

# Future of Retail Property

## Online Retailing: The Impact of Click on Brick

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Online Retailing:  
The Impact of Click on Brick



This thought provoking research is the first to review the differences between 'clicks' and 'bricks' and how internet shopping might impact the future of the retail property industry, particularly its physical real estate needs.

Retailers view the internet as part of a multi-channel approach and most predict that the number of physical stores will remain constant or will grow over the next ten years. The challenge will be for retailers to work with developers and investors providing shopping destinations that continue to attract both men and women, meeting their needs and responding to their differences in attitudes and shopping behaviour.

BCSC is delighted to present this fascinating research.

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# Future of Retail Property

## Online Retailing: The Impact of Click on Brick

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Each year adds to the feeling that the original dot.com boom hype was not so much wrong as too early. The rise of e-commerce in the UK in recent years has impacted upon retailers, developers and investors alike.

While scare stories predicting the death of the high street have (as yet) proved unfounded, e-commerce appears likely to take an increasing share of retail sales in the years to come, and the extent to which this will affect traditional 'bricks and mortar' retailers - in terms of sales and rental values, future space and ownership/leasing requirements - is a matter of keen importance for the UK retail industry.

A great deal of research has already been published in this area, including the BCSC's own report, *Future Shock or E-Hype?* (2002), and Cushman & Wakefield's *Global E-tailing 2000* and various *Where People Shop* surveys, together with numerous other reports, books and articles. It is therefore vital that any new research study does not simply re-tread old ground and one area of focus which may prove particularly fruitful is the interplay between shopping centres and e-tail.

Online retailing is reportedly growing 26 times faster than the high street, as large numbers of consumers continue to switch to buying online, especially for high ticket discretionary purchases, such as LCD TVs and digital cameras, motivated by the convenience, huge choice, rich information and significant savings that the internet can offer. Shopping online saves time - the equivalent of an extra week's holiday each year! It has been estimated that half the adult population expects to spend more than 40 hours doing their Christmas shopping; three-quarters of this time could be saved by shopping online.

The potential long-term impact on property is huge. The internet opens up a new means of access and communication for customers, employees, suppliers and retailers alike and fundamentally changes the balance of location preferences and space needs, as well as the competitive pressures underpinning rental and capital values.

# Online retailing is reportedly growing 26 times faster than the high street, as large numbers of consumers continue to switch to buying online.

There will be both positive and negative implications for the real estate market. The growth of e-tailing is not the death knell of the retail property market as it is known, rather it provides opportunities to get the fundamentals of retailing right. Likewise, it also provides an opportunity for shopping centre developers and investors, if harnessed appropriately, to be part of an asset enhancement strategy.

There will be a virtual increase in retail floorspace provision, although not all retail sectors will be affected in the same way. There is the suggestion that the internet is impacting not just on high street sales, but also on the inclination of retailers to expand their 'bricks and mortar' outlets. The increase in virtual floorspace could also have an impact on the number of new start-up retail concepts, that might previously have taken retail outlets. This could lead to a decrease in the level of innovation and the number of new concepts or formats in the high street and in shopping centres. Shops are likely to change in physical terms and be used in different ways as this century progresses. New standards of design and specification will emerge.

This current project, *Online Retailing: The Impact of Click on Brick*, sets out to provide an insight into the up-to-date picture of the current status of online retailing, the relationship between the 'bricks' and 'clicks' channels and to offer a view of the future implications for, and development of, the retail property industry, based on various market research surveys among retailers, developers and investors, as well as shoppers themselves.

This research project, as part of the BCSC's *Future of Retail Property* research programme, has four main aims and objectives:

- To provide an up-to-date picture of the relationship between the 'bricks' and 'clicks' channels, including perspectives from retailers, developers and investors, as well as shoppers themselves.
- To gain a better understanding of how retailers are adopting online retailing as part of a multi-channel approach, and how this might impact on their future real estate needs and the way in which retailers use their physical real estate space.

- To define different types of consumers in terms of their attitudes and behaviour towards e-tailers and more traditional 'bricks and mortar' retailers.
- To inform developers, investors and their advisers as to the likely future impact of online retailing on their assets (both existing and future) from a more holistic perspective; from conception of project through design, development, tenant mix strategy and leasing, marketing and asset management stages.

