What is the Future of Retail? A Conversation with MC&M, Ltd., President *Elizabeth Napoli*

"As the baby boomers with more disposable income continue to age, you will see stores that appeal to that segment of the population," says MC&M, Ltd., President Elizabeth Napoli. "This will include more entertainment and dining concepts, health clinics, doctor offices and so forth."

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As the recession runs its course, leaving many retailers in financial trouble or out of business, one wonders what the future holds. Shopping is such an important part of the New Jersey economy and has a huge financial impact on a national and global scale. The consumer can rescue these businesses from an unprecedented freefall, but who can save the consumer from their own financial hardships?

COMMERCE spoke with retail/shopping consultant Elizabeth Napoli, president of MC&M, Ltd., to better understand the current trends facing retailers and the future outlook for this industry. A Board Member of the Commerce and Industry Association of New Jersey, Napoli has more than 35 years of experience in all aspects of the shopping center industry. Prior to founding MC&M, and working as a consultant on the Meadowlands Xanadu project, Napoli served as the general manager of The Shops at Riverside.

During her career in the shopping center industry, Napoli achieved the designations of SCSM (Senior Certified Shopping Center Manager) and SCMD (Senior Certified Marketing Director) from the International Council of Shopping Centers. Below are her thoughts on the retail industry's challenges, both present and future.

COMMERCE: *How have malls and retail outlets dealt with the recession?*

ELIZABETH NAPOLI: Just like other industries, retail has had to recoup and re-think their strategies and long-term plans. The industry has had to deal with issues on two major fronts: the leasing arena for the future direction of shopping centers, and the operating centers. Leasing was virtually paralyzed with the economic slowdown. No financing was flowing, which froze new retail as well as existing retail. Leasing of new stores or renewals virtually stopped for about a year. During that time, retailers assessed their existing portfolios as well as pending deals and long-term plans to adjust to the economic tsunami and consumer reaction to the economy. As of December 2009, deals have just started to trickle in, but very slowly as more retailers are willing to talk and consider moving forward. There will still be some more closings and bankruptcies which cause operational issues for shopping centers as well.

Q. *What challenges face the operating centers?*

A. Landlords and owners have had to take a hard look at their centers and analyze their options. Many merchants have come to landlords or owners requesting rent relief or wanting to close stores. Landlords and owners have had to balance their responses. Owners need to look at the whole picture to determine their best course of action. These days, due to mortgage commitments, co-tenancy clauses and other related issues, if one tenant closes, it can trigger a myriad of options by other retailers in the center that can cause serious harm to the asset. Therefore, owners and landlords are cautiously moving forward by attempting to negotiate payment plans, rent relief, construction delays, etc., so that the long-term viability of the property is considered, rather than a short-term solution. Retailers, as well as mall owners and managing agents, are all cutting operating expenses. Several years ago, in reaction to retailers' concerns, some landlords agreed to fixed CAM (Common Area Maintenance) and/or caps on CAM. Some retailers would only accept gross deal terms where one number or a percentage of sales for rent is agreed to and it is up to the landlord to make the retailer's payments cover all of their related expenses. These changes in lease terms have forced on-site management to adjust their standard methods of operation and reduce expenses in every possible category.

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***Q.** What will mall tenants in the future be like?*

A. Mall tenants will reflect the demographic changes that are occurring within the general population. As the baby boomers who have more disposable income continue to age, you will see stores that appeal to that segment of the population. This will include more entertainment and dining concepts, health clinics, doctor offices and so forth.

***Q.** How have malls fared against online shopping?*

A. There is no question that online shopping is gaining momentum. However, consumers still need and want to feel, touch and see certain items. Books, DVDs and other known products that consumers purchase on a regular basis are logical online shopping purchases. But when you want to get inspired and find a very unique item or a gift that you may not even know about, there is nothing like a trip to your favorite shopping center or store. Bricks and mortar stores in some combination with online and/or catalog shopping still seem to be able to co-exist and, in some cases, support and dovetail to each other. Retailers are going to continue to monitor sales results from all venues and adapt and adjust to consumer reactions. Long-term, retailers and landlords will continue to adjust to consumer trends and new technology options and attempt to adapt accordingly.

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***Q.** What types of retail stores have remained strong during the recession, and which ones are in danger?*

A. Believe it or not, "dollar stores" or close-out stores are very popular and very profitable. They appeal to a variety of income levels and offer options for a wide variety of merchandise. Focused retailers with a point-of-view are still very successful. Stores such as Apple, Bath & Body and Chico's are hot. Electronics stores are doing, well too. Department stores are being challenged to reinvent themselves. Jewelry, as a category, has taken a big hit.

***Q.** One of the biggest chains to go out of business in 2009 was Circuit City. What is happening to those empty properties?*

A. In some cases, they're knocking the stores down completely and redeveloping the site. In other areas, they're waiting to see what retail could possibly come in there or if there are alternate uses for the property. In some cases, I've read that some Circuit City stores were taken over by car dealers, boat dealers and other large-format retailers. If you have a cooperative municipal government that wants to work with a developer or business owner to really convert that vacant land to a tax-paying parcel, they will be able to find a solution.

***Q.** Did this recession cause a sea change? Will retail ever be the same?*

A. Clearly, the recession has had a significant impact on retail as we know it. And the repercussions are not over. There will be another round of store closings after the second quarter of 2010, once the sales figures and profit margins have been finalized. Retailers are and always have been at the mercy of the consumer, who is coming into stores with less money to spend, no credit and anxiety about continued financial hardship. For the 2009 holiday shopping season, K-Mart brought back layaway in reaction to the lack of credit available to shoppers. This is just one way the retailers are adapting. The retail arena will continue to evolve just as they have done for the last 50 years. Shopping centers and retail in general will have to continue to reinvent itself to ensure that it is relevant to the consumer.

***Q.** What retail development over the last decade surprised you?*

A. There is really no consumer loyalty anymore. That is something that I think has drastically affected retail. In the past, somebody might have been a die-hard Bamberger's or Bloomingdale's shopper, for example, and they only went to that store. Those days are gone. The customer now is very transient. They are very willing to drive wherever the sales are. They're very educated and aware of the advertising no matter the medium. We've trained the consumers to look for the sales, and we've trained them to wait for the right price. We're going to have to see how the stores and the retailers react to those forces.

***Q.** What's the future of retail as an industry?*

A. Retail will continue to evolve in reaction to consumer needs. Retail will in all likelihood continue to include store locations, online retail, catalog sales and whatever new technologies present themselves that retailers can enlist to generate sales. ■