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THE EMERGENCE OF DOWNTOWN MULTICHANNEL RETAILING: CHALLENGES AND OPPORTUNITIES

N. David Milder

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www.danth.com danthinc@yahoo.com

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Introduction

The effects of the Great Recession (2007-2009) have fused with many socio-economic trends well under way prior to that economic downturn. This has produced profound structural changes in how our downtowns and Main Street districts operate. A "new normal" has emerged. Downtown leaders and merchants must adjust their thinking about how downtowns function, what it means for them to be healthy and successful, and how they can be revitalized.

This article will focus on one of these structural changes, the growing importance of multichannel retailing, which conventionally is understood to incorporate brick and mortar stores, e-commerce operations and catalog sales. It also can include backdoor retail channels that will be discussed below.[1] The large retail chains are rapidly implementing multichannel strategies and this may result in changes in the amounts and types of space they require as well as the criteria they use to assess potential new locations. Unfortunately, many -- perhaps even most -- of the independent merchants that dominate our small and medium-sized downtowns and Main Street districts have been slower to adapt. Consequently, many downtown and Main Street organizations may need to alter their business recruitment programs to be compatible with multichannel retail requirements, while at the same time creating programs that can facilitate the transitioning of independent merchants to multichannel retailing.

Multichannel retailing is quickly gaining traction. As often happens in business decision-making, for many of the critical questions that need to be addressed about it there is little and/or imperfect data. As a result, this article does not aim to be definitive, but instead hopes to draw the attention of economic development officials and merchants to multichannel retailing, while seeding their thinking about how they can respond to both the challenges and the opportunities posed by it.

The Old Paradigm

Deconstructing the Old Paradigm. For many decades, downtown leaders and revitalization experts have forged their strategies and plans under a widely accepted, though never formally acknowledged, conceptual paradigm about what makes downtown retailing successful. A deconstruction of that paradigm shows that, in practice, it has meant an overwhelming focus on just one sales channel, a downtown's physical stores and the customers that come through the front doors of those stores.[2] According to this paradigm, downtown retail locations are strong and will facilitate merchant success when they:

- Provide access to a lot of foot traffic

[1] For the conventional definition see: Steve Noble, Amy Guggenheim Shenkan, and Christiana Shi, "The promise of multichannel retailing", McKinsey Quarterly, October 2009, pp2-4, p2.

[2] A sales channel can contain activities related to disseminating information and adverting as well as actual sales transactions.

- That can bring a lot of customers through a merchant's front door
- Which increases the probability of sales transactions occurring within the store.

Consequently, pedestrian counts, auto traffic statistics and rail ridership counts often have been important factors in decisions about downtown business locations as are data on the trade area's residents and the downtown's daytime population segments, e.g., office workers, students, hotel guests.

Strong downtowns, according to this "front door customer" paradigm, also have structural advantages that stimulate and reinforce high levels of pedestrian traffic. They usually have a number of economic functions – e.g., retailing with strong destination stores or niches, public and private sector offices, restaurants, entertainment and cultural establishments, transportation centers, etc. – all in a relatively compact, easy to walk area. This compact, multi-functional clustering stimulates both the number of pedestrian trips and the number and strength of those that are multi-purpose and/or multi-destination.

The potential benefits of strong pedestrian traffic for small independent merchants who lack strong name recognition and/or the power to attract shoppers both into the downtown and then into their shops are fairly obvious. Destination retail stores help generate customer traffic for the weaker merchants. Destinations have both name recognition and a strong customer drawing power. However, destinations also benefit from the strong pedestrian traffic, because their customers are probably among the pedestrians while new patrons can easily find them. Indeed, the statistics that well-known retail chains are now most interested in when looking at locations in large downtowns are pedestrian counts.[3]

Streetscapes that encourage "sticky" pedestrian behavior such as browsing, people watching and engaging in non-formal entertainments are considered important, because they heighten the number of pedestrians as well as the probable number and magnitude of multi-purpose and/or multi-destination trips. Quality of life factors, such as crime, street cleanliness, graffiti, etc. also are seen as impacting pedestrian traffic and consequently posited as major issues to be dealt with by downtown organizations.

The crime and grime programs of downtown organizations as well as their media marketing and calendars filled with special events are all geared to swelling downtown pedestrian traffic. Furthermore, the recruitment materials and pitches of downtown organizations are very heavily focused on demonstrating high pedestrian traffic, the implicit high potential for such pedestrian traffic and/or the programs that can stimulate such traffic.

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[3] Conversation with an executive in a very large BID in Manhattan.

One might reasonably argue that the vast majority of the programs and activities of downtown and Main Street organizations are aimed at bringing people through the front doors of their members' businesses – especially the retailers.

Did The Front-Door Retailing Paradigm Ever Really Fit All Downtowns? There long have been questions about the applicability of this paradigm to many medium-sized downtowns and especially to small districts. Moreover, there are some conceptual issues. For example: what does it mean when someone claims that their downtown or an intersection in it has a lot of pedestrian traffic? Library

Table 1. Some Sample Pedestrian Counts

City/Town	City/Town Population	District	Pedestrian Count
Jamaica Center,NY	363,000	Downtown*	31,965 per day
Manhattan	1,537,195	Times Square	113,520 per day
Manhattan	1,537,195	34th St BID	11,668 per peak hr
Portland, OR	566,143	Downtown	26,577 per day
Glendale CA	196,882	Downtown	3,310 per AM & PM peaks
Tempe, AZ	178,519	Downtown*	2,545 per day
Kingston, ON	117,206	Downtown	3,436 per hr
Pittsfield, MA	42,424	Downtown	550 per Midday-PM Peaks
Morgantown, WV	30,333	Downtown*	3,000 per day
Carrboro, NC	18,368	Downtown	1,936 per 12hrs
Sources: From relevant downloaded municipal and BID documents.			
*College or University in or near downtown			

and Internet searches failed to reveal any metric that specifies how many pedestrians walking nearby are needed to make a retail operation successful, however, they did show that reported downtown pedestrian counts can vary enormously and that counts for smaller downtowns are very hard to find. The pedestrian counts displayed in Table 1 are for varying time periods, but it is still fairly obvious that the pedestrian flow in Manhattan's Times Square, 113,520 per day, is vastly larger than the 550 per Midday PM peaks in Pittsfield MA or the 1,936 per 12 hours in Carrboro NC.

Field visits conducted over many years suggest that:

- In many communities smaller than Carrboro, pedestrian counts may be just a few hundred, or even less, per day
- In many of these smaller communities, there just are not enough interesting shops to generate lengthy pedestrian trips or much strolling and window shopping
- Many of the successful stores, even though they may be relatively small, function as retail destinations – they are not "found" by shoppers strolling through town. Instead, shoppers know them and go directly to them,

usually with a specific type of purchase in mind. The pedestrian parts of their shopping trips are often largely confined to walks from and back to their automobiles

- These small and often relatively weak merchants could function as destinations because of a lack of powerful competitors nearby. This is especially true in ex-urban downtowns. Frequently, however, their lack of competitive strength and experience have made them easy prey for encroaching shopping centers and especially big box value retailers like Walmart.

Blanchester, OH and Washington Borough in NJ are or were ex-urban communities, the type that probably provides the strongest examples of downtowns where the front door retailing paradigm lacks explanatory power. In the 1960s and 1970s, well before the emergence of the Internet, many field visits to Blanchester, OH, a town of around 4,200 in 2010 located 33 miles northeast of Cincinnati, found few people strolling its commercial core. In countless conversations with local residents, one heard suggestions about going to the Dairy Queen, the bank, Kroger's, Snyder's (a local appliance store) or maybe the movie theater or library, but never about walking for pleasure or amusement or window shopping along Broadway or Main Street.

Washington Borough in Warren County, NJ had a population of 6,651 in 2010. Numerous field visits in recent years found scant pedestrian traffic on the sidewalks of its two-lane, easy to cross main thoroughfare, though the average daily vehicle traffic on it was about 17,400. Moreover, a convenience store reported averaging about 1,000 transactions a day (among the highest in the store's chain), while the operator of a "pamper niche" establishment reported averaging about 288 patrons a day.[4] Lots of people may be going through this town and patronizing several of its businesses, but there is seldom a pedestrian in sight.

The situation in suburban communities, as might be expected, tends to be more muddled, somewhat like the big downtowns and a bit like the ex-urban communities. Downtowns such as Red Bank, Englewood, Ridgewood and Westfield in NJ often have noticeable pedestrian activity, but never at levels that rival those found in Manhattan, Center City Philadelphia, Downtown Chicago or Downtown Boston, etc. Nonetheless, downtowns in many other desirable suburbs in NJ, such as Cranford and Teaneck lack significant pedestrian flows and are economically less powerful.