The research was conducted by Cushman & Wakefield, using Ipsos-MORI to conduct all the market research surveys (including focus groups, face to face in-depth interviews with industry figures and telephone interviews with consumers, retailers, developers and investors) over the period November 2005-March 2006. Further details of the methodology employed can be found in Appendix 1.



Section 1

# Executive Summary



## Understanding consumers and their behaviour

*Online Retailing: The Impact of Click on Brick* set out to provide an insight into the current status of online retailing, the relationship between the 'bricks' and 'clicks' channels and to offer a view on future implications for, and development of, the retail property industry, based on various market research surveys among retailers, developers and investors as well as the shoppers themselves.

Based on the results of attitudes of all adults with internet access to shopping online and through physical stores, five specific groups of consumers can be identified:

- **Net sceptics store shoppers** - the largest group and the least likely to purchase online, either due to security concerns or because they enjoy the experience of physical stores where they can touch and feel products. They are not even likely to use the net to browse or research products.
- **Multi-channel shoppers** - they shop online but are not as passionate about it as the e-shoppers group. This group likes to shop around different channels; they may browse in shops and then purchase online.
- **Net browsers store shoppers** - they enjoy the experience of shopping in real stores where they can touch and feel products, try them on and take away immediately. These consumers will often use the net for researching products and services and to compare prices. This group is most likely to combine browsing online with purchasing in physical stores.
- **E-shoppers** - they are most likely to shop online and plan to do more of their shopping online. They see shopping in stores as a chore.

- **Internet café contenders** - this group is not likely to shop online, although they could be converted, particularly if internet facilities were provided in shopping centres.

Nobody ever pretends that understanding consumers will be any easier in the future, but, like it or not, consumers will increasingly determine how retailing evolves both in physical spaces and online. It is vital that developers and owners understand this. They have to understand that shoppers are faced with a myriad of shopping opportunities, and they have to give them a reason to keep going to the shops rather than shopping online. Retailers have already woken up and are fighting back with multi-channel strategies.

Undoubtedly, some sales are already being lost from physical stores across all categories of goods, but the good news for retailers at least is that there is still a sizeable proportion of additional sales, some of which will be going to the multi-channel retailer as well as to pure e-tailing sites. It is also important to keep matters in perspective, as even the majority of online shoppers surveyed had not bought many categories of goods and services online in the last year at all.

### The high street is dead, long live the web!

Over the last five years it has often been speculated that with the growth of online shopping the high street would disappear. Consumers, faced with the chance to shop 24/7 without the stress of getting to the shops, parking or overcrowded shopping centres and to make price and product comparisons easily, would desert the high street in their droves. Undoubtedly, there are many pressures on consumers, as have been outlined in the BCSC's *The Future of Retail Property: Changing Demographics and Consumer Patterns*.

That said, while scare stories predicting the death of the high street have as yet proved unfounded, e-commerce appears likely to take an increasing share of retail sales in the years to come, and the extent to which this will affect traditional 'bricks and mortar' retailers, in terms of sales and rental values, and future space and ownership/leasing requirements, remains to be seen. Some retail sectors have already been hit harder than others. This is not going to change. It should be remembered that while online retailing has had an impact, it is far from the only factor that is impacting on the retail sector currently or indeed in the future.

'E-shoppers' are attracted by the convenience of online shopping and find online shopping easy. Both 'E-shoppers' and 'Multi-channel shoppers' believe online shopping provides the lowest prices. 'Net browsers store shoppers' are likely to use the net for research about products and services, including comparing prices.

'E-shoppers' are the most passionate about online shopping and are the group most likely to do more shopping online in the future. 'Net sceptics store shoppers' and 'Net browsers store shoppers' are the least passionate about online shopping and do not plan to change their behaviour in the future. They are also the most concerned about security.

Men find it much more convenient and cost efficient to shop on the internet than in shopping places and envisage that in future they will do more of their shopping on the internet. They are also much more likely than women to use the internet to research products and services and to compare prices to get the best deals. The 'hunter' approach to shopping persists, as they have a specific idea of what they want to buy and do so online.

