



Improving the Shopping Experience

Presented at

*Property Council of Australia –
Retail in the Spotlight Forum 2011*

As we enter 2012 one of the pressing questions is **what do customers want from Shopping Centres and Retailers in order to improve the shopping experience (and therefore their spend).**

When considering what customers want from shopping centres and retailers, there are four major areas we need to cover.

- 1. The market in perspective.**
- 2. The lifecycle curve of shopping centres and online shopping.**
- 3. How to improve the shopping experience by maximising the:**
 - **Logical drivers**
 - **Emotional drivers**
 - **Egotistical drivers**
- 4. What more retailers can do.**

The Market in Perspective

We are in uncertain times. It has been nearly 4 years since the GFC shock and retail is at best described as flat, which is a little too close to decline for anyone's comfort.

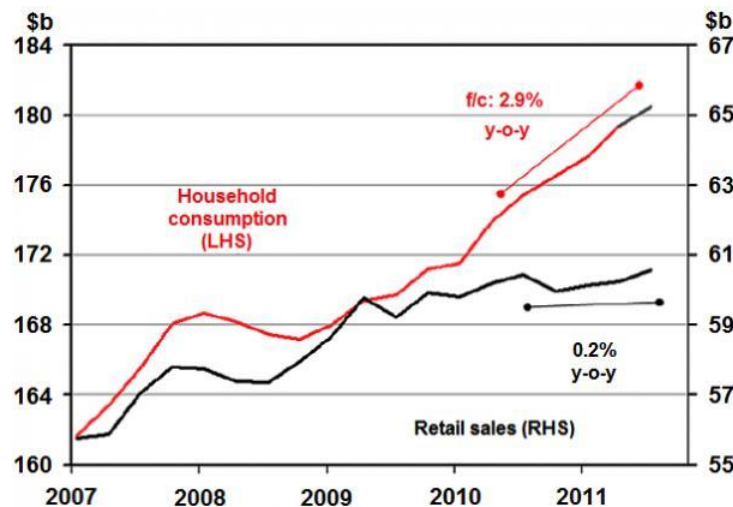
Whilst economic fundamentals are quite good the **markets are emotional** and with our heritage links to the UK, Greece and Italy the trouble feels closer to home rather than a world away. The USA, to which we are closely aligned, continues to lag and China (with the drop in Iron Ore prices) starts to raise eyebrows.

Recent retail commentary includes statements like –

- *“Retail Sales weren’t bad, they were up for the month”*
- *“... shows the economy’s been much more resilient than expected, given what’s happened in the last few months”*
- *“... these figures give us some level of confidence that the consumer’s well-supported by income growth which supports a reasonable level of growth in spending”*
- *“Retail Sales growth modest”*
- *“We’ve got a new test with what’s happening in Greece”*

However, **retail sales provide less of a guide to household consumption than it did in the past.** Increasingly household consumption is moving from goods to services (particularly health, education, online shopping, utilities and travel), none of which is accounted for in Retail Sales.

CHART 1: Growth in Household Consumption vs Retail Consumption



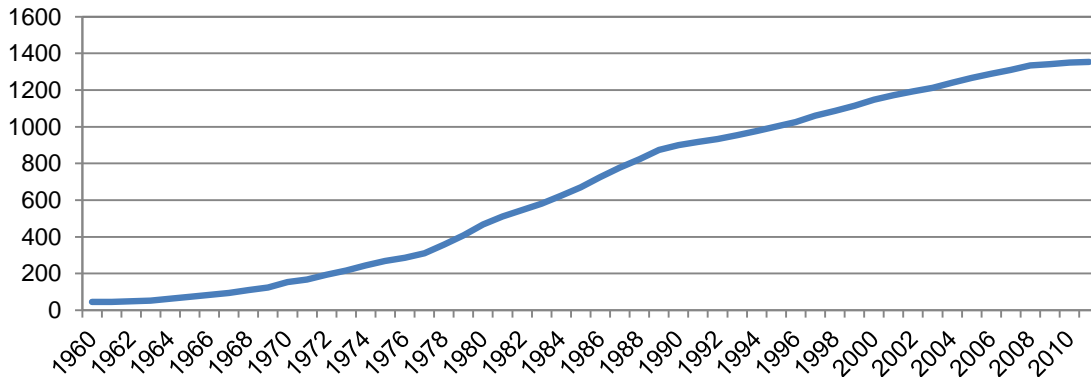
SOURCE: ABS, HSBC

But shopping centres mainly sell goods! Which means **retailing is lagging behind overall household consumption** and needs to start thinking more broadly about its offer. So while the talk is negative at worst, and flat at best, the question becomes what options do we have?

For a start we all know **we are contending with a maturing asset class**; this is not news to anyone but let’s revisit this momentarily as it will put into context where online shopping is at, by contrast.

Retail has been around since the dawn of time, but **shopping centres first entered Australia in 1957** starting with Chermshire, Top Ryde, Chadstone and Warringah Mall. **Chart 2** shows the accumulative growth of shopping centres in Australia, but if you just examine the annual growth of new shopping centre openings you will see another view (**Chart 3**).