Other Sales Channels. Other sales channels have long existed and competed with downtown merchants, especially those in small and medium-sized communities that were distant from major commercial centers. Multichannel retailers have also long been around, too. Catalog sales from Sears Roebuck started in 1888, and they were joined in later years by the likes of Montgomery

[4] Traffic counts from NJDOT; store patronage data from interviews with shop operators. Consumers pamper their bodies in pamper niche hair & nail salons, spas and gyms.

Ward, JC Penny, LL Bean, Eddie Bauer, Land's End, etc. Direct to the home sales from firms like Fuller Brush, Amway, Tupperware, etc. also have been long present. In many instances, these mail order and in-home rivals could offer better quality merchandise and greater variety than could the nearby downtown merchants. More recently, in the 1990s, retailing via the Internet appeared; e.g., Amazon.com went online in 1995.

The Emerging Multichannel Paradigm

Within the retail industry a new paradigm has taken a strong foothold. Under this new paradigm, successful retailers are increasingly pursuing a multichannel strategy in which they integrate their physical store(s) with a strong Internet presence and sometimes also with catalog sales. The power of the Internet sales and marketing channel is what sets the current multichannel retailers apart from those of the past. A team at McKinsey & Company described the current status of multichannel retailing in the following manner:

Table 2. Average Annual Customer Sales by Channel in Apparel

Apparel Retail Sales Channels	Dollars
Catalogs	$201
Physical stores	$195
Internet	$157
Catalogs and physical stores	$608
Physical stores and internet	$485
Internet and catalog stores	$446
Catalog, internet & physical stores	$887

Source: Steve Noble, Amy Guggenheim Shenkan, Christiana Shi, "The promise of multichannel retailing", McKinsey Quaterly, October 2009.

> "By 2011, we believe the Internet will play a role in more than 45 percent of US retail sales, as either a research tool or a sales channel. What's more, consumers who shop across a number of channels—physical stores, the Internet, and catalogs—spend about four times more annually than those who shop in just one (see Table 2). Companies that get multichannel retailing right can enjoy larger profit margins and yearly revenue growth…."[5]

If the folks at McKinsey were correct, then today almost half of our nation's retail sales involve the use of the Internet in one way or another. Consequently, *the many merchants not on the Internet are, in effect, outside of the loop of activities that increasingly surround retail purchases and thus are unable to tap substantial portions of the consumers' expenditure potentials in their trade areas. They are not in the game.* Unfortunately, there is no definitive study that identifies the types of merchants who have weak or no Internet presence. However, based on DANTH's experience managing downtown districts and informal interviews with many other downtown and Main Street managers as well as with many downtown merchants, it seems reasonable to conclude that independent merchants are the most prone to have an inadequate Internet presence.

[5] Steve Noble, Amy Guggenheim Shenkan, and Christiana Shi, "The promise of multichannel retailing", McKinsey Quarterly, October 2009, pp2-4, p2.

Under this new retail paradigm, *the role of the physical store may be changing, but it will not disappear:*

- Physical stores may no longer be a retailer's sole point of sale; a store's website can also play this role, as can its catalog operation if they have one. For example, 49% of the retailers (overwhelmingly major chains) surveyed by CB Richard Ellis in 2011 and 53% of those surveyed in 2010 reported a change in the percent of total sales going to online sales compared to the prior year. The reported shift to online was in the 0% to 25% range [6]
- Many retail chains are finding that while the brick and mortar sales may be stagnant, their online store sales provide growth opportunities. For example, Deloitte forecasted for the 2011 holiday season that: "Retailers should expect small gains in their 2011 sales this coming holiday season, and those gains will more likely come from non-store sales"[7]
- The non-physical store channels may divert customers' sales dollars from the traditional brick and mortar shops. Single channel physical stores now are competing with strong rival merchants who only have a single channel online presence, e.g., Amazon, Zappos, Blue Nile, etc., and they are harder to ignore than the catalog operations were decades ago. However, true multichannel retailers with brick and mortar stores, such as Macy's, Walmart, JC Penny, Sears, Apple, Best Buy, Staples, Gap, and Williams Sonoma are also providing increased competitive pressure
- Many customers also may use the Internet to "research" merchandise, which they then purchase in a physical store. A report issued in September 2010 by Pew found that 58% of Americans are now researching retail products and services online.[8] According to Phillip M. Burgess, president of the Annapolis Institute, increasingly single channel brick and mortar stores "that are not in on the search won't be in on the sale" [9]
- However, shoppers may also visit physical stores to actually see, feel and perhaps operate a product and then buy it online in order to save on sales taxes or because of a better price. *Either way, single channel brick and mortar stores are likely to be outside of this critical search-purchase behavioral pattern and consequently be less able to compete with brick and mortar competitors that have a multichannel capability*.
- The physical store's "showroom" function may be on the increase while its sales transaction function declines. Consequently, while the multichannel

[6] CB Richard Ellis, "Shop Talk: A Retailer's Perspective", Summer 2011, pp.13, p.12. Apple is the most successful retailer in the world as measured by dollars in sales per square foot.

[7] Mark Heschmeyer, "Online Retail Sales Will Buttress, Boost Brick and Mortar Store Sales This Holiday: Double-Digit Growth Forecast for Non-Store Channel Sales, CoStar Advisor Newsletter, September 28, 2011

[8] http://www.pewinternet.org/Reports/2010/Online-Product-Research/Findings.aspx

[9] Personal interview

retailer still captures the sale, the single channel physical store operator is probably losing significant sales revenues

- The other sales/marketing channels do not entail the customer coming through a shop's front door, though they can work in concert with them. Note that Apple, the third strongest Internet retailer, has opened hundreds of new stores in recent years that have had incredible annual sales of $4,406 per square foot, while Staples, Walmart, Target, Sears, Macy's, JC Penny, Victoria's Secret, The Gap, Williams Sonoma and other chains long known for their physical stores, have developed strong and growing e-commerce capabilities.[10] *This suggests that multichannel retailing does not mean the end of brick and mortar stores, but instead a strong reinforcing interaction between the Internet and physical store channels*. Nevertheless, it also raises such questions as:
  - Will retailers need as many stores?
  - Will they use new formats that require less space?
- For small merchants adopting a multichannel approach, their physical stores may increasingly take on the functions of operation centers for e-commerce and activities associated with other non-electronic sales/marketing channels, such as backdoor retailing
- It is important to note that the Internet and catalog sales channels are in a sense "extra the physical store," and capable of reaching and interacting with shoppers in their homes, workplaces or even when they are in transit. They provide a lot of convenience to time-stressed Americans. The non-store retailing reaches out to shoppers, not waiting for them to come in to a physical store. *Reaching out to interact with consumers away from their physical stores is a very important characteristic that downtown retailers can use to develop their own assortment of unique sales/marketing channels.*

Inevitably, some retailers, such as European Papers in Columbus, OH may no longer see the need for a physical store. The owners reported doing 80% of their sales volume from their catalog and online store and never really wanting to be "shopkeepers."[11] Will downtown organizations try to retain them?

Because multichannel retailing is not solely dependent on the number of people walking near a physical storefront, it may be an especially appropriate strategic approach for the vast number of commercial districts that are not blessed with high volumes of pedestrian traffic.

Scoping Out the Size and Direction of Internet and Mail Order Retail Channels.

<u>Consumer and Retailer Use of the Internet</u>. The growing use of the Internet by the general public is widely recognized in the media and supported by the findings of numerous surveys. A survey conducted by the Pew Internet &

[10] Source: Internet Retailer cited in CB Richard Ellis, "Shop Talk: A Retailer's Perspective", Summer 2011, pp.13

[11] Information provided by Prof. Laurel Richardson.

American Life Project in the spring of 2010 found that 79% of all American adults now use the Internet, with usage correlating positively with income and negatively with age.[12] Market researchers also claim that a huge proportion of the Internet users are shopping online. The spring 2010 Pew survey also found that 66% of respondents buy products online, with relatively little variation across generations. A report issued in March 2011 by eMarketer claims that 163.1 million Americans – about 85% of all Internet users -- were researching retail products and/or making purchases online.[13] By 2015, eMarketer expects that there will be 201.1 million web shoppers, who will account for about 90.1% of all Internet users. Their projected sales growth is expected to come from "veteran web shoppers". In other words, eMarketer is arguing that the more experienced people are with shopping on the web, the more they will spend on their e-commerce purchases.

