

ATKearney

The Future of Shopping Centers

The future of retail real estate is as robust as the industry's imagination and its ability to connect buyers to their individual and collective values and aspirations.



ATKearney

Executive Summary

This exclusive analysis by A.T. Kearney examines the future of retail real estate and what the industry will look like in 2030.

Our study suggests the industry can have a robust future provided it evolves and successfully harnesses three change drivers: the human element, technology, and commercial considerations.

We see yesterday's shopping centers and malls morphing into consumer engagement spaces (CESs)—transformed mixed-use commercial offerings designed to meet the needs of new and future generations of shoppers.

Introduction: Rethinking Space and the Consumer

It's been said that there are only two kinds of futures—the one you inherit and the one you design.

As it looks toward 2030 the retail real estate industry finds itself at a crossroads. One fork leads to business-as-usual—a predictable, problematic Darwinian scenario in which the weakest shopping centers and malls continue to close due to lack of customer interest, changing demographics, or the inability to develop a sustainable alternative to digital competitors that are growing more powerful every day. The other path—and the one we will explore here—takes us to an industry future that has never looked better, at least for those brave (and wise) enough to pursue it.

The industry's future potential rests on the ability of operators and retailers to relearn the rules of an ever-changing game. Where 20th-century malls and shopping centers grew through “push,” marketing brand-oriented offerings to a mass market consumer interested in acquisition, 21st-century retail real estate—or what this report refers to as CESs—will prosper by catering to a customer base proud of its diversity, less interested in owning things than in having experiences and accessing functionalities and who demand the right to codevelop and design the goods and services they buy.

Where last century's mall and shopping center tenants used technology in purely logistical and transactional ways, this century's entrepreneurs will leverage technologies allowing them to interface and communicate with consumers armed with their own shopping technologies.

The competitive environment is changing, forcing us to rethink all our assumptions about the industry, from how many and what kind of tenants CESs need to house and how large a CES must be in order to be successful, to how, why, and where sites are selected, the role of anchor stores, and the necessity of incorporating nontraditional elements such as housing, entertainment, and healthcare into CES design.

Finally, CES operators and tenants must find ways to coexist with digital retailers, embracing them as partners rather than insisting on viewing them as enemies bent on disruption and unsustainable predatory price competition. To succeed in the future the industry needs to think like the customers it serves. For example, customers never think in terms of channels. Instead, they are task-oriented, always looking for the most economical and efficient way to complete their tasks.

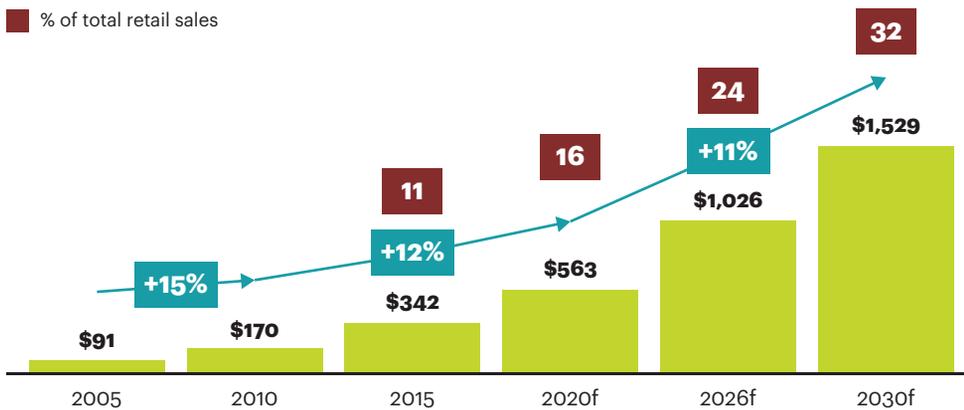
Where we came from and where we are

Historically, malls, shopping centers, and even “collections” (in the case of Somerset in Troy, MI, for example) have been thought of as aggregations of retail offerings arranged in a variety of formats from strip and open-air to fully enclosed. But times have changed. E-commerce is projected to account for a third of retail sales by 2030, forcing center operators to explore what should be done with existing—and future—construction (see figure 1).

Figure 1

E-commerce is projected to account for a third of US retail sales by 2030

(\$ billion)



Notes: E-commerce is forecast to grow at a CAGR of 10.5% (2015–2030) vs. a CAGR of 15% (2005–2010) and 12% (2010–2020f). Retail sales are forecast to grow at a CAGR of 3% (2016–2030) vs. 3.3% growth (2015–2016) and 4.6% growth (2014–2015).

Sources: US Census; A.T. Kearney analysis

Critics argue consumers have outgrown malls and that the same historical forces that created the industry’s Golden Age have now, almost inexorably, become the reasons for its demise. Others counter that commercial institutions evolve and that the future of shopping centers has never looked more promising. The truth lies somewhere in the middle. Retail real estate in the United States is at a crucial evolutionary stage—a fact underscored when you look at the industry on a global basis.

The view from across the world

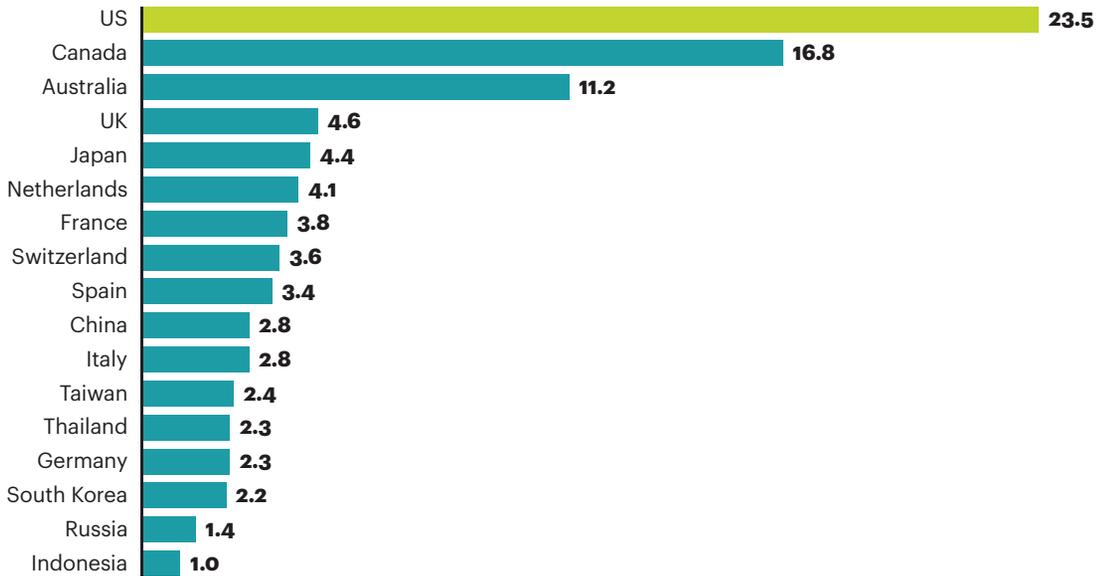
The United States is dramatically overstored, especially compared to nations such as the United Kingdom where urban planners place a limit on the ratio of real estate to people. There are approximately 24 square feet of commercial retail space for every American, compared to 5 square feet per person in the UK, 3 square feet per person in China, and about 2 square feet per person in South Korea (see figure 2 on page 3). Some of this has to do with how retailing evolved in other nations.