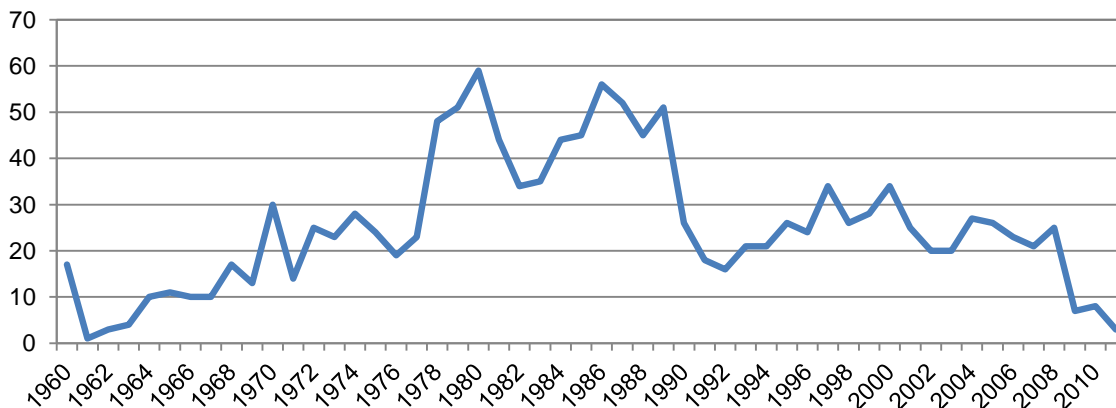
CHART 2: Accumulative Growth in Shopping Centres in Australia



SOURCE: PCA, DUANE LOCATION IQ

Chart 3 illustrates how **the major growth in new shopping centre openings is concentrated around the 1980s to the 1990s, and since 2000 the growth in new shopping centre openings has been falling.** If the overall pattern of this chart looks familiar, it is probably because of its resemblance with the lifecycle chart.

CHART 3: Annual New Shopping Centre Openings 1960-2010 in Australia

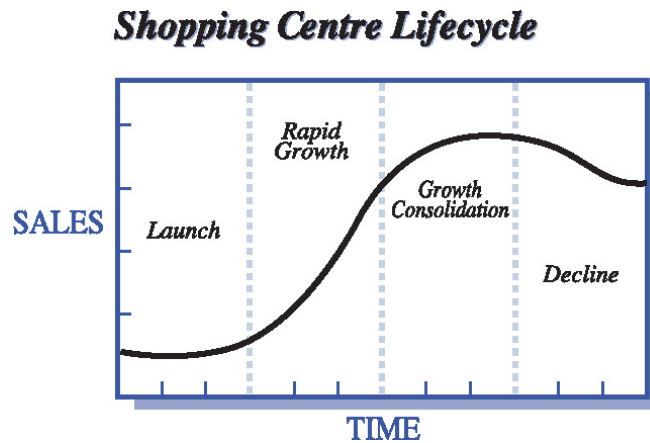


SOURCE: PCA, DUANE LOCATION IQ

Chart 4 below shows **the lifecycle of a single shopping centre, but can be applied to the industry as a whole.** So we know today shopping centre development is largely about **product renewal** – redevelopment. For city dwelling customers this is about new and exciting retail offerings especially overseas retailers, alfresco dining and entertainment options. For non-metropolitan areas this is about the urbanisation of shopping centres to be like their city sisters.

So today we see an asset class that is in growth consolidation, with some individual assets in the launch, growth and decline stages.

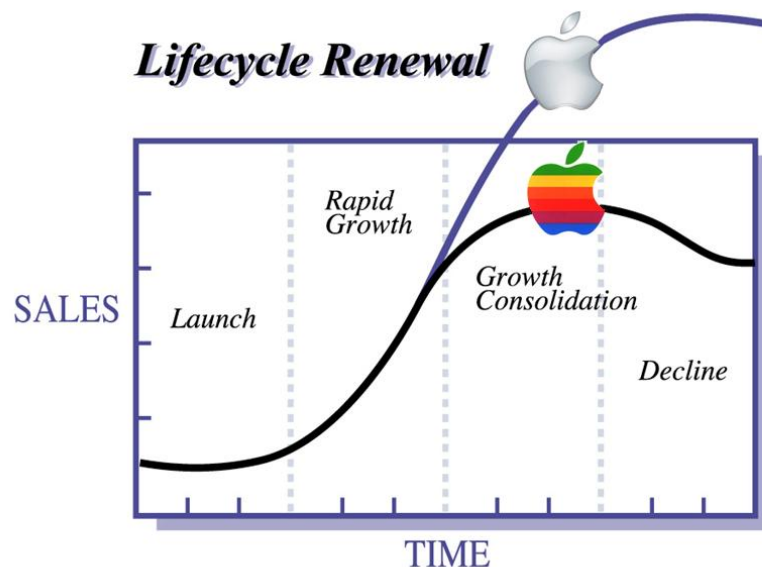
CHART 4: Shopping Centre Lifecycle Curve



