

# Reinventing the Shopping Center

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*For the age of  
the Grounded Consumer*

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A White Paper Presented by:

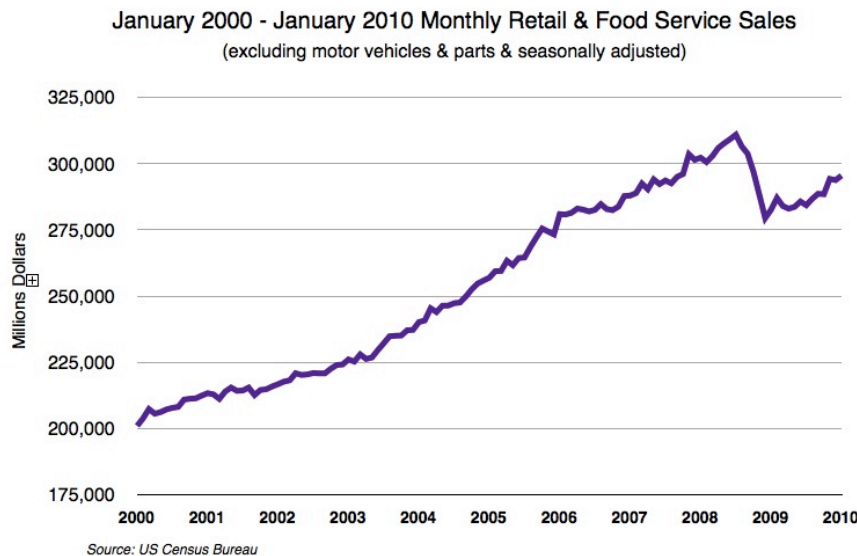


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# Reinventing the Shopping Center for the Age of the Grounded Consumer

The Great Recession has had a dramatic impact on consumers and their retail spending throughout the world. Consumer spending is down. Consumers are no longer living beyond their means by tapping credit cards and home equity, which for most has vanished. They have increased their savings rate. When consumers do spend, they have shifted how they shop, what they buy and even where they shop.



They are spending less of their time shopping. A recent survey in the United States found that 78% of people say the American Dream built on owning a lot of material possessions is dead. Conspicuous consumption, the foundation for traditional shopping centers, is dead.

Is this the new normal or will we ever see a return to the pre-recession normal? Research shows that the recession was not the cause of this significant behavior shift by consumers. The trend was well underway prior to the recession. People decluttering, living simpler and spending less started at least a decade ago, and those that didn't start then had intentions to do so. The recession only caused the trend to become mainstream. Consumers' frugal and practical behaviors adopted during the recession are becoming ingrained and have reshaped consumer consumption patterns in ways that will persist for many years, even after the economy rebounds.

Context-Based Research Group, an ethnographic firm that has been researching the impact of the recession, says people are *coming to age*, experiencing a major epiphany of how life works, which triggers a *rite of passage*, resulting in a major life

transition that leads to new attitudes and new ways of acting in the world. The recession's transformative effect is evidenced by their research that found that 43% of people who have been personally impacted by the recession say that their lives have been changed for the better.

What constitutes value with purchases and values in peoples' lives now have whole new definitions. When it comes to material purchases, consumers have transitioned to a more purposeful and emotional perspective on value. They are less impulsive and more disciplined and purposeful in how they spend, evaluating how their purchases align with their values, fit into their lives and affect society and the earth, rather than purely seeking instant gratification. They now understand that the frenzied shopping behavior of the past was in pursuit of a false dream and that most possessions do not bring lasting happiness. Consumers have become more socially conscious and responsible, placing higher value on family, relationships, community and the world as a whole. Their societal and emotional bonds now have greater importance. They are looking for a more meaningful life. Welcome to the *new normal* of the *grounded consumer*.

So what do these new values and the permanently reduced spending mean for shopping centers? For the industry as a whole, it is not good. Even before the recession, the U.S. was way overstored, by some estimates by at least 30%. Now the new normal of reduced consumer spending will support even less retail space. With shopping now less of a priority in people's lives, the good old days for shopping centers are permanently gone. Competition between shopping centers is greater now than at any other time in history. To prosper in the future, shopping centers will need to embrace change and reinvent themselves for the age of the grounded consumer.

What our company sees happening in the future is a two-tier system for larger shopping centers with:

- Successful shopping centers and malls that adapt to the grounded consumer and capture their traffic and expenditures
- Marginally performing and obsolete centers will go substantially or completely dark or find ways to repurpose themselves for other uses.

The good news is that an understanding of who the grounded consumer is and what they value creates the opportunity for a new successful shopping center formula.

Here are a few of the grounded consumer's traits that can be capitalized on:

- Social relationships have increased in importance. Many people are measuring the quality of their lives in social terms before economic ones. They want to strengthen their bonds and enjoy good times with family and friends.
- The experience economy has truly arrived, as now experiences are more meaningful and bring more happiness to most people than purchases of stuff.
- People are looking for ways to enrich their and their families' lives in ways that make them smarter, better off and healthier, and don't necessarily require the acquisition of more material possessions.
- People are looking for ways to still enjoy small indulgences and bring fun into their lives. They want to find ways to make *joy* the centerpiece of their lives and the culture they live in.