In Asia, the adoption of mobile and Internet shopping occurred at a much faster rate. Traditional retailers became early e-commerce champions and were therefore better protected against competition from digital pure plays. Asian department stores transitioned their business models years ago. Japanese department stores, for example, began morphing into shopping centers in the 1990s, a movement mimicked in South Korea a decade ago.

Figure 2

The United States is overstored compared to other countries

(sq. ft. per person)



Sources: ICSC country reports; A.T. Kearney analysis

Culture and lifestyle play significant roles in shaping commercial development. As a result of urban density and the size of many living quarters, Asian friends and families are more likely to eat celebratory meals in a restaurant than at home. And because of poor air quality in many Asian cities, indoor sporting facilities, often associated with shopping areas, are very popular.

Where American site selection strategies are often based on adjacency to highways or other main roads, in Asia proximity to foot traffic and transportation hubs are the leading drivers of where shopping centers are built.

A broad portfolio of innovative formats and thinking continues to transform the face of international retail real estate.

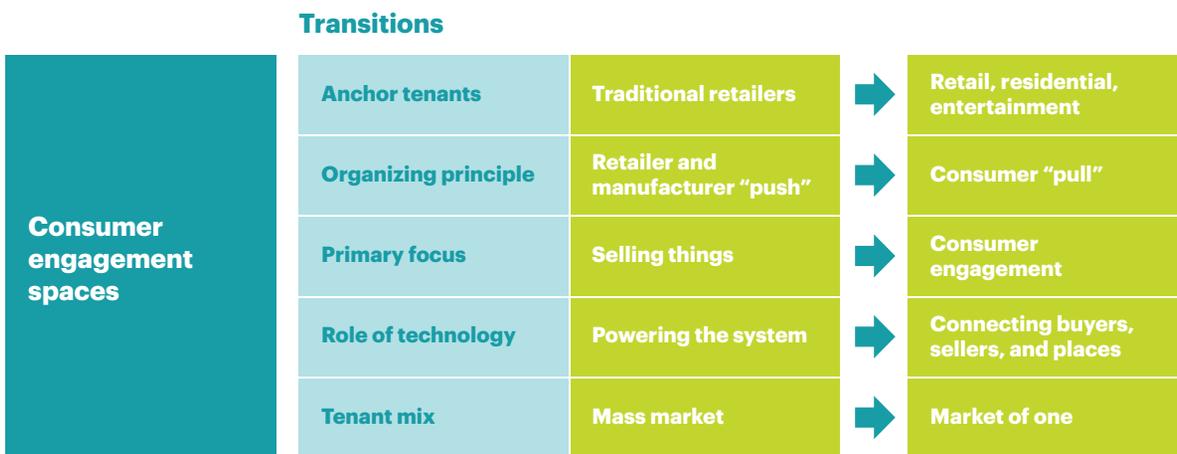
America also lags Europe when it comes to mixed-use development and locating retail in proximity to transportation hubs. At Paris's tri-level Gare du Nord people departing trains encounter retailers on the top floor, the middle row of retailers welcomes customers entering on the street level, and the lower level attracts shoppers exiting or getting on the Metro system.

A broad portfolio of innovative formats and thinking continues to transform the face of international retail real estate.

What's next?

Whatever you choose to call retail-based real estate in the future—malls, centers, collections, or CESs—they will be environments where people gather to engage with friends, connect with like-minded shoppers, seek out unique experiences, reaffirm values, and interactively relate to brands on a personal level. Transactions will be a by-product of consumer socialization and engagement. CESs may resemble today's shopping centers and malls or they might look quite different. Traditional retail stores may anchor them or they may be anchored by purpose-built specialty residential living units, an entertainment complex, sports center, educational institution, or healthcare facility, or even organized around a theme or concept (see figure 3).

Figure 3
The future of retail real estate will be customer-centric



Source: A.T. Kearney analysis

No matter how they are anchored, CESs have a robust future, provided operators and tenants make the necessary adjustments to make their spaces more engaging. And, regardless of form, they will be organized around consumer “pull,” rather than retailer and manufacturer “push.” Their shared emphasis will be less on selling things than on creating a platform that facilitates sales by recognizing and understanding individuals and affirming and connecting them with affinity cohorts sharing their core values and aspirations.

One thing is clear: the industry is facing an inflection point. There are many options going forward, but standing still isn't one of them.

Forces of change

Looking toward 2030 we see the future of CES defined by three primary change drivers: people—who we are, how we live, and how we interact with each other; technology, especially those technologies that connect us to each other and to businesses and innovative technologies that could threaten business-as-usual by creating new consumer benefits; and commercial considerations, from how and why we shop, and the nature of the competition the industry will face, to the organization, size, and location of the physical or digital space retailing operates in.

This analysis begins with the consumer.