On the retailer side, the CB Richard Ellis 2011 survey found:

> "Retailers… are increasingly using social networks to grow online merchandise sales through brand awareness and marketing. 93% of the retailers are using social networks such as Twitter, Facebook etc. to assist with the branding and marketing of their products." [14]

It seems reasonable to assume that a comparable proportion of these retailers have websites.

The finding by the McKinsey study cited above puts the internet participation of both consumers and retailers in perspective: the Internet is now playing a role in more than 45 percent of all US retail sales, as either a research tool or a sales channel.

<u>Looking Just at the Sales Dollars Captured by E-Commerce</u>. While the McKinsey study looked at both the sales and research functions associated with multichannel retailing, other organizations such as the ICSC, have only displayed an interest in the sales function when they try to judge just how strong e-commerce has become. By doing so, they are able to find data from a very reputable source, the Census Bureau, that indicates that e-commerce has a much smaller impact than the McKinsey study found. For instance, the Census Bureau has long published statistics showing e-commerce's portion of the retail industry's total sales. For the four quarters of 2010, the Bureau found that e-commerce sales ranged from $37.1 billion to $53.2 billion per quarter, totaling about $167.3 billion for the year, and that these sales accounted for just 3.9 % to 5.1 % of the nation's retail sales.[15]

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[12] See: http://pewinternet.org/Reports/2010/Generations-2010.aspx http://pewinternet.org/Reports/2010/Better-off-households.aspx

[13] See: http://www.internetretailer.com/trends/consumers/

[14] CB Richard Ellis, "Shop Talk: A Retailer's Perspective", Summer 2011, pp.13, p.12

[15] Estimated Quarterly U.S. Retail Sales: Total and E-commerce. Retail Indicators Branch, U.S. Census Bureau. Last Revised: May 16, 2011. The Census Bureau defines e-commerce in this manner: "E-commerce sales are sales of goods and services where an order is placed by the buyer or price and terms

These statistics may be consistent with the hypothesis that e-retail has grown rapidly, but has had little impact on brick and mortar retailers. This hypothesis is contrary to the widely accepted belief held by many downtown observers and retailers that e-retailers such as Apple and Amazon.com have taken over the music and book industries, while squeezing the profits out of brick and mortar electronics stores (e.g., Circuit City, Best Buy) and making surprising inroads on the markets for apparel (e.g., LL Bean, Gap), and even shoes (Zappos). On the other hand, some sectors that account for large portions of the nation's retail sales, such as automobile dealerships and food for the home stores, are thought to be less vulnerable to e-commerce sales transactions and competition. Most car shoppers – perhaps as many 90+% -- are using websites such as Consumer Reports and Edmunds to research cars, but the actual purchases still occur overwhelmingly in the dealers' showrooms.[16] While there are Internet services for delivering groceries to consumers' homes, such as Fresh Direct in the New York metropolitan area, they remain relatively small niche players, and no supermarket chain ranks among the nation's top e-retailers.

Table 3. E-Commerce Sales as Percentage of GAFO Sales 2001-2010

Year	GAFO Sales*	E-Commerce Sales*	E-Comm as % of GAFO
2001	$883,866	$34,593	3.9%
2002	$913,925	$45,212	4.9%
2003	$947,484	$58,157	6.1%
2004	$1,005,699	$74,175	7.4%
2005	$1,061,850	$92,804	8.7%
2006	$1,113,538	$114,912	10.3%
2007	$1,148,850	$138,145	12.0%
2008	$1,144,748	$142,281	12.4%
2009	$1,098,985	$145,214	13.2%
2010	$1,132,005	$167,339	14.8%
Source; US Bureau of the Census			
*$ millions			

Unfortunately, the Census Bureau's e-commerce data described above are not broken down by North American Industry Classification System (NAICS) categories, so it is impossible to discern any variation in the impact e-commerce is having across retail sectors.

The Bureau does provide data going back to 1992 on national GAFO store sales. GAFO is a general category that combines general merchandise, apparel, furniture and home furnishings and other miscellaneous retail stores sales. GAFO stores sell what are sometimes termed "comparison shoppers goods", and they are often highly prized and sought after by downtown leaders. GAFO merchants have long been the strongest and most important attractions at major shopping malls. Included in the GAFO category are the book, music and electronics stores that have been hit hard by e-retail competitors. GAFO retail chains have gone heavily into developing their own e-commerce capabilities and many of them rank among the nation's top 25 e-retailers, e.g.,

of sales are negotiated over an Internet, extranet, Electronic Data Interchange (EDI) network, electronic mail, or other online system. Payment may or may not be made online."

[16] http://www.investors.com/NewsAndAnalysis/Article.aspx?id=584037&p=1

Apple, Walmart, Sears, Best Buy, Costco, Macy's, Victoria's Secret, JC Penny, Target, Gap and Williams Sonoma. It is notable that many of these national chains with strong e-commerce sales are known for their "soft goods," especially apparel, and "home products," merchandise lines that observers in the commercial real estate industry often wrongly see as weakly impacted by e-commerce.

Consequently, one can reasonably argue that GAFO store sales are a better, if still imperfect, benchmark of e-commerce's strength than the sales of all retailers.

Table 3 compares e-commerce sales to GAFO sales and shows that between 2001 and 2010 e-commerce sales grew significantly from equaling 3.9% of GAFO sales to 14.8% of GAFO sales, with a steady growth trajectory, save for 2008 when the Great Recession hit.[17]

The growth of e-commerce has not halted the growth of GAFO sales, despite its probable competitive impacts on several GAFO sectors such as books and electronics. As can be seen in Tables 3 and 4, both GAFO store sales and e-commerce store sales increased in 2006, 2007 and 2010. *This is probably because so many GAFO retailers have themselves become powerful e-commerce, multichannel players*. Moreover, a plausible argument can be made that e-commerce probably has reduced GAFO's growth and may have magnified its decline during the Great Recession years of 2008 and, especially, 2009. It

Table 4. Annual Sales of GAFO Stores and Electronic Shopping and Mail Order Houses 1993-1998, 2006-2010

Year	GAFO sales			Electronic shopping- mail order sales		
	$ Millions	Delta $s Yr2Yr	Delta % Yr2Yr	$ Millions	Delta $s Yr2Yr	Delta % Yr2Yr
1993	$571,790			$40,725		
1994	$617,379	$45,589	108.0%	$47,093	$6,368	115.6%
1995	$651,071	$33,692	105.5%	$52,741	$5,648	112.0%
1996	$683,678	$32,607	105.0%	$61,174	$8,433	116.0%
1997	$714,453	$30,775	104.5%	$70,136	$8,962	114.7%
1998	$759,063	$44,610	106.2%	$80,366	$10,230	114.6%
2006	$1,113,538	$354,475	146.7%	$202,434	$122,068	251.9%
2007	$1,148,850	$35,312	103.2%	$223,885	$21,451	110.6%
2008	$1,144,748	($4,102)	99.6%	$270,668	$46,783	120.9%
2009	$1,098,985	($45,763)	96.0%	$234,667	($36,001)	86.7%
2010	$1,132,005	$33,020	103.0%	$270,668	$36,001	115.3%
Source: U.S. Bureau of the Census						

[17] Please note that these data do not address the value of other sales for which the Internet was used just to provide product information and/or comparison prices.

probably did so by:

- Weakening the single-channel brick and mortar GAFO retailers
- Being one of the factors stressing the GAFO retailers that poorly implemented a multichannel strategy, e.g., Borders and Tower Records
- Being one of the factors stressing the poorly managed GAFO retailers, e.g., Circuit City.

The Census Bureau provides other data that allow another way of looking at some non-physical store retail channels. It provides data going back to 1992 on national sales in “NAICS 4541 Non-store retailers -- electronic shopping and mail order houses.” This category includes the pure play non-brick and mortar e-retailers (e.g. Amazon, Netflix, Zappos, Blue Nile, etc.) but it does not include the online sales of the brick and mortar retail stores (e.g., Walmart, Costco, Macy’s, etc.). NAICS 4541 also includes mail order catalog operations, which today are often tightly integrated with a web operation – think LL Bean, for example, long known for its catalog operations, but now also the nation’s 21st strongest e-retailer (and the seller of a huge amount of “soft goods”).