Women were at the opposite end of the spectrum compared to men when it came to their future intentions. They were certainly not planning to do more shopping online nor did they think it more convenient to shop online than in shopping places.

The one area of agreement between the sexes was that shopping on the internet is not a big passion! Igniting a passion for shopping among men and creating an environment in which they feel comfortable, while not alienating women, will be a future challenge for developers and owners.

## Implications of online retailing for the future of retail property

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### The future of consumers is multi-channel

The research has shown that today's consumers are multi-channel savvy and use a combination of different shopping channels to meet their shopping needs, and have done so for a long time. However, store shopping is still the principal method of shopping for most people and is likely to remain so. There is still potential for online retailing and it will continue to grow for some time to come.

E-tailing is never going to replace the shopping experience. Shopping is a social activity in the main, particularly for women who enjoy shopping for recreation. Men consider it a necessity and often feel 'duty bound' when accompanying partners on shopping trips. Online shopping is very much seen as a complementary tool to support their retail activity.

Many consumers, particularly 'multi-channel shoppers' and 'net browsers store shoppers' use both channels interchangeably; they browse and compare in-store and purchase online or vice versa. There are still categories of goods that some consumers feel are less appropriate for online shopping, such as those that require active sensorial involvement - feeling, touching, smelling, listening - fashion, footwear and accessories, food etc.

Some shoppers are open to the idea of a single website for multiple retailers. Men appear to like the idea of a single website where they can obtain products from lots of different retailers. Men clearly prefer to shop by themselves and spend as little time as possible in the store.

Customer loyalty is dead! How consumers respond to the multitude of shopping opportunities, both physical and virtual, will be influenced by the range of choice on offer and its ability to satisfy their lifestyle aspirations, coupled with ease of accessibility. Shoppers will be more promiscuous, more inconsistent and less predictable. This has implications for the future of retail property and the physical retail store sector. Arguably, developers and owners of physical retail property should be rethinking their e-commerce strategy to ensure that their retail places are front-of-mind within their catchment areas. They must then deliver a fulfilling experience when they get shoppers there.





### Keeping consumers going to the shops

If today's online shoppers are to be persuaded to visit shops more often in the future, then there are a number of factors which will need to be addressed. Some of these factors retailers, developers and owners of retail property have no control over, but there are ways in which some of the perceived obstacles can be overcome in perception terms if not necessarily in real terms.

Car parking (both free and better or more car parking) was one of the key factors that would make online shoppers more likely to visit physical shops. This is arguably one of the areas in which developers and owners have some degree of control, subject to planning and transport policy constraints in the future. Shoppers are clearly wedded to their cars, and unless an alternative method of transport can be found that is equally comfortable, convenient and cost effective, this is not likely to change in the future. This has to be recognised at all levels. All this is in spite of ongoing improvements in, for instance, broadband technology, which arguably would suggest that online shopping could have a major impact on reducing shopping-related traffic and congestion in town and city centres (see BCSC's *Access, Information and Flexibility: The Future of Retail Transport*).

Easy public transport access was also a factor for some. The act of shopping is clearly undertaken for reasons other than just the simple acquisition of goods and services. It is about the retail experience as a process of social interaction that cannot easily be replicated online.

The 'experience' of shopping is a much discussed topic. This is generally taken to mean that consumers want to be entertained and have fun, but while this may be possible in the larger shopping places geared towards the day-out, it is not always feasible in more functional shopping places. However, if a more literal meaning of the word 'experience' is applied it becomes rather more all encompassing and goes back to the basic and fundamental principles of retailing.

Improved customer service was another key factor that would attract online shoppers back to the shops, as were other aspects related to additional services, such as a delivery to car service, areas to leave accompanying children and partners (including a male 'crèche' with multi-media facilities). Whether or not shoppers would be willing to pay for such services is, of course, a different issue, but if they potentially add to the bottom line by enhancing retail sales then such facilities should be considered.

## Implications of online retailing for the future of retail property

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Despite the hundreds of online shopping opportunities, the retail and leisure offer was cited in many guises by consumers as factors that would encourage more frequent visits to the shops. This included more food service outlets, more unique, individual boutique-style shops, farm shops, more leisure facilities, market stalls and relaxation areas. Increased differentiation on manifold levels will continue to be the order of the day in the future.