People: The Human Element

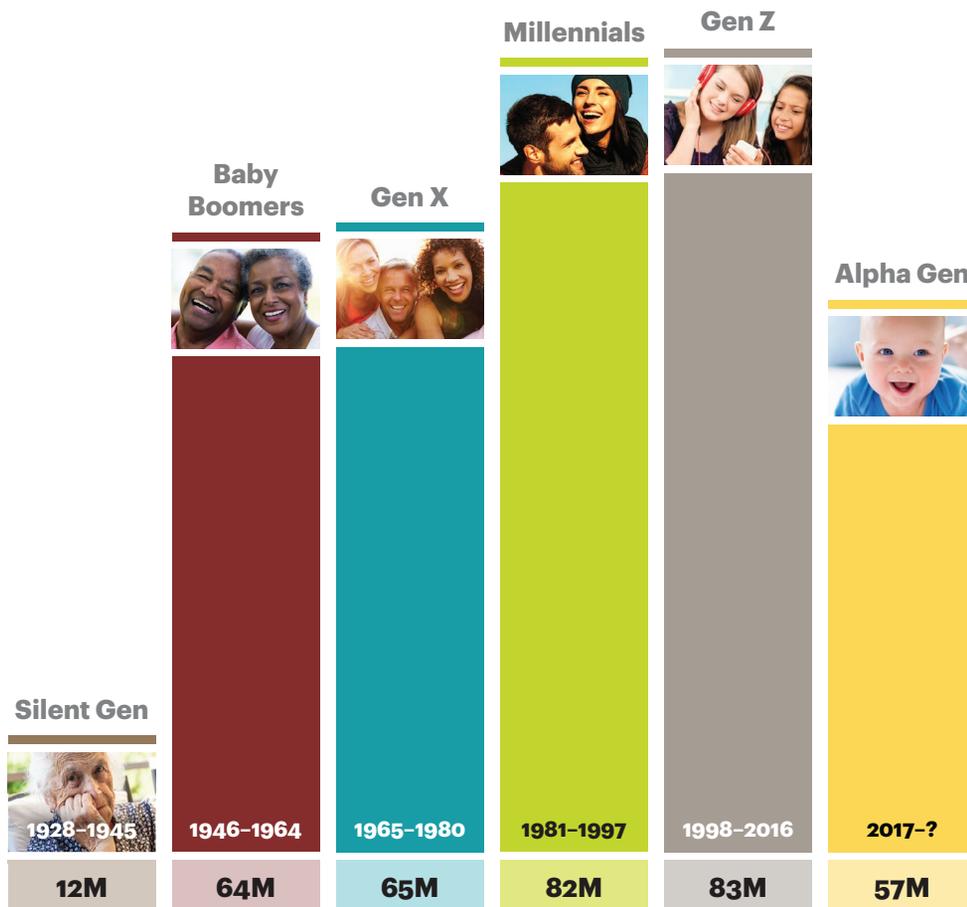
The ancient Greek word *ἀρχή* (arche) means “origin, first principle, and the source of action.” In the future, all commercial activity will either have the consumer as its *arche* or it will fail. Retail success—today and tomorrow—begins and ends with developing a competitive understanding of the consumer, anchored in how they think about their lives and expressed in their own language. Every CES will need to craft a distinct and unambiguous customer-centric value proposition or brand promise. Everything operators and tenants do must reinforce that value proposition and serve as a continuous demonstration of authenticity, integrity, values, and respect for the consumer.

A quick lesson in demography

The fate of retail real estate has always been linked to demography. The industry’s growth has been defined by its ability to respond to changes in the composition and physical location of the consumer market. Today, for the first time in history, that market includes six generations of shoppers: the Silent Generation, Baby Boomers, Gen X, Millennials (or Gen Y), Gen Z, and Alphas (see figure 4).

Figure 4

For the first time in history, the consumer market includes six generations of shoppers



Source: A.T. Kearney analysis

When the Southdale Center opened its doors as America's first enclosed, climate-controlled shopping mall in Edina, MN, on October 8, 1956, the oldest Baby Boomer, the vanguard of what was to become the largest demographic cohort in American history, was only 10. In the wake of post-World War II prosperity, which made automobile ownership accessible to the working class, parents of those early Boomers were abandoning city centers across the country in favor of a life in the suburbs characterized by an almost jarring conformity and slavish devotion to brands featured in mass media outlets.

Retail real estate followed the people and the results were staggeringly successful.

In the United States, fueled by decades of relative affluence, broad-based upward mobility, high consumer confidence, and explosive suburban and exurban home building, total shopping center growth dramatically outpaced population growth, especially in the 1960s and 1970s (see figure 5 on page 6).

The potential of the digital generations

Baby Boomers continue to exert disproportionate economic influence—some direct and some unintentional—even though their generational influence has waned significantly in the face of younger, larger cohorts. The Millennials' challenge to Boomer dominance has been reinforced by the emergence of Gen Z. These "customers of the future" are part of a multigenerational market driving new demand, but operating in the shadow of an asymmetrical model of generational wealth retention (see sidebar: The Impact of Changing Demographics). This is a challenge to retailers because—at least for the next decade or two— Boomers and Gen Xers will retain significant wealth and largely be done spending on items that fueled a high percentage of past retail growth.

The Impact of Changing Demographics

It is crucial to understand the economic implications of demographic change and its direct impact on shopping patterns. In America, we are witnessing the breakdown in the pattern of the intergenerational transfer of wealth that fueled much of the retail growth in the 1960s and 1970s. When the first Baby Boomer male was born in 1946 he had a life expectancy of 64.6 years. The first women Boomers fared slightly better, but only marginally so with a life expectancy of 69.4 years. By the time Edina's Southdale Center opened for business in 1956 the average US life expectancy was 66.7 years for men born that year

and 72.9 years for women. But a male Boomer turning 65 in 2014 could look forward to living an additional 17.9 years, or until 82.9 years. Women Boomers hitting 65 three years ago could expect to live, on average, an additional 20.5 years, or until the age of 85.5 years.