Table 5. The Growth of Electronic and Mail-Order Store Sales Compared to GAFO Sales

Yrear	% Electronic shopping & mail order of GAFO (NAICS 4541)	Yrear	% Electronic shopping & mail order of GAFO (NAICS 4541)
1993	7.1%	2006	18.2%
1994	7.5%	2007	19.5%
1995	8.1%	2008	20.0%
1996	8.9%	2009	21.4%
1997	9.8%	2010	24.4%
1998	10.6%		
Source: U.S. Bureau of the Census			

Table 5 shows the relative strength of the electronic shopping and mail order house sales compared to GAFO sales expressed in percentage terms. The data are for two time spans. The first, 1993 to 1998, is when catalog operations were stronger than the e-retailers. The second is a more recent period, 2006 to 2010. In 1993 the non-store retailers in NAICS 4541 had sales amounting to just 7.1% of the GAFO merchants’ sales, but by 2010 their sales were equal to 24.4% of the GAFO sales. The growth in the 1993 -1998 period was 3.5%, while in the shorter 2006-2010 period -- that includes the years of the Great Recession, --the increase was 6.2%. These findings are consistent with the hypothesis that the strength of electronic shopping has certainly grown significantly since the mid 1990s. Indeed, the facts that NAICS 4541 sales are now the equivalent of about one quarter of GAFO sales and appear to be on a steady growth trajectory are quite impressive. However, these data cannot indicate the degree to which the non-store electronic shopping and mail order retailers have taken sales dollars from the GAFO merchants. Nonetheless, the power of the non-store retailers is apparent from these statistics and it is naïve to believe their impact on the GAFO retailers has been entirely benign.

<u>Sales Versus Sales and Search.</u> Just looking at sales cannot contribute to a proper understanding of multichannel retailing because it looks at just one part of

the search-purchase consumer behavioral pattern that is so essential to the way today's multichannel retail operates. As Burgess argues, the retailer not in on the search is unlikely to be in on the sale. Viewed from the combined search and sales perspective, the data presented above show today's multichannel retailing to be strong and growing rapidly, though not yet dominant. Downtown organizations and merchants who either ignore it or who fail to adapt to it are very likely to become the refuse left behind by capitalism's creative destruction.

Implications for Merchants

To successfully adapt to the emerging multichannel retail paradigm it is essential for downtown leaders and merchants to understand how it may impact them. Most importantly, it is imperative that they understand not only the challenges it poses to them, but also the opportunities it presents.

<u>The Diluted Sales Potential From Front-Door Shoppers</u>. For downtowns, the most important impact of the current version of multichannel retailing is its propensity to dilute the potential of walk-in shoppers to spend their money in its physical stores, The retailers most likely to be hurt are the independent operators who rely solely on the single channel of their physical store(s). How this will impact on their space requirements and the rents they can afford remains uncertain, but declines seem likely.

On the positive side, downtown and Main Street merchants that adopt a multichannel approach may be able be able to increase their penetration of their current market area and/or expand the boundaries of their trade areas. The e-retail channels and the backdoor retail channels can lessen their dependence on the customer traffic passing near their brick and mortar storefronts by providing meaningful interactions with consumers in their homes, on their jobs, in their social groupings, and while they are traveling.

<u>Going to the Internet…BUT</u>. The best response to this situation is for independent merchants to develop some kind of multichannel capability and the Internet is an obvious channel that they could develop. Since the late 1990s there have been numerous admonitions by Main Street officials, BID managers and many downtown experts encouraging downtown small business operators to get on the Internet. Sadly, getting them to do so remains a real challenge. This problem may ease over time as younger merchants brought up using the Internet since childhood appear on the scene. However in the interim, many merchants will need their downtown organizations to properly scope out why they are so Internet resistant and then implement corrective programs to help them.

Their Internet presence should be built in a way where it is integrated with the roles and activities of their physical stores.

<u>Types of Retailing</u>. On the down side, the sales potential dilution will likely vary by type of store. Single channel physical store retailers in the food for the home and convenience sectors will generally feel less competitive pressure from e-

retailers. Consumers want to travel short distances for these products and to quickly consume them. Nevertheless, there still may be strong pressures from rival local merchants who use their websites, Facebook pages and Twitter messages to communicate sales and discounts to their customers as well as to add an attractive dimension to their customer service efforts. The sales transactions of these shops may remain in the physical stores, but an important part of the shopping experience that can impact on sales transactions might transpire electronically via computers, smartphones and tablets.

The impact of the Internet on the auto sales has been immense, but overwhelmingly with regard to consumer searches for relevant information about the cars and financing, not sales transactions.

Downtown and Main Street single channel GAFO type stores are where the competitive pressures of e-commerce firms are likely to be strongly felt. To comparison shop for these types of goods consumers normally have been willing to travel considerable distances. In the recent past this has meant them driving 15 to 90+ minutes for the greater selections of shopping centers and malls. Shoppers long have been acclimated to looking beyond the available assortments of local shops for GAFO merchandise.

Most importantly, GAFO merchants were badly weakened by the great recession, as the spending retrenchment of “deliberate consumers” was particularly strong in GAFO stores. Hardest hit were shops in the furniture and home furnishings and building materials sectors. But, many trophy apparel chains were also adversely affected, e.g., Talbots, Gap, Ann Taylor, Chico’s, American Eagle, Abercrombie & Fitch. Department store chains were also unfavorably impacted and even value discounters such as Walmart and Target saw sales flatten or decline. For many years, DANTH has observed and reported on the weakening of middle market oriented downtown retailers. This trend has been very strong among the independent operators in the GAFO category, especially those operating apparel stores.

Today, the vast majority of the national GAFO retail chains have strengthened themselves by adopting a multichannel strategy having strong e-commerce presences. Furthermore, many of the non-brick and mortar store retailers, such as Amazon and LL Bean, sell GAFO type merchandise. Of the top 25 e-retailers listed by Internet Retailer 19 either fall into the GAFO category or are non-store operations like Amazon that sell copious amounts of GAFO type merchandise. [18]

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[18] N. David Milder, “Riding The Trends During Tough Times For Downtown Retail, ”DANTH, Inc, presented at the NJLOM Conference, November 18, 2008. Also see by Milder: “Apparel And Home & Hearth Niches: the growing importance of independent operators.” DANTH, Inc. Downtown Trends Assessment 2008-2013, September 2008. Both can be downloaded at www.danth.com

On the positive side, downtown and Main Street GAFO retailers that adopt a multichannel strategy will be less dependent on the pedestrian traffic volumes near their storefronts. Moreover, a multichannel approach can and should include social networking techniques (both electronic and face-a-face) that are critical for customer relationship building and the cultivation of customer "store apostles." It can also enhance consumer awareness of their stores and convert them into destinations.

Table 6. Annual Average Sales of the 15 Most Commion Businesses in Wisconsin's Downtowns Sorted by Size

Downtown Type	One	Two	Three	Four	Five	Six
Town Populations	1,000-2,500	2,500-5,000	5,000 - 10,000	10,000- 25,000	25,000-50,000	50,000 to 100,000
Numner of downtowns	143	60	45	39	13	10
Food, Convenience	$7,831,000	$13,103,000	$20,575,000	$23,435,000	$35,274,000	$21,953,000
Full servcie restaurants	$1,520,000	$2,515,000	$5,378,000	$6,921,000	$10,116,000	$15,766,000
Drinking places	$528,000	$784,000	$1,224,000	$2,125,000	$2,376,000	$5,059,000
Limited service eating places				$506,000	$1,028,000	$1,128,000
Grocery stores	$5,077,000	$8,084,000	$13,973,000	$13,883,000	$21,754,000	
Specialty food stores	$706,000					
Pharmacies and drug stores		$1,720,000				
GAFO stores	$1,447,000	$2,861,000	$8,344,000	$5,736,000	$32,318,000	$20,766,000
GAFO % of all sales listed	9.51%	11.35%	21.26%	14.95%	45.37%	40.08%
General Merchandise					$22,645,000	
Used mrchandise stores	$201,000	$466,000	$810,000	$875,000	$769,000	$2,273,000
Gift Novelty & souvenir	$332,000	$378,000	$729,000	$1,068,000	$1,507,000	$1,003,000
Jewelry stores			$830,000	$1,294,000	$2,050,000	$2,761,000
Women's clothing						$1,564,000
Florists	$126,000	$210,000	$413,000	$905,000	$982,000	
Hardware stores	$788,000					
Appliance TV, & Other electronics stores		$1,459,000	$3,322,000		$2,058,000	$3,864,000
Sporting goods stores		$348,000		$1,594,000	$2,307,000	$1,391,000
specialized building			$2,240,000			$3,486,000
Art dealers						$4,424,000
Other	$5,937,000	$9,241,000	$10,321,000	$9,186,000	$3,638,000	$9,095,000
Beauty salons	$284,000	$573,000	$1,451,000	$1,546,000	$2,204,000	$2,921,000
Gasoline Stations	$4,085,000	$6,295,000	$5,527,000	$5,163,000		
Nail salons					226000	
Barber shops	$43,000	$71,000	$148,000	$153,000	$170,000	
Other amusement-golf, fitness, bowling	$511,000	$779,000	$791,000	$1,003,000		$3,996,000
Photographic services				$557,000		$816,000
Automotive mechancial 7 electrical repair	$409,000	$491,000	$854,000	$764,000	$1,038,000	$1,362,000
Automotive parts, accessories, & tire stores	$429,000	$1,032,000	$1,550,000			
Automotive body, paint, interior, & glass	$176,000					

