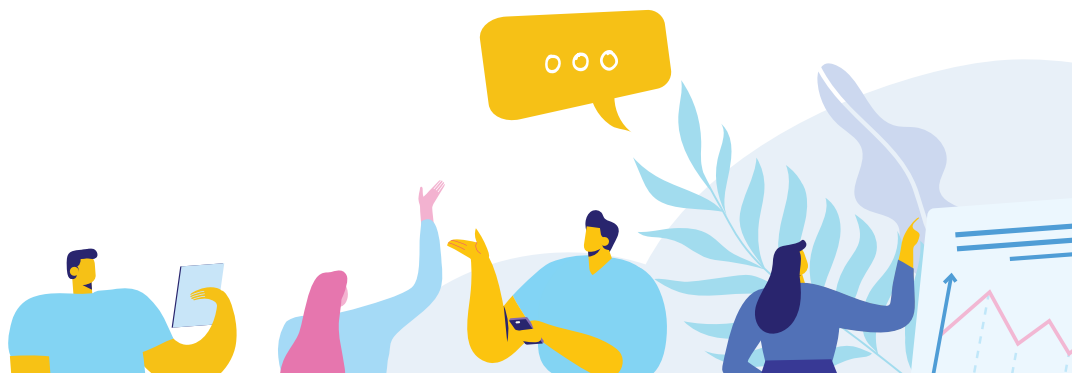
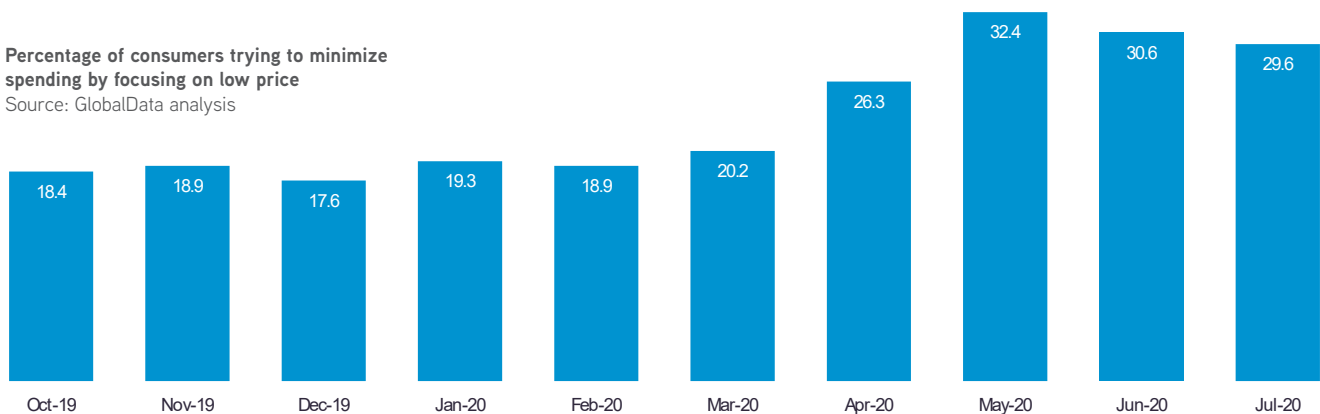
## The push toward value

One of the medium-term trends will be a push toward value. Economic activity will take time to rebuild, with many households feeling constrained financially. The number of consumers seeking deals or discounts to offset essential and non-essential purchases will likely persist. Opportunities to offer premium products and services will be scarce, leaving room for mainstream retail to create value price points to attract customers.