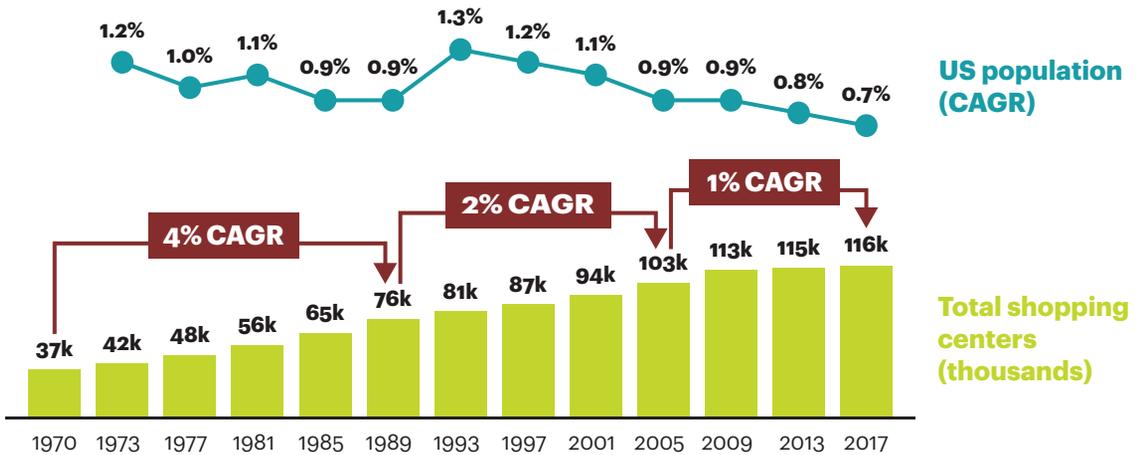
Longevity has two economic consequences. Boomers and members of Gen X will retain their assets longer. And, thanks to rising healthcare costs and the high cost of institutional or in-home elder care, not only are they likely to use up 100 percent of their assets, but they may use up a considerable portion of their children's savings

as well. Barring an economic miracle, Millennials, Gen Z, and the Alphas will be considerably more constrained when it comes to disposable income.

Wealth will also be less equitably distributed. When the Baby Boom occurred, the top economic one percent controlled a little more than 10 percent of all US wealth. Today, "one percenters" control nearly 39 percent of all American wealth.

Figure 5

US shopping center growth has outpaced population growth



Sources: ICSC, US Census Bureau; A.T. Kearney analysis

By 2030 every Boomer will be over 65 and our original Boomers will be celebrating their 84th birthdays. By contrast, the youngest of the 20.8 million Alphas will be only about five years old. For CES operators of 2030—or at least those focused on more traditional approaches to retail—Millennials and Gen Z will represent their key consumer targets.

(We won't spend much time describing these new consumers, since their cohort characteristics have been explored in great detail in other places. See A.T. Kearney's ongoing [reports on Consumers@250](#).)

Where Boomers tended to be more alike than different, Millennials and Gen Zers celebrate the power and potential represented by human diversity.

Moving forward, the demise of the historical general market requires successful CES operators to focus on the needs of a specific cohort; develop multiple strategies that align against multiple cohorts; or develop retail offerings that cut across the markets, appealing to the values and concerns of subsets of one or more generations of shoppers.

Where Boomers tended to be more alike than different, Millennials and Gen Zers celebrate the power and potential represented by human diversity. Together they form a rich, varied, and complex consumer pool, one where 20th-century cohort labels associated with ethnicity, race, and religion increasingly don't apply. Yesterday's minorities are tomorrow's emergent majorities, a fact already recognized and fully embraced by today's most successful retailers. Adding to this demographic complexity, many members of these generations are perfectly comfortable self-selecting into—and out of—traditional ethnic cohorts or creating a variety of digital personas to represent them online.

The end of ownership?

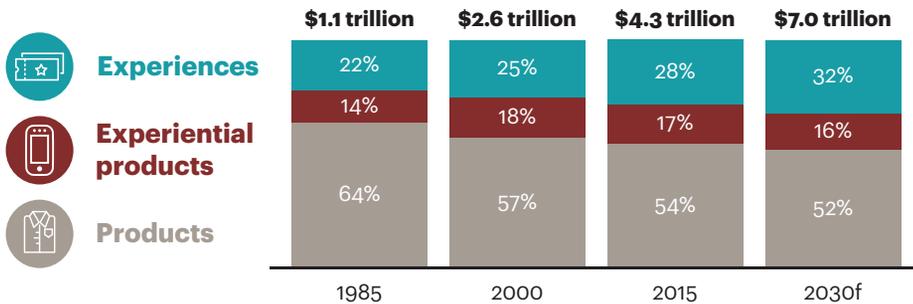
Younger consumers value access to functionality over ownership and demonstrate a clear and growing preference for experiences over the acquisition of “stuff” (see figure 6).

In the past, consumers flocked to the shopping centers in search of value, expressed as the relationship of price to branded goods. The CES of the future will cater to the collective and individual values of their customer base. This helps explain the success of businesses from Uber and Lyft to online designer clothing rental sites such as Rent the Runway, Style Lend, and Armarium (see figure 7).

New consumers clearly prefer personalized, authentic brand interactions, a preference often combined with a belief in the benefits of creating and sustaining strong connections to their local communities. This is evidenced by the success of companies such as Fiction Beer Company and Ratio Beerworks, two of the many micro and craft breweries in Denver, and Shinola, a Detroit-based bicycle, leather goods, watch, and stereo component business. It’s not just customers that are changing.

Figure 6
Younger consumers are increasingly seeking experiences over products

(% of total discretionary expenditure excluding cars)

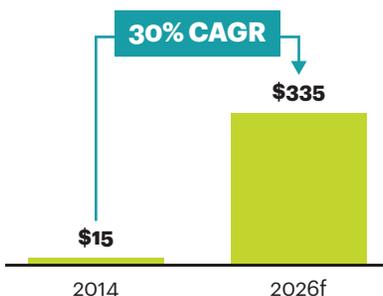


Notes: Discretionary expenditure excludes spending on housing and utilities, healthcare, education, communication services, transportation, and insurance and financial services. Experiential products are products used to have experiences (for example, telephone equipment, sports and recreational goods, and photographic services).

Sources: Bureau of Economic Analysis; A.T. Kearney analysis

Figure 7
The sharing economy will continue to grow in the near future

(US\$ billion)



Note: The sharing economy is defined as an economy based on providing access to goods and services, rather than ownership, for categories such as travel, car sharing, finance, staffing, and music and video streaming.