Bill Ryan, Beverly Stencel, and Jangik Jin, "Retail and Service Business Mix Analysis of Wisconsin's Downtowns," Center for Community & Economic Development, University of Wisconsin - Extension,Staff Paper, Sept. 1, 2010

Size of the District. Because the existing retailers in most small downtowns and Main Street districts have never had really strong pedestrian traffic and are predominantly involved with groceries and convenience items, they are less vulnerable to e-commerce competition than those in larger districts. Table 6 shows the results of a very interesting study that covered 310 downtowns in Wisconsin. Though the situation in Wisconsin may be more pronounced than in wealthier states with more affluent suburbs situated near major cities (e.g., New York, Chicago, Philadelphia, Boston, etc.), it still forcefully demonstrates that the downtown GAFO stores in communities with less than 25,000 residents account for relatively small shares of their downtowns' total sales. However, since the few GAFO shops that they do have are likely to be small and relatively poor competitors, they may be very vulnerable to the very long reaches of e-commerce.

For the small and medium-sized commercial districts, the opportunities offered by a multichannel strategy are greater than its challenges. Multichannel retailing can allow their merchants to effectively reach out and have customer interactions and sales transactions well beyond the confines of their individual brick and mortar stores and the borders of their commercial districts.

In our largest cities, downtown pedestrian traffic is so robust and so strongly based on people engaging in activities other than shopping – going to work, visiting professional and government offices, attending entertainment and cultural events, etc. -- that it is unlikely to substantially decline. In these districts, the motivations for shoppers entering a store and what they do while in it are where their behavioral changes will likely be manifested. The independent single channel physical store GAFO operators in these districts are likely to feel strong pressures from their multichannel and non-store competitors. Recent reports indicate that high rents in these districts already are forcing many independents out of business, especially if they are oriented to the middle customer market. However, the survivors are probably able to pay these high rents and they also are probably big enough in terms of sales and employees to afford to develop multiple sales channels, including an e-commerce component.

It is probably in the downtowns of medium sized towns and cities, especially in the suburbs, where the pedestrian flows are accordingly marginal and strong destination stores are scarce, that independent merchants, especially those with GAFO stores, will most strongly feel the competitive pressures from multichannel retailing. Their best response will be to implement their own multichannel operations.

Retail Chains. The vast majority of national retail chains are adopting a multichannel strategy that includes physical stores, a website and social media such as Facebook and Twitter. Some also have catalog operations. Evidence suggests that while some mastery has been achieved, they are still experimenting to find the best ways of using e-commerce and integrating it with the operations of their physical stores.[19] That they are in this situation, even with their IT and marketing staffs, lends some perspective to the challenge e-commerce poses for small retailers.

According to CB Richard Ellis, the growth of online shopping has had an observable impact on the demand for retail space:

> "A final factor driving up retail availability rates is the increasing use of online and Internet shopping sites. Demand for bricks and mortar retail has been falling with the rise of online shopping. Initially this hurt the popularity of big box stores but is now extending its influence across all types of retail goods. Since the recession, growth of online shopping has accelerated, leading many retail chains to slow store openings and invest instead in websites and iphone/ipad applications."[20]

Of course, recession associated factors also had strong adverse impacts on the retail availability rates.

A number of major retailers such as Ann Taylor and Williams Sonoma responded to the recession by reducing their space requirements for new stores and renewed leases. That trend seems to be continuing, if only by a significant minority of retailers: in their the 2011 report, CB Richard Ellis notes that about 59% of retail respondents will continue with the same store layouts, while 23% are considering smaller store layouts, and only 10% are considering increasing square footage.

Nevertheless, some very strong retail players are keenly interested in smaller formats. Walmart is developing a new format that requires substantially smaller spaces, 15,000 SF to 22,000 SF, than its existing formats that can consequently be squeezed easily into many mature suburban downtowns and big city neighborhood business districts. Staples and Office Depot are opening 4,000 SF and 5,000 SF stores respectively.[21]

While there are no reports indicating that their strong e-commerce capabilities had any influence on their small format inclinations, there are reasons to believe that may have been the case. For example, their strong Internet capabilities, if properly integrated into their stores' operations, could allow these retailers to effectively target their smaller stores' reduced inventories to the tastes of local customers, while still providing the shoppers with relatively easy access to the chain's complete assortment of merchandise. If Walmart is successful with its

[19] In a May 10, 2011 posting to the Business Insider, "Turns Out Social Media Marketing Doesn't Work," Pascal-Emmanuel Gobry states: "Right now, social media marketing and advertising is in the experimental phase. We don't really know what works and what doesn't, (and we're) fumbling in the dark."

[20] CB Richard Ellis, "Shop Talk: A Retailer's Perspective", Summer 2011, pp.13, p.5

[21] http://online.wsj.com/article/SB10001424052748704728004576176601936377760.html#articleTabs%3Darticle

smaller format other chains are likely to follow suit. Internet abetted “small box” stores may be an emerging issue for many downtowns. Many other chains have already adapted to the Great Recession by reducing the amount of space they require for their stores and they, too, could compensate for reduced shelf space through their Internet capabilities.

The Great Recession may have sparked retail interest in smaller physical store formats, but the impacts of their multichannel activities may give this trend a prolonged impetus.

Advertising. Some may suggest traditional advertising as a well-proven way for single channel physical store operators to reach customers away from their shops. However, the often nil to negligible advertising efforts of small downtown merchants are well known. Additionally, advertising is quickly switching from print to Internet platforms such as Facebook, Twitter, Groupon and this trend runs counter to the aversion of many small merchants to online activities. This also may change with time as newer merchants who have grown up using the Internet appear on the scene.

Location, Location, Location? One of the unexplored, but extremely important emerging issues is if and how multichannel retailing will alter these merchants’ needs for downtown spaces and the criteria they will use to evaluate potential downtown locations. A trend toward smaller store formats has obvious implications. Another reasonable hypothesis is that, as the walk-in the front door customer sales become less significant, then a retailer’s need for locations that provide access to strong pedestrian and auto counts will in some measure decline. But, the need for showroom space might remain constant or perhaps even rise. How the merchants react may have a big impact on the spaces they need and the rents they are willing to pay. These are questions that are just asking to be properly researched.

Phil Burgess and Joel Kotkin have shown one possible variant of this new locational decision-making. They independently described business operators who can take such strong advantage of the Internet and telecommunications that they are free to locate their firms in communities that maximize the quality of life attributes they most prize.[22] Burgess also believes that the Internet should be a boon to small retailers precisely because it makes them independent of the front door customer.[23] As long as they have a good broadband connection, sufficient merchandise storage and access to a company for shipping their packages, e.g., FedEx and UPS, they can do business with shoppers anywhere in the USA or even the world. That means that small independent retailers can also be “Lone Eagles” and locate in the quality of life ‘Valhalla” of their choice. Such a scenario may be the extreme on a spectrum of possibilities, but it may not be all that

[22] See: Philip M. Burgess, “Lone Eagles Are a Varied Species”, The Rocky Mountain News, April 12, 1994 and Joel Kotkin, THE NEW GEOGRAPHY: How The Digital Revolution Is Reshaping The American Landscape, Random House Digital, Inc., 2001, Pp.242

[23] Telephone interview.

fanciful: DANTH, Inc has found several retailers in recent years who have relocated their stores to other communities simply because that was where the merchants wanted to live.

Our conventional wisdom about the meaning of "location, location, location" may be evolving and soon need a fairly substantial review. Downtown and Main Street leaders need to be aware of this possibility and vigilant and ready to respond effectively if it becomes a reality in their districts.

Backdoor Retailing: How Downtown Independent Operators Can Reach Out to Consumers Away From Their Physical Stores

Backdoor Retailing.[24] The need for our downtowns' independent store operators to reach out and interact with customers away from their stores, i.e., to engage in multichannel retailing, can be filled through "backdoor retail" type operations.

