SHOPPING CENTERS 2020: NOTHING TO FEAR BUT I-FEAR ITSELF!

Doomsayers predicting the drastic demise of shopping centers in the face of on-line retailing overlook Newton's Third Law: Every action force creates an equal reaction force. Contrary to current perceptions, there are many powerful levers the smartest of the industry can pull to ensure a bright future for well-managed retail destinations.

BY KARL KALCHER, IMAGES: MINDFLOLIO

To succeed in the internet era, decision makers must begin with some fundamental mindset-tuning...

- The internet is not the enemy, but a great enabler for innovation.
- The comfort of winning through "location, location, location" is no longer available.
- The hope that offering "value for money" will continue to be a primary differentiator is forlorn.

...while embracing an updated "reason for being"...

- Being relevant to customers in a much more personal sense.
- Delivering "better value for time" for customers.

...and thus adopting the emerging success formula for retail destinations:

- Time utility over relevance (see illustration 1)

Time Utility

Relevance

Illustration 1

Time utility over relevance: The adopted emerging success formula for retail destinations.

WHAT ABOUT "RELEVANCE"?

Being all things to all people has been outdated for some time now. If you cannot formulate a distinctive lead proposition in some ten words for a retail property, you are in serious "vanilla" trouble. Not only will it be harder and harder for consumers to warm to an anodyne place, retailers will be even tougher. Indeed, if retailers are not seduced – yes, seduced – with new ideas and innovative destination concepts that match their brand and trading ambitions, it will simply boost an unwarranted retreat to their online formats. Two retailer quotes illustrate this threat:

UK head of leasing for a global fashion brand: "Developers always offer us the same. The same floor plans, same adjacencies, same pitch. Boring, boring, boring."

Mickey Drexler, CEO of J .Crew: "We did depend on malls, but I don't see any exciting improvements in 98% of them... [Now tell me what am I to do, when] I measure ROI and see that online ranks first, outlet second, and bricks and mortar in malls third."

The good news is that there is no shortage of persuasive ideas for new retail destination concepts for those who are prepared to think beyond traditional boundaries. The truly clever will create "pitch-perfect" propositions for a particular audience, while ensuring that they are not so elitist that they exclude the (economically necessary) majority. One caveat though: Too many in the industry still believe that "new concept" means new architecture. It doesn't. Despite the excitement it creates in projcct meetings and however important architecture is, it is but one ingredient for long-term success. Conventional business models and value chains, clad in funky architecture, will no longer cut it.

TIME UTILITY

Customers will make their shopping decisions on the basis of "who gives me the best overall return for the time, money, and effort I invest"? Thus, commercial success will increasingly depend on delivering a "better good time," replacing price as the crucial differentiator as online price transparency

Four E-Drivers to deliver Value for Time

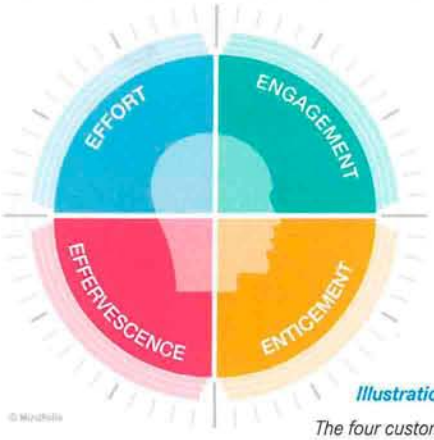

Illustration 2
The four customer-focused drivers.

minimizes differences between retail formats (google Red Laser's advanced price comparison website to get a glimpse of the future). Whether it's a ballet performance or a basketball game, delivering a "good time" for customers is hard and dedicated work, involving myriad elements. Delivering a "good time" for retail destinations is no different and will depend on mastering four customer-focused drivers: effort, engagement, enticement, and effervescence (see illustration 2). Each one of these four drivers is potent enough for a dedicated to-do book, so the following examples are no more than illustrations of their respective scopes.