Sources: US Department of Commerce, Bloomberg, VentureBeat; A.T. Kearney analysis

The de-emphasis on ownership for ownership's sake (or "conspicuous consumption"), and the new emphasis on goods and services that are local or regional, authentic, values-oriented, or offerings that provide experiences, will have a profound impact on the CES of 2030's tenant mix.

The CES of 2030 will also have to find ways to creatively interface and leverage our second driver—technology.

Technology

By 2030 it is estimated that 40 percent of all consumers will be digital natives. By that point the mélange of information and communication technologies that began finding their way into stores and homes beginning in the 1990s will have lost their novelty and will form the connecting infrastructure that enables and facilitates how we live, work, socialize, and, of course, shop.

Every hour of every day CESs will interface with customers routinely accustomed to communicating and interacting through an ever-expanding variety of connected platforms, devices, and locations from phones, apps, and voice-activated personal digital assistants to artificial intelligence (AI)-powered bots, subscription services, the Internet of Things (IoT), and beyond.

In the 21st century, technology's role will be to connect buyers' individual and collective dreams, values, and aspirations and sellers' collective engagement space offerings.

Connectivity: the human face of technology

In the same way that the Golden Age of American shopping malls was directly linked to the Baby Boom generation and near-universal private car ownership, and Asian and European shopping centers grew in response to population density and in relation to mass transit hubs from trains to subways, the fortunes of the CES of 2030 will depend on how well CESs integrate their technologies with those of their customers.

In 20th-century malls, technology's primary role was to power systems. In the 21st century, its role will be to connect buyers' individual and collective dreams, values, and aspirations and sellers' collective engagement space offerings.

While it is dangerous to underestimate the power of technology as a driver of future retail, it's also easy to overestimate its role. Successful CESs will see and embrace technology for what it is—a diverse set of tools, each created to perform specific functions, no different (in this respect at least) than electricity.

Plug in, turn on, shop out

Retailers and CES operators will need to master two sets of technologies: the ones consumers use to order their lives, communicate, and transact commerce; and those that businesses will use to identify individual shoppers, track purchases, calculate dwell times, analyze behavior, communicate with customers, and create real-time merchandising, marketing, advertising, and promotional opportunities.

Consumers' technology choices will create personalized "digital ecologies"—combinations of connected tools, from bots such as Kik Bot Shop and WeChat to voice-activated AI agents such as Google Now and Amazon.com's Alexa, and smart appliances and cars that manage a staggering array of functions from sorting and storing media and managing homes to overseeing subscription service purchases and planning vacations. CES operators and tenants need to be able to tap into and leverage those personalized digital ecologies while shoppers are in or away from their centers.

Autonomous mobility technologies will be another important connectivity tool. Autonomous transport services in the form of cars, buses, and trains will deliver customers to and from the CES while other autonomous agents such as robots will help operate stores and interact with shoppers or their networks (see sidebar: The Case For and Against Robots). Still other related technologies from delivery robots and drones to autonomous trucks will get products from the CES to wherever shoppers want them to go.

The Case For and Against Robots

When it comes to thinking about the commercial applications of retail technologies it's important to remember the future is a lot closer than it seems. Robots, for example, are becoming an increasingly common feature in retail environments and not just in warehouses.

Companies such as Marble and Starship are looking at using robots to solve the last mile problem, turning to autonomous robots to make deliveries, although not everyone is amused. Last December, in the shadow of Silicon Valley, San Francisco supervisor Norman Yee successfully introduced a new law capping the number of delivery robots allowed on the streets at three per company and a total of nine at any given time. In addition, robots can only

operate in specified industrial neighborhoods, must be accompanied by a human (which sort of defeats the purpose of a delivery robot in the first place), and can only operate on streets with six-foot-wide sidewalks. Much more relaxed regulations have been adopted in nearby Redwood City, Washington, D.C., and states including Idaho and Virginia.

Robots aren't just in the streets. They are increasingly in stores. In 2014 Lowe's experimented with the OSHbot in its Orchard Supply Hardware subsidiary. Two years later Lowe's introduced the LoweBot, an interactive robot developed by Fellow Robots that customers communicate with by voice or touchscreen.

Walmart and Target currently use robots to patrol aisles looking for

out-of-stocks and mislabeled and mispriced items. And in Japan, Pepper, a humanoid robot introduced by Software Mobile Stores with significant financial assistance from Apple, talks to customers, directs them, dances, and even poses for selfies. Progressive retailers are quickly finding ways to build robots into their stores and over time consumers will become more and more comfortable with them.

As on-demand mobility replaces car ownership our notion of how large a footprint we need may change. Excess parking space can be converted to drive-through pick-up centers for customers, delivery services for vendors, or even space for non-tenant retailers. Green spaces may replace the seas of cement currently surrounding today's centers, encouraging consumers to interact with nature or just enjoy the scenery. On-demand vehicles could be housed in transportation hubs for fleets of drones and other real-time delivery options at, or near, the CES.

Shoppers' desire to co-design unique goods and services will be accommodated through technologies including 3D printing, statistical process control (SPC), machine-to-machine (M2M) interfaces, and computer numerical control (CNC).

Consumers' technology choices will create personalized "digital ecologies."

CES tenants and owners will use specific technologies of their own—big data collection, algorithms, AI programs, and perhaps even quantum computing—to track and meet individual and collective consumer demand in real time.

As machine learning evolves from pattern recognition to cognitive intelligence consumers will expect, and demand, highly curated, frictionless shopping experiences. These may look like product recommendations and selections queued up for them by their AI assistants as they enter a store or the debut of automated, unmanned, "just walk out" stores for relevant categories. Whatever form the specific experience takes, AI-enabled shoppers will expect a seamless integration of their digital and physical experience. At a minimum, retailers must prepare for a near future in which customers have the ability to select—and block—any input they choose. Any notion suggesting a separation of, or difference between, digital and physical life and retail will be met by widespread consumer resistance.

It is crucial to remember that even the most sophisticated digital infrastructure can only route data. To make that data robust requires the right software and analytical tools; clean, accurate, real-time inputs; and content (see sidebar: Inside the "Content" Business).

