The (London) Telegraph

Malls must learn new tricks or it's death by a million clicks

David Millward
21 October 2017

Given the ferocity of winters in Minnesota, it was perhaps inevitable that the state would host America's first climate- controlled indoor shopping mall.

The Southdale Centre opened its doors in Edina, Minnesota, in 1956, sparing customers the ordeal of coping with bone-numbing temperatures, especially in January when the average is around 5F (-15C).

Earlier this year JC Penney, one of America's largest department store chains, announced it was pulling out of Southdale. In its place there will be a fitness centre. The fate of the Southdale store is a graphic illustration of the challenge facing retailers and malls across the United States.

Many blame the malls for killing off main street America. Now they are falling victim to the relentless rise of online shopping with many Americans choosing to – paraphrasing an old Yellow Pages advert – let their fingers do the walking. For John Quelch, dean of Miami Business School, the demise is a reflection of changing behaviour among younger consumers.

He says: "Baby boomers have been downsizing and fleeing the suburbs in favour of the cultural richness of revitalised inner cities. They no longer feel an emotional need for the weekly shopping binge at the suburban mall."

Analysts are pessimistic about what the future holds. According to Credit Suisse, as many as a quarter of America's shopping malls could disappear over the next five years. Most of the pain is being suffered by the "squeezed middle" – malls aimed at the average American family.

The luxury malls where Gucci jostles for attention alongside Tiffany, Prada and Bulgari are apparently thriving, as are dollar stores that offer cheap and cheerful products for the cash-strapped.

As well as 520 stores, it has an indoor theme park and aquarium with 10,000 creatures"There are a lot of things going on. The problem stretches into economics, demographics and technology," says Doug Stephens, founder of Retail Prophet and author of Reengineering Retail: The Future of Selling in a Post-Digital World.

“The narrative is like this. If you look back 25 or 30 years, the mall was where consumers started and ended their shopping journeys. Malls were also where people hung out. Malls have been dwarfed by the web and, as meeting places, by social media. Most retailers are still rearranging the deckchairs on the Titanic. They should be reinventing the way that they sell things.”

Some household names that have been around for decades are in serious trouble as industry experts predict that more than 8,600 stores could close their doors this year. Nine retail chains in the US have filed for bankruptcy in 2017. Stores that were once commonplace – such as RadioShack – are disappearing fast. Shares in department store giants JC Penney and Macy’s have plummeted after reporting yet another round of declining sales.

There is little optimism over the future of Sears Holdings, the company formed in 2005 following a merger of Sears and Kmart, which is now under the control of hedge fund owner Edward Lampert. It has lost $26bn (£19.7bn) of market value over the past decade with both revenue and its workforce decreasing by 50pc.

The company insists it is “streamlining its operations” as it focuses on “returning to profitability”. Experts such as Anne Brouwer, senior partner with McMillan Doolittle, the Chicago-based analysts, take a different view, saying the firm has shrunk into irrelevance.

She says: “If you keep cutting you become like the black knight in the Monty Python sketch. You keep swinging, but there is nothing to swing with.”

Big department stores are often anchor tenants of shopping malls. Their role is not only to attract customers through their own doors but to act as magnets on behalf of their neighbours. If they run into trouble, the danger is that they will take down other businesses with them.

“Historically, anchor tenants were vital in guaranteeing traffic and they received preferential treatment,” explains Simeon Siegel, senior analyst with Nomura/Instinet.

“An anchor leaving does not necessarily kill the mall, but it is a sign that the mall was very sick in the first place.”

The crisis in the traditional retail industry has been a long time coming. As far back as 2010, it emerged that the retail empire of the Glazer family – the owners of Manchester United – was in trouble, with mortgages on four of the family’s shopping malls being classed as delinquent.

Once a symbol of suburban America, the ubiquitous shopping mall is facing a fight for survivalIf anything, at least according to Credit Suisse’s analysis, the pace of change is quickening, It believes that between 35pc and 40pc of clothing will be bought online within a decade. Ken Murphy, senior vice president and portfolio manager of Aberdeen Standard Investments, is hardly less sanguine about the prospects for the traditional retail sector in the US.

“It is pretty bad. I think there are a number of reasons. Amazon is a great option for people who would rather spend their time doing other things than walking around a store,” he says.

The growth of subscription services, he adds, makes online shopping a preferred option for many. Having invested in membership, consumers will stick with a company that offers them perks such as free delivery. But some analysts, such as Brouwer, believe bricks and mortar retailers can head off commercial Armageddon.

“There are a record number of stores closing, but there is a record number opening. They may not be in the same location, but stories of a retail apocalypse are overblown,” she says.

The key is to make malls a destination and few do that better than the Mall of America in Bloomington, Minnesota. In addition to 520 stores, it has America’s largest indoor theme park with 28 different rides. Throw in a vast aquarium with 10,000 creatures, then there is something for everyone in the mall which, at 5.6m square feet, is as big as 103 White Houses. It cost just over $650m to build and, according to the latest figures, it generates $2bn in economic activity a year.

“The baby boomers are not the spenders in today’s world. Today, it is the younger shoppers who are interested in the experience,” says Ron Friedman, a partner at Marcum, an accounting and consultancy firm.

“They do not want to spend time in large department stores but prefer boutiques with specific products.” Back at Southdale, the mall is carrying the fight to its internet rivals with a new advertising slogan. “Touch, try, buy. Sometimes, shopping online isn’t always what it seems.”