If online shoppers are to be attracted back to the shops then there has to be a greater recognition of the differences in attitudes and shopping behaviour between men and women. Women generally do not see most types of shopping as a chore, unlike men for whom it is something that is at best endured because it is a necessity. Women prefer to be able to touch and feel products before purchasing. They think that online shopping will never replace the fun and enjoyment of real shops and like to shop for high

value purchases in physical stores. The social and recreational aspects of shopping are also a factor among women, who see it as way of getting out of the house. There is a suggestion that grouping shops that target men together in one area would make them more likely to visit more often and would perhaps go some way to making them feel more comfortable.

Everybody agrees that the internet will never replace the fun and enjoyment of going to the shops! The challenge for retailers, developers and owners is to keep innovating and to continue to provide what these multi-dimensional shoppers want.

### Impact on retail places

The results have shown that the impact on different types of retail places is likely to be complicated. It will very much depend on what type of retail place is being considered, including issues of location and size as well as the retail and leisure offer.

Women think that online shopping will never replace the fun and enjoyment of real shops.



### Retail rents and capital values

There is a strong chance that online retailing will put some pressure on retail rental growth over the next five to ten years, but it is unlikely to impact on capital values. 'Large' and 'very large' shopping centres over 40,000m<sup>2</sup> are deemed almost immune from the impact of online shopping as they offer the complete day out. Less than 30% of respondents believe these centres will suffer from a negative impact on rents or capital values.

However, as the size of the shopping centre decreases so more respondents believe there will be more adverse effects. Over half of all respondents forecast a negative impact on retail rental growth over the next decade in small shopping centres sized between 5,000-19,999m<sup>2</sup>, and 40% expect these small centres to suffer a negative impact in terms of capital values.

### Demand for retail space

There have been suggestions that the internet has impacted not just on high street sales, but also on the inclination of retailers to expand their 'bricks and mortar' outlets. Retailers are, however, optimistic as they envisage a continued demand for physical stores and, for most, store sizes are likely to remain the same. Significantly more retailers ranked physical stores first, ahead of all other current channels of retail distribution, and this is a pattern that

they envisaged continuing. Although in the future the proportion of retailers ranking physical stores first will be marginally lower.

Websites are likely to become increasingly used as a means of distributing goods to customers. A quarter of retailers currently ranked websites as second, a long way behind physical stores. The proportion of retailers ranking websites second over the next decade increases to 42%. Those retailers with a transactional website were asked in respect of their own companies whether they thought e-tailing channels were increasing overall sales or cannibalising in-store sales. Three-quarters of respondents said that there had been an increase in overall sales. Just 11% thought that e-tailing was cannibalising in-store sales.

Retailers with transactional websites were asked what proportion of their company's total sales was currently generated through e-tailing. The average proportion of total sales attributable to e-tailing was 4.5%. When asked the same question, but relating to the period in five to ten years, the average rose to 14.7%.

The retailers' views contrast significantly with those of developers and investors, where there was much less optimism that retailers would still want stores. Developers and investors are arguably in danger of believing the hype. It is not the end of the market as known today.

## Implications of online retailing for the future of retail property

Retailers see e-tailing as another channel of distribution. They could distribute goods in any number of ways and to them it is just another way of communicating with customers. Perhaps there is a need for better dialogue between developers and owners and their customers, the retailers.

### Adapting to change

Retailers, developers and owners all envisage more and more people using the internet in the future and therefore they have to adapt or suffer the consequences. As two of the experts said:

*"It's not the end of the bricks and mortar world - we knew it wouldn't be, but it affects it directly and indirectly. As e-tailing grows each year, we have to adapt to it equally."*

*"It's about seeing e-retail as an opportunity and not a threat."*

Retailers will increasingly have to adapt their stores to create more experience led environments, including more multi-media entertainment, brand immersion, non-purchasing displays, interactive space and - importantly - much higher service levels. One of the keys to success over the next decade will be real product knowledge, technical expertise (where appropriate) and a genuine desire to assist customers. This will affect even small shops in the medium term, where they will need online capacity to display their full range and use more multi-media to create more of a brand experience.