Inside the "Content" Business

In his provocative book, *The Content Trap: A Strategist's Guide to Digital Change*, Harvard Business School Professor of Strategy Bharat Anand argues that the digital revolution potentially puts everyone into the "content" business. Past success

in retailing or the manufacture of consumer-facing goods came from producing superior content in the form of product offered at the lowest possible cost. Success in the digital age comes from realizing how "content" enables customers to connect, viewing all

consumer choice in terms of its connecting to a larger whole, and finding a value-additive way to insert yourself into that consumer-generated, connected digital ecosystem.

The most successful retail technologies are those that remain a half step ahead of the consumer. There’s little commercial point in getting too far ahead of the market, especially given the importance of integrating with the consumers’ existing digital networks. Leveraging technology to unite tenants and better serve customers will be a crucial part of the equation as CESs evolve. But there are others.

Commercial Considerations and the Road to the Future

Retail apocalypse or retail resurrection?

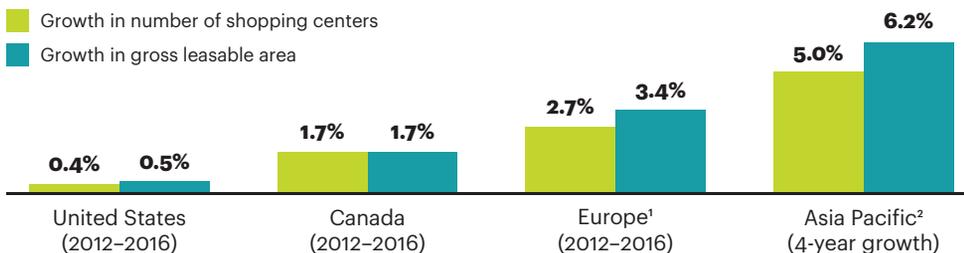
Today, many business journals are obsessed with the so-called “retail apocalypse,” “the death of the mall,” or “the death of retail.” Ironically, retailing is standing on the edge of a renaissance, substantially different from the era that preceded it, but with an even greater possibility for success.

In America, this “retail renaissance” is based on reconfiguring existing square footage. This is much less of an issue internationally, as in Asia, for example, where retailers are still building new CESs to meet growing consumer demand (see figure 8).

Figure 8

The number of shopping centers continues to grow worldwide, led by Asia Pacific

(Average CAGR)



¹ Europe includes Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, and United Kingdom.

² Asia Pacific includes Australia (2012–2016), China (2011–2015), Japan (2012–2016), Malaysia (2011–2015), Philippines (2012–2016), Singapore (2010–2014), South Korea (2011–2015), and Taiwan (2012–2016).

Sources: ICSC Country Reports; A.T. Kearney analysis

The transformation of retail

Variety will define the future of CESs as emerging technologies, creative retail models, innovative food-service offerings, entertainment programming, and community events; nontraditional components such as healthcare facilities; service seamlessly integrating online and digital commerce; and even residential elements redefine the nature of customer–brand interaction.

Some physical retail spaces will take the form of smaller, “smart,” dynamic formats serving as hubs for interactive brand experiences. Others may be “inventory-light” retail environments for

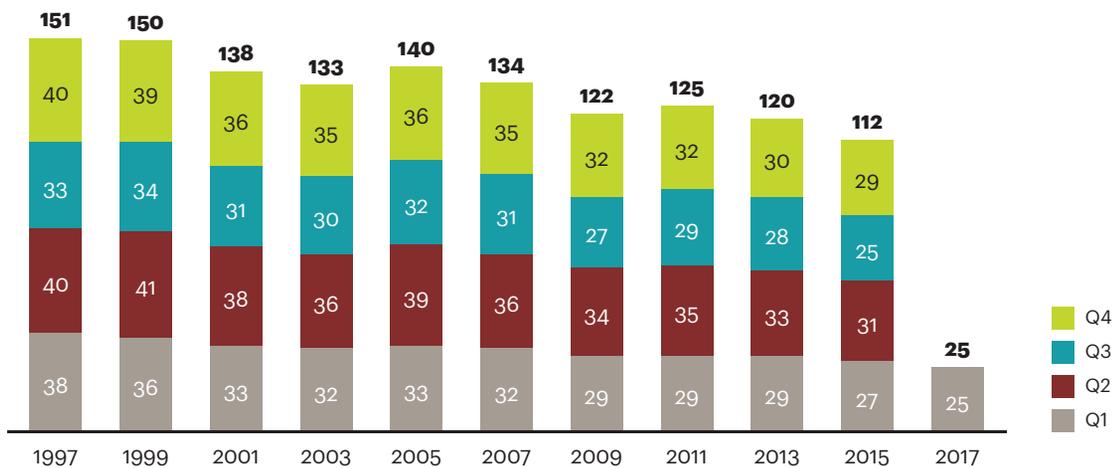
“showrooming” brands, products, and services that will support and complement, rather than compete with, digital businesses.

It’s important to remember that while the pace has slowed a bit, retailers are still opening new stores every year (see figure 9).

Figure 9
Though the pace has slowed, US retailers continue to open new stores

Number of stores

(thousands)



Sources: ICSC, US Bureau of Labor Statistics; A.T. Kearney analysis

Future CESs will make good use of short-term and midterm pop-up formats, allowing less-capitalized retailers a cost-effective path for reaching customers and giving established retailers and brands platforms to test their approaches to local markets and micro-markets. Pop-ups will offer CES operators an easy way to change their vendor population, providing consumers with unexpected “treasure hunting” experiences.

New consumers have an expressed preference for “doing” over “owning.” As a result, we anticipate the emergence of rich experience hubs. These will be physical spaces inside CESs using immersive technologies such as virtual reality (VR), augmented reality (AR), and mixed reality (MR) to create unique environments that provide customers sophisticated multisensory experiences, allowing them to touch and feel co-created product and rich, deep content that can’t be duplicated on a computer, phone, or conventional VR set.

Since convenience will play an even bigger role in the future than it does today—call it the Amazon Effect—the market for click-and-collect centers will remain robust, some likely in the form of “fresh-and-collect” grocery stores where customers can pick up their online center-store orders and shop for fresh and ready-to-eat offerings. Collection centers, operated by an individual retailer or even the center itself, could also serve as venues where online purchases can be picked up, returned, rented, and even resold.

