The Grounded Consumer: Changing the Paradigm of Shopping Center Entertainment

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In the 19th century, economist Thorstein Veblen coined the term *conspicuous consumption*, which he defined as valuable possessions visible to all as a signal of one's wealth, success and status. During the past 53 years since Victor Gruen launched the first shopping mall, conspicuous consumption has been the key driver for retail and shopping center growth in the United States.

What is now being labeled the Great Recession is having a profound and lasting impact on consumers. Most businesses are currently in a survival mode, trying to tread water until the recovery when the normal economy returns. What they don't realize is that the normal economy as we knew it is history. Unlike past recessions, and similar to the lasting impact the Great Depression had on consumer behavior and attitudes for a generation, the post-recession culture of consumerism will be far different. The normal economy is being redefined. The new consumer that is rising from the ashes of the economic meltdown has been shaped by both a number of nascent, but now accelerated trends that started a number of years ago as well as the shock of the sudden and severe recession. The new *grounded consumer* has a new and different value equation. They will:

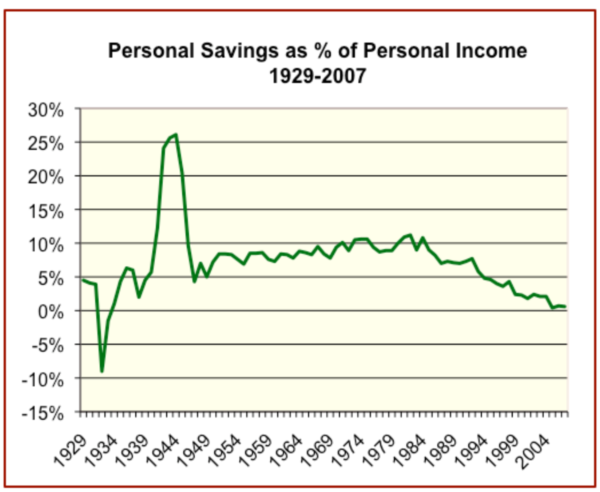
No longer live beyond their means.
In the past, consumers measured their worth based on the cash they brought in plus their credit limit. They bought what their credit could support, rather than what they could afford. The unleveraged grounded consumer makes the distinction between what they want, what they need and what they can afford. The culture of the highly leveraged consumer is history.

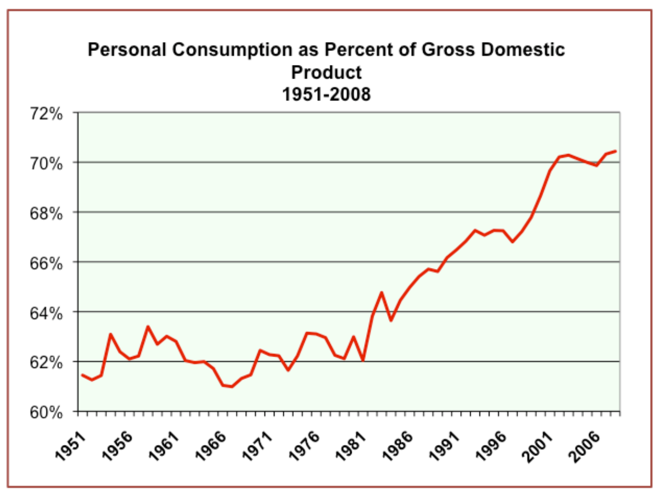
View "less" as the new "more."
Grounded consumers don't define themselves by what they buy and own. They'll firmly believe consuming is not the reason for living. Buying less and being thrifty is in as the new status. Furthermore, they are removing unnecessary stuff from their lives and replacing it with an emotional and social sense of themselves. The *Homo Economicus* species that defined itself by "*shop till you drop"* consumerism is extinct. Grounded consumers may avoid the mall for all but needed purchases. Why invite temptation?

Place a higher value on family and community, shifting from an egocentric Me Economy to a socially conscious We Economy.
The social and emotional bonds in peoples' lives now have far greater importance than in the past. The needs of family, community, society and the Earth weigh heavily in peoples' lives — and in their purchasing decisions.

Maintain fun in their lives through experiences and luxuries that don't exceed their means. The grounded consumer wants to enjoy life and make time for fun and shared experiences. They are looking for simple pleasures that don't break the bank — or take them to the mall. The grounded consumer wants to obtain personal gratification through trading up to small and larger luxuries and maintain fun and enriching experiences in their life.