SOURCE: DIRECTIONAL INSIGHTS

Unfortunately for those in the industry with assets that have entered the decline phase, **the return to product renewal is a harder task** - as you have to convince customers not just to stay with you but change established patterns and return to shopping with you again, after probably being disappointed by your centre in the past. **The challenge for asset managers is moving assets from growth consolidation, through lifecycle renewal, in a timely manner and avoiding decline.** If you think this can't be done or is just too hard, then take inspiration from a retailing giant that has successfully done this: **Apple**

CHART 5: Lifecycle Curve with product renewal



SOURCE: DIRECTIONAL INSIGHTS



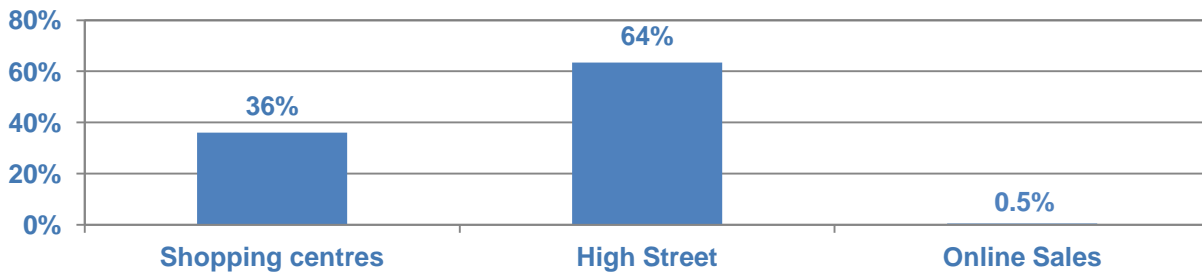
It may interest you to know that customers are aware that shopping centres have been around for over 50 years. They talk nostalgically of the good old days when they shopped with their parents, ate donuts and played in water features. They talk of some of the tired centres needing TLC. They also talk of the redeveloped centres and what exciting opportunities they provide. **Customers are looking for shopping centres to be as exciting and engaging as they were back in the day.**

On average customers visit four different shopping destinations in any 6 months period. Being the “chosen one” the majority of the time now becomes the challenge. Today we can be reasonably confident that the Primary Trade Area will be visited regularly, but **the battlefield is now in the secondary and tertiary trade areas for that all important market share.**

But not only are we battling against other centres and spend categories for market share, there is also a new kid on the block. – **Online Shopping.** This new arrival needs to be put into perspective in terms of market size and market interest.

When I started working in shopping centres in the 1990s there were about 900 shopping centres and they accounted for 36% of all retail sales. At that time online sales were estimated to be 0.5% and the remaining sales 63.5% came from the high street.

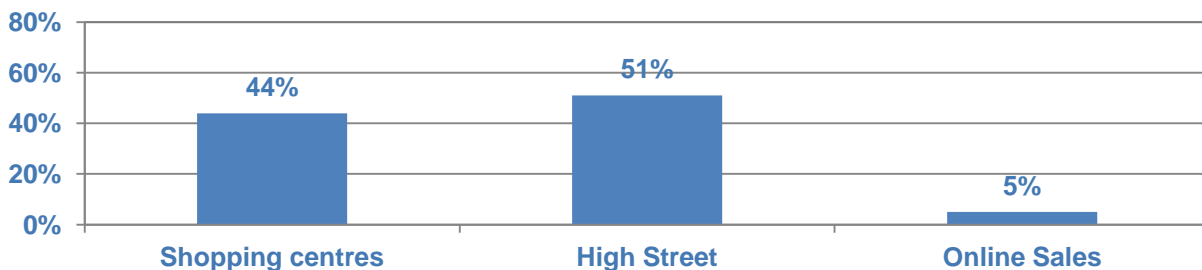
CHART 6: Broad Allocation of retail sales by product type - 1990s



SOURCE: DIRECTIONAL INSIGHTS

In 2011 there are around 1,575 shopping centres accounting for about 44% of retail sales, online shopping accounts for nearly 5% and the remainder 51% comes for the high streets.