The challenge for retailers therefore remains to integrate remote retailing with their physical store and distribution network to best effect for efficiency and customer access. Christmas preparation particularly is no longer just about stocking the shop floor, it is also about

stocking the back office to cope with the rise in home shopping.

Logistical problems need to be resolved if customers and retailers alike are to succeed in the multi-channel environment. Delivery of goods to the customer is one of the main factors still most likely to stall the growth of online retailing. Failed deliveries and the cost implications are significant, in terms of, for instance, brand loyalty, returned goods and redelivery, not to mention the impact on the environment of the extra mileage. Increased customer service and information is vital and a key differentiator for the retailer that delivers both. New business opportunities exist for those that are able to provide a centralised pick up point for customers.

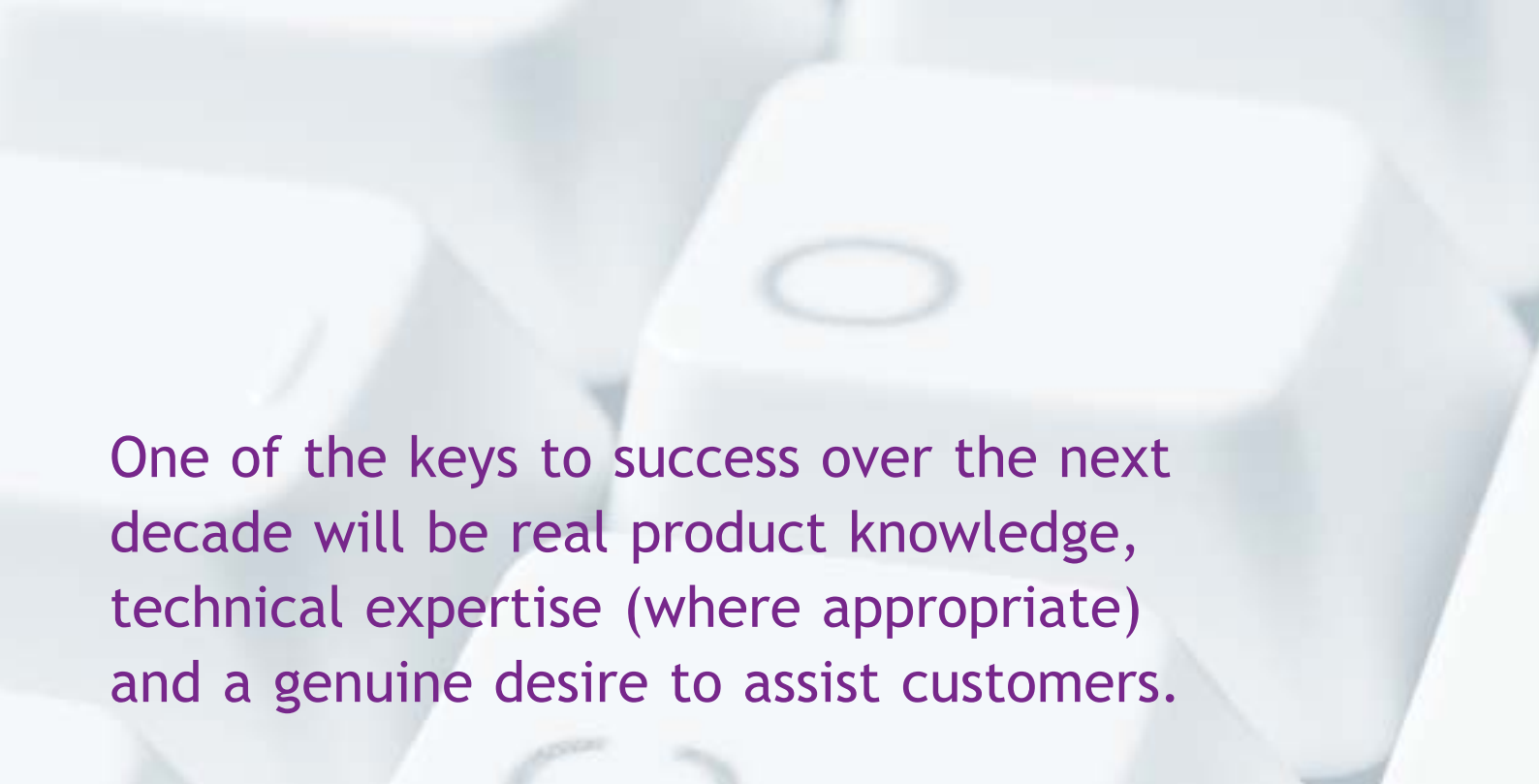
### New retail formats

With the increase in virtual floorspace there could be a decrease in the level of innovation and number of new concepts and formats in the high street and in shopping centres. In the past new, independent and small retail companies might have taken a kiosk or mall barrow to test a retail concept before taking a shop unit. There is now arguably no need to take any physical space. By creating an online retail presence there is the advantage of no retail occupancy costs or fit-out expenses and, crucially, no need to pay wages for people to staff and manage the shops.

However, there are already examples of where e-tailers or other remote or mail order retailers, such as Boden (UK), have taken shops to extend their market coverage.

### Future certainties

The one thing that is certain is that the internet is here to stay. Its capabilities and branding possibilities are going to improve as broadband becomes more accessible, faster and more creative.



One of the keys to success over the next decade will be real product knowledge, technical expertise (where appropriate) and a genuine desire to assist customers.

Online shopping is going to become easier, more enjoyable and safer over time. The enjoyment factor is arguably already happening through the use of peer review websites that introduce an element of social interaction. Social networks such as MySpace and Bebo will become an increasingly important source of visits to retailers.

The preferred location for delivery for over 90% of respondents is currently the home. Delivery, one of the current bugbears, will improve, perhaps by the introduction of more evening delivery slots or dedicated, car-friendly pick up points for online purchases. These might be in shopping centres or at transit hubs or perhaps a new network of centralised depots easily accessible by car and with flexible opening hours. Alternatively, it suggests that a more proactive and creative approach needs to be found for the delivery of goods, although none of this will be without costs.

