Retail Trends - 2022 Forecast

Almost two years after the first lockdowns, it seems that the pandemic has actually enhanced offline shopping's long-term prospects. The radically new situation created by the pandemic gave many retailers a license to think outside the box as they navigated wholly uncharted territory, which led to the adoption of novel and creative strategies to retain old customers and acquire new ones. The pandemic also reminded many consumers that "you don't know what you got 'till it's gone" – specifically, you don't know how much you miss shopping in physical stores until the physical stores are shuttered. And so despite the widespread safety concerns at the onset of COVID, and despite the widespread availability of online channels for everything from perishable groceries to children's toys to home furnishings, consumers quickly and forcefully returned to brick-and-mortar stores.

Today, consumers and retailers alike are more aware than ever of brick and mortar's unique value propositions. Consumers have a new appreciation of the social experience of in-person shopping, the possibilities for product discovery, and the customer service guidance and support that is difficult to replicate online. Retailers understand the brand-building capabilities, customer acquisitions potential, and logistical support that only physical stores provide.

But retail's potential will not actualize itself – retailers need to actively adapt their strategies and seize the opportunities presented by this unique moment in time. Brands that fail to keep up with consumers' expectations will be left behind, while retailers who succeed today will consolidate their standing for years to come. Physical retailers are not dead – but those that don't evolve might be on their way.

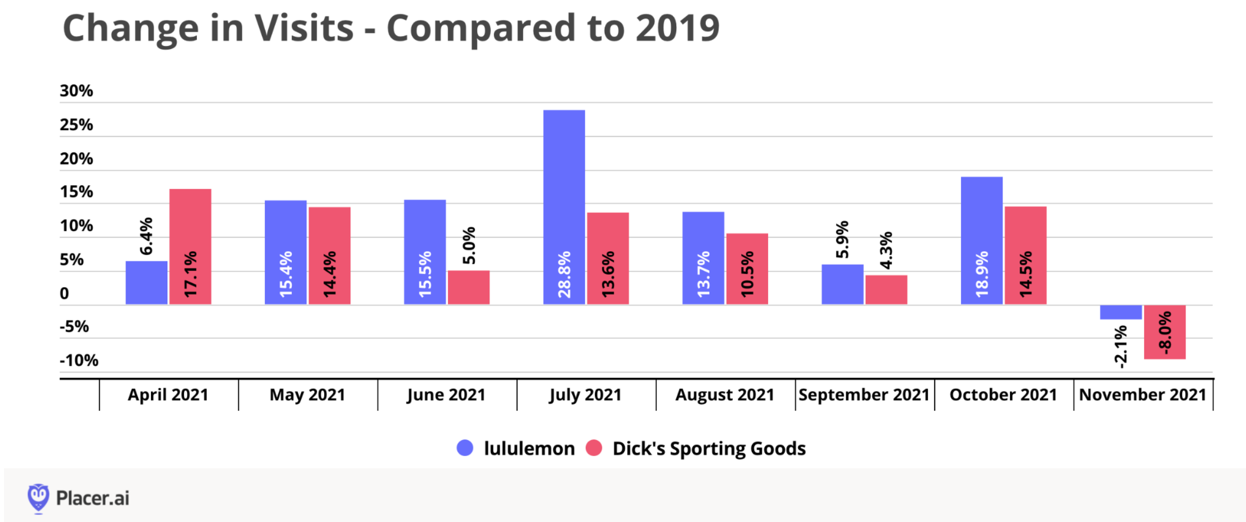
This white paper identifies eight trends that are expected to play a key role in shaping the future of brick-and-mortar retail going into 2022. Where relevant, we have provided examples using foot-traffic data and location analytics to show how these trends have already begun to impact the retail landscape. We hope that this report will serve retailers, real-estate executives, and professionals in the consumer goods space to make informed decisions and position their brands and properties for success.

Comprehensive Approach to Omnichannel is a Must

Despite the bleak picture of brick-and-mortar retail presented in recent years, it is now clear that even with the rise of e-commerce – the physical store isn't going anywhere. If anything, the COVID recovery has proven that brick-and-mortar retail may actually be stronger than ever before. More and more retailers understand the business advantages of having an omnichannel strategy that blends the two modes of shopping.

A more harmonized and holistic approach to retail is critical. Rather than framing online and physical sales as battling in a zero-sum contest, the two channels need to be leveraged together to provide a better overall experience for the customer.

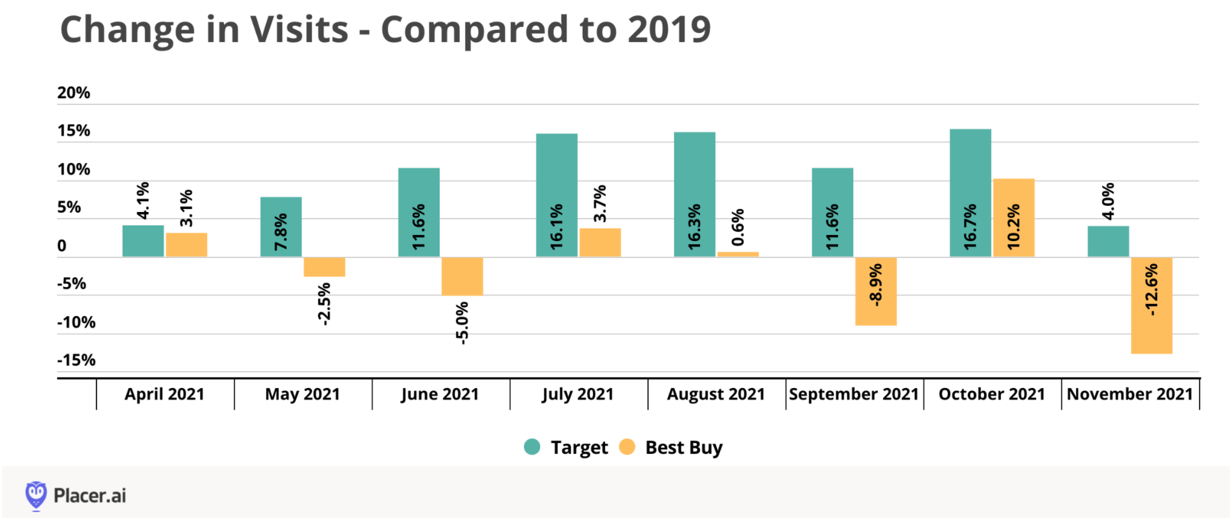
The key for retailers is to focus on the unique benefits that online and offline channels provide and to build experiences around these strengths. For example, brick and mortar is still more effective at enabling real product discovery and allows customers the ability to touch and feel the items they are interested in and to try on products. Even if the ultimate purchase takes place through a digital channel, it is still fundamentally enabled and improved by the physical store experience. There is also the added ability to provide a truly authentic brand experience in a location. The result is a deeper relationship with the customer and the capacity to leverage experiential strategies.



