ULI Chicago
Young Leader Roundtable
The Future of Experiential Retail

If you were to draw a graph of online retail sales growth from the late 1990’s to 2020, the graph is mostly a straight line at a 15-degree angle of year-over-year growth. To combat the growth of online retail and retain brick-and-mortar consumer-spending, retailers turned to experiential retail. Get people in the door for something they can’t do from home: see a movie, take a fitness class, dine out and they’ll stay and spend on consumer goods. Enter COVID-19. Back on that graph of e-commerce, the straight line of year-over-year growth takes a sharp upward turn at Q1-2020, looking less like a plane taking flight and more like a rocket ship launching into space.

Like many other sectors, the 2020 global pandemic has accelerated a 10-20 year change into 10 months. Consumers stayed home and ordered goods, from groceries to home furnishings, online. Suddenly, experiential retail, the savior of in-store spending, ground to a stop. Efforts to stop the spread of the pandemic shuttered movie theaters, fitness clubs, and indoor dining. Discussions included:

RESTAURANTS & DINING

Carry-out & Cloud Kitchen: Restaurants are adapting to carry-out models, packaging meals and drink kits for home consumption. For most restaurants this likely yields lower margins than in-house dining, but keeps customers engaged and generates some revenue. This has also fueled ghost or cloud kitchens, where food is prepared in a commercial kitchen with no front-of-house. As customers seek out food for pick-up or delivery, new businesses can enter the market with lower risk and overhead through this model. In some instances, like the restaurateur of the Furious Spoon minichain who turned to a new ghost-kitchen-hosted food concept, existing business owners are exploring creative alternatives to their in-house dining to provide options better tailored to the carry-out market.

Collaborations: Local restrictions limiting indoor dining services to establishments with food services has inspired collaborations between like-minded businesses. Ghost kitchens and restaurants have partnered with bars to provide food, allowing the venue to reopen and generate income for both parties.

Pop-up Locations: Another way restaurateurs are staying afloat is through going to the customers, rather than the other way around. With the decline in downtown activity that bolsters the restaurants, suburban customers have become disconnected from restaurants they might frequent on an evening downtown. Instead, some restaurants are hosting pop-up events at suburban locations so that their more disparate customers can access convenient curb-side pickup without the trek downtown.

RETAIL

As more and more consumers turn to curbside pick-up and home delivery, what are the retail experiences that can’t be replaced? Where does the transaction surpass the experience?

Fulfillment: Retail has become a blend of in-store shopping and logistics fulfillment centers. Stores are dedicating new floor, curb, and parking lot area to online order pick-up. With more demand coming through online sales than in-person sales, the brick-and-more back-of-house is becoming a fulfillment center more than a restocking room. This “mullet” model - retail in the front, industrial in the back - is spurring discussions around land use policy and real estate asset management. Urban planners are tackling how to better regulate commercial zoning that has transitioned into more industrial logistics needs and CBRE announced a merge of their retail and industrial groups into one holistic expertise.

Grocery: When it comes to groceries, studies show that consumers care much more about selecting their own produce than non-perishable goods. This could mean grocery stores of the future have a smaller front-of-house footprint to serve that experience, while back-of-house warehouse employees fill the remainder of the order.
**Consumer Goods:** On the consumer good front, the experience of trying on apparel is hard to supplant. While augmented reality can make it possible to try out a new couch in your living room, technology doesn’t quite reach the realm of trying on pants. This has contributed to a surge in reverse logistics as consumers buy multiple styles or sizes of clothing and return the unsuccessful options. Likely, the fitting room experience will continue to draw consumers to the store, though probably as a more focused consumer who has researched their options online ahead of time.

**FITNESS & MOVIES**
While opposites at their core, gyms/fitness classes and movie theaters have shared similar trends in their adaptation to physical distancing and attendance limitations.

**The Home Studio:** For both, the question lies in how to entice customers back in the door once pedaling their products for attractive home use. Gyms have launched fitness apps to keep customers engaged from the comfort of their home. As more people build up their own home work-out studio with a Peloton bike or just a floor mat and some apps, it may be more appealing to continue the convenience of a home workout once gyms reopen. Similarly, more production studios are opting to release movies direct to streaming platforms and as people upgrade their home theaters it may be hard to lure them back to the movie-house experience.

**MOVING OUTDOORS**
Through the pleasant weather months we saw many indoor activities taking place exclusively outdoors, from dining to fitness classes to a resurgence of the drive-in theater. Closed streets serving as extended sidewalk cafes is a trend we hope to see stick around. Underneath the popularity of this adaptation are liability concerns from municipalities and landlords. Once a tenant moves from the confines of their leased space onto a private parking lot or a public way, landlords and municipalities are looking for ways to safeguard themselves and confine the liability to the tenant. Additionally, land use and transportation policies will need to adapt to allow this reimagination of public space and parking lots long-term.

**EQUITY**
Through the discussion of pivots that possess long-term change, we are often enticed by the possibilities that serve a middle-class-minimum consumer base. How might these exciting new models help or hurt those who are economically insecure? One concern is the acceleration of credit-only transactions. The fear of cash-bourne germs has increased cash-free businesses, which has the power to exclude the unbanked from access to services. Reliance on the internet and smartphones for everything from ordering groceries online to accessing a menu at a restaurant may deepen the divide of access to opportunities and basic needs. We should seek to harness the shift in business models, accelerated by the pandemic, to serve not only those who have plentiful access to goods and service, but those who are subject to systemic disinvestment.

Through it all, we look forward to the days when we are able to return to bars and restaurants; visit food halls and hold coffee chats face-to-face; see live music; take our kids to play places; experience the energy of sporting events and the spillover onto the street and transit; people-watch and movie-watch; play social sports, and pad our lives with the casual community we build around shared activities.

*Summary written by Valerie Berstene.*