While the trends that lead to the grounded consumer were evolving during the past decade or so prior to the recession, so was a new shopping center model called the *lifestyle center*, or sometimes *open-air* or *town center*. Lifestyle centers are open-air, combining traditional retail with leisure options including restaurants and entertainment, and design ambience and amenities such as outdoor streetscapes, fountains, landscaping, street furniture and open-air plazas. Many are mixed-use with housing, offices and even hotels, creating the setting of a town square or village shopping area. The concept is that "shopping" is only one activity among many, such as the experience of eating at restaurants, people-watching, open-air concerts, or looking at art. The outdoor setting, even in inclement weather, contributes to the appeal of lifestyle centers versus the rather artificial and cold atmosphere of enclosed malls.



Santana Row lifestyle center in San Jose, California

The lifestyle center model, in part, addresses the problem that the grounded consumer now presents to shopping centers -- in order to get people to buy, you have to get them there. As Paco Underhill, founder of *Envirosearch* says, "What we

are seeing is the evolution of our developer community from being landlords to being place-makers. They simply can't survive by just giving you stores."

The new model is all about place-making, creating destinations that people want to come to for multiple reasons, including shopping, dining and socializing, and where the enjoyment of just being there is a reason enough to come. It's all about becoming a great public space first. The model has many of the characteristics of earlier festival marketplaces, such as Faneuil Hall Marketplace in Boston or Harborplace in Baltimore, that make shopping feel more like tourism and where the number one activity is people-watching. Place-making is primarily about creating what feels like public gathering places and social environments.

As lifestyle centers spread throughout America, many medium-size malls declined in appeal and sales. Many demolded or added lifestyle components. Others failed and went dark or were demolished. In Kansas City where our office is located, there were 10 enclosed malls in the early 1990s. Only two healthy ones remain, both regional 'A' malls. Three malls have been completely demolished, two were redeveloped as non-mall shopping centers, one is struggling, and two more are basically dark other than a few of their department stores and are slated for total redevelopment. During the same period, three lifestyle centers were developed and the country's original lifestyle center, the Country Club Plaza that opened in 1923, continued to expand and prosper. The experience in Kansas City is very representative of the shopping center industry as a whole.



*Country Club Plaza, Kansas City, Missouri, the original lifestyle center that opened 1923*

To attract grounded consumer traffic, entertainment is becoming an essential part of the shopping center mix with not just special events, but also entertainment destination tenants. In many other parts of the world, mall developers have already taken a proactive approach to incorporating entertainment destinations in their centers. For years, mall developers in Asia, the Middle East and Eastern Europe have developed and operated their own entertainment venues in malls. Advantages of the mall owner developing and operating the entertainment is that they are not constrained to the limited availability of entertainment tenants, and some of the

entertainment can be integrated into the mall's common area, rather than have it all be contained in a store space, enhancing the overall experience for all visitors. They can also create unique entertainment concepts to help differentiate their projects. Those mall owners understand that the entertainment not only generates mall traffic, but can also be profitable.

One of the greatest challenges American shopping centers now face in their place-making for the grounded consumer is finding entertainment anchors that will differentiate them from the competition. Cinemas alone are no longer enough; there needs to be multiple entertainment options and there is a very limited number of chain entertainment tenants to choose from.

What many developers are starting to understand is that place-making requires a more complex business model than just building retail spaces, leasing them and managing the common areas with special events such as Santa Claus and fashion shows. Entertainment venues such as bowling lounges, family entertainment centers (FECs), aquariums, family pizza buffet-entertainment centers, children's edutainment centers, adult eatertainment concepts, and even permanent exhibit space for rotating museum-quality exhibits are becoming the new anchors for both lifestyle centers and enclosed malls. No different than traditional enclosed mall development where department stores were the anchors that brought much of the traffic and developers gave the department store's sweet deals, entertainment venues also require lower rents and/or developer financial assistance to be financially viable.

Where no tenant options are available, some American developers are now taking an active role to ensure the destination status of their centers by developing and operating their own entertainment venues. Entertainment district developer the *Cordish Company* vertically-integrated years ago, creating its affiliate *Entertainment Concept Investors, Inc.*, that designs, builds, owns and operates restaurant, entertainment, lounge and live entertainment concepts in predominately *Cordish's* developments. *RED Development* has an ownership interest in *Schussler Creative, Inc.*, developers of the *Hot Dog Hall of Fame*, *T-Rex*, *Backfire BBQ featuring the Orange Country Choppers* and other restaurant concepts in development, all with high entertainment components, most located in *RED's* shopping centers. *Newport on the Levee*, a lifestyle center in Newport, Kentucky, is developing their own *Star Lanes* boutique bowling center.