A retailer's online presence can also be improved by access to physical stores. From Buy Online, Pick Up In Store (BOPIS) to curbside pickup to cheaper returns, there are ways to leverage stores as an ideal complement to positive online experiences. Measuring the uplift that physical stores provide to online purchases in a given region, the impact they can have on lowering delivery costs, and even the improvements to brand awareness and engagement is critical to truly understanding the value physical locations provide.

A recent study by Nielsen found that online channels are an essential means to compare prices, research new products, and find physical stores. But other elements are often overlooked, limiting the visibility needed to better maximize these channels in a complementary way.

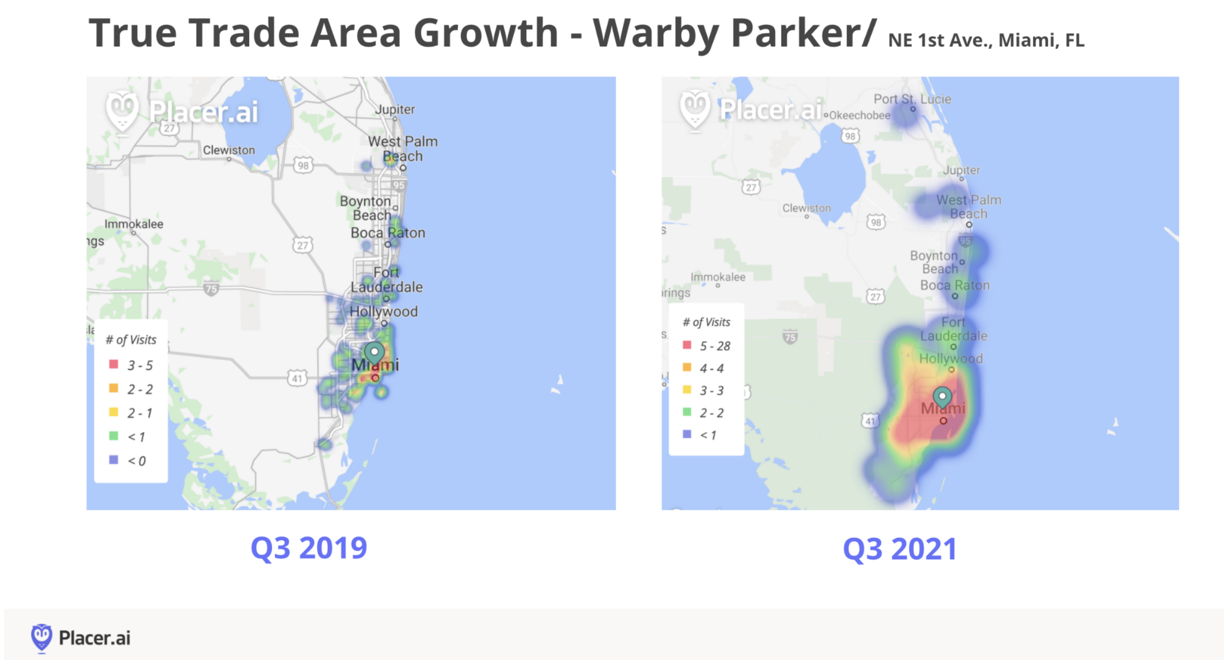
Retailers like Target and Walmart have led the way with their omnichannel capabilities, and the success they have had is directly related to these efforts. Going into 2022, expect more brands to drive a heavy focus on offering customers a cross-channel experience that allows them to pick their ideal route to buying specific products.



Digitally Native's Brick-and-Mortar Future

Digitally native brands (DNBs) have a unique perspective on the potential of omnichannel shopping. While most traditional retailers used stores as a starting point and then moved online, the online-only approach that these brands pioneered provided the key, and often only, path to early growth. Yet, many are now turning to physical locations to help expand the potential success – and this shift is incredibly important. The push for physical expansion and the exceptional growth it has provided for DNBs like Warby Parker, Allbirds, Everlane, and even Amazon, is critical not just because of the early success, but also for the wider implications.

For many, the shift of DNBs offline presents one of the most powerful testaments to the importance of brick-and-mortar locations. These brands are proving that wider omnichannel approaches are critical to driving growth, and when considered comprehensively, enable them to maximize the impact of each location. The fact that these brands are renowned for their data-driven approach to growth and deep understanding of customers only reinforces the impact.