CHART 7: Broad Allocation of retail sales by product type - 2010s

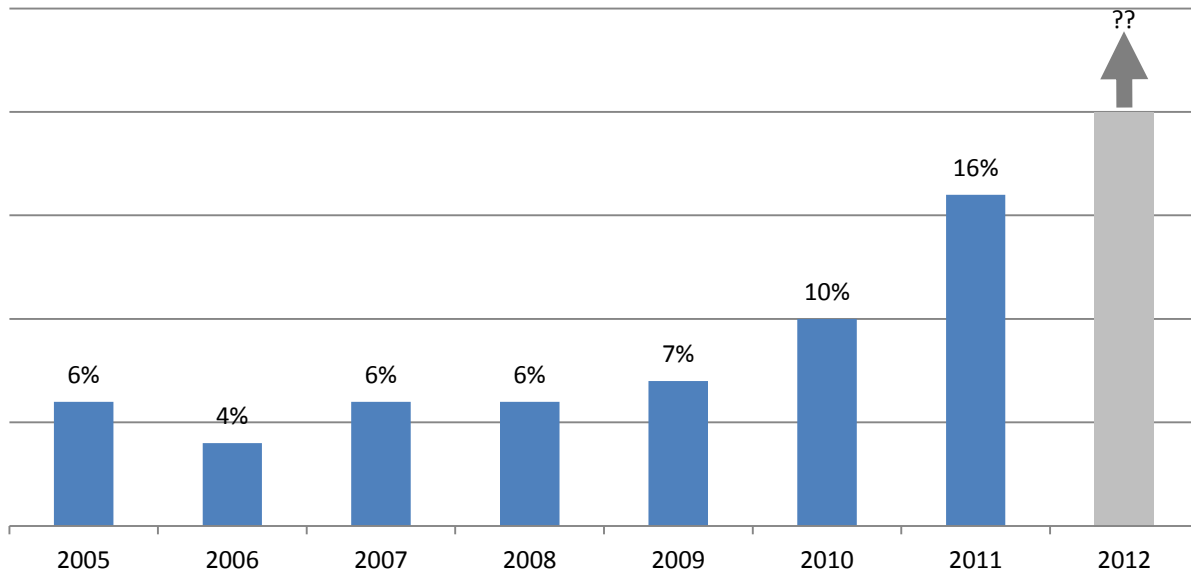


SOURCE: DIRECTIONAL INSIGHTS



Directional Insights has been tracking online shopping in shopping centres in Australia since 2004. The Directional Insights benchmarks ask customers if they have shopped online in the past 6 months. **Chart 8** illustrates that usage was fairly flat for the first couple of years but has had strong growth in the last two years as online enters the rapid growth phase of its lifecycle.

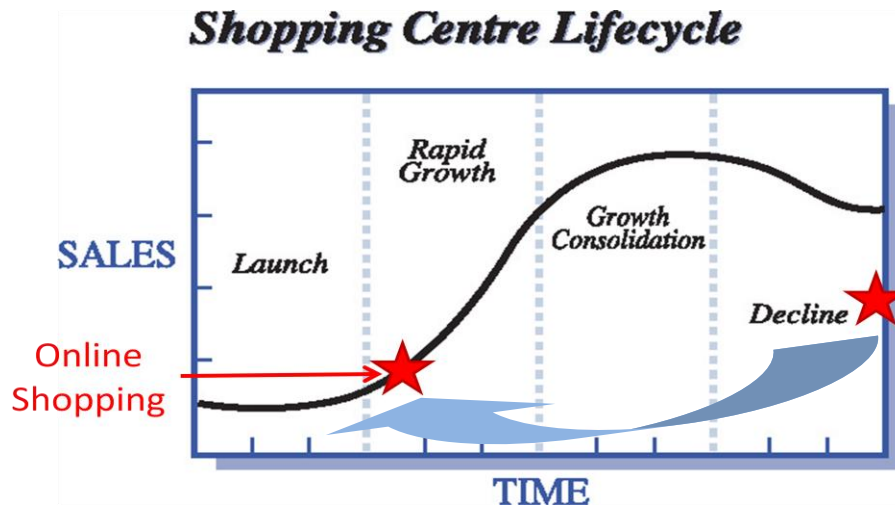
CHART 8: Percentage of customers regularly shopping online in last six months (interviewed while shopping in a Shopping Centre)



SOURCE: DIRECTIONAL INSIGHTS

Therefore, the **main reason online shopping has so much attention is because of where it sits on the lifecycle curve, which is in the launch/rapid growth area.** But in fact mail order has been around for a long time, before the major urbanisation of shopping centres mail order came to account for between 15-20% of Sydney department store turnover. **By 1932 David Jones was despatching more than 7600 parcels a week (SOURCE: NSW STATE LIBRARY EXHIBITION: ON SALE).** **We are not seeing the invention of home delivery merely the revival – the product renewal of home delivery on the lifecycle curve.**

CHART 8: Percentage of Customers regularly shopping online in last six months (interviewed while shopping in a Shopping Centre)



SOURCE: DIRECTIONAL INSIGHTS

This revival that has seen **Australia Post profits soar by 31%** in the last year with 70% of the \$1.36 billion parcel revenue generated by e-commerce. Ahmed Fahour, Australia Post CEO has described it as “the powerhouse of our business”.

Shopping centres have been through the same media spotlight when in rapid growth. In the 1970s Dame Edna Everage received national television coverage when she opened a shopping centre in Victoria and stated “it is more than shopping, it is a way of life”. At the same time Woolworths put up posters in their new centres explaining what a shopping centre was, how they worked and how to use them! Titled – **“Because they’re a new way of life, Shopping centres are fascinating fun”**. These posters give instructions on using shopping centres, such as:

"During the week mother can do the shopping in the car; on Saturday morning Dad and all the family can come. The big car park, with easy entrance from all sides, holds hundreds of cars. It's so simple to drive in, park free for hours close to the shops."

"After shopping, more enjoyment begins. No need to hurry back to the car or stand waiting for the bus. There are many places to rest (pleasant music plays in the background), 2 or 3 places to enjoy a cup of coffee, or lunch with friends..."

(SOURCE: 'BECAUSE THEY'RE A NEW WAY OF LIFE, SHOPPING CENTRES ARE FASCINATING FUN' POSTER BY WOOLWORTHS CORP, 1970)

In summary, what we are dealing with is an industry like any other on the product lifecycle curve that needs renewal. So how do we go forward?

If you believed that good profits and growth are predicated on satisfying customer needs and wants, then what comes next is vitally important...

