ONLINE RETAIL – THREAT OR OPPORTUNITY FOR SHOPPING CENTERS

NORDIC COUNCIL OF SHOPPING CENTERS
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NCSC, Nordic Council of Shopping Centers, is the association for the shopping center industry in the Nordic countries. The aim is to continuously develop the Nordic shopping center market and strengthen the industry’s status as a professional and strong player in the community. Our over 1100 members encompasses all sides of the industry, from developers to tenants and suppliers as well as city planners.
The Nordic Council of Shopping Centers (NCSC) represents the shopping center industry in the Nordic countries and works diligently to deliver knowledge for the purpose of developing and strengthening the market for its members. NCSC’s members are key players in developments within the industry.

Each year NCSC will publish an annual report that focuses on a specific topic of interest to the industry. For this inaugural report we have chosen to focus on the online retail trade and its potential impact on the shopping center industry and its development and format.

NCSC has employed WSP Analysis & Strategy to conduct a survey aimed at its members, as well as analyse how online retail has evolved and is likely to develop in the future. A Nordic perspective has been applied throughout. The person in charge at WSP Analysis & Strategy is Dr. Fredrik Bergström, Service Area Director.

October 2013

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SUMMARY

The shopping center industry estimates that online retail sales will more than double over the next 10 years and thus pose a substantial threat to the industry. If this trend continues unabated, many shopping centers will be left facing formidable challenges. Growth may grind to a halt and some centers may also see a drop in sales. ‘Dead malls’ could become a more common sight.

In order to meet these challenges, stakeholders in shopping centers must develop their offerings. For retailers, the introduction of online shopping, for instance, will be important in order to take advantage of the online retail trend. For shopping centers, what matters is adopting multi-channel strategies (e.g. showrooms, goods collection, own websites and a strong social media presence). Shopping centers will in all probability also introduce and offer other services, both public and private, and will very likely come to resemble even more meeting places, with restaurants a significant feature. The growth of the online retail market may also have an impact on the relationship between landlords and retailers. The bargaining power of retailers in negotiations with landlords will increase, which in turn may lead to new forms of lease agreements. Retailers and landlords have, however, a common interest in creating attractive shopping centers, which will require continued cooperation.

The retail trade’s history is littered with concepts that have come and gone and some that have endured. In recent decades the traditional city center has been challenged by shopping centers. Now shopping centers (and city centers) are facing a challenge from the online retail trade. Those players that are unprepared and not already taking action to see off this competition may well be squeezed out. For those that recognise the challenges ahead and meet customers’ demands, there are more opportunities on the horizon than threats.
IS ONLINE RETAIL A THREAT OR AN OPPORTUNITY?
Changing markets

In the long term the trade sector has enjoyed positive development in all the Nordic countries, and its growth is a reflection of the general trend in purchasing power. The long-term trend is influenced by economic expansion and contraction. Sometimes the trend is positive. Sometimes it is weaker. One example is the Danish retail trade, which has suffered as a result of the financial crisis.

A characteristic feature of the sector has also been the implementation of major structural changes. For instance, over the last 20 years the number of international retail operators has increased, shopping centers have become more common, and the online retail trade has gathered momentum. The industry is constantly changing. The new is challenging the old and those that can withstand the competition and adapt to changed circumstances will have access to growing purchasing power. Those that cannot cope will lose out.

Looking ahead, there is plenty to indicate that the retail trade will expand, keeping pace with the long-term expected growth for private consumption in each country. It is equally likely that considerable changes will take place. Much of what we currently consider normal will in 10 years' time have been replaced by something completely different. The question is what?

The graph shows how the retail trade has developed in the Nordic countries. Index. 2003 = 100

One of the greatest challenges facing the retail trade and the shopping center industry over the next 10 years is growing online sales. This report looks at how online retail has developed and the ways in which it may challenge the traditional retail trade and the shopping center industry.