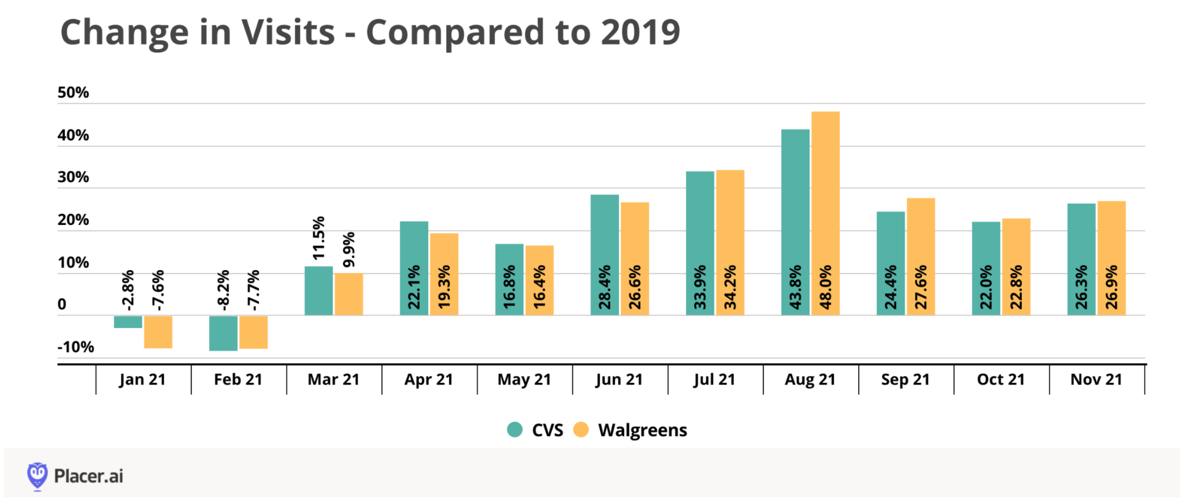


Should the trend continue to hold, the impact on the retail real estate ecosystem could be even more significant. The entry of more chains into the mix creates a greater level of brand diversity and offers a wide, new pool of potential tenants. The result is more optionality, more diversity and an infusion of fresh retail perspectives into the mix. For the shopping centers, downtown areas, and malls that can attract these rising chains, the effect could be significant. As a result, expect attracting top-tier DNBs to be among the key trends in the coming year.

Retail Healthcare is on the Rise

Pre-COVID, many retailers were already placing an added emphasis on products and services within the wider health and wellness category. The impact of the pandemic should only increase that investment. CVS announced it would be closing 900 stores in the next three years and remodeling hundreds of others to put more emphasis on providing healthcare services. Walgreens too is doubling down on its investment in healthcare offerings, launching a new business segment called “Walgreens Health” to create a more unified healthcare offering for consumers.

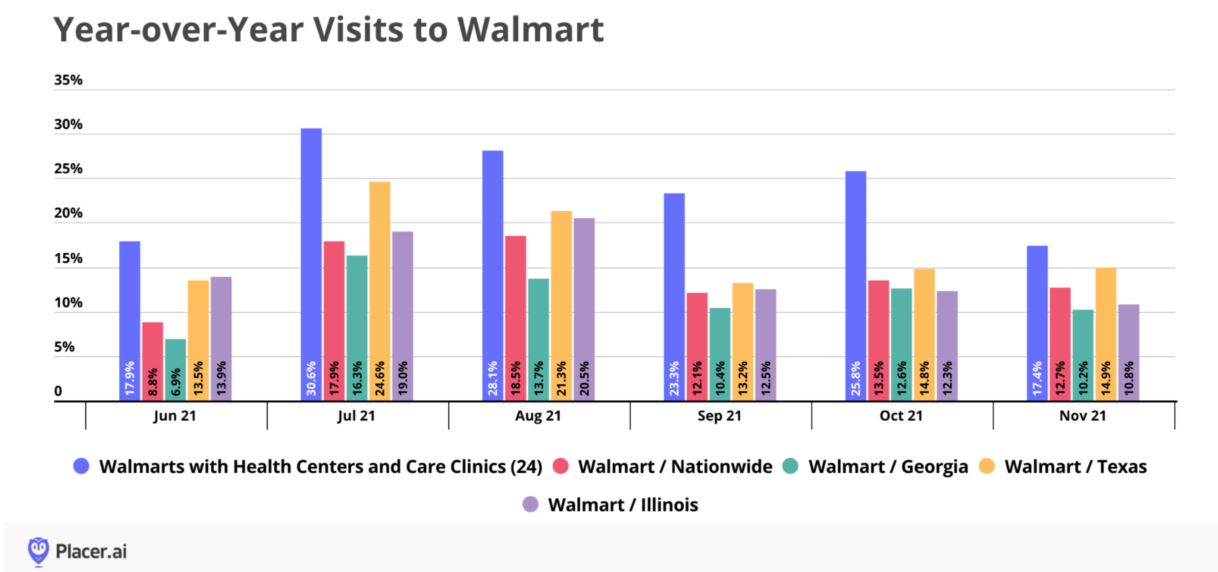
And the strategy appears rooted in the offline success the sector is already seeing. Both CVS and Walgreens have been providing in-store COVID testing and vaccinations and seeing a massive jump in visits during the heaviest vaccination period from March through July. In August, at the height of the summer rise in COVID cases, year-over-two-year visits to CVS and Walgreens reached 40.3% and 45.5%, respectively.



The move is also attracting attention from industry giants. Although Walmart is newer in the healthcare space, it has big plans for the future. The retail giant plans to [install 4,000 primary care "supercenters"] in stores by 2029, including clinical laboratory testing services, and Walmart already operates [24 medical clinics] in Arkansas, Georgia, Texas, and Illinois.

Despite the shaky start it had with the reorganization [of its health leadership amid a slow clinic rollout], it appears that Walmart's new health centers are performing exceptionally well. The 24 Walmart stores containing a new health center have seen significantly higher year-over-two-year visits than both the chain's nationwide change in visits and the chain's state-wide change in visits for the states containing the new health centers.

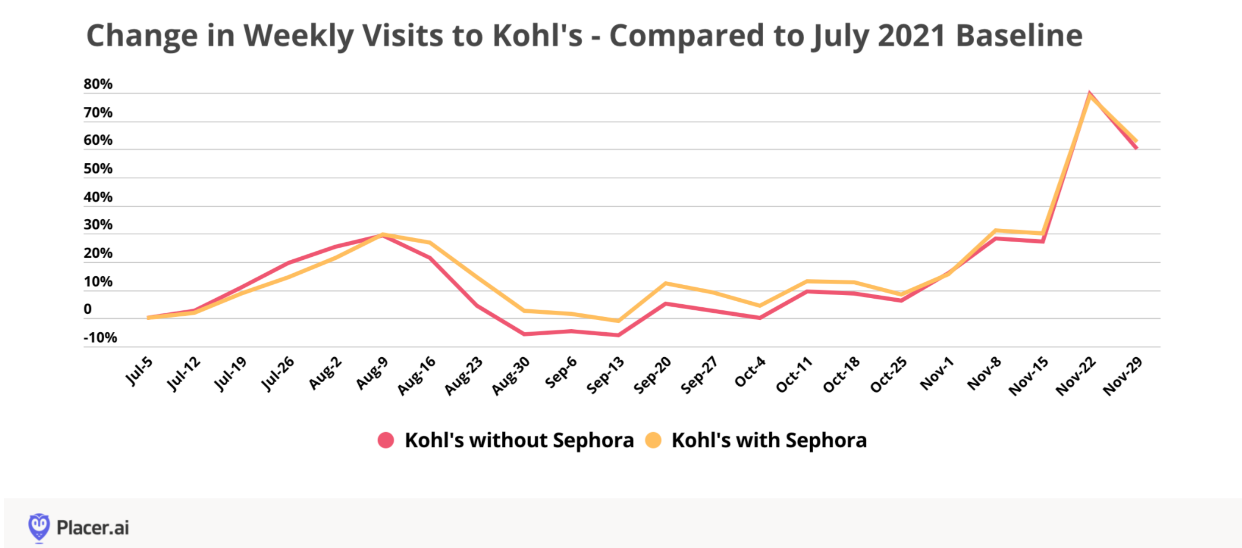
The growing strength of these formats alongside the rise in visits for healthcare oriented changes across the country only reinforce the growing position of this sector within the wider retail focus.