Downtown merchants with backdoor operations can have multiple customer streams and revenue sources. First are the traditional walk-in the front door shoppers they draw from the downtown's pool of visitors and residents. Every downtown business can draw from this visitor pool. Firms with backdoor operations also sell to:

- Local businesses, organizations and even municipal agencies. These transactions and relationships fit in well with downtown sustainability strategies.
- Consumers, but out of their stores, and independent of walk-in traffic.

Backdoor retailing is not concerned with or dependent on the pedestrian traffic near a retailer's physical store. Because of that *they are potentially useful in any situation where pedestrian traffic is problematica*l. They reach out and connect with the customer in other locations where they can deliver information, show and deliver merchandise and conduct sales transactions. *Consequently, backdoor retailing may be particularly effective in smaller downtowns that have never benefited from much pedestrian traffic.* Additionally, these downtowns' merchants are strongly in food related retail and hospitality sectors (see Table 6) where backdoor retail techniques have been most frequently adopted.

Many of these backdoor operations have been around for a long time, but seldom gained the recognition they deserve, probably because of the widespread focus on downtown pedestrian traffic.

E-stores, retailer web pages, the use of Twitter and Facebook are recent electronic variants of backdoor retail operations. *There also are many non-electronic variants and small business operators who are uncomfortable with e-commerce tools and methods may find them easier to adopt and implement. However, DANTH's interviews with several merchants suggest that the most*

[24] See: http://downtown-curmudgeon.blogspot.com/2009/11/backdoor-retailing.html

successful retailers will weave their physical stores, e-stores and non-electronic backdoor activities into one marketing package.

Traditional, Non-electronic, Backdoor Operations. Perhaps the best way of conveying what these operations are like is to provide some examples of the traditional, non-electronic variety:

- Enjou Chocolat, a gourmet chocolate shop in Morristown, NJ has a website focused not only on the normal customer wanting a box of chocolate or a gift box, but also on corporate gifts and wedding favors. For a product launch of one major corporation, the shop created chocolate versions of the company's logo. The owner, Wendy Taffet, also often speaks about the health benefits of chocolate at meetings convened by the company that runs some local hospitals. She also has display booths at many bridal shows in the NY-NJ region. Some signs of this shop's success are that it has 11 fulltime employees, walk-in shoppers are still its most important revenue stream, and yet it has a side street location. The shop's savvy owner says that the backdoor activities also help generate front door customer traffic – and visa versa: many of her corporate sales have originated from front door customers

Table 7. District X Draws A Lot of Revenue and Shoppers From Beyond the Immediate Neighborhood

Info From Merchant Survey	**% Sales to Business Outside District X**	**% Sales to Consumers Not District X Residents**	**Total % Sales Outside District X**	**N=**	**% of Firms in NAICS Code in Survey**
Specialty Foods	20.63%	59.38%	80.0%	16	32.7%
Full Service Restaurants	0.00%	87.50%	87.5%	4	16.7%
Other	0%	34%	33.8%	5	NA
Info From Local Observer	Number	Percent			
Number of identified specialty Food shops selling to firms outside Belmont	13	27%			

- In "District X" in one large city, the local BID officials identified 13 retailers in a specialty food niche who are known to have developed sales channels to businesses located throughout the Metropolitan Region (see Table 7). That translates into about 27% of the district's merchants in that niche engaging in backdoor retailing. Included among them are bakeries, butcher shops, seafood markets and cheese stores. A small survey that covered about 33% of these merchants revealed that on average they estimated about 21% of their sales come from their backdoor operations. It is of note that four merchants reported that a significantly bigger share of their annual sales, between 40% to 80%, are to firms located outside of District X. The backdoor retailing plays another vital role for this district: the merchants in this niche are very dependent on drawing most of their customers from far distances. A large 2011 DANTH customer survey (9,000+ interceptions) found that 49% live 20+ miles away. The breads that appear on distant grocery shelves and the cheeses that are listed on distant fine restaurant menus or displayed in distant supermarket coolers help publicize the district's authenticity and product quality. These are essential, if District X's specialty food niche is to be a strong draw for day tourists

- Artists and craftspeople are often located in sparsely populated areas. For them a vital retail channel is the crafts shows that are frequently held in our nation's large metropolitan areas
- Gus's Tobacco Shop in downtown Rutland, VT, also is a distributor of tobacco products to merchants in Rutland and the surrounding region. Manta estimates it has annual sales in the range of $1 million to $2.5 million and employees 1 to 4 people.[25]
- A vitamin shop on Bergenline Avenue in West New York, NJ manufactured and distributed vitamins to merchants in the region
- Eagle Paints in Englewood, NJ for decades has had a very large building contractor clientele
- A women's clothing shop that took its wares to model and sell at local women's clubs, PTAs, etc.
- All the different downtown businesses – - dress shops, jewelers, printers, caterers, limo services, travel agencies, shoe shops, etc.--- in towns such as Rutland, VT and Morristown, NJ that have displayed in bridal shows
- Sporting goods shops almost everywhere that sell equipment to sports teams and leagues run by various local social groups as well as to schools and companies
- The plethora of restaurants in many, many downtowns doing off site catering and home deliveries
- The Carvels that sell desserts to local school cafeterias and to social clubs for fund raisers and other meetings, etc. (How else can they survive the cold winters?) These backdoor activities in one Carvel created a need to double the size of the store's refrigeration space and brought a commensurate growth in business
- Sugarush, a cupcake bakery in Red Bank, NJ that caters desserts to local parties. Their backdoor business has helped keep sales level as purchases by students dropped off over the summer vacation
- Freeman's, a well-known fish market in Maplewood, NJ that supplies over 40 restaurants

[25] http://www.manta.com/c/mm7188t/gus-tobacco-shop

- The Concierge Service in the Maplewood, NJ train station that supplies a dry cleaning service for local commuters. Original plans for the service called for a larger array of goods and services to be provided, which would have facilitated more shops in the "Village" to participate in backdoor activities

Research has shown that busy hospital staffs spend less time and money shopping in their downtowns than government or private sector office workers.[26] Robust concierge services, with a strong retail component could help overcome this problem. Many are being developed for hospitals across the nation, e.g., USC University Hospital in Los Angeles. One estimate is that such a service now saves the average nurse about five hours per month, which, for a hospital having 600 nurses, can covert into $25,000 of cost savings, or recovered productivity, per month that totals about $300,000 per year.[27] Similarly, to keep their employees in the building and working at lunchtime, many large corporations are also developing concierge programs, e.g., L'Oreal at its offices at 575 Fifth Ave in New York City. Property managers of large office buildings, such as CB Ellis, are also creating concierge programs, e.g., at the Headquarters Plaza office complex in Morristown, NJ. There the employees of the many legal firms that tenant the complex are so busy that they infrequently leave the building at lunchtime. Hospitals, major corporations and large office buildings are to be found in many, many downtowns. Having them develop concierge programs that tie in with local downtown merchants would be extremely beneficial for these merchants and for their downtowns as a whole. However, field experience in one New Jersey downtown indicates that making sure that local merchants can get a significant share of a concierge program will take a lot of commitment and hard work.

Many downtown service operations also have backdoor components:

- A dry cleaner in Kew Gardens does uniforms and work clothes for businesses throughout NYC
- An upholstery shop in Washington, NJ that does work for well-known furniture stores in Northern New Jersey
- Some hair salons and barber shops that serve non-ambulatory clients in their homes, nursing homes and hospitals

This list of examples of back door operations, though limited in length, is sufficient to show the broad gauge of their potential and that such operations are certainly not confined to food related products.

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[26] See for example: DANTH Associates, "A Market Development Strategy For On-Street Retailing in Downtown White Plains," March 1995, p.33.

[27] Todd Wheeler, president and founder of Denver-based Hospital Concierge of America and Concierge Colorado
http://www.trusteemag.com/trusteemag_app/jsp/articledisplay.jsp?dcrpath=TRUSTEEMAG/PubsNewsArticleGen/data/2006February/0602TRU_DEPT_Nurses&domain=TRUSTEEMAG

Firms with significant backdoor operations are usually stronger and stay in business longer than other firms in their downtowns. Moreover, these merchants are not inclined to passively sit on their duffs and just wait for shoppers to come to them. Instead, they are far more inclined than other merchants to be savvy about social marketing, both face-a-face and online.

This is not to say that they are untouchable by economic downturns, as restaurants in NYC with large corporate catering businesses demonstrated during the Great Recession. In addition, the reduced dependency on downtown customer foot traffic potentially makes these firms less tied to their downtown locations.