The report begins with a general description of how the retail trade and e-commerce have developed and the driving forces behind them. There then follows an analysis of how stakeholders in the shopping center industry view the development of e-commerce. What are the opportunities and the challenges? The report concludes with a discussion of how best to move forward.
Retail driving forces and marketplace competition

In order to understand what shapes current and future retailing and where customers will go to shop, retail driving forces can generally be divided into:

**Demand:** *How great is the purchasing power and what are the customers’ preferences?* Purchasing power is rising in the long term, creating better conditions for commercial players. However, preferences are changing as incomes rise. Twenty years ago, for example, eating out and travel accounted for only a small proportion of consumer spending. In the last 20 years, consumption of durable goods has recorded stronger growth than the convenience goods trade. Purchasing power will increase, and the retail trade will account for a large part of this growth, but it will also be challenged by other consumer habits. There is plenty to indicate that as incomes rise there will be greater demand for diversity. In all probability, online shopping too will become more common in the future.

**Supply:** *What trade concepts and business models are there? What are the trends?* Trade concepts are constantly changing. Profitable business models are outcompeting the less profitable ones. The emergence of large chains, with major purchasing power, efficient logistics, an extensive offering and value-for-money goods, is an international trend that has challenged countless retail trade players over the last few decades.

In the future existing chains will be challenged by one another, as well as by new concepts. Success in the retail sector comes from being innovative and efficient, and players who meet customers’ demands and maintain a good level of profitability will win market shares. This does not necessarily need to be the large chains. It can, for instance, be niche store concepts that meet demands for greater diversity or online sales.
The marketplace: Customers and tradesmen have always met on various marketplaces (e.g. town squares, city centers, out-of-town retail parks, shopping arcades, the Internet). In the last 20 years these marketplaces have become more professional. International shopping center players backed by international capital have invested in shopping centers of all kinds. This trend has posed a challenge to all the other marketplaces. Some have stood up to this competition in an active way (a great many urban centers in medium-sized and large cities), while others have lost market shares (in particular, smaller out-of-town areas). One type of marketplace that will compete in the future is online shopping. How big a share of the business can it win? How will traditional marketplaces react to this competition?

External factors: All the players are affected by the economy, technological developments, etc. These factors contribute to shaping the development of commerce. In the last few years the economy has made life more difficult for retailers in many countries. Technological developments involving the Internet, for example, have had an impact on all areas of the retail sector. Customers now review products on social media and shop online. Technological developments have also enabled companies to streamline their flow of goods using sophisticated technological logistics solutions.

Government policy: Policies at national and local level can make life easier or more difficult for commercial players through taxes, interest rates and legislation. Legislation can, for example, make it difficult to establish new out-of-town developments (and here legislation in the Nordic region varies). Tax changes have the ability to affect purchasing power, and consumer legislation and regulations can have a positive or negative impact on, for example, online retail.

The aforementioned factors are moulding the future of the retail sector, meaning we have to understand each one individually and collectively. This report looks at the various elements involved, with particular emphasis on the role and development of shopping centers and online retail.
THE SCOPE AND DEVELOPMENT OF ONLINE RETAIL
Online retail – part of the retail industry

The popularity of online shopping has been growing steadily for some time now, particularly within the durable goods sector. Sweden, for instance, has seen annual growth of just over 10 per cent in recent years. There are plenty of signs that this trend will continue. More and more consumers have got used to shopping online and companies have got better at selling goods online. Within a few years Internet-savvy 20-somethings will have increased purchasing power. In all likelihood, they will purchase much more online than previous generations.

Sweden has the largest online retail market in the Nordic region. Consumer spending amounted to SEK 34 billion (SEK 3,600/capita) in 2011. More than three in ten Danes buy goods online each month. Overall, consumer spending amounted to SEK 24 billion (SEK 4,300/capita) in 2011. The price level in Norway is higher than in the other Nordic countries, which is why many people choose to purchase goods from abroad. Consumer spending amounted to SEK 28 billion (SEK 5,600/capita) in 2011. Finland has the lowest proportion of online shoppers of all the Nordic countries, with total consumer spending of SEK 19 billion (SEK 3,500/capita).

One characteristic of Nordic online retail is that there are considerable flows between the countries. Companies such as H&M and Komplett have strong sales in neighbouring countries. Swedish online retailers are attracting more purchasing power from their Nordic neighbours than online retailers in the other Nordic countries. In addition to these flows, online shopping includes purchases from international online retailers, e.g. Amazon.