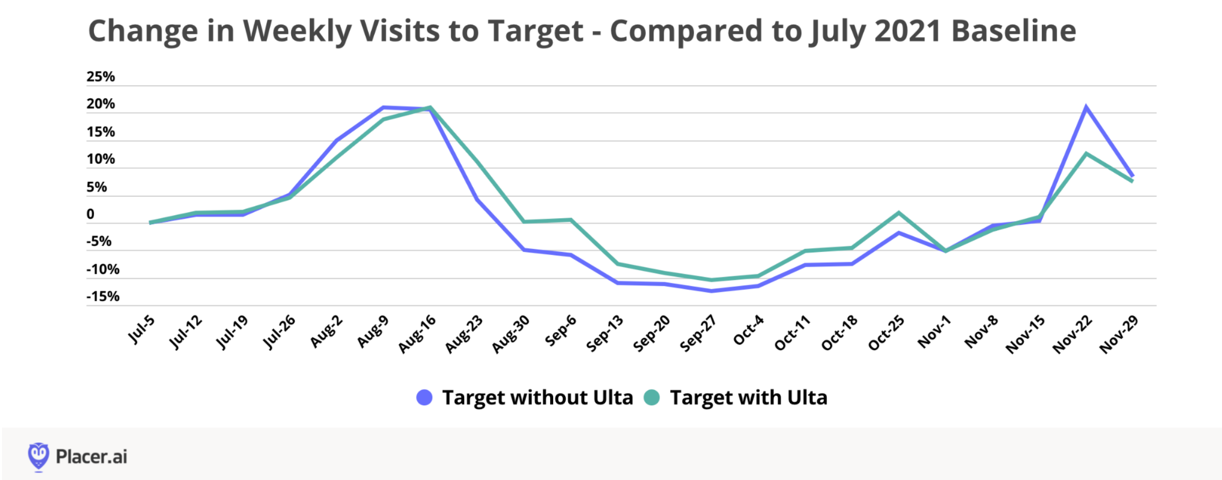
Small-Format Stores - The Next Big Thing?

During the summer, Target began the process of opening dozens of Ulta shops-in-shop. At the same time, the initial batch of 200 Sephora stores opened within Kohl's locations. In a recent interview, Kohl's CEO Michelle Gass said that Sephora in Kohl's shops was driving "extraordinary growth" in Kohl's beauty business and boosting average unit sales in the category. Gass said that Sephora customers are purchasing across a wide range of beauty categories and price points and tend to shop across the store. Roughly half are making purchases in at least one other category. In addition, over 25 percent of those shopping at these Sephora spaces are new to Kohl's.

Kohl's location data from July through October only affirmed the potential of the shop-in-shop concept. Comparing Kohl's visits from the last four months to a July 2021 baseline showed that Kohl's with Sephora locations had higher growth in visits than Kohl's without the Sephora addition. Comparing Kohl's visits from the last months to those in 2019 confirmed the trend - Kohl's stores containing Sephora had consistently outperformed those without in year-over-two-year visits.



The same pattern could be seen with Ulta in Target. Comparing Target stores with and without Ulta shops to a July 2021 baseline shows that Target stores containing Ulta saw stronger visit performance than those without.



But it wasn't just top retail giants launching new concepts. Though in a different format, department stores also adopted the small-concept store trend this year. Macy's launched three "off-mall" store formats of Market by Macy's, while Bloomingdale's opened its first small Bloomie's store in Fairfax, Virginia. These small-concept department stores focus mainly on the customer's experience, offering a curated assortment of products, which rotate frequently. Bloomies offers alterations, a drop box for returns and appointments with stylists. The stores also support the retailers' fulfillment capabilities, especially when it comes to buy online, pick up in-store (BOPIS).