But remember customers want you to give them what they ask for and also give them something unexpected. That all important wow factor, the X factor, the Ah-ha moment.



Main Drivers of Retail

There are three main drivers of retail – three main drivers that bring customers to shopping centres – the LEE Drivers - the **Logical**, **Emotional** and **Egotistical** drivers of shopping. This paper will illustrate some of the ideas leasing, development, marketing, centre management and operational management can do to improve each driver so shopping centres are the “chosen ones”.

LOGICAL

Logical is about retail mix, location and the shopping centre fundamentals like toilets and parking and centre amenity. So what do customers want to see improved in this space? Much of this you will already know, but it is surprising to hear from customers how many centres and retailers are not delivering.

Let's start from the outside in. Clear signage and “best parking for” are a must, with more women now in the workforce than ever before maximising her time with you and reducing her frustration is critical. Increasingly women are shopping like men in quick targeted fashion; we need to help them do this, so they feel happy to return at other times for that all important leisure shop.

When in a car park make it light and bright, with pedestrian walkways, if you are providing options like parents with prams, disabled parking, express parking, trailer parking (in coastal locations) then police it.

Most importantly from a customer point of view paid parking is not your friend. While customers understand in commuter or commercial areas it is required, in suburban areas there is a lot of push back. Customers tell us that they get free delivery for online shopping once they spend over a certain amount, why don't they get free parking in shopping centres for the same spend.

Customers don't want to traipse to centre management or the customer service kiosk to redeem their parking; they want to accumulate points on a loyalty card that they can use at anytime to choose when they get their free parking.

Getting the logistics right in property management is important in avoiding frustration and creating the optimal environment. Customers will choose different shopping centres based on their amenity, especially mothers with children (some of the highest spenders in shopping centres).

Well placed lifts and travelators, vertical movement options make a difference to the logical use of a centre –and good old stairs are making a comeback!

Ample clean easy access toilets, with child friendly options are a must

Parents' room are always needed, especially near the food court.

Extended hours, can we afford not too?

While these are obvious inclusions customers explain increasingly the mark is being missed, as they now compare not only to the centre down the road, but the centre overseas.

With retail mix there are also logical drivers to be addressed – one of the key issues that customers increasingly call for is sensible precincting to assist in facilitating their mission shopping.



Moreover, as we move through the main spend categories this is what customers tell us:

Give me choice. If you are going to provide a category then provide more than one so I can:-

- *feel like I'm making an informed choice*
- *feel like I'm getting a better deal*
- *provide alternatives / different experiences*

FOOD RETAIL

Ideally centres today should have two supermarkets minimum - ALDI is a viable alternative as a second. The food retail area needs to be a marketplace environment with taste testing and competition between retailers. **It must sell “fresh” and be “authentic”**. Specialist retailers are a must – but specialist doesn't necessarily mean expensive – think Vietnamese Bakery vs Bakers Delight.

FOOD CATERING

Increasingly food courts are for fuel, to top up the tank before going shopping again, going home, going back to work, heading to uni, etc. **The food court should include the “usual suspects” along with healthy options such as Sumo Salad, Boost, Subway and Crust.**

Cafes are all about the social or the anti-social. They are about meeting and being with friends, or escaping to a quiet corner and being on your own. Cafes should include the alfresco option where ever possible but include climate controlled options. **Cafes add layers to the experience** of using a centre (time for me/us, socialisation, meeting place) and drive use to an emotional attachment – more on that in a moment.

Shopping centres are increasingly used for socialisation, so **having a licensed option does not have the stigma it once did** – just don't call it a TAVERN. Cafes should be authentic, a great place to watch other people pass by and a great place to hide from the world if you want to.

FASHION

As workwear merges with weekend wear with sports wear – **all fashion needs must be catered too.** This includes people of all ages, all sizes and as many styles as possible.

The problem with fashion at the moment is that there are no major fashion trends the majority are following. However, other fashion trends like spending on botox and mobile phone plans are taking off, over and away from traditional fashion markets. Fashion is no longer just about what we put on our bodies but what we put in them and with them– **botox, smart phone are truly the new accessories.**

So in a flat fashion market what we need to remember is that in shopping centres ambience sells **fashion and ambience coupled with great cafes sells even more fashion.** In today's market retailers and shopping centre managers need to work a lot harder to sell clothing shoes and accessories and one clear way to do this is in a fashion inspired environments, and not just a clothing shop precinct.



We find customers will openly talk about their preferences, and frustrations in not having easier access to plus size fashion, which is a serious concern as the average dress size for females is size 14, with 55% of females being classified as overweight or obese. Yet female apparel provision does not reflect the demand sentiment, despite retailers like City Chic, Autograph and Crossroads attracting this customer. Males are even more likely to be overweight or obese, so there needs to be more options available to them than just Lowes.

Stylish fashion options for the over 40 year old man and woman also needs to be addressed and is a common concern mentioned particularly by women in this age group. This does not mean women want to have fashion targeted at their age group, but have retailers that have fashion options that suit their body shapes post children, that they feel comfortable and fashionable wearing.