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<th>Norway</th>
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Exchange rates SEK 100: DKK 86, NOK 93, EUR 11
Who are the competitors?

Competition from online retail comes in a number of different forms.

- Online-only retailers, such as Adlibris and Komplett, have been successful.
- Established retailers that have added online sales and/or introduced mail order services, e.g. H&M.
- Competition also comes from players that started out as online retailers but went on to establish physical stores, e.g. Clas Ohlson.
- Another competitor is the second-hand market, where prominent players include eBay and Blocket.
- There is also some competition from abroad, e.g. Amazon.

There are no borders for e-consumers, who order goods from the online retailers that offer the best prices and products.

A general analysis of profitability among e-commerce players reveals that there exist very profitable companies and companies that make a loss. Segments with a high rate of development often attract large numbers of new players who see opportunities, but there is also a relatively high failure rate among companies whose business models have not panned out. This trend will continue. Many of tomorrow’s successful online retail solutions have yet to be developed.
Online retail is starting to find its way

The attraction of shopping online has gradually shifted from only being governed by price pressure to being about greater choice, time savings and convenience. As a market matures, customers tend to make greater demands of services such as free shipping and faster deliveries.

Books, home electronics, clothes and shoes are the most popular goods throughout the Nordic region. Clothes and shoes are also the industries that drive development of new online purchasing experiences, such as zooming effects, styling programs and social media. There are strong growth predictions for online sales of home furnishings and furniture, as purchases made by the younger generation are influenced more by design and thus do not require the same physical contact with the product prior to purchase.

There are industries that have yet to make inroads into the online retail market. One budding industry is the convenience goods trade, where grocery bags complete with recipes are a model that has experienced relatively strong growth in recent years. This is one trend that looks set to continue.

Consumers today are more rational and value-driven in the purchasing process than before. Prior to making a purchase, consumers compare products, prices and quality, also known as ‘pretrading’. Customers visit different online retailers, physical stores, shopping blogs and social media to find the right product. E-commerce sites are thus a more important marketing channel than the sales figures suggest.

Another observation is that multi-channel trade drives sales. The consumers that shop using a variety of channels are more loyal and spend larger sums, and the players that offer multiple channels are recording increased total sales. One survey reveals, for example, that customers would prefer to buy 40% of all goods through some form of multi-channel service, principally home delivery, but also in-store collection of pre-ordered goods. Twenty per cent of consumers would spend more money at their favourite retailer if it offered multiple sales channels.
Consumer trends in the Nordic region

There are some differences in how e-commerce functions and how consumers behave in each of the Nordic countries.

- In Norway and Denmark payment by card is the most common payment method when making an online purchase and is perceived as a secure payment method. In Finland e-payment services are becoming increasingly popular, while invoices are more common in Sweden, where payment by card is regarded as a less secure payment method.
- In Norway and Denmark the consumer is responsible for the return charges when returning goods, and in Finland there is no statutory right of complaint.
- Sweden is the Nordic country that attracts the most e-commerce customers from the other Nordic countries. When Scandinavians choose to shop online outside the Nordic region, their first choices are the UK, America and Germany.
- Danes are relatively familiar with online shopping and have high demands as regards delivery times, home delivery options and free shipping. In Finland the e-commerce trend has developed a lot more slowly than in the other Nordic countries. Finnish e-consumers therefore make fewer demands in terms of delivery times than their Nordic neighbours.

For Swedish e-consumers, online security is paramount. Known brands and the availability of different payment options are things that increase the sense of security. In both Norway and Sweden it has become increasingly common to see online retailers with the certification trustmark ‘Trygg e-handel’. An equivalent in Denmark is the ‘e-mark’.

The map shows online retail flows in the Nordic region.
How things will look in 10 years, 20 years...

In summary, developments in online retail are progressing at a brisk pace and are driven by a number of factors.

- **Increased maturity among consumers** who find online shopping more convenient and have fewer concerns about payment, deliveries and similar initial barriers.
- **Increased maturity among retailers** who, for example, have understood the importance of delivering on time, logistics management and having easy-to-use and well-designed websites that provide easy access to information and secure payment methods.
- **Technological maturity** has ensured entirely new approaches to online shopping using mobile phones, computers, social media and business systems. Continued technological development provides potential for additional maturity.
- **Retail businesses have chosen to focus increasingly on online shopping**, further simplifying things for consumers, who do their research in physical stores and then purchase products online.