Resale continues to see momentum as Americans shift their spending habits toward thrift. In 2019, resale grew 25% faster than the broader retail sector to hit \$29 billion and [is expected to overtake the traditional thrift and donation segment by 2024](#). ThredUp, Depop, Poshmark and Vestiaire Collective have boasted double-to-triple-digit growth in the past few months. [By 2029, resale will exceed \\$80 billion in value, outpacing fast-fashion's estimate of \\$43 billion.](#)

**Percentage of consumers trying to minimize spending by focusing on low price**

Source: GlobalData analysis



The elevation of a “value-conscious consumer” response to discounting is a direct result of the pandemic’s impact on spending and retail’s attempt to stimulate demand. We have seen an uptick in apparel discounts over the last six months as retailers clear out surplus inventory. Discounting will likely pave the way to persuade consumers to spend. In fact, the number of products discounted in the first half of 2020, exceeded 57% compared to 20.4% in 2019.

From a financial perspective, this will be materially damaging to retail margins, chiefly for those retailers in the middle part of the market as we are seeing the average depth of discount approaching 38%. It will be necessary for retailers to proactively pivot their strategies to inspire sales while also maintaining product quality.

#### Online commerce will accelerate

Online penetration jumped enormously at the peak of the pandemic, as physical retailers closed. However, there is debate whether this high level will remain as stores start to reopen, with consumers anticipating a return to in-store shopping by 2021. To date, 46% of apparel sales have been made online in 2020, but we predict a drop to around 33% once consumer confidence increases.

Online grocery shopping was an unexpected revenue coup--reaching nearly \$900M in sales in March 2020, as mainstream America adapted to a new way of life during the pandemic. As recently as last summer, a survey found just 11% of consumers bought groceries online at least once per month. From February 2020 through May 2020, [U.S. online sales of consumer-packaged goods \(CPG\) increased by 53.9%](#). Of U.S. shoppers surveyed, 31%, including 50% of millennials, reported being very likely to continue using online grocery pick-up or delivery once the crisis is over.

#### Extent and rate of discounts offered in apparel (May and June 2020 versus May & June 2019)

Source: GlobalData analysis

##### Number of products discounted

2019: 20.4%

2020: 57.3%

+36.9 % points

##### Average depth of discount

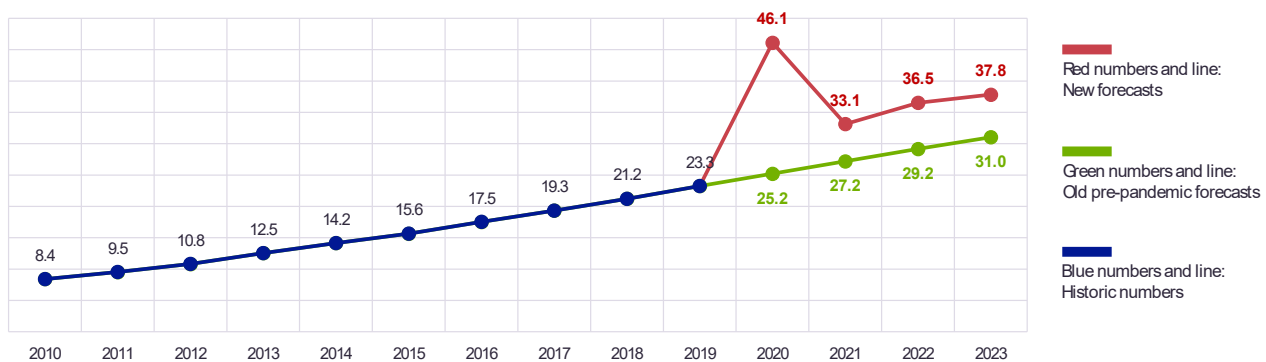
2019: 16.7%

2020: 37.8%

+21.1 % points

#### Percentage of apparel sales made online (2010 to 2023)

Source: GlobalData analysis



# The Trend Report

## Retail productivity will drop

As the nature of online adoption continues to rise, the need for physical stores is likely to continue its downward trend well into the latter half of 2020. The economic consequences for retailers' brick-and-mortar stores and profit margins will push retailers to rationalize store occupancy numbers and location and consider cutting back on physical space.

