Mall rat versus the mouse

By Joan Muller

30 Sep 2013

How will speedier bandwidth and increased usage of smartphones and tablets change the way South Africans shop? And will traditional bricks-and-mortar malls become obsolete as e-commerce gains traction?

These were some of the questions raised at the annual congress of the SA Council of Shopping Centres held in Sandton earlier this month.

UK retail property analyst Mark Faithfull believes property developers, shopping centre owners and retailers across the globe are grappling with the same issue: how to satisfy the rapidly evolving needs of the techno-savvy consumer and still turn a decent profit.

So far, it appears that global retailers have embraced e-commerce to varying degrees and with varying success. Faithfull says the trailblazers in Europe are not the obvious ones. Trendy fashion brands like Spain's Zara and Sweden's H&M are behind the curve while what many perceive to be conservative retail chains like the UK's John Lewis and Marks & Spencer have surprised the market with their early adoption of innovative digital shopping channels.

While many UK retail chains continue to grow their physical footprint, John Lewis has gone in the opposite direction, opting for fewer and smaller stores while expanding its online presence.

Sales growth with smaller shops

The upshot, says Faithfull, is that John Lewis has been able to achieve significant growth in sales while many others that didn't adopt the same approach have seen earnings growth stall.

Faithfull expects more UK and European retailers to follow John Lewis's lead, a trend that could have an impact on demand for retail space over the next few years. In fact, Faithfull says retail space in Europe could decrease by between 20% and 25% over the next five years as retailers invest increasingly in e-commerce.

"Retailers who adopt a strong online presence may no longer require big box stores and are likely to opt for smaller floor plates instead," he says.

Faithfull says while this won't necessarily lead to the death of the traditional store or mall, everyone will have to adapt their business models to the changing needs of consumers.

SA retail property developers tend to agree. Paul Simpson, a consultant with Retail Property Strategies, says larger retailers that do not make a successful transition into new ways of doing business are likely to find themselves "over-footaged". And landlords could be left with the problem.

Challenges for developers

Simpson says the challenge for developers, mall owners and retailers is to ensure that the shopping experience remains desirable for future consumer generations who are being weaned on iPads and smartphones. "Malls will need to become more fun, more sociable and more exciting. I'm not sure that this is fully understood in SA yet," he said.

But online growth doesn't necessarily mean a decline of "on mall" sales, says Simpson. In fact, e-commerce presents a huge opportunity for retailers and traditional businesses if tackled correctly.

Simpson believes the two will support each other through "click and collect", a trend in which the physical store remains integral to the sales process. "Given the broad geographic spread of SA cities and towns, online has the potential to turn every small-town store into a 'Sandton catalogue store' via click and collect," he says.

Simpson's view is supported by international property consultancy Cushman & Wakefield, which notes in a recently released report on online shopping that the global growth of click and collect as well as "showrooming" underlines the importance of physical stores in the supply chain.

But the group says increasing emphasis on logistics will change property demand and pricing patterns.

Storage and collection

"While in-demand locations will see rents rise, weaker locations, serving more as collection and storage nodes, will see rents fall. Though [it will be] negative for parts of the property market, large regional shopping centres have considerable potential to remain a vital channel for socialising, research, ordering, collection and returns."

According to Cushman & Wakefield, online retailing in SA has grown at an annual average of 13,4% from 2007 to 2012, below the global annual average of 18%. However, the report says developing countries are likely to jump ahead of more established regions over the next few years as emerging market consumers become more "connected".

A new kid on SA's digital block, international fashion and accessories e-tailer Zando, which launched in SA 18 months ago, estimates that online sales in SA will grow by between 25% and 40% annually over the next three to five years.

Sascha Breuss, managing director of Zando in SA, says over the past four months alone the company has grown its SA customer base by 50% to 1,3m. He believes SA offers huge growth potential as only around 2% of all sales in SA are currently concluded online compared with 14% in the UK.

However, Breuss cautions that SA's excessive cost of accessing online shopping portals may hamper growth. "In the UK and Europe consumers spend an average 0,9% of their income to access the Internet. In SA that figure is 3,5%."

Source: Financial Mail via I-Net Bridge