EFFORT

Convenience is surely one of the most over-used words in the industry. Ban it. You can't measure it and it provides no focus for innovation, because it means everything and nothing. Better to use a word like effort that allows you to assess current practices in greater detail and enables you to innovate and compete more purposefully. This is simply because it is a word that can be defined and applied more precisely:

- Physical effort: hauling things to the car, climbing stairs, etc.
- Emotional effort: paying, faulty goods, filthy toilets, parking, etc.
- Cognitive effort: confusing offers, way finding, wi-fi access hurdles etc.
- Time effort: queuing, out of stocks, forced circulation loops etc.

Now, why does "convenience" need to be defined more rigorously? Because it enables you to apply one of the most important new business skills in the Amazon Age: experience design. Essentially, experience design is about breaking down the "customer journey" into forensic stepping stones (over 140 of them) and re-building each of these stepping stones by enriching them, from making a given step easier, more pleasing, more captivating, etc. That is the very secret of why it is ever more pleasing to navigate the websites of Net-A-Porter, eBay, iTunes et al., and it is exactly the new skill "brick and mortar" stores have to learn from the digital upstarts.

ENGAGEMENT

I once heard a shopping center guru describe a shopping center's main role as providing the stage for its retail actors. Hardly. Even if that was once true, it will most certainly not be true tomorrow. The new world order will force landlords and center managers to leave their comfort zones and lead and inspire tenants from the front, while taking commercial, emotional, and intellectual responsibility for just about everything apart from mainstream retailing. One of the key responsibilities will be to foster customer engagement much more strongly and more innovatively than ever before in order to turn clever sound-bites like "shopping as a membership, as a feeling of belonging, as a sense of community" into tangible reality. Smart CEOs grasp that conducting seamless, connected experiences is the new Key Performance Indicator for bosses.

It's not too difficult to know where to start: Nobel-prize winning Prof. Kahneman puts it succinctly when he states that "we are not 'thinking machines' that feel; we are 'feeling machines' that think." Asset managers may struggle a bit with such focus on customer emotions, but it is obvious that in the Amazon Age, engaging customer loyalty demands more than just being "there", shiny and slick. For starters, we have to add more personality to our centers and try talking with our customers; currently hardly any centers do, anywhere (note: talking is defined as a two-way activity!).

Taking "feelings" seriously is not easy for hard-headed numbers-people, but they, too, have to submit to the truism that in an age of ever increasing personalization, centers have to respond in kind, for example, by enabling signature moments, developing signature sights, and tempting with signature tastes, all of which belong to much-

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ABOUT MINDFOLIO

MindFolio is an "innovation & analytics" management consultancy for retail, leisure, educational and residential real-estate environments. Prior to heading MindFolio, Kalcher was Senior Vice President with the Lego Group, responsible for global retail and licensing as well as designing and building two successful family destinations, Legoland Windsor and California. Earlier in his career, he introduced the Timberland brand into the UK, and after turning around its loss-making European subsidiary, joined the board of Clarks Shoes, the leading international footwear brand. He subsequently was appointed Group Managing Director of ecco Shoes, based in Denmark.

Karl Kalcher was born and educated in Austria, augmented by scholarships at TCU, Fort Worth, the University of Illinois and more recently at INSEAD and IMD. He serves on the Austrian government's Advisory Board for innovation-based venture capital funding.

neglected chapters in the thick book of how to turn indifferent, skeptical customers into raving, loyal fans.

We also have to talk about a paradigm shift in defining and delivering customer service: Like it or not, a smile is the last thing to worry about. State-of-the-art service concepts will have to differentiate between new and existing customers and engage them "before, during, and after visits, segmented by physical and digital elements". Certainly, it is another new skill to be learned by the industry.

Yet all this cannot happen without knowing much more about our customers. For years, basic exit surveys were deemed to suffice; few managers respected the results, but it was just something everyone did. In truth, it still happens, but today, those who want to manage their expensive assets based on evidence and insights have many more innovative means at their disposal. First, assessing customer sentiment should be a process, not a project. Mastery will demand continuous tracking, perception analyses, and techniques that allow centers to react very quickly to opinions in order to close the gap between any potential problem and its solution. Second, forget about box-ticking, take advantage of advanced economic modeling, decision-science methodologies, and similar robust analytical innovations. Thirdly, appreciate that focusing on perennial favorites such as spend and dwell-time issues is not enough: I reckon that there are 15 business, service, and experience-drivers that make or break any retail destination and it's their detailed analysis that will deliver tomorrow's

Not much of a deal...