One of the American pioneers in owning and operating their own entertainment destination attraction is *Mall of America* in Minneapolis, Minnesota. The 4.2-million-

square-foot mall features *Nickelodeon Universe*, an indoor theme park. The mall reports that in 2009, 30% of the mall's visitors came specifically to visit the park, not to shop. In addition to the draw of *Nickelodeon Universe*, the mall held 400 special events during the year, including celebrity appearances, cooking demonstrations, book signings and even a cheerleading competition. In 2009 in the heart of the recession, *Mall of America's* customer traffic rose 3.5% and sales rose 1.5%.



*Nickelodeon Universe*

The draw of shopping center entertainment is substantiated by visitor studies at shopping centers and malls with entertainment attractions. One customer segmentation study in the mid-1990's found that 22% of visitors came specifically for the entertainment aspects of the centers and another 25% who came predominately for shopping considered the entertainment aspects of the center important to their visit. A shopper study in late 2009 by the *International Council of Shopping Centers* found that 40% of mall shoppers attended mall special events in shopping centers during the past 12 months and another 25% are interested in those types of activities. When asked what types of attributes were important in determining where they shopped for things like apparel, home goods and gifts, 52% answered dining options and 49% answered entertainment options. Other research has found that entertainment visitors will travel further than shopping only-visitors and shoppers who derive fun and pleasure from visiting are more likely to visit that shopping center again in the future. There can be little doubt about the importance of entertainment as an essential draw and traffic generator for shopping centers, especially with the shift of the grounded consumer to more experience-oriented values.

Our company's first work with a shopping center to develop an entertainment destination that the center owned and operated was in the mid-1990's in Caracas, Venezuela. Twenty-year-old, open-air *Unicentro el Marqués* had new competition from an enclosed mall that had resulted in the center's customer base slipping down the socio-economic ladder to predominately Class C customers (middle class). The goal was to not only increase the center's traffic, but also its market share of Class B (upper-middle class) and Class A-minus (lower upper class) residents. As part of the



shopping center's remodeling, the owners wanted to add a new entertainment anchor tenant.

The solution was to take the third-level exhibit space and develop it as *Dinotropolis*, a 50,000-square-foot children's entertainment center that included rides, a large soft-contained-play unit, games, children's edutainment and play areas, and six birthday party suites that can accommodate parties with as many as 100 children each. Our company developed a storyline and design theme about a civilization of intelligent dinosaurs called Momosauros and their king, Max, and helped the owners with all aspects of design, procurement and management start-up. The center was opened in July 1996 and was a great success. As the new entertainment anchor, it not only attracted the higher socio-economic families and increased the shopping center's traffic, but was also a profitable business and generated rent for a former marginally used space. Over two-thirds of the parents who brought their children to *Dinotropolis* were women, who control an even higher share of spending decisions in the Latin American culture than in the United States. During its earlier years, prior to the changed political climate and deterioration of the Venezuelan economy, *Dinotropolis* achieved an annual attendance of over 400,000.

As part of the entertainment appeal, owners also need to make their centers family-friendly, which includes making them attractive to children. Grounded consumer families are interested in strengthening their family bonds and ensuring that their children have joy in their lives. Bored children can cut short a family's trip to a shopping center, which reduces their spending. Some lifestyle centers and malls have upped the ante by offering more than just the soft foam play areas found in most malls with large outdoor children's play parks, outdoor spraygrounds and sophisticated themed indoor play areas, all that not only address children, but also parent's needs. Some of the play areas even have built-in family restrooms.

And let's not forget the canine members of many families. Some shopping centers have even added dog parks in their designs, where dogs can have some fun playing and taking care of their needs. There's now even a [website](#) to help owners find dog-friendly shopping centers.

There is no return to the good old days of shopping centers based on a mix of retail tenants. The grounded consumer has changed the rules. Shopping centers now have to become 'places' that attract consumer traffic with much more than shopping. Those centers that adapt to the needs and values of the new grounded consumer will prosper in the post-recession economy.



#### Additional reading

The Great Recession: Its long-term impact on consumers and location-based businesses, February 2010

Retail-tainment, the next big thing for retail and shopping centers, January 2010

Reaching adults often means targeting their young children, August 2009

The grounded consumer: Changing the paradigm of shopping center entertainment, May 2009

The role of entertainment in shopping centers & malls, September 2008

Retail developers become restaurant and entertainment operators, Aug-Sept 2006

Death of the mall; welcome to the new landscape of shopping experiences, January 2007

*The White Hutchinson Leisure & Learning Group, with offices in Kansas City, Missouri U.S.A. and Doha, Qatar, is a 21-year-old multi-disciplinary, full-service feasibility, design, production and consulting company specializing in the feasibility, design and production of location-based entertainment and leisure venues and assisting shopping center and hospitality owners and retailers with entertainment, edutainment and play strategies for their properties. The group consists of professionals skilled in all aspects of market and consumer research, design, branding, child development, production and operations. Since 1989, the company has served over 430 clients in 28 countries throughout North and Latin America, Africa, Europe, Asia and the Middle East.*

*The company's work and expertise has been recognized by Time magazine, The Wall Street Journal, the Food Network, the books The Experience Economy, Last Child in the Woods, and Building for Life, Designing and Understanding The Human-Nature Connection and by many other books and industry publications. Its projects have won 13 different first-place design awards.*

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