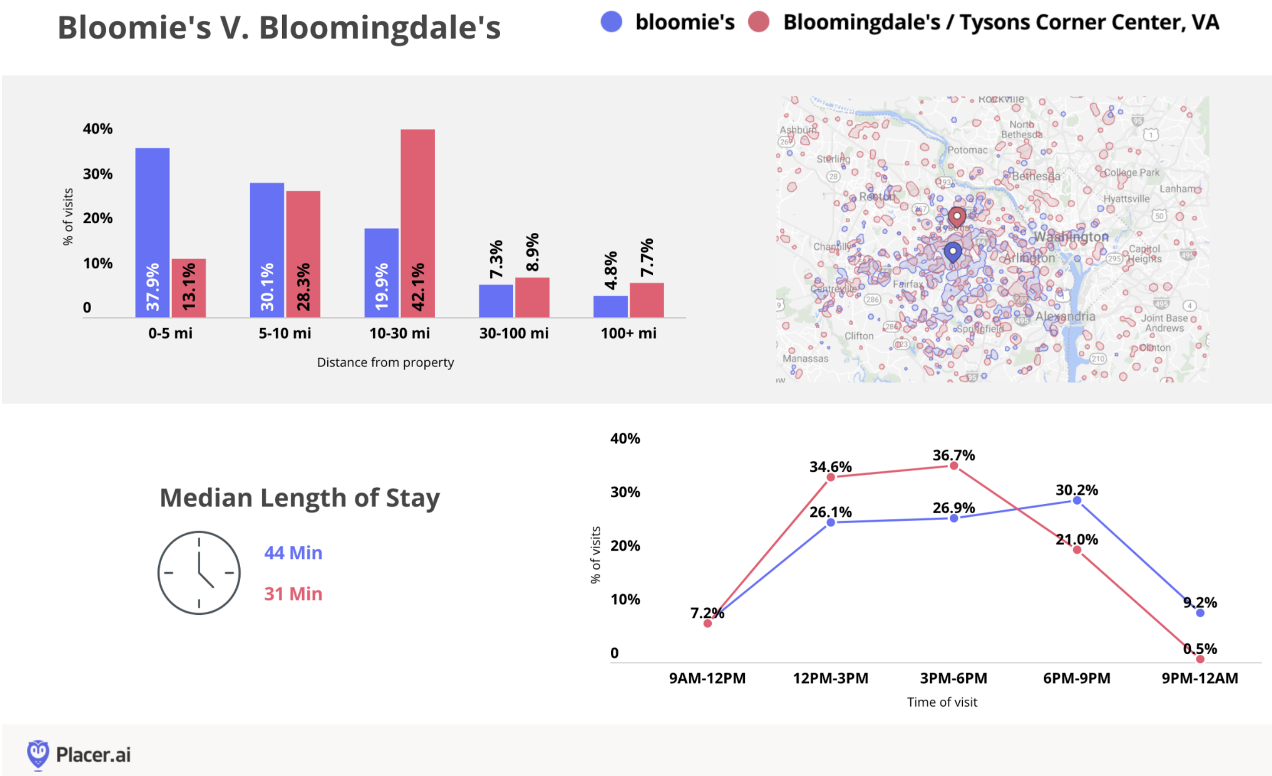
A comparison of Bloomie's in Fairfax, Virginia, and adjacent Bloomingdale's in Tysons Corner Center from the past three months showed some fascinating differences. Firstly, and unsurprisingly, Bloomie's attracted visitors from a much closer radius than Bloomingdale's did. While around only 40% of Bloomindale's visitors came from a 10 mile radius, Bloomie's saw nearly 70% of its visitors arrive from that distance.

Another interesting difference between the department store and the small-format store was the hours of visits and median length of stay.

Bloomingdale's saw a higher percentage of visits in the morning hours (two-thirds of daily visits were before 4 PM), while Bloomie’s saw visits spread out more evenly across the day. Interestingly, Bloomie's witnessed a significantly higher median length of stay than Bloomingdale's did – 44 minutes median stay for Bloomie’s compared to 31 minutes for the nearby Bloomingdale’s.

These differences point to a critical factor that defines these newer formats - they are complementary to the existing strength the department store brands have already shown. Whereas Bloomingdale’s gains strength from the mall format it generally calls home, Bloomie’s smaller footprint enables locations in different types of areas, which offers the ability to better target certain segments and to align merchandising accordingly.

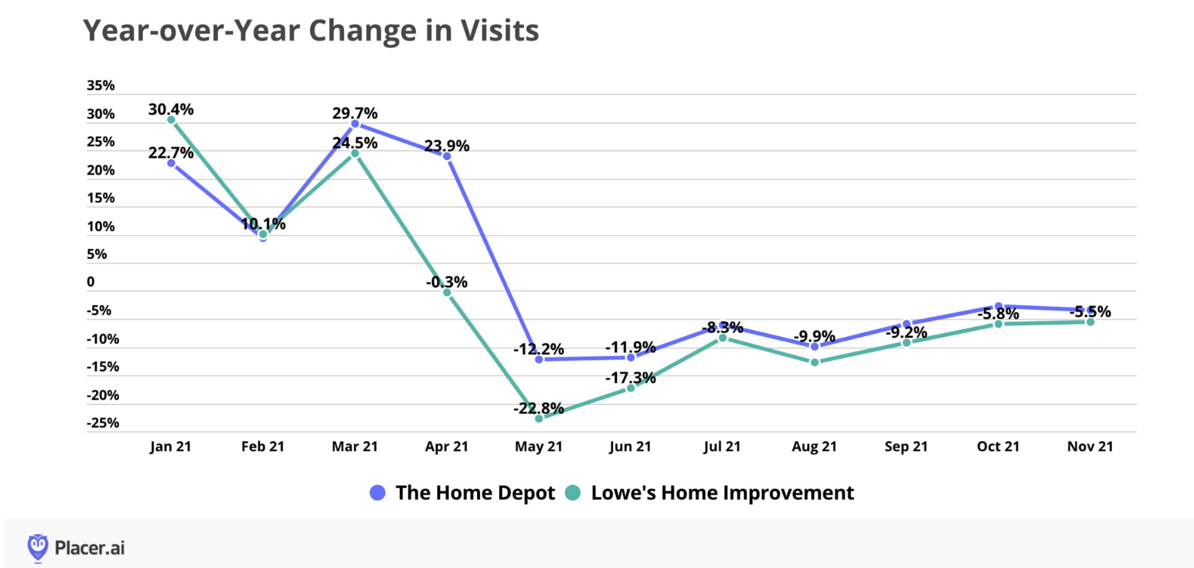
Yet, the bigger takeaway may be the willingness that more retailers are showing to testing new concepts in new markets as a means to better optimize their overall ability to reach customers. Expect these tests to drive wider adoption and interest in pushing new boundaries – especially for more established retailers looking to diversify their mix.