The grounded consumer will be borrowing less and saving more than in the past. What this means for retailers and shopping centers is that the grounded consumer will be spending less on stuff. This paradigm shift is already well under way. The consumer savings rate has increased from below zero during the past few years to 4% in the first quarter 2009. Most economists predict it will continue to go even higher. Consumer revolving credit, made up of credit and charge cards, has been falling at an annual rate of over 6% since the third quarter of 2008. Consumer spending as a percentage of gross domestic credit (GDP) increased from 61% in the early 1950s to a peak of 72% just a little over a year ago. Economists predict that consumer spending in the future will be at two-thirds of GDP, where it was about 10 years ago. A recent survey of 5,000 U.S. consumers by *Alix & Partners* predicted that post-recession spending will go back to just 86% of pre-recession levels, about a 10% drop in spending. Lee Scott, *Walmart's* president and CEO, sees the consumer having new patterns of frugality that will live on long after the recovery. Paco Underhill, the CEO of *Envirosell*, a retail consulting firm, says that conspicuous consumption has now become bad manners.





The rapid emergence of the grounded consumer and their decreased spending is not the only challenge facing the needed transformation of shopping centers to adjust to this new economy. The classic mall anchor, department stores, have been consolidating and closing. Consumers' dissatisfaction with enclosed malls has likewise been growing. In their fifth annual survey of consumer dissatisfaction conducted last fall, the *Baker Retailing Initiative at the Wharton School* and the *Verde Group* found that consumers are aggravated and uninspired by the sameness and predictability of shopping malls. The most common problems included an inadequate selection of restaurants, a lack of anything unique, too many stores carrying the same products, difficulty finding a parking space, too-limited selection of stores, too few restrooms, not enough signs and elevators, too many teenagers "hanging" round and no evidence of environmental consciousness.

Wharton marketing professor Stephen Hock, director of the retail initiative, puts it this way, "People go to the mall and nothing stands out or makes the experience fun or exciting. There is no sense of discovery. Nothing catches the eye. It's the same restaurants and the same stores in every mall. People are spending less time shopping aimlessly. I think this is a long term trend. People are still shopping and spending but they do it less often and it has to be more purposeful." This dissatisfaction was evident even before the full onset of the recession.

In a nutshell, many malls are boring. Lifestyle centers (new open-air centers) are trying to provide the ambience and flair that most malls lack. However, one commentator, Karl Kalcher, in a recent white paper issued by *The Center for Hospitality Research at Cornell University*, says most lifestyle centers "have begun to display the sameness similar to that of malls. These centers all seem to look like a set from the same mock Italian hill town, no matter whether the center is built in Maine or Mississippi" and contain the same national brand stores and restaurants as every other property in the same trade area.

And on top of all these issues, on-line shopping is slowing gaining market share making a trip to the mall both less necessary and relevant.

With:

- Consumers making what appears to be permanent lifestyle and consuming changes,
- Store bankruptcies and closings, and
- Shoppers being dissatisfied with the sameness and unexciting experience of visiting many malls and even new lifestyle centers,

many of all but the very best retail properties could soon become ghost towns. *Green Street Advisors, Inc.*, a real estate research firm, predicts that around 100 malls will join the dead-mall category by the end of 2006. Even the very best centers could have long term vacancies. Between 1990 and 2005, consumer spending per capita rose 14 percent, adjusted for inflation, while retail space per capita in the U.S. doubled. The *International Council of Shopping Centers* reports there is currently 22.9 square feet of shopping center GLA for every man, woman and child in the country. That magnitude of retail space is not supportable by the grounded consumer's reduced expenditures on stuff. In the 12 months ending March 31, 2009, mall stores have experienced a 6.5% decline in same store sales. The basic model for shopping centers and malls built on a foundation of conspicuous consumption is obsolete and in order to prosper in the future, needs to be reinvented to attract the grounded consumer's time and money.

What is the answer? How can centers reinvent themselves for the post-recession consumer? A large part of the solution is to incorporate more experiences. We have moved into the experience economy. Experiences, both entertaining and enriching, are taking on even greater importance with consumers as the accumulation of stuff decreases in importance. The continued increase in the education level of Americans is also driving the desire for enriching experiences that increase their knowledge. Americans want to have fun and learn something at the same time. To generate traffic, shopping centers need to retain their destination status, but more for experiences including dining, entertainment and knowledge and less as a destination primarily for goods. Paco Underhill says that U.S. developers are behind the times. "It can't be a mall. It has to be 'place making.' Developers have to offer synergy, some other reason to be there. People want to be able to feel as if the act of going shopping isn't about ratcheting up their credit card debt." In other words, it needs to be a fun leisure experience, just not a shopping experience.

Since the earliest days of the enclosed mall, entertainment in some form has been part of the mix, whether it was only background music, a central mall court with periodic fashion or other shows, seasonal decorations or a visit by Santa Clause or the Easter Bunny. *West Edmonton Mall* in Alberta, Canada racketed up the equation in 1981 when they opened *Fantasyland* (now renamed *Galaxyland*), an indoor amusement park with 26 rides in 400,000 square feet. The mall later added a waterpark, ice skating and bowling. *Mall of America* followed in 1992 with the 6+ acres *Knott's Camp Snoopy*, since rebranded as *Nickelodeon Universe*. Its other entertainment attractions include an aquarium, *NASCAR Silicon Motor Speedway*, miniature golf and a casino.