Analysts at UBS forecast that 100,000 brick-and-mortar stores will permanently shutter by 2025, while online sales anticipate representing 25% of total retail sales.

### Average sales density of US retail (\$ per square foot)

Source: GlobalData analysis



## Retail response to channel shifts

Retailers are thinking creatively about how to respond to changes in where and how people shop. Macy's and Nordstrom for example are developing new – often smaller – formats to create demand in and out of mall and neighborhood locations. Many big-box retailers like Walmart are considering how to maximize their stores' usefulness as part of the omnichannel ecosystem – boosting productivity with fulfillment or collection for online orders and cutting the costs of last-mile delivery.

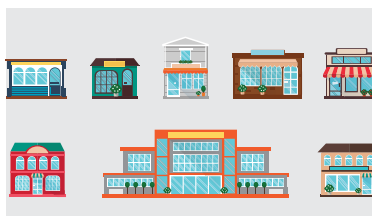
Online retailers have also ramped up order fulfillment capabilities. Amazon, for instance, increased its fulfillment space to 190 million square feet in the last decade, compared to 12 million in 2009, and online home furnishings seller Wayfair's fulfillment space grew to 15.5 million square feet in 2019 from 795,000 in 2014.

### Retailer reactions

Source: GlobalData analysis



**Capacity  
Reduction**



**Format  
Flex**



**Omnichannel  
Ecosystem**



### The harsh reality: Consumers miss stores

Contrary to some narratives, most consumers like shopping in physical spaces. Among those visiting stores less because of the pandemic, 79% say they miss the social interaction, and 54% say they miss the new product ideas they can find while browsing in shops. The truth is that stores deliver an experience that online is unable to replicate. However, retailers increasingly need to understand what consumers want from stores and build their value proposition around those factors.

E-commerce will maintain its momentum in retail through experiences, services, and interactions. Consumer needs for an in-store retail experience may spark a move toward three-dimensional retail that includes experiential e-commerce through augmented reality. [L'Oréal acquired the augmented/virtual reality \(AR/VR\) company ModiFace in 2018](#) to create a selfie capture that allows consumers to 'try-on' makeup using their smartphone. They are not the only brands integrating AR into the online in-store experience. At Lacoste, [consumers can virtually slip into shoes](#), and Timberland features [a life-size screen where folks can model and stylize different products virtually](#) before entering the store.

#### What do you miss about visiting shops and malls?

Source: GlobalData analysis

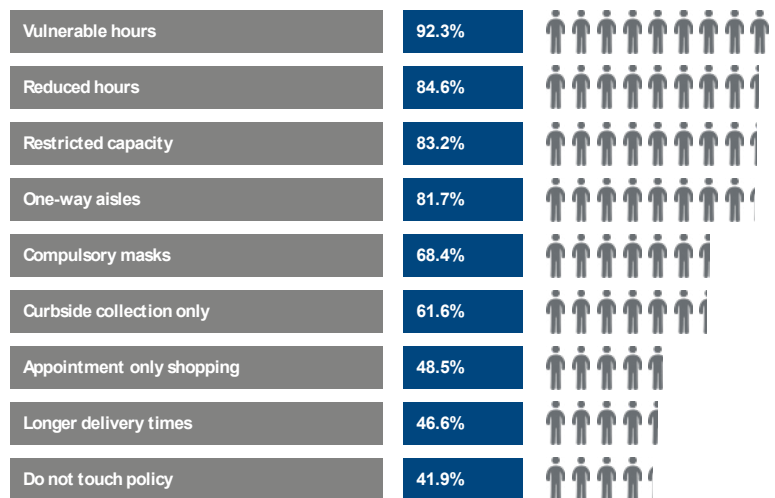
Action	% of consumers not visiting shops as much
Social interaction	79.4
Having a day/morning/afternoon out	62.8
Finding new products and ideas	53.7
Being able to ask advice	40.4
Ability to see and feel products	36.4
Returning products	24.8