As online shopping improves, functional and low level involvement shopping at small but regularly visited shopping places may decline, while the large or major shopping destination type experience will remain popular but should combine more online facilities within the complex.

Retail mix in shopping places, particularly in shopping centres and on the high

street, has changed. The retail place, whether it is a shop unit or a shopping centre, has to be inviting, exciting and stimulating - otherwise the customers will vote with their wallets and wheels and will go elsewhere to another store, shopping centre, the high street or online. That said, the future's retail offer in retail places should not just be about product, but about fun and experience in its widest sense. Future retail places have to evolve continuously and reinvent themselves to meet the ever changing needs of consumers. Smaller retail spaces may, over time, have to reinvent themselves to continue to be attractive to consumers.

Shops are likely to change in physical terms and be used in different ways as the century progresses. New standards of design and specification will emerge. The table shows a summary of the changes that are underway. It should be seen as a spectrum of change along which differing points have been reached. A change of emphasis will be critical in some areas: namely, the importance given to access (e.g. via the internet) rather than location, and the tendency for this to disperse economic activity rather than concentrate it. Some of the changes mentioned above have already manifested themselves, for instance with the latest Apple and Sony stores, designed to display products in the full expectation that many customers will choose to shop online.

Implications of online retailing for the future of retail property



The retail transition

From	To
Location	Access/popularity
Generalists	Specialists
Times when we do	Moments when we might
Store as a warehouse	Store as a showroom/theatre
Store as a transaction point	Store as an information point
Retailer power	Consumer/broker/distributor power
Convenience	Relationship and trust
Value for money	Value for time coupled with value for money

Source: Cushman & Wakefield

It is not possible to put any timeline on the retail transition. Location is only part of the story, with access and popularity becoming increasingly important as performance indicators. Consumers are moving from a planned time for the shopping trip towards moments when they might just choose to shop, for instance online via the internet. There will be an increase in retail floorspace provision, both physical and virtual via the internet, although clearly not all retail sectors will be affected in the same way.

For shops, and more particularly for shopping centres, wiring and technological obsolescence may be of greater importance. The future retail world will be one in which consumers might shop any time, any place!