Most mall websites prefer to align with 'Vogue'; perhaps they should work much harder to leverage their fundamental raison d'etre

Illustration 3

Not much attracts shoppers more than a deal.

solutions for asset, leasing, marketing, and operational managers.

ENTICEMENT

"To attract by hope or desire" is a definition of enticement. And not much attracts shoppers more than a deal. You would think that few retail professionals would disagree, and yet it is possibly the most pitiful aspect of shopping center management. For many there is still a stigma attached to the whole idea of a deal. I suggest that this is a dangerous prejudice. For our customers, I believe that getting a deal has at least as much to do with status and thrill as it does with saving money. (Aldi surely proved that point a long time ago.)

It is a dangerous prejudice because it is a key benefit and motivator with which online merchants thrash shopping centers. Sorry, but some limp listings of hair salon discounts, 10% off a cup of tea, and a handful, if you are lucky, of national money-off promotions will hardly make consumers' heads turn. I am well aware of the difficulties, that the mall manager's secretary has in getting tenants to step up to the deal-offering plate, but that is precisely the point: I believe the least-recognized vacancy in today's mall management is that of a professional and dedicated Chief Deal Officer.

Many pages would be required to elaborate on the countless digital opportunities malls have at their disposal for turning the web from an adversary into a willing and exciting enabler. Some have started with way-finding apps, but the leading operators are pleasingly bold. A transactional website will probably remain a realistic option for few, but I am quite enthused by pioneering minds who experiment with "Groupon" derivatives, transaction incentives, and quality-based leasing cash-backs.

Heady stuff, but being very good at enticing customers can be as simple as enforcing some common sense within some of our functional specialist. Reflect on the damage this marketing manager caused a regional shopping center by harboring the following prejudice: "We don't want to attract people over fifty because they don't spend any money on clothes. And let's face it, they are bad for our image." While such immature musings might be excused by the industry's fascination with young fashion, wiser heads will know better and ensure that centers tune their offer and "follow the over-fifties' money," at least some of the way.

EFFERVESCENCE

Who would not want a retail property that oozes liveliness, vitality, vim, zing, zip. Effervescence, in short. Many associate these attributes with events, street performers, and balloons. I don't, or not predominantly in any case. For me, creating exciting shopping centers that are able to withstand any online onslaught involves nothing temporary or superficial. Indeed, I would argue that herein lies the single biggest industry advantage that, in conjunction with my previous points, guarantees a secure and profitable shopping center future: Taking emotional and physical place-making to new levels.

My favorite approach is a process we call Experiential Choice Mapping. It is a conceptual master planning system that ensures that nothing that tugs the heartstrings of our customers is ever overlooked. It transcends the usual functional silos in designing and operating centers. It creates and shapes literally hundreds of small and large aspects within a center, from "opportunities to do something enjoyable," to "protection from some unpleasantness," to "how to reflect local authenticity," to "scaling the space for comfort," and of course, to tempting with "choices to consume." In short, choice mapping helps centers to create and orchestrate an atmosphere, space, and community that people enjoy belonging to, week after week, helping to make sure that such centers deliver "the best overall return for the time, money, and effort each visitor invests."

VALUE FOR TIME

"Nothing to fear but i-fear itself" was my starting notion and, if anything, this belief has strengthened during writing this article. "Value for time" is such a powerful notion because it is easily understood yet specific, multidimensional, and overarching. In fact, we all recall our first day in business-school when we were urged to learn about the four P's; perhaps it is time for retail destinations to regroup and spend more time studying how best to apply the four E's above.

Try as one might, one can only scratch the surface of such a massive agenda in one article, but even then it is not too difficult to see how the best in the industry will emerge even stronger from the massive online jolt: Doing what it already knows better, daring to capture new horizons, and embracing "digital" as wholeheartedly as any "silicon geek."