While e-commerce continues to grow, by 2030 more than two-thirds of purchases will still occur in physical stores and an even greater percentage will be influenced by experiences in a physical environment, making it crucial to both rethink the box and think outside it.

Thinking outside the box

Regardless of what form they take, all CESs will share three common characteristics: creative design tailored around how and why consumers shop them; competition (who else will be selling to their target customers?); and the commercial context they will operate in.

How we shop. As we noted earlier, future CESs will reflect and embody the fundamental shift from the mass market, push approach of years past to a consumer-driven pull system where shoppers will—at least in large part—determine which goods and services are successfully brought to market. Shoppers will demand CESs be more than commercial spaces where transactions are effectively and efficiently executed. They will have to function as a “commercial commons” where CES operators and tenants build sustainable relationships with their customers.

Shopping is, and will always remain, an extension of customers’ lifestyles and values. Many players, including many technology companies, are going to want to tap into the opportunity to give future shoppers what they want and that means traditional center operators and retailers are going to face new and innovative nontraditional competitors—many with deep, deep pockets.

Competition. In a very real sense, in the future anyone selling anything will be a direct competitor since the standard of service set in one industry, or dynamic pricing in another, or convenience in a third may come to be the norm customers demand from everyone with whom they have a commercial relationship.

Past competition was measured in terms of metrics such as market share, sales per square foot, margin elasticity, and traffic count. In the future competitive effectiveness will be judged by a whole new set of criteria including access to—and completeness of—consumer information, the effectiveness of ongoing data collection and algorithm development, and the real-time ability to translate social media memes into “smart” inventory management and merchandising strategies.

In addition, tomorrow’s CES operators and tenants will face the most implacable competitor of them all—the new consumers themselves. Thanks to personal shopping technologies, where customers used to go to the store they are—in many ways—becoming the store. As we have seen, these future shoppers will come armed with dozens of tools for disintermediating retailers, from bot technologies, to voice-activated ordering, to subscription-based purchasing systems.

Context. While all CESs will be information-driven and consumer-focused, they won’t necessarily resemble each other.

As we are about to see, CESs will come in a variety of shapes and sizes—some organized around a traditional retail anchor, others possibly commercial extensions of a residential community. Many CESs will be innovative sites where the latest in consumer-facing technology is tested or implemented. Others may be the physical retail expression of a common set, or subset, of specific consumer values. A large number may be built around a variety of forms of entertainment. CESs may feature fewer stores, smaller stores, radically redesigned stores, and in some cases even larger stores.

Emerging retail models and changing consumer preferences will transform our current ideas about successful tenant mix. Local and artisan brands will co-mingle with national retailers. Product portfolios will shift to goods and services less susceptible to disintermediation and auto-replenishment. Subscription, sharing, and re-commerce platforms will expand their physical footprints. Non-retail tenants such as fitness, dining, and entertainment will account for a larger percentage of the total tenant mix.

The radical unpredictability of consumer markets and the disruptive power of new technologies and competitors will prove Bill Gates was right when he wrote in *The Road Ahead*, “We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next 10. Don’t let yourself be lulled into inaction.”

There are a near-infinite number of future CES formats we could consider, but for this analysis we’ve focused on a few of the more plausible possibilities. This isn’t to suggest these are the only alternatives, or even the best. They are offered as illustrations. We believe that over time the industry will evolve dozens of sustainable approaches of its own.

Variations on a Theme

CESs that adapt to the changes and challenges we’ve discussed will not only survive but prosper in 2030 and beyond. Without limiting the possibilities we believe that—with some notable exceptions—the majority of successful future CESs will fall into four basic categories: destination centers, values centers, innovation centers, and “retailidential” space (see figure 10).

Figure 10

Most successful future CESs will fall into four basic categories



Note: CES is consumer engagement space, a transformed mixed-use commercial offering designed to meet the needs of new and future generations of shoppers. Retailidential space refers to mixed-use CES targeting a specific consumer segment such as young urban hipster professionals, single-and-staying-that-way 40 somethings, or senior living environments.

Source: A.T. Kearney analysis

Destination centers

Destination centers are regional centers anchored by large, compelling attractions that have the capacity to draw from extended trading areas. For experience-oriented shoppers, attractions will always trump anchors.

That said, the flagship store experience—whether a more traditional department store or a specialty store—will continue to play a more prominent role in destination centers. Destination centers will be consumer spaces offering compelling social experiences through New Age anchors and attractions such as theme parks, installations such as indoor ski slopes, large

cinemas and theaters, museums and art galleries, event space for concerts, food festivals, and themed gatherings.

Other examples of possible specialty or New Age anchors include retailers such as Bass Pro Shop, Lowe's, or REI, where discovery, education, and experience are key components of the brand experience.

Given the potential for the "showrooming" experience, customers may be drawn to destination centers to build their wish lists for future online purchases. Today this idea may be enough to make physical retailers shudder. But we are talking about 2030 and a world where the customer draws no distinction between physical and digital retailing. So anything that gets a customer close to you creates an incremental opportunity to make a sale.

The appeal of these centers may even extend to specific shopping occasions—say back-to-school stock-up or Black Friday–Thanksgiving weekend frenzy.

Turning travel time and distance into an advantage, destination centers will offer visitors total weekend experiences including bookings at surrounding hotels, in-center or remote entertainment, and expanded food-service offerings.

As we said earlier, pop-up locations can play a unique and vital role inside destination centers. Their inherent short-term life cycle creates a sense of consumer urgency, encouraging more frequent visits or building traffic on low-volume days of the week.

Technologies that enable the customer experiences to start before and continue after the shopping experience will also be crucial to getting customers to make the commitment to visit a destination center. This will transform destination CESs into digital hubs enabling a fully integrated, seamless customer experience that builds sustainable relationships between shoppers, merchants, entertainment providers, and the CES operator.

Given their size and the time commitment shoppers are being asked to make, centers will offer package-less shopping, allowing customers to shop hands-free. Their purchases will be transferred to a central staging area and then either collected by the shopper at the end of the day or shipped wherever they specify.

Technologies will also enable real-time social experiences, allowing customers to give and receive feedback in the form of "likes" displayed on a central CES monitor or their phones. This feedback will also be used to create just-in-time personalized offers, promotions, and other purchase incentives and opportunities to connect with online friends or even safe and secure dating service matches.