## Connecting clicks and bricks in retail places

Consumers envisage a number of ways where 'click' will meet 'brick'. They see the possibility of an interactive hub as a central focus point to each shopping centre or an area where they can 'log in' or 'clock in' as they enter with a loyalty card, or simply touch a screen where they can access relevant information - offers in their favourite stores, loyalty discounts, events, sales, seasonal interest, etc. This would point them in a particular direction and give a sense of structure to their visit. This area would also tell them about shopping centre facilities, pick-up points, delivery to cars, store maps etcetera. The interactive hub would serve as a browsing tool too, with direct links to websites of those shops in the centre where items could be browsed, researched and even bought online for in-store pick up - effectively an intranet shopping basket.

Some smaller centres may grow as convenience outlets and, possibly, central collection points. The provision of local collection points, locker-banks or secure drop-off boxes at individual homes could go some way to enabling retail companies to deliver goods more flexibly. New housing developments could also include facilities for the delivery of shopping. If local shops and services can be encouraged to operate in conjunction with online or multi-channel retailers, then this is arguably another means of sustaining and increasing their viability, particularly in small towns and villages. Medium sized convenience centres may suffer more while larger shopping centres will continue to be a focus for comparison shopping trips.

There was a thought that perhaps in the more distant future shopping centres could be accessed online (remotely) and orders be placed for pick up at a central pick up point. The idea of a delivery box

system (a bit like a post box number) within a shopping centre, where consumers could rent a box for deliveries, is an extension of this idea.

What is clear is that what is being witnessed is a change in emphasis on a range of fronts. Already there is the beginning of a transformation in how, when, where and why people go shopping. Ever changing consumer behaviour and evolving retailer space requirements could render some existing shopping facilities less well equipped to cater for both consumer and retailer demands alike.

Property owners and developers meanwhile will need to keep a closer eye on which formats and locations adapt best to multi-channel retailing and, importantly, which retailers and traders will provide the strongest and most secure customer draw to their property.

In future shopping centres are going to need to be able to adapt to technological advances and this will require flexibility to be built into schemes at an early stage. Many technological advances have not even been thought of yet or are, at best, on the drawing board.

The function of servicing areas and means of delivery to store will change if shopping centres take on more of a fulfilment role or, at the very least, provide collection points. If this is the case, then transport and accessibility will be of critical importance, unless home delivery systems are improved or shopping centres themselves can start their own delivery service.

Transport and accessibility are major issues and are already among the key factors that will determine whether or not shoppers will continue to travel to a shopping place in the future.

## Implications of online retailing for the future of retail property

# Traffic levels and congestion could be affected by a continued move to online shopping and consequent growth in home deliveries.

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If car access is further restricted this will affect high streets and city centre retail areas, including shopping centres. It will also drive consumers towards online shopping. Irrespective of where shoppers end up doing their shopping, the decision making generally begins at home (do I go online or do I go to the mall?)

As online capability improves, access and parking in town centres and at shopping places becomes even more relevant in the decision process. Increased internet shopping could arguably lead to a reduction in car shopping traffic with implications for car parking requirements. However, this scenario is unlikely to ensue unless there is a major commitment from shoppers themselves.

Traffic levels and congestion could be affected by a continued move to online shopping and consequent growth in home deliveries, provided that shoppers do not substitute other car-based trips for the trip to the shops, particularly the supermarket. Road congestion will only be reduced if shopper mileage is more than the mileage by home delivery operations, and if information on the internet does not in fact create extra journeys.

What is clear is that in the future retail spaces are going to have to work harder to create a place of differentiation. A greater mix of uses and genuine services will be needed to attract consumers. There will have to be a much greater emphasis on improved customer service and experience, not just going for the 'wow factor', but reverting to the more fundamental definition of the word. It is a great opportunity to get the basics of retailing right.

Shopping place developers and owners will have to offer a greater mix of services, which are in some way partly linked to improved customer service. There are obviously cost implications and the question of control and management to think about. Developers and owners are going to have to start (if they haven't already) thinking about a strategy to live with their virtual competitors, in the same way as they have plans to counter the competitive threat from other physical retail places.

The one thing that remains certain is that reconciling the different needs of consumers, retailers, developers and owners will remain a challenge.