GIFT GIVING

The other key logical issue for retail spending is gifts. Nearly everyone in Australia gives gifts, so give options. In a recent survey we did regarding Christmas, only 5% of Australians indicated they did not buy gifts at Christmas. **When we shop for Christmas gifts what we are really shopping for are solutions.** Department stores use to supply these solutions but today it is the shopping centres role in totality to provide gift giving solutions for men and women, beyond the gift card option. While around **41%** of Australians are giving gift cards as part of their Christmas present buying this year, there are another **59%** of physical goods and services to be purchased – what solutions can you offer?

Finally in the logical drivers of retail, leasing need to be aware of what their retail mix is really selling. For example, when a customer enters a Dick Smith store they are after electronics, but when they enter an Apple store they are after lifestyle.

EMOTIONAL

With our logical drivers in place of access, amenity, retail mix and precincting that brings us to the more important issue of the emotional drivers. **The emotional drivers speak to personal fulfilment agendas.** If I have a young child I want to know if there is a play area, which offers me a break as well as a chance of running into other young mums I know so I can make an emotional connection. If I am a senior, does the butcher know my name and will he give me a discount for being a loyal customer. **Does the shopping centre, the retailer, the place making, engage my mind, my senses, my heart?**

McKinsey tell us that if customers have an emotional connection to a product it can increase that products value by 10%, so what does that mean in the retail space? There are undoubtedly plenty of asset managers who would love to see their property values rise 10% - but how do we do it?

It is not about retailing to their head, instead it is about retailing to their heart. To occupy more of a place in the heart of the customer, the key element is the enhancement of the centre in terms of look and feel, particularly eating and meeting places. The logical drivers of the retail plan are in place, but to appeal more to the heart of consumers we need to provide indoor/outdoor eating options, upgraded environments, activities for kids and partners and “new” retailers among other requirements.

Retailers that are currently seen as still new and exciting and very much engaging on an emotional level are:

Sumo Salad : more than salad
Max Brenner : heaven!
Smiggle : junior addiction
Kikki k : sophisticated Smiggle
Peter Alexander : play meets sleep
Forever New : sugar and spice
Apple: lifestyle retailer
T2: centre sanctuary
Pumpkin Patch: young fashion fun
ABC Bookshop: gift giving solutions especially for seniors
Howards Storage World: solutions world
Witchery, Cue, Country Road: reliable fashion solutions

Emotional drivers are best fulfilled by brands that treat their customers well, offering a sense of vitality and sophistication.

The other key commodity group with an emotional tie as I mentioned before is the café culture. Customers want cafes, it is as essential as parking.

When we ask customers what they don't want in the retail mix they state universally no more jewellers or phone shops and reduce the casual mall leasing.

While women dominate shopping centres, they are looking for ways to bring their family on the journey or even just entertain them on the journey when they can't leave them at home! This becomes an important option as it opens up more leisure shopping occasion for the family, which in turn is a boost to the centre. As an example, if a woman needs somewhere to leave the husband, Bunnings turns into a wonderful place. In addition the centre needs child friendly areas where there is passive surveillance. An example of this is a play area adjacent to cafe, where the parents can enjoy a quick coffee while letting their children have fun. Parents rely on this, and even non-parents appreciate the benefits.

Shopping, it is usually described in one of two ways, either as **mission shopping**, or **leisure shopping – the String Theory of Shopping**. When leisure shopping you take your time and enjoy the experience, it is a more emotive journey – a longer journey. In comparison, while mission shopping you go in and get what you want before leaving – all very logical and efficient. When looking at the **Directional Insights Australian Shopping Centre Benchmarks**, mission shoppers are in and out much quicker, spending an average of 52 minutes in centre, compared to leisure shoppers spending an average of 85 minutes – leisure shopping has a much longer string compared to mission shopping.

Example of Mission Shopping



Source: Directional Insights

Example of Leisure Shopping



Source: Directional Insights



In the last couple of years we have seen mission shopping on the rise in centres. This is concerning as leisure shoppers tend to spend \$4 more than mission shoppers. The drop in leisure shopping has robbed regional centres of around \$160 million dollars in potential turnover in the past year.

When discussing mission and leisure shoppers, it is important to have an idea of how they differ from each other. Leisure shoppers spend more time in the centre, shop in slightly larger groups, and rate the centre higher than mission shoppers. Leisure shoppers shop with their friends, and shop in a centre they WANT to shop in. Moreover half again as many leisure shoppers buy clothing as mission shoppers. They consider fashion stores more important, and they rate the fashion stores at the centre they are shopping at higher. **Making leisure shoppers happy in your centre environment has financial benefits.**

Emotional shopping drivers increase where you can provide:

- *Great food options*
- *Comfortable environment with great amenities*
- *Interesting retail options*
- *Shopping for more than just “me”*
- *You can create an environment that offers more than solutions but adds retail sensations. Then you can lift your emotional attraction and leisure shopping in your centre and therefore spend.*

EGOTISTICAL

The egotistical drivers reflect how the choice of shopping centre makes me look. If I am shopping with a friend, what does the choice of location say about me? For example, Newtown - fashion forward, DFO - bargain orientated, or Chadstone – shopaholic.