The Great Regression

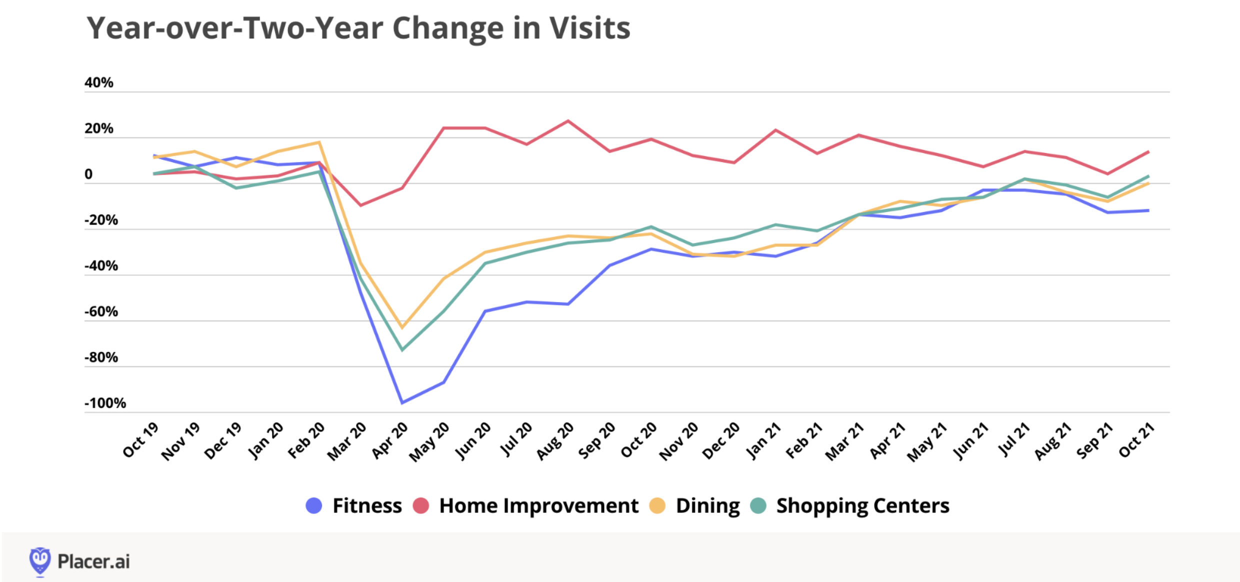
The pandemic led some sectors to thrive and others to struggle. As COVID began to impact retail in spring 2020, sectors like dining, fitness and shopping centers were the first to get hit and suffered a huge blow with every lockdown and restriction. Meanwhile, other sectors benefited – whether because of essential retail status, strong alignment with key shopping trends, or a combination of the two.

One example of the latter phenomenon was the growth seen by home improvement giants Home Depot and Lowe's. As late as March 2021, the two chains saw visits up 29.7% and 24.5% year over year. Yet, those numbers quickly began to plummet into declines by spring 2021 when the comparison to the unique heights hit in 2020 set a difficult standard to match. This “failure” is critical to understand in context as it in no way represents a true setback. It is true that Home Depot and Lowe’s surged during the pandemic only to see visits decline year over year. But looking at visits compared to 2019 still shows a significant jump – indicating that the step forward in 2020 was so massive, that even a step back in 2021 still amounts to strong growth.



And this is another key element and trend for 2022 – a regression to the norm. Brands that benefited from the unique confluence of factors in the COVID environment could see declines even though they are still in a stronger position today than they were pre-pandemic. The same is also true in reverse. Segments like dining and fitness were hit especially hard during the pandemic, and while concerns over Peloton bikes replacing the need for a gym stole headlines – the reality was never that stark.

Instead, we need to account for the unique environment of recent years to better contextualize the performance of certain chains and key segments. So while the steep declines and massive recoveries are certain to drive excitement, the wider performance can only be properly analyzed as part of a wider evolution. The coming months will reveal which chains were fundamentally improved and which were negatively impacted by the pandemic.



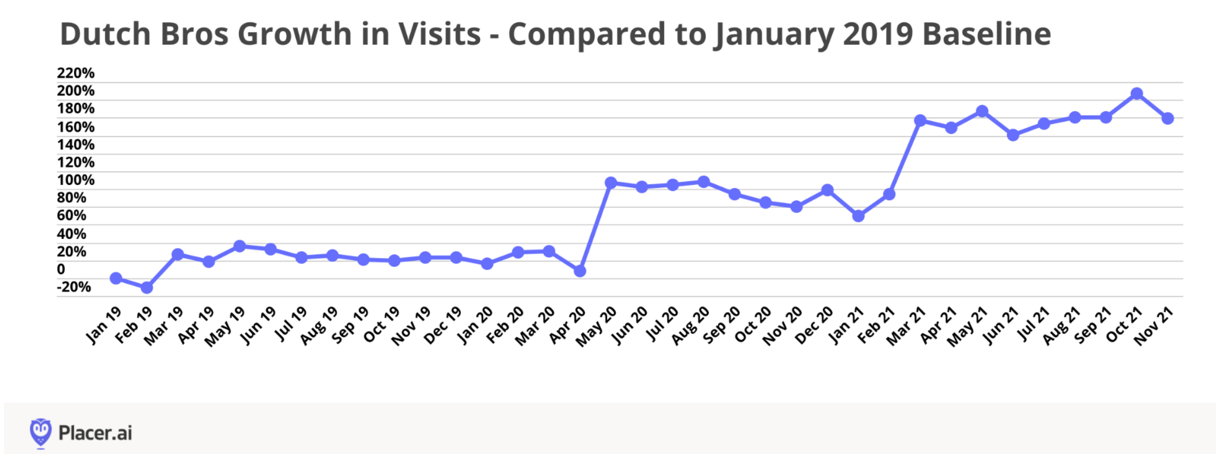
Disciplined Expansion

Taking a hit from a global pandemic in the middle of a retailer's expansion plan is far from ideal. But even so, several retailers who had started to scale massively before COVID managed to continue executing their plan successfully

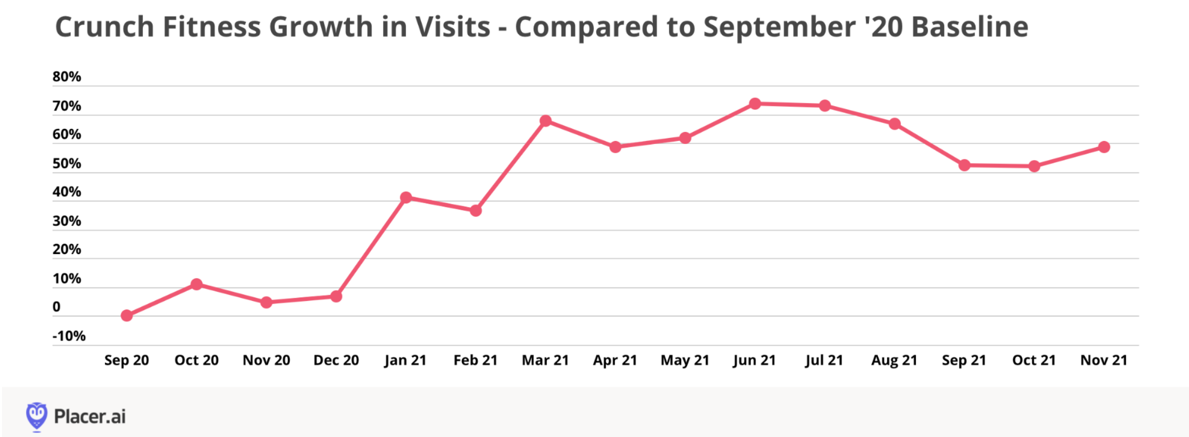
– and much of this is being seen from brands with very clear and disciplined approaches to growth.