# The Trend Report

## Short-term shopping friction

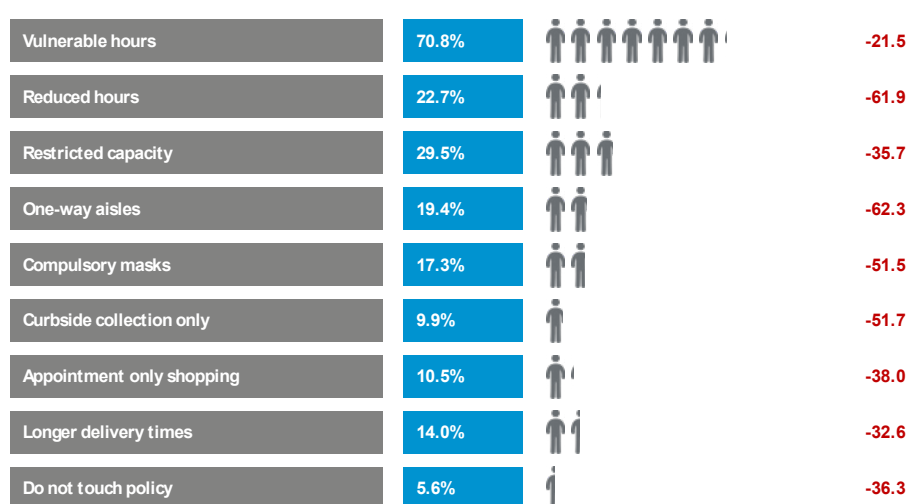
Retailers have been proactive in making changes to meet pandemic health protocols. And luckily, most consumers understand the need for these restrictions to prevent the spread of the virus.

Percentage of consumers who accept various restrictions in physical shopping: short term  
Source: GlobalData analysis



Long-term, people's tolerance of pandemic restrictions, including in-store capacity, consumer queues, appointment-only time slots and the inability to touch items, may be tested as retail reopening's evolve. Retailers will need to keep measures in place for as long as the virus remains a health issue, while simultaneously monitoring how to pivot to an open model of trade quickly.

Percentage of consumers who accept various restrictions in physical shopping: long term  
Source: GlobalData analysis





# The Future of Where We Shop

## Where we shop

The changes in how we shop will also mesh with locational differences in where. Some of the locations that retailers previously found attractive – such as big cities – will find growth much slower as more people move to less populated areas and work from home more often. In contrast, suburban and rural locations will see faster growth as people stay closer to home, focusing on shopping and buying local. There is also a massive opportunity to convert rural stores into fulfillment warehouses to mitigate the costs of delivering to remote locations.

With the pandemic leading to the temporary and possibly permanent closure of scores of local restaurants and stores, the “shop local” movement appears to be getting a considerable boost. [A global survey from Ernst & Young found](#) that 42% of consumers believe the way they shop for goods will fundamentally change because of the pandemic, with 34% indicating they would pay more for local products.

## Looking toward the future of retail

Despite the constant state of disruption, it is vital to keep in mind that current climes will not last forever. At best, it provides retailers with an opportunity to assess and analyze the long-term implications that will adversely affect their future, with a bit of leeway to adapt and create a flexible space that caters to the consumer.

### The future

Source: GlobalData analysis

**Unprecedented disruption and unprecedented decline**

**Short to medium term event...**

**...with long term implications**

**Acceleration of current patterns plus new complexities**

## Changes in where we shop

Source: GlobalData analysis



# Q&A with Shopify, Kevin Donnelly

We spoke with **Kevin Donnelly**, Senior Product Marketing Manager at **Shopify**, about how retailers are moving online to change consumer behaviors.

Shopify's new store count increased by 71% in Q2 (vs. Q1 2020), driven primarily by a shift to ecommerce. Fashion apparel, food and beverage and consumer electronics were among the sectors leading the charge. The lockdown has empowered traditional offline-only retailers to reconsider the importance of expanding their digital footprint to meet consumer demands for broader product selections and shipping options.

