



CONSUMER AND RETAIL GROUP

THE FUTURE OF MALLS: REINVENTION FOR SURVIVAL



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Malls were once the center of the retail universe, a place to shop and gather with friends and family—a true retail destination. Over the past 20 years, malls have failed to evolve in the face of a changing retail landscape and shifting consumer preferences. Even pre-COVID, many malls were in a troubled state, with

- Vacancy rates reaching 9.7 percent—the highest in at least 20 years.¹
- Widespread store closures at mall stalwarts—Victoria’s Secret, J.Crew and Gap.
- Struggling anchor tenants often failing to draw traffic—JCPenney, Sears, Macy’s.

These struggles have been intensified by the COVID-19 pandemic, with malls across the U.S. completely shut down in the first days of the crisis. Although malls have since reopened, foot traffic continues to suffer declines of up to 25 percent.² With foot traffic down, many tenants are closing retail stores, exiting leases or, at the very least, renegotiating rents. In aggregate, 25,000 retailers will default in 2020, and 55–60 percent of those are mall tenants.³ Given current conditions, 25 percent of malls are expected to shut down in the next five years.⁴

Malls that wish to survive must strategically transform by providing relevant, safe community centers while embracing changing consumer trends and retail realities. The strategic transformation of malls should start with five pillars: digital innovation, customer-centric logistics, experiential centers, transformed business models and a diversified tenant base.

¹ REIS Moody’s Analytics

² <https://www.retaildive.com/news/sp-foot-traffic-to-shopping-centers-reaching-pre-pandemic-levels/583955/>

³ <https://www.cnn.com/2020/06/09/coresight-predicts-g-record-25000-retail-stores-will-close-in-2020.html>

⁴ <https://www.cnn.com/2020/08/27/25percent-of-us-malls-are-set-to-shut-within-5-years-what-comes-next.html>



1. Embrace Digital Innovations

For years, malls have existed purely as property owners playing little to no role in technological innovation. Given the explosion of omnichannel commerce, malls can no longer stand on the sidelines if they hope to remain relevant. Digital must be at the center of the mall's value proposition, both to customers and tenants:

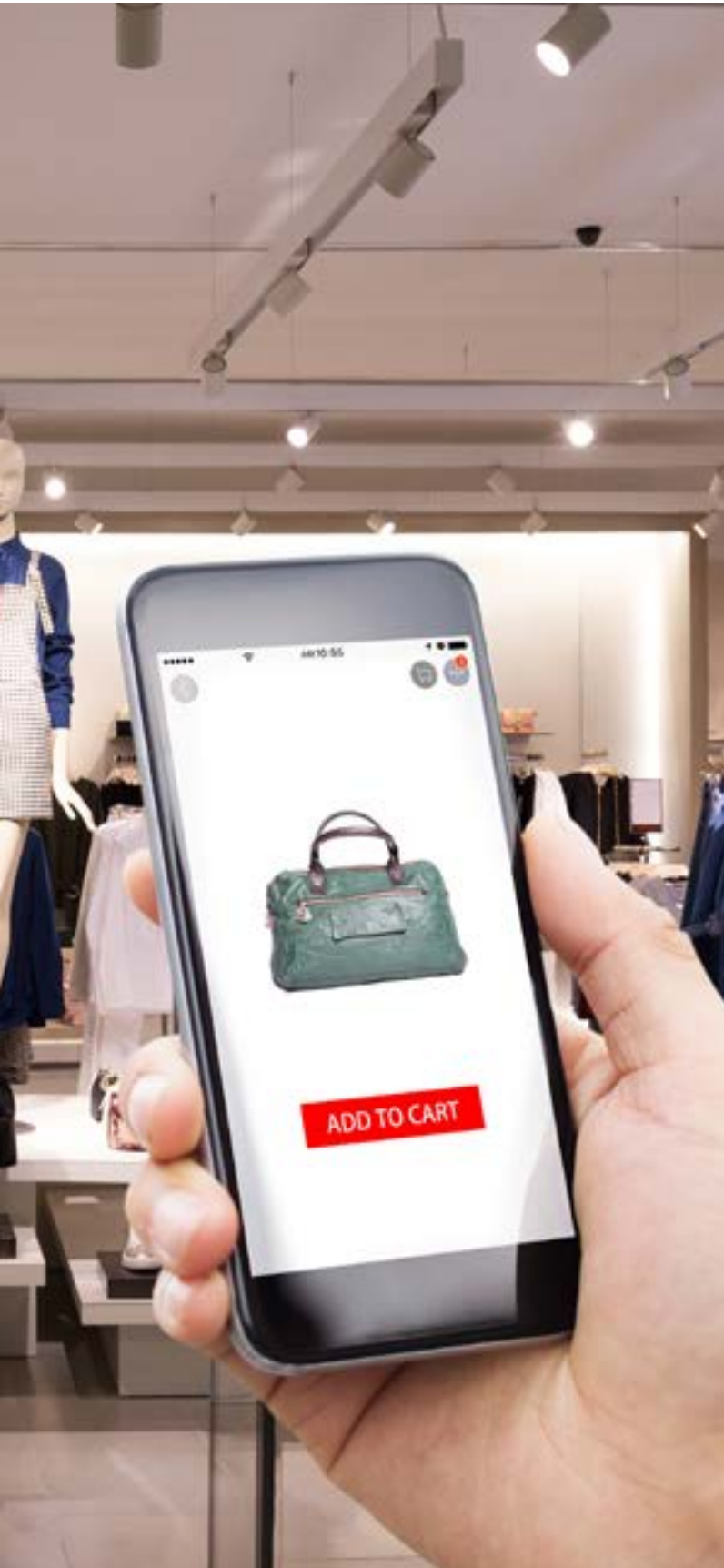
- **Build mall-centered online marketplaces** – Allow consumers to shop across multiple tenants in the same mall in one digital marketplace.
- **Implement a cross-mall digital product search capability** – Create a customer-focused search engine that will enable a customer to know where to find a product across mall tenants.
- **Provide multichannel customer journey analytics** – Deliver customized mall-based customer journey analytics through cameras and sensors to help tenants optimize everything from product assortment to labor scheduling.
- **Improve the digital customer experience** – Improve the mall-based customer experience through advancements, from parking location technology to voice-enabled help kiosks, to augmented reality mall mapping technology.

To deliver the immersive, personalized experience that customers are looking for, malls must engage in the digital retail experience at each step of the journey.

Digital innovation is essential for malls to create an immersive and personalized experience with their customers. Adeptmind offers a unique solution to digitalize the mall shopping experience combined with AI technology to simplify the customer journey, allowing them to easily search the entire mall's portfolio and local inventory. With our services, we enable the malls to become “mini Amazon,” giving the shoppers a much deeper way to connect with their local mall than ever existed before.

— Yoav Artzi, Vice President of Product at Adeptmind





2. Become a Customer-centric eCommerce Logistical Hubs

Malls have traditionally delivered a purely landlord-tenant relationship. However, declining traffic and retail bankruptcies challenge the primary source of mall revenue: long-term leases. To compensate, malls must develop value-added services for their tenants and for their customers. Malls have clear opportunities to add value through three new services:

- **Build a customer-friendly BOPIS experience**
 - Build a truly differentiated experience to support integrated pickup across tenants of the mall. Bring the best of digital commerce to the pickup experience, including offering upsell and cross-sell items based on basket analytics, displaying multiple sizes for in-person comparison and providing fitting room capabilities, if required.
- **Offer an operational support for tenant eCommerce** – Define “pickup” locations in parking lots, implement a store-to-car pickup program and staff cross-tenant pickup teams. Build a platform for retailers lacking eCommerce capabilities.
- **Build a ship-from-store logistical service** – Provide efficient ship-from-store capabilities across all tenants at a given mall.