Each of the drivers for your local shopping centre needs to be understood, so you can best meet the needs of customers within your trade areas. These drivers change over time as the shopping centre is a reflection of the local community's habits and values. The retail mix of Penrith is quite different to Bridge Road in Melbourne... as are the community attitudes.

Egotistical drivers in the desire for adult experiences, reflects the increasing sophistication of our customers.



What makes me want to show this centre off to a friend?

- *Customers like energy, they don't like busy*
- *Don't want clutter, want open spaces - Balance the impact of casual leasing*
- *Customers want connections to the outside, don't want to lose the day*
- *More glass, courtyards, balconies*
- *More natural elements to humanise the experience*
- *Simple, uncomplicated design – no forced walkways*
- *Cool and comfortable “climate” to shop and spend time in*
- *Embracing natural light and bringing the outside in but not necessarily the elements with it*
- *Green spaces and water features while a Property Managers' nightmare, create a sense of calmness and tranquillity and a desirable environment worth sharing with others....*

And increasingly the centre is becoming more multi-purpose, fitting into a role that makes it about “more than shopping”. This change is vital, given the changes in household consumption patterns.

Reflecting the growing role of shopping centres as destinations to fulfil a range of lifestyle and leisure pursuits **customers are looking for centres to entertain and accommodate their “down-time” needs** including cinema, bowling, laser tag, play areas, restaurants, cafes, bars, gym, in-centre entertainment.

In an ideal world bulky goods retailers under the same roof including Ikea, BCF, Masters Home Improvement, Bunnings.

Medical centres, library's and the post office are the new black in shopping centres - Libraries immediately provide centres with community credentials, and books!

Technology is also increasingly important in shopping centre management and retailing.

According to AIMIA, 41% of people with Smartphones have downloaded and installed an App on their phone. However, of these 43%, have downloaded less than 6 applications. To get customers to download your app, you need something that will really grab their attention. Three big types of shopping apps are Coupon Apps, Price Alerts and Scanner Apps.

- *Coupons apps are regularly updated and replace lists of coupons that give customers an incentive to visit a particular store.*
- *Price Alert apps inform customers of when there are specials and sales for items they are interested in, either in local stores or nearby stores.*
- *Scanner apps actually act as a barcode scanner, telling you about the item. The more advanced ones even then allow you to compare prices for that item with nearby stores. Price comparisons have never been easier!*

What we want in a Shopping Centre



Source: Directional Insights

Therefore in delivering Egotistical Drivers the design elements or “place making” become critical – customers want the centre to reflect where they come from in the ambience – if I am coastal embrace this, if I am urban reflect this, if I’m country respect this.

In understanding what customers want, this does not mean that this is by any means a broken asset class as the media would have you believe. What it means is that it is an asset class that Australians want to get more out of and integrate more into their live. It is an asset class that needs to continually improve and re-adjust to where it is on the lifecycle curve so it can continue to prosper into the future.