Organizations and Groups: The Veins and Arteries of Backdoor Retailing. Businesses, civic organizations and social groups, both local and distant, are often the critical connections for backdoor retail operations. They are analogous to our bodies' veins and arteries, linking the retailer to backdoor customers. Sometimes the organizations may be the direct purchasers of backdoor retail products, which they then may either consume directly, distribute as freebies or resell. In other instances, these organizations might provide linkages to their members who make the purchases themselves – e.g., the way the AARP offers health and life insurance from United Healthcare and MetLife.

The ability to network with these organizations and groups is an essential part of the skill set of a successful backdoor retailer. Connecting to these organizations and groups will usually require reaching out to them. Sit on their duff retailers, who just wait for customers to come to them, even those paying handsome rents for a physical store close to high pedestrian traffic, will not display this networking talent.

Online Backdoor Operations. *Overview.* The Internet has brought a powerful new dimension to backdoor operations. Merchants that have online storefronts with shopping carts and actual sales are engaging in electronic backdoor operations. The individual shoppers need not ever come to their stores. They are not walking in from the street. They may live in different states or even other nations and never have visited the merchant's downtown or city.

On a more modest scale eBay allows downtown merchants to sell online a few items or groups of items without having to create and maintain a storefront of their own or keeping hundreds of inventory items current.

According to reports in the media and from downtown managers, a properly functioning web store can definitely strengthen some downtown merchants, but most independent merchants shy away strongly from being on the web. In part, this is due to older merchants who generally have slowed with age in the adoption of new business techniques and who were not brought up with computers and the Internet being natural parts of their everyday lives.

Where Help is Needed. Some perspective is required here. Most of our downtowns fall in the small and medium-size category and the overwhelming majority of their shops have modest annual sales revenues and very few employees. Many of them may be able to create and maintain an inexpensive, uncomplicated website that provides simple information about the shop, its location and the types of goods and services it sells. Web hosts such as GoDaddy.com and SquareSpace.com can provide templates that ease the construction of such sites and their fees for hosting the site can be less than $250 per year. Getting initial professional design assistance might add about $500 to $1,000 in one-time set up costs. The maintenance of these simple sites, which may involve editing a few pages now and then, and adding or deleting whole pages occasionally, is not particularly complex. Many high school and college students could be hired to do these tasks for very affordable fees. However, while such websites might help drive some more customers into their brick and mortar shops, their impact is probably very minimal, because their aspirations and content are minimal.

Many, perhaps even most, small businesses cannot mount, operate and maintain a full-fledged web store. Alone, they are probably best off not attempting e-stores, because they lack the computer skills, staff and money needed to succeed. Keeping the online inventory current and coping with product shipments too often become killer tasks for small merchants.

The size and strength of the retailer are important factors as demonstrated by two retailers in NJ. Enjou, the gourmet chocolate shop, has a well designed, full-featured website on which the e-visitor can learn about the shop's story and buy their chocolate products. They have 11 employees. In contrast is a store in another community that sold interesting children's products and appealed to many parents in its trade area. Unfortunately, this retailer's e-store quickly could not keep its inventory up to date. E-shoppers often not only could not make purchases, but also came away with a negative image of the site and the retailer. This retailer had two employees. With such a small staff, packaging and shipping the merchandise also were burdensome when the online orders did come through.

Implications for Downtown and Main Street Organizations

General Outlook. If McKinsey is right and about 45% of the nation's retail sales now involve the internet in one way or another, *downtown and Main Street organizations need to ask themselves if their programs and their allocations of staff and money are appropriately responsive to this situation.* There are two broad areas this assessment might cover: how to facilitate their small merchants' involvement in backdoor retailing - - both electronic and non-electronic - - and business recruitment. Since so many of these organizations have not been involved before with encouraging and facilitating non-electronic backdoor activities and many continue to find their small merchants challenged by e-commerce, the discussion below will focus on an array of model programs and activities that might stimulate their thinking and hopefully seed their program development efforts.

Many downtown and Main Street organization leaders are already dealing with over-tasked staffs and constrained budgets. As a result, many may recoil at the suggestion of having to develop new programs, especially when so few of their brethren have established similar programs that they can easily tailor to their own environments and implement. Perhaps these leaders should consider the following points:

- If they do not act, then a substantial portion of their independent merchant retail base may soon disappear
- Other entities can establish and manage many of these programs (e.g., concierge programs). The downtown organization's role would be to introduce the idea to relevant actors and then advocate and facilitate their implementation. Many savvy downtown leaders are already good at doing this. They know that really powerful downtown organizations leverage their resources by getting a lot of things done by other organizations
- It may be possible to turn some of these programs into new revenue streams for the downtown organization
- Under the New Normal, satisfaction with the former *status quo* is a definite strategy for failure.

<u>Facilitating Backdoor Retailing</u>. *Helping Retailers Grow Their "Veins and Arteries" to Organizations and Groups.* This type of program does not require a rocket scientist to design or a Harvard MBA to implement and manage. Once established, a smart college student could handle many of its tasks while others could easily be integrated into the daily routines of downtown organization managers. Here are some possible elements of such a program:

- Disseminating information about backdoor retailing so merchants understand what it is all about. The best way is for merchants already successfully engaged in backdoor operations to explain what and how they do it. This information could be made available at meetings convened by the downtown organization, but dissemination will be more effective if merchants can access it at their own convenience, perhaps from a CD or a short movie on the downtown organization's website
- Assembling information on local civic and social groups and making it available to district merchants. The information might cover who to contact, membership composition and size. Information about their existing "backdoor" retail relationships should also be included
- Most important will be the fostering of networking opportunities between retailers interested in growing backdoor operations with the executives of other local businesses and the leaders of local civic and social organizations. Many downtown organizations already are running "networking" meetings; a new "backdoor" spin just has to be added to

them. Facilitating face-a-face meetings through introductions will probably be another important program prong, but not one that is resource hungry.

Niche Events. Niche events, such as bridal shows, crafts fairs and model decorator homes produced by downtown organizations can generate a lot of backdoor business. Bridal shows in particular can be effective because of the extremely wide array of merchants that can participate in a wedding niche.

In addition, the business operators participating in such events should also be encouraged by the downtown organization to participate in other bridal shows, crafts fairs, etc., alone or even as part of a niche contingent. Strong niches can draw from a 40-mile radius. If the downtown organization already has organized a wedding, crafts, home and hearth and/or restaurant niche and has them marketing effectively, then having them send "delegations" to out of town shows should not be all that taxing on resources.

Concierge Services. These operations are appearing in downtown hospitals, office buildings and residential buildings. Downtown organizations should become involved in their creation because they are Janus-faced: they can be extremely important backdoor links between consumers and downtown retailers or they can link local consumers to retailers in other cities or even another nation.[28] For example, one downtown organization recently discovered that a new concierge service in its district was tapping merchants in another city 27 miles away while ignoring similar merchants in the district.

There are several ways that a downtown organization can impact on how a concierge service sets itself up:

- By establishing close ties to the client organization, be it an office building, residential building or hospital and perhaps even introducing them to the idea of a concierge program
- By "aggregating supply," i.e., having a list of local merchants in key NAICS categories who want to participate in a concierge program and who are willing to base their prices on volume and to provide special services as incentives.

There are numerous concierge companies. Downtown and Main Street organizations should not try to manage such operations.

Electronic Department Stores. Given the persistent and widespread reports about how difficult it is to get small merchants to establish viable online presences, some out-of-the-box thinking may be required. DANTH's experiences on consulting projects and managing BIDs strongly suggest that significantly more independent business operators can be induced to innovate if local change agents are present who can make it easy for them to innovate.[29] How can it be

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[28] Janus is a Roman god who is two-faced, looking both to the future and the past.
[29] See: http://downtown-curmudgeon.blogspot.com/2007/06/being-downtown-change-agent.html

made easier for small downtown merchants to get effectively online then becomes a critical question. Acting alone, many small merchants may never be able to develop that capacity, but if they band together and aggregate their resources, viable opportunities may emerge. The establishment of an e-departments store for a commercial district might be one approach and have the following attributes:

- Each participating district merchant would be a “department” and have the opportunity to sell five to ten of their strongest merchandise items
- This limited product inventory would keep the maintenance of their online inventory information simple and easy to update. They would just need to provide the information to the e-department store management, who would do the actual updating on the website
- The e-department store would be managed by an entity that is capable of creating and maintaining a proper e-store operation. Participating merchants would not have to do anything directly on the website. They and their employees would not need to have Internet skills
- The e-department store would develop a way of easing the burden of packaging and shipping the sold merchandise. For example, it might put together a list of part-time workers who know how to package merchandise for shipping and could be called upon as needed

Obviously such an e-department store would have to sort out difficult issues about how payments for merchandise would be made and distributed, product packaging and shipment and the fees that its management would charge. However, unless downtown merchants and commercial district leaders start thinking about such issues, the online presence of most small merchants will languish.