The future of retail is an enhanced, personalized and omni-channel experience requiring an evolution of the landlord-tenant relationship. The traditional mall-based model and landlord services are often constrained and do not provide the same flexibility and adaptability as stand-alone locations. Providing eCommerce operational support to tenants is a valuable, and necessary, consideration for mall operators.

—Josh Illig, Retail Director at Vineyard Vines



3. Build Experience Centers

Malls need to shift from being transactional commerce centers into experience centers and ecosystems by once again elevating the sense of community experience. Food courts no longer cut it—malls must extend this experience further to become a destination where consumers want to go:

- **Limited-time pop-up stores** – RaaS (Retail as a Service) opens up a whole world of possibilities for malls, from renting out pop-up spaces for emerging retailers to creating a showrooming experience for DTC brands.
- **Events and entertainment space** – Create experiences and events extending beyond retail (e.g., American Dream Mall in New Jersey which is described as “a destination of style, entertainment, and gastronomy,” boasting a theme park, skiing, ice rinks and mini-golf).⁵
- **Social and community centers** – Foster social and community development through themed events (e.g., using the dedicated, rotating space to promote women-owned businesses, minority-owned business, etc.).

⁵ <https://www.businessinsider.com/theme-park-ski-slope-shopping-mall-opening-near-nyc-2019-8>

4. Evolve to a New Tenant Economic Model

The mall-tenant economic model has been under extreme pressure since the 2008 financial crisis with malls being unwilling to shift from a fixed-rate, long-term lease model. COVID-19 has pushed the model to the brink. Malls need to face the hard reality that even as traffic slowly returns, the current model is unsustainable. A new long-term economic model is required, and malls should consider three strategies:

- **Hybrid fixed-variable model** – Malls should consider allowing retailers to pay a smaller flat base fee and a percentage of their revenue to the mall owner, sharing the risk between the mall owners and the retailers.
- **Varying models by type of tenant and activity** – Malls would need to vary the economic model for legacy brands vs. new, emerging brands. A flexible economic model would encourage brands to experiment with physical pop-up locations or to use malls as pickup or return centers.
- **At-risk rent pricing** – Malls should consider tying rents levels to a key KPI (traffic) and accepting more risk and more upside based on the mall's performance.

While malls are hesitant to engage in new business models due to their bank covenants, a systematic change will be required if malls hope to survive in the long term.

5. Diversify the Tenant Base

About 90 percent of occupants in U.S. malls are tenants like movie theaters, department store chains and apparel retailers—formats with a volatile performance history. It is clear that malls need to anchor around a more diverse set of consumer offerings:

- **Grocers as an anchor tenant** – Less volatile, traffic-driving retailers like grocers could provide a most stable anchor tenant.
- **Micro-fulfillment centers** – Given that land availability for new micro-fulfillment center development is highly constrained within urban population centers, malls' central locations can provide efficient ship-from locations.
- **Hub for retail start-ups** – Malls could house digital/retail start-ups, where they could provide real estate to the start-ups, while the malls could serve as testing grounds to pilot their products.
- **Local players** – Malls should consider housing local artisan shops for consumers looking for local goods.

But why stop at these? Malls can also explore nontraditional tenants such as parks, public spaces, medical facilities, fitness centers and even residential complexes.

While many have forecast the demise of malls for years, COVID-19 has made it a near-term reality. Malls have to rethink their roles and investments, and go to market—the time for malls to make dramatic, strategic change is now.

⁶ <https://www.linkedin.com/pulse/mall-developers-retailers-take-revenue-sharing-shailesh-yadav>

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Featuring guest commentary from Yoav Artzi, Vice President of Product at Adeptmind, and Josh Illig, Retail Director at Vineyard Vines.




ABOUT ALVAREZ & MARSAL

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With over 5,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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