"One of the biggest trends to emerge is the pace at which consumers have moved online. Changes we expected to happen within the next decade happened overnight," said Kevin Donnelly, Senior Product Marketing Manager at Shopify. "We've seen an increase across the board with consumer participation in making first-time purchases online."

Shopify's technology democratizes commerce, enabling independent retailers to compete with larger businesses as they make the shift toward a truly omnichannel approach. "Retailers know they need to build and launch their omnichannel strategy to include ecommerce for long-term success, and COVID-19 has been the catalyst to accelerate their decision making," Donnelly shares. "Our approach is straight forward. We equip retailers with the tools they need from the start. By accessing Shopify's ecosystem that includes more than 4,600 apps built by developers from across the world, retailers can sell, ship and market their products as easily and as effortlessly as the giants."

Retailers can also tap into consumer insights and behaviors as shoppers move between the online and in-store point-of-sale experience. Shopify unites ecommerce and the brick-and-mortar experience by collecting consumer and inventory data, and seamlessly sharing between channels. A retailer running a loyalty program for its retail store can track purchases across platforms and then reward consumers instantaneously with a 15% discount or suggest product in-store based on their online shopping.

"As retail stores open back up, and folks return in-store, you'll still be able to use shopping moments and interactions to capture customer information," states Donnelly. Consumers will already be a part of the ecommerce ecosystem, whether a retailer asks for an email address at checkout or a recent purchase review. "Retailers can supercharge their business and increase the lifetime value of each customer in a smarter, more intentional way."

One of the most surprising aspects influenced by the lockdown has been consumer behavior around the curbside pickup. Introduced by retailers pre-COVID, curbside pickup is one of the most requested conveniences for online consumers. Streamlining the last-mile experience for consumers, Shopify provides educational support to retailers and their staff to implement curbside fulfillment efforts. "The specificity of having a curbside pickup experience that is touchless, where folks can pick up their purchases on the same or next day without having to go in-store or wait for shipping times is priceless."

*"One of the biggest trends to emerge is the pace at which consumers have moved online."*

shares  
**KEVIN DONNELLY**,  
Senior Product  
Marketing Manager  
at Shopify.





**NICOLE  
LARSON**

*Research Analyst,  
National Retail Research | USA*

## CONCLUSION

As we witness retailers and consumers adapting to the new world of shopping, we are reminded of how agile the retail industry truly is. At the peak of the lockdown, almost 62% of all physical shops in the U.S. were closed, amounting to nearly five billion square feet of floorspace temporarily being taken out of action. Many retail brands acclimated to digital commerce as their physical locations closed and will look to streamline store counts and decrease their physical footprint. Consumers do anticipate a return to in-store shopping by 2021 with an experience that is as friction-free as possible. After several years of brick-and-mortar retail migrating toward experiences and services, the online channel is shifting its focus back to product: less shopping, more buying.

Impacts from the pandemic have significantly altered our shopping patterns and have accelerated trends expected within the next few years to happen overnight. Retailers who are willing to meet consumers expectations will rise above and establish a certain level of trust and loyalty. Thus, the continued evolution of retail.

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### **ANJEE SOLANKI**

National Director, Retail Services  
Colliers International | USA  
+1 415 288 7871  
[anjee.solanki@colliers.com](mailto:anjee.solanki@colliers.com)

### **NEIL SAUNDERS**

Managing Director and Retail Analyst  
GlobalData Retail  
+1 718 708 1476  
[neil.saunders@globaldata.com](mailto:neil.saunders@globaldata.com)

### **NICOLE LARSON**

Research Analyst, National Retail Research  
Colliers International | USA  
+1 954 652 4602  
[nicole.larson@colliers.com](mailto:nicole.larson@colliers.com)



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