Destination centers in operation today include Xanadu in Spain, the Mall of the Emirates in Dubai, and our own American Dream Centers under construction in New Jersey and Miami.

Values centers

Values centers are smaller centers drawing their identity—and the majority of their tenants—from the surrounding community. They are anchored by an idea, not a retail nameplate, and can be organized around a values statement such as animal rights, an idea such as peace or serenity, or even an ethnic or community identity.

In the case of animal rights, for example, all restaurants might be vegan or vegetarian, leather goods and furs might not be sold, activists might be given free meeting or speaking space, and a bookstore might offer an appropriate selection of titles.

These CESs could be specialty outlets featuring unique local products and ethnic or artisanal brands across a broad variety of categories—grocery, ready-to-eat food, convenience and personal care items, and health services. They might even offer a curated selection of satellite “merchandise-free” or “merchandise-lite” items from national retailers or destination CESs presented in virtual shops, showrooms, or limited assortment stores.

Imagine the mall equivalent of a Brooklyn cooperative store or market showcasing local fashion designers, restaurateurs, craft brewers and distillers, and artists. Dynamic pop-up locations and virtual or group showrooms would allow local merchants to showcase their offerings on a rotating basis and provide local artisans and designers the opportunity to interact with customers, co-design products, and manufacture them in real time.

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Values centers could reflect one or more of the ethnic identities of the local community through food halls, with ethnic artisans offering familiar ethnic or imported brands, entertainment, and services particularly relevant to a community. These CESs could boast event spaces for concerts, competitions, exhibits, and community events or provide physical locations for relevant e-commerce platforms.

Or, they can cater to a broad range of activities from sports to eating.

Given the growing popularity of local or specialty food one can easily imagine the successful launch of a concept such as the “Our Town Food Mall,” featuring a farmer’s market selling locally grown or manufactured items, pop-up restaurants, ethnic food halls, kitchen appliance stores, and cooking schools.

International examples of this format today include the Great Food Hall in China, The Market Hall in Portland, the Markthal in the Netherlands, and Eataly.

Values centers might also be smaller CESs specializing in related retail businesses and services.

Examples might include a high-end luxury center, a fashion plaza, and maybe even a throwback—a men’s mall. This hyper-focus on a subsegment of consumers will allow new brands to test-market and introduce products to a relevant, targeted consumer base, one that appreciates the newness and relevancy of the offerings.

CES operators and participating retailers could easily leverage digital media to build platforms bringing shoppers together to share insights and opinions on a specialty topic—a retail meeting house for like-minded consumers sharing common values. Non-retail tenants and services that support the target consumer group could also be encouraged to participate.

Innovation centers

Innovation centers are “smart” CESs where participating tenants pool data and ethnographic observation, social psychological analysis, and other tools to satisfy shoppers and evolve along with them.

These CESs will employ staff, including center anthropologists, retail cultural psychologists, and mall ethnographers to constantly observe, record, and analyze shoppers as they move from space to space, providing real-time feedback to all tenants and CES staff. Their services will either be incorporated into the lease agreement and available to all tenants or become the proprietary IP of the CES operator and made available for sale to tenants and consumer goods manufacturers on a selective basis.

Innovation centers may keep a designated percentage of shops available for testing various approaches to retailing, from pop-ups to theme stores such as New York City’s STORY, which becomes a new themed retail environment every month.



Innovation centers will employ staff to constantly observe, record, and analyze shoppers.

They will also turn beta testing into a business. It is easy to imagine a subset of these CESs—call them beta centers—that will be pure tech plays where every store in a smart, active retail environment features the latest in high technology, some available for sale and some being tested. Beta centers will provide real-world test labs for the Amazons, Googles, and Apples of the world. By monitoring shoppers in a variety of unique retail situations and their interactions in public spaces, retailers, operators, and consumer goods manufacturers will gain access to an unprecedented tool for the rapid testing and development of new products, store formats, and service offerings.

Everyone associated with an innovation center will share an opportunity to create a separate revenue stream by leasing access to their individual stores, shelves, and customers. For their part, consumers will get the opportunity to test the impact of new technologies, access experts to help them through their own technologies, and maybe even trade personal shopping and product evaluation data for discounts on new items or new products.

Retailidential space

Retailidential spaces are mixed-use CESs targeting a specific consumer segment such as young urban hipster professionals, single-and-staying-that-way 40-somethings, or senior living environments. These highly curated “lifestage centers” will offer a demographic-specific and appropriate set of retail, restaurants, entertainment, and services.

Developers such as Aeon Co. are already repurposing some of their malls to address the needs of Japan’s advanced aging population. In America, senior-focused malls will be built adjacent to, or in conjunction with, senior housing and will feature medical services, pharmacies, exercise facilities, lawyers specializing in age-specific law, accountants specializing in estate planning, and community rooms.

Retailidential space isn't just for the old.

Retailidential CESs for young, urban, hipster professionals will contain high-end electronics stores, upscale furniture shops, micro-breweries, bars, gourmet food stores, meet-and-greet social space, gyms and other fitness facilities, spas, and live entertainment.

Another variation on this theme might be mixed-use, multiformat centers strategically located where consumers live, work, and travel, offering integrated shopping and entertainment experiences and lifestyle accommodation as well as access to necessities from food to dry cleaning services.

As Americans move to more densely populated urban areas there will be growing demand for local, walkable downtown centers. And, as the gig economy expands and shared workspaces take new forms, there will be an increasing need for co-located centers that provide physical locations for sharing and re-commerce platforms.

A New World

At the start of this study we said the future of retail real estate is as robust as the industry's imagination. Innovative retailers, center operators, and technologists are already redefining the "art of the possible" on a daily basis across the world.

That said, future success depends to a large degree on being able to "unlearn" the lessons of the past. This is a new era for retailing and the conventional wisdom of 20th-century retailing has about as much place in the 21st-century CES as a buggy whip has on an interplanetary spacecraft.

Tomorrow's success will belong to those operators and tenants willing to break from yesterday's patterns and practices and fully embrace a consumer-driven future.

Author



Michael Brown, partner, New York
michael.brown@atkearney.com



Matt Lubelczyk, business development manager, New York
matt.lubelczyk@atkearney.com



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