Dutch Bros. expanded aggressively and currently operates 471 locations in 11 Western states. In a recent public statement, the company announced its plans to expand to 4,000 shops, with most of its growth focussing on company-owned locations. Dutch Bros.' impressive foot traffic performance during recent years, and especially throughout the pandemic, can help support this ambitious decision. Drilling down to the chain's visits compared to January 2019 shows a consistent gradual increase in foot traffic. Visits to the chain in October were nearly 200% higher than they were in January 2019.

Yet, much of the success here and expected strength moving forward centers around the willingness of the brand to expand in a disciplined manner. As opposed to diving into a Starbucks-esque third place experience, Dutch Bros is remaining committed to a drive-thru focused experience.



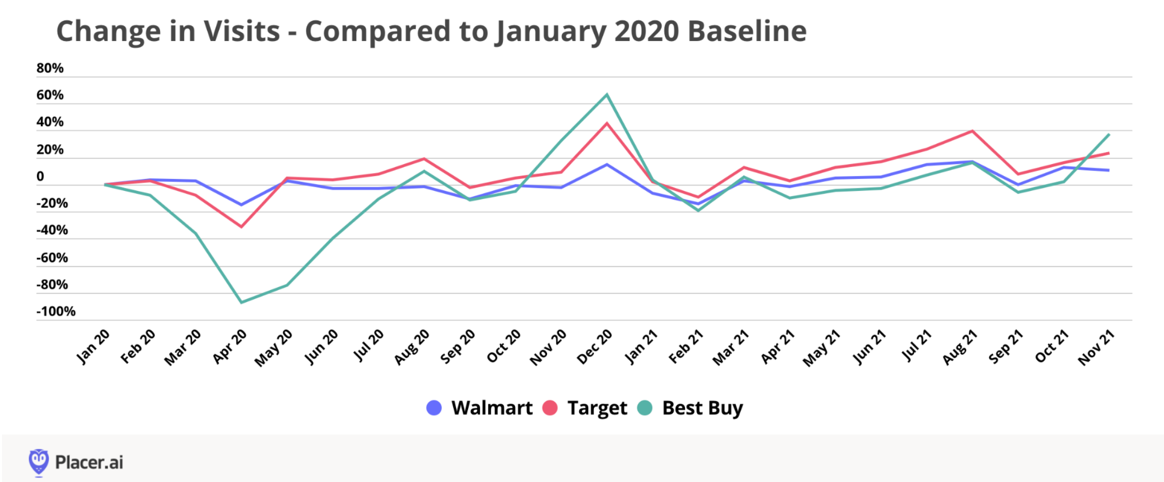
In the fitness sector, Crunch Fitness had recently announced the opening of its 400th branch in San Angelo, Texas. The chain's continued plan to scale can also be justified by a gradual increase in foot traffic seen throughout the year. Since September 2020, the chain witnessed a consistent increase in visits, with visits in October 2021 63% higher than they were in September. Crunch, like Planet Fitness, is showing a focused approach to growth that underscores the unique advantages the chain offers without being overly tempted to move into other areas of the fitness space. While new concepts and tests are likely across spaces, the role of this type of disciplined approach in certain stages of expansion should make it a critical theme for 2022.



The Haves and Have Nots

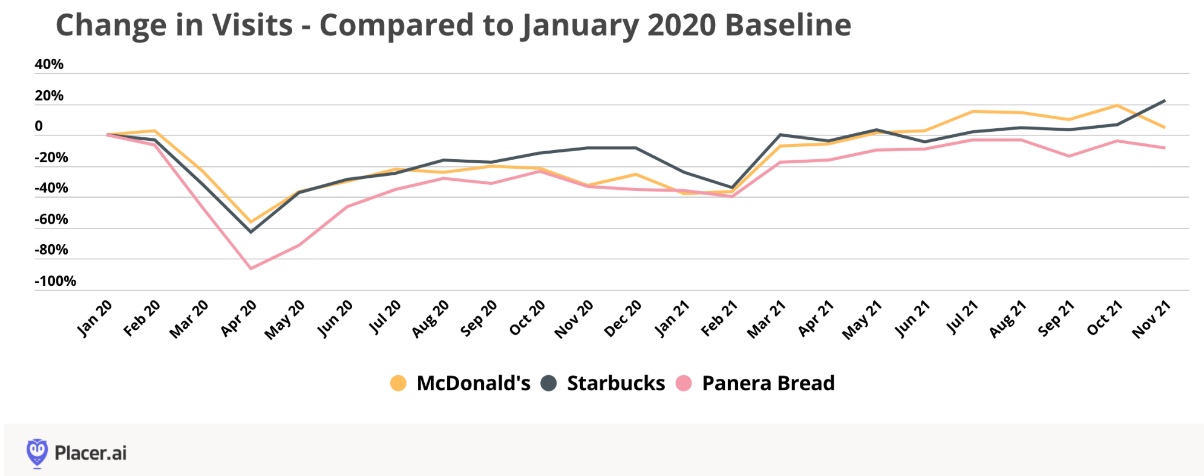
The pandemic has presented a huge test for retailers. The global crisis has widened the gap between different types of retailers like off-mall retailers such as big-box stores and mall-based retailers. And it has also highlighted the differences between retailers who were healthy enough to weather the storm and come out stronger to those who couldn't.