Such an e-department store could be limited to merchants in a large downtown niche – wedding and home and hearth niches often have 20 to 40 shops in them. Moreover, more than one downtown niche could have its own e-department store.

The e-department store may be an eBay storefront or a separate website. It might also be that one very savvy local internet consultant creates a *de facto* district e-department store by forging individual agreements to provide such services with each individual small merchant. The downtown or Main Street organization also could create the e-department store as a part of its website. Ideally, it would charge the merchants a fee that would be affordable for the merchant, but sufficient to cover the organization’s additional costs. The organization could also present the idea to various private web service firms and request proposals. That approach is more likely to be successful if the downtown organization has already:

- “Aggregated demand” by identifying specific merchants who are willing to participate and the fees they are willing to pay
- Identified the specific services the merchants expect to receive

Downtown Organization Websites: The Importance of Storytelling. For many years, from roughly the mid 1980s until fairly recently, many downtown organizations found that doing newspaper inserts and special magazines were strong marketing tools. They gave these organizations the capability to send strong editorial content, that they created and controlled, to both potential consumers and commercial tenant prospects. At the heart of these publications, their most effective components were stories that convincingly conveyed to the reader that the businesses or the downtown characteristic covered by that story were interesting, unique and/or -- most importantly -- a discovery. But, the times are “a-changin.” Downtown organizations are quickly shifting their attention to e-marketing and their websites, e-newsletters and Facebook pages. Visits to many of these websites suggest that this shift from print to electronic marketing has been accompanied by a steep decline in the story telling their marketing utilizes.

One reason for this trend may be that the easiest, cheapest and quickest ways to present information about local businesses on websites are in list/directory formats that primarily focus on category descriptors of business functions combined with basic contact information. In a few instances, there is a short descriptive paragraph or two, perhaps even a photograph. But, few, if any, of these formats produce real stories about the local businesses.

Also, using text to tell a story usually takes more words and time to read than most “webmeisters” advise for a webpage.

Today, even smartphones provide very functional camcorder capabilities and it is relatively easy to produce short movies that can be posted to a website. These short movies can provide e-commerce with a non-text technique for effective short storytelling that has a strong personal component to it and thus can evoke viewer feelings and involvement. The Morristown Partnership’s “Morristown’s Treasured Businesses” is a terrific example of what can be accomplished, and many other downtown and Main Street organizations should consider emulating it in some substantial way.[30]

If the downtown establishes an e-department store, then the storytelling movie definitely should be part of the merchant’s webpages in it.

<u>Business Recruitment</u>. *Retail Chains*. Physical stores will remain a mainstay as the emerging multichannel downtown retail paradigm takes hold, though their numbers and sizes may diminish and the functions they perform may shift in importance. The Great Recession created a strong financial motivation for retail chains to substantially reduce their number of new stores and the amounts of space they are looking for in both new and soon to be renewed leases. Since the chains’ growing Internet capabilities may reduce the amount of space they need in each store, this trend most likely will not be short-lived. This trend consequently may:

[30] http://www.morristown-nj.org/features2.html?id=1305049921

- Translate into an important positive factor for many middle-sized downtowns that previously lacked spaces large enough to attract GAFO type retail chains
- Reduce their need for significant mixed-use redevelopment projects. In the decade prior to the Great Recession many of these medium-sized downtowns -- e.g., Englewood, NJ and Cranford, NJ -- sought such projects in order to have retail spaces large enough to meet the requirements of some of the national chains. Given today's frequent lack of political support for these projects and the difficulty in financing them, this could be very beneficial for these downtowns
- With reduced demand for retail space, result in some lower retail rents
- Ignite strong political debates about the desirability of having chains like Staples, Office Depot, Walmart, Best Buy, etc., in these downtowns and what their entry would mean to small independent merchants.

Independent Retailers. Downtown and Main Street organizations in medium and large size downtowns will increasingly confront the question of whether it is worthwhile to actively try to recruit small single channel GAFO retail operators. They instead may be much better off focusing their time, attention and resources on those GAFO merchants that either already have developed a multichannel capability or who want to do so.

The space requirements of small backdoor merchants may differ considerably from their single-channel comrades:

- Since front door shoppers are less important to them, they may prefer lower rent side street locations
- Less shelf space may be needed for displaying merchandise, but more for storage, parcel packaging and shipment
- Some may also want production space – e.g., candy makers, cigar makers, craftspeople, dressmakers
- Access to a T1 or bigger "internet pipes" may be desired

Recruitment Pitch and Materials. Under the multichannel paradigm, business recruitment efforts will still need to assemble, package and disseminate information about the potential pedestrian traffic by a physical store's location and the factors that drive it. However, if the recruitment program targets existing or want-to-be independent backdoor retailers, then its value statement for the district as a business location and the supporting information that accompanies it have to be expanded accordingly. Having the types of backdoor support activities discussed above, e.g., concierge programs, e-department stores, niche shows, networking meetings, etc., will be definite recruitment assets and they should be featured in the value statement. Downtowns that create them first will have a definite competitive advantage in attracting quality independent GAFO merchants. In addition to the traditional trade area demographics, downtown traffic and pedestrian counts, etc., the recruitment program should also make available:

- The data on local organizations and groups discussed above
- Information on local shipping and package delivery companies
- Information about the availability, cost, speed, etc. of Internet connections
- Information about other backdoor retailers in the downtown

Summing Up

The old retail paradigm, dominated by brick and mortar stores, will be diminishing in strength, as the e-commerce led multichannel retail paradigm increases in power and significance. However, brick and mortar retail shops will not be disappearing from our downtown and Main Street commercial districts. Still:

- There may be fewer of them: the single channel physical GAFO retail stores being the most vulnerable
- And these downtown retailers may require less space
- And in those spaces showroom, packaging and shipping, and e-commerce functions may rival their sales transactions functions
- Consequently, the criteria retail operators use to select new store locations may change. What “location, location, location” means may be changing, perhaps very significantly
- As a result, the prime retail spaces in many downtowns may face reduced demand and pressures for lower rents, while demand for side street locations by quality operators may increase.

Not all retailers and not all downtowns will be affected in the same way:

- Retail chains and savvy independent operators are already on the multichannel retail path
- Small independent brick and mortar merchants, especially those with few Internet skills and selling GAFO type merchandise, are the most vulnerable
- Neighborhood/convenience retail functions, because of the consumers desire for relatively immediate consumption of their goods and services will be less vulnerable
- Large downtowns with large pedestrian flows generated by non-retail functions also will be less vulnerable
- Downtowns where pedestrian flows were marginal and successful stores have had to function as destinations will be most vulnerable, especially those shops selling GAFO merchandise. However, if the merchants in these downtowns can develop viable multichannel retail operations, they could be more successful than ever.

While much attention has been focused on getting small merchants on the Internet – and properly so – backdoor retailing provides a number of other channels that they can take advantage of. Indeed, as the example of Enjou Chocolat demonstrates, a strategy of combining a brick and mortar store with an e-commerce presence and backdoor retail techniques may provide the greatest success.

Downtown and Main Street organizations need to alter their goals and focus on how they can help local merchants:

- Obtain and maintain a viable Internet presence that will increase their market penetration, while not overtaxing their skill sets or budgets
- To learn about and then engage in backdoor retail practices such as wholesaling, bridal shows, concierge services, etc.
- To network with local civic, social, religious and business organizations, the “veins and arteries” on which many very profitable backdoor retail operations are built.

They also need to enlarge their sales pitches to retail tenant prospects to show how their districts’ assets are conducive to those following a multichannel strategy. They also will have to consider whether or not they want to try to recruit non- brick and mortar retail operations or to keep those, like European Papers, who decide to close their physical store channel. If they want these firms -- probably because they have employees and are commercial space consumers-- then they will need an appropriate recruitment and retention program.

Internet abetted small box stores may become a critical issue in many medium-sized suburban downtowns and dense urban neighborhoods.

PLEASE NOTE: nothing in the above argument implies that downtown and Main Street commercial districts should stop trying to make themselves as pedestrian friendly as possible. To the contrary, the future vitality of these districts most probably rests on them being strong business centers and, most importantly, the places for people who want to spend quality time with their family and friends in an entertaining and attractive environment. Similarly, nothing in the above argument contravenes their urgent need to have well programmed and strongly activated public spaces.