Over the years only several dozen North American malls have included amusement areas with rides or family entertainment centers (FECs) greater than 30,000 square feet as anchor attractions. Other than a video gameroom, cinema, a carousel or a small children's play area, amusement parks or forms of family entertainment centers have not been a traditional part of a North American mall's mix. This is not true in many other parts of the world, particularly Asia, where no mall developer in their right mind would consider developing a mall without a significant family entertainment center or other major entertainment destination (other than a cinema) as an anchor.

It appears other parts of the world are ahead of most North American mall developers in understanding the positive impact that experiential and entertainment destinations can have on a mall's success. Research has substantiated this. Visitor studies to malls with entertainment destinations and components have found that:

- Between 7% and 25% of mall visitors come to a mall with the primary purpose of visiting family entertainment centers or cinemas
- Between 52% and 60% of entertainment visitors also shopped in stores
- Those shoppers spend between 35% and 75% as much in other stores as shopping-only mall visitors.
- Entertainment visitors will travel further than shopping-only visitors.
- There is a positive relationship between entertainment and mall profitability and value.

- Entertainment helps a mall establish its presence of being the dominant regional mall and enhances its brand image.
- Consumers expect malls to provide not only merchandise, but also entertainment and fun.

While department stores have been losing their appeal, especially with Generation Y, and their dominance as anchor tenants; and consumers' lifestyles are changing, the American family entertainment center has been evolving from its early days of nothing more than rides and games in a large space to a variety of new hybrids. Other forms of entertainment venues are also appearing. Rather than the old formula of *come for the entertainment*, many are incorporating food and beverage as a major component with the new formula of *come for the food & drink and stay for the fun*:

- Young adult upscale bowling lounges such as *Lucky Strike Lanes* and *Splitzville Luxury Lanes & Dinner Lounge*
- Adult dining and gameroom concepts such as *Dave & Buster's* and *GameWorks*
- Cinema-dining-entertainment hybrids such as *IPic Entertainment, E-Town, Cinnebar* and *Monaco Pictures*
- Bowling-based family entertainment centers such as *Brunswick Zone* and *Alley Cats Family Fun Center*
- Family pizza buffet-entertainment centers such as *John's Incredible Pizza* and *StoneFire Pizza Co.*

Other entertainment concepts that have been announced or are already appearing in shopping centers include *Legoland Discovery Center*, *SeaLife Aquarium*, live theater venues and children's mega role-play edutainment centers such as *Wannado City*. We are also seeing interest in different forms of children's play, edutainment and enrichment centers. Entertainment is also being incorporated into experiential retailers as retail-tainment, such as at *Adrenlina, The Extreme Store*, with its Flowrider surfing machine and at *American Girl* with its *American Girl Bistro* experiences for mom and child. Restaurants are also upping the ante with what we call experiential dining by introducing concepts such as *T-Rex*.

Entertainment-oriented shoppers spend less on average than shopping-oriented visitors and entertainment venues typically cannot pay normal retail rents. For that reason, many shopping center developers in the past shied away from entertainment anchors. Today, along with restaurants, entertainment is becoming the new anchor and occupying an increasing percentage of a center's GLA, as much as 30% or more in some instances. The rent and tenant improvement concessions that used to be given to department stores are now being given to entertainment anchors that drive traffic and increase aggregate retail sales.

With the exception of a few U.S. shopping centers that have fully integrated entertainment into their common areas to enhance their sense of place, such as *Nickelodean Universe* at *Mall of America*, or partially with carousels or children's soft play areas, most developers continue to treat entertainment as a tenant that belongs in a store space. North American mall and lifestyle developers are missing opportunities to truly make their centers experiential and have a unique sense of place. They seem to now understand how important ambiance and design is with more landscaping, fountains and other common area amenities, but haven't fully grasped the value of taking some of the entertainment out of the box so you don't have to go through a store entrance to see or experience it and truly making it part of the shopping center experience for all visitors. This reluctance by developers is probably due to the paradigm that developers should be passive landlords that lease space rather than landlords that create experiential places. Yes, mall and lifestyle center landlords understand the importance of maintaining the common areas and marketing their centers, including staging periodic events in the common areas, but are still hesitant to take on the role of operating significant entertainment components as a business.

Entertainment districts, mixed-use and festival centers, such as *Kemah Boardwalk*, have learned how to intertwine the entertainment into the common areas to create a much more unique, exciting and social experience for visitors and to differentiate their center from the blandness of other projects. Developers such as *Cordish Companies* and *RED Development* have taken a much more active role to ensure the destination status of their centers with their vertical integration ownership and management of some of the centers' restaurant and entertainment venues.

In today's challenging and competitive landscape, those developers that break from the old landlord paradigm and learn how to make their shopping centers entertaining and enriching destination experiences with a true sense of place for the new grounded consumer will be the winners.

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