Location analytics from retail giants like Target, Walmart, and Best Buy demonstrate that the changes in visits they saw throughout the pandemic were minor to non-existent. Even a brand like Best Buy, which did experience an initial dip in visits with the pandemic outbreak in the spring of 2020, was able to get back on route quickly, exceeding its pre-pandemic level quickly by the holiday season of 2020.



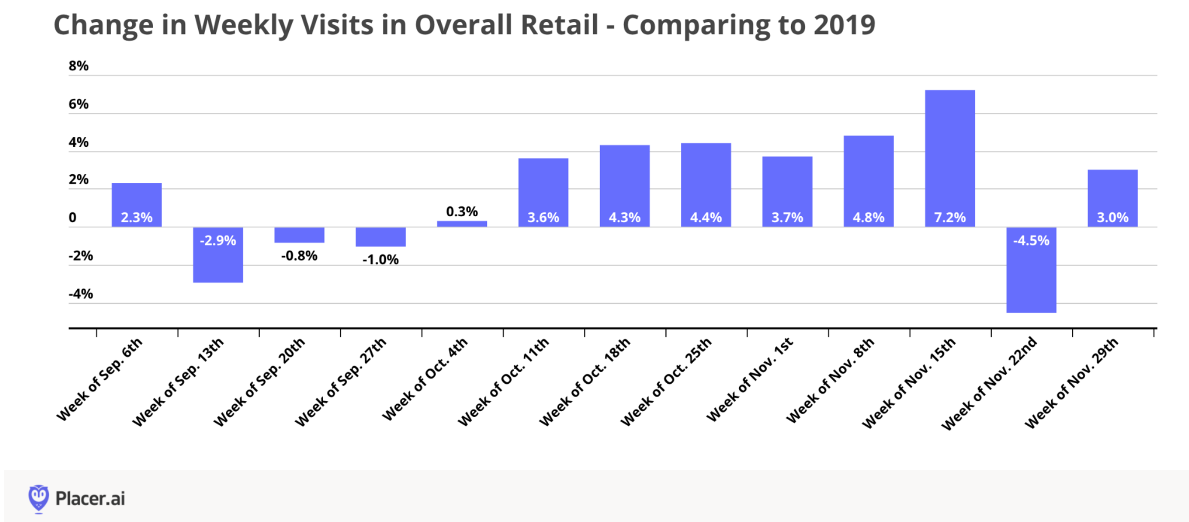
These types of unquestionable winners can also be found in sectors that were hit harder by the pandemic. In the dining space, giants like McDonald’s, Starbucks, and Panera Bread could bounce back fully to their pre-pandemic levels of visits. The reason for this was more than just a quick adaptation to COVID circumstances like enhancing delivery capabilities or contactless orders – it was the fact that they are the “Haves”, having enough strength to weather a storm elegantly, whether it takes the form of a global pandemic, inflation, or any other economic crisis.

The power of these chains lies in their wider strength. Expect them to leverage their dominance aggressively in the next year as they double down on the advantages gained from their size and scale during the pandemic period.



Strong in the Face of Challenges

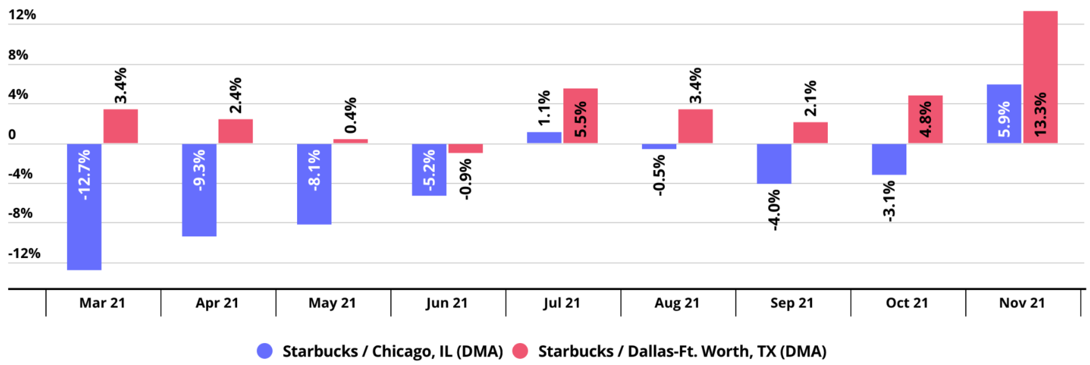
Despite the fact that inflation has been rising at the fastest pace in 30 years, consumers don't appear to be cutting down on their purchases. In October alone, retail across categories rose by 1.7%, compared with 0.8% in September, and sales are up 16.3% on a year-over-year basis. Foot traffic data across retail categories shows a similar trend, with visits to stores constantly increasing through October.



But the primary challenge may be supply-chain concerns from lingering COVID challenges. While the global nature of the pandemic is driving much of the issue, an added component comes from shifts in where consumer demand is taking place. Not only are global challenges placing pressure on the international supply chain, shifts in where demand is taking place locally are deepening these issues. For example, while Starbucks visits are rising in Dallas, they are down significantly in Chicago those same weeks, largely because of changes to office routines and new migration patterns.

The ability of retailers to stay ahead of these shifts will go a long way in enabling them to more rapidly overcome supply-chain issues and labor shortages.

Year-over-Two-Year Visits to Starbucks



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The Future is Bright for Offline Retail

The pandemic has infused new life into offline retail. Consumers are feeling renewed excitement about shopping in stores, while retailers are more willing to experiment with new approaches and strategies.

A major window of opportunity for retail is now open – and at the same time, the retail landscape is consolidating. Brands that understand the shifts in both consumer expectations and in leading retailers' strategies will gain a competitive edge, while brands that fail to adapt their approach may lose ground and fall by the wayside.

In this report, we outlined eight major trends that emerged in 2021 and that will likely continue to shape retail going forward. Given the innovation that is currently sweeping the sector, the trends we highlighted do not cover all the shifts that are currently underway in the industry. Nevertheless, this report offers a useful guide to retailers, CRE managers, and CPG professionals looking to make sense of the current state of retail, to anticipate successes and failures, and to evaluate brands and properties going into 2022.

Which of these will stand the test of the coming years and which will prove less sturdy? Visit Placer.ai to find out.