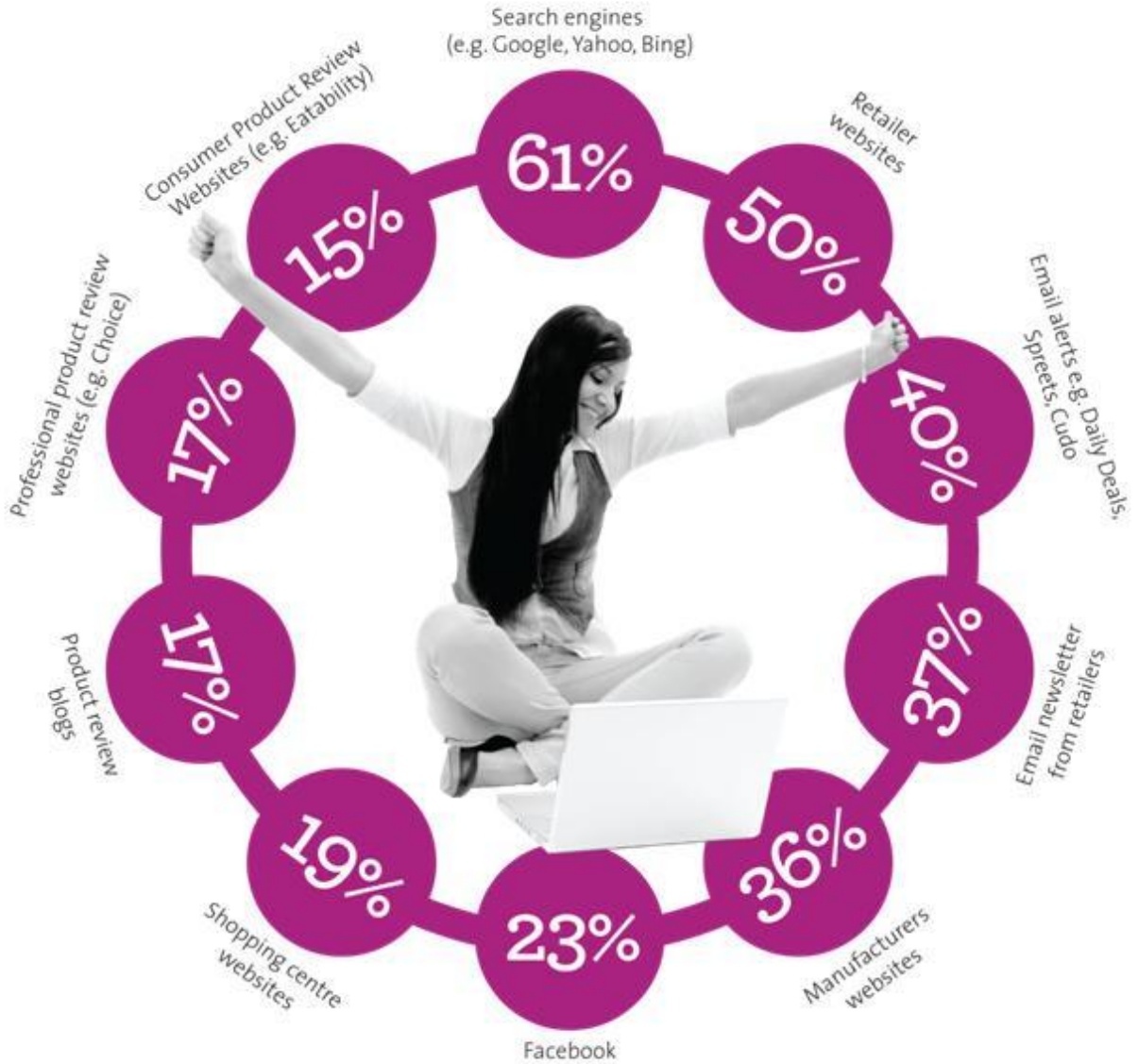
What more retailers can do

Still at the heart of shopping centres is the retailer, and they too have a great responsibility in navigating the lifecycle curve. Increasingly retailing is either about niche or value – meeting customers’ needs on both spectrums make for retailing powerhouses e.g. JB HiFi.

The recent results of the AMP Capital Shopping Centres Recommended Retail Practice research, as conducted by Directional Insights, found a way forward for retailers to entice further spend from customers in store.

Digital media has changed the rules of the game for in-store retailing, opening up a world of opportunity. With Australians using an average of 3.64 different forms of digital media to discuss or learn about shopping, this is an area retailers cannot afford to ignore.

Digital media used to talk about/find out about Shopping



SOURCE: AMP RECOMMENDED RETAIL PRACTICE JULY 2011

With online shopping being embraced, along the way, the in-store experience has become more narrowly defined for many shoppers, making it even more important for retailers to re-consider their offer.



The In-store experience is very much about **sensory** and **social** – it's looking to what online can't provide:

- Inclusive – something for everyone
- Social – service
- Entertainment – enjoy the experience
- Sensory – see it, touch it, experience it – great merchandising can deliver
- Immediacy – instantly own what you buy
- Low Risk – experience it before you buy it
- Solutions – expert advice

In terms of the offer, retailers need **to play to the strengths** of the in-store channel, and focus on **maximising the sensory experience**.

Often online shopping and shopping in-store are seen as opposing forces, held apart. This is not the case, with the two influencing each other. The online experience can affect the in-store experience before, during and after the actual purchase. The online experience can be the trigger to the purchase, or allow the customer to research possible options, being the all-important push needed to convince them to buy.

While in store the customer can use online price comparisons, or digitally downloaded coupons to purchase the item. Then after the transaction is done and the customer returns home with goods in hand, they can go online and post reviews of the item, the store and the service for other people to consider, or even just use digital media to sing the praises or problems of a store or product to their friends.

The Rules of Shopping

To finish off, let us elaborate on the twenty prime rules of shopping. Up until recently these were only the top ten rules of shopping, but recent developments within the shopping centre industry have prompted the creation of another ten.

1. The majority of customers are women
2. Customers shop closest to where they live
3. Customers mainly use cars to travel to shopping centres
4. The more a household earns the more they shop
5. The longer a customer stays in a shopping centre the more they spend
6. Customers shopping for leisure spend more on average than those on a mission
7. Younger customers shop in bigger groups
8. 40-49 year olds are the biggest spenders in shopping centres
9. But their children are very big influencers of what gets purchased
10. The more the customer likes a shopping centre and its look and feel, the more they spend



The New TEN

11. Waiting times won't be tolerated
12. You can't shop when the stores are closed
13. Customers expect service staff to know their product and be visible
14. The more barriers you put up, the harder it is to shop ... paid parking is one of these barriers
15. You can't see and feel quality online ... In-store has the sensory advantage so maximise this
16. Shopping online can be isolating, make the social connection of being in-store more compelling
17. Online shopping is not a fad. Shoppers are expecting their activity to increase over time
18. Australian retailers are not seen as keeping pace
19. The true global market has now opened up with the availability of the internet.
20. Customers still want to love the in-store and in-centre experience

SOURCE: AMP RECOMMENDED RETAIL PRACTICE JULY 2011

CONTACT US

For a discussion about your research needs
or more information about our services, please contact

Peter Kelly, Managing Director

Helen Bakewell, Founder, Principal Consultant

Tel: (02) 9418 6644 **Fax:** (02) 9418 7763

Email: info@directional.com.au

Directional Insights
PO Box 528
Artarmon NSW 1570