If we assume that the online retail market for durable goods will increase from around 10 per cent to 20 per cent within 10 years (corresponding to annual growth of approx. 10 per cent), it will account for a large part of retail growth. Online shopping for durable goods will probably record the strongest trend, although the convenience goods trade does have concepts capable of challenging it.

*For the shopping center industry this means both challenges and opportunities.* What role will multi-channel strategies, service points, restaurants and public and private services play in the shopping centers of the future? What will need to be done to keep sales and rental incomes up? Shopping centers must be an attractive alternative; otherwise, the industry will face tough times.
INDUSTRY VIEWS ON ONLINE RETAIL AND SHOPPING CENTERS
Who are the experts?

NCSC members in Sweden, Norway, Finland and Denmark, as well as a number of other shopping centers and retailers, have had the opportunity to participate in an online survey. The questions focused on how the industry views the development of the online retail business and its potential impact on the shopping center industry. The respondents have been categorised as property managers, retailers and others, e.g. advisors, architects, restaurants, etc.

One in three respondents is female and just over three-quarters are aged between 40 and 64 years. Half state that they shop online a couple of times a year, while five per cent say that they never shop online.

The total number of respondents is 625. The survey response rate is around 30 per cent. The survey was conducted between June and August 2013.

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<thead>
<tr>
<th>STAKEHOLDERS</th>
<th>NUMBER OF RESPONDENTS</th>
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<tbody>
<tr>
<td>Retailers</td>
<td>111</td>
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<td>Property</td>
<td>268</td>
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<tr>
<td>Others</td>
<td>246</td>
</tr>
<tr>
<td>Total</td>
<td>625</td>
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The industry expects online retail to double

There is consensus within the industry on the expanding online retail market. Industry players estimate that it is doing slightly better at present than the official statistics suggest. The industry also believes that the online retail market will more than double over the next 10 years. In Norway and Denmark respondents expect strong growth. The forecast from Sweden is the most cautious.

All those involved in the industry believe that home electronics will see the strongest growth. Clothes, shoes, music and media also rank highly. There is a general consensus on the segments that will expand, but there is also one disparity of note – retailers think that sporting goods will see a faster rate of growth than most of the other product groups.

If the industry’s assessment is correct, it may be noted that online retail is expected to continue growing by approximately 10 per cent each year. This in turn means that the growth in online retail will account for a relatively large proportion of the retail sector’s overall growth and will therefore in all likelihood affect both shopping centers and retailers.

The figures show the average forecast and the alternatives that received the most responses

Question: What percentage of the market’s sales is the Internet responsible for today and what will that figure be in 5 years’ time and 10 years’ time? Which product groups will see the fastest online growth?
The shopping center industry expects to win market shares

The shopping center industry expects to expand and win market shares. The attitude is slightly more positive in Finland and Denmark when it comes to the possibility of winning market shares. Retailers are a little more doubtful about the shopping centers’ expected development.

The industry generally believes that it can win market shares from stores in isolated locations and from commercial businesses in peripheral (smaller) towns. The industry does not believe that the shopping center industry will take shares from the online retail market. City center stores are expected to bear the brunt of expanding shopping centers.

The vast majority of people in the industry believe that the total number of shopping centers will remain unchanged. Growth is expected to be achieved instead by investing in existing centers.

The nature of shopping centers is predicted to change, becoming more multi-conceptual and including facilities such as gyms, storage, offices and other services.

Despite the shopping center industry taking a positive view of developments and expecting to increase its shares, there is still the sense that if shares were to fall, the industry would lose out to online retail.

The figure shows the proportion who think that the market share is decreasing, is unchanged or is increasing.

Question: What do you think about the shopping centers’ expected market share in the future?
A challenge from online retail

When asked whether the industry regards online retail as a threat, it can be noted that slightly more respondents did view the Internet as a threat. This is especially true of retailers and in Norway and Denmark. Surprisingly, a lot of respondents do not regard the Internet as a greater threat. Perhaps they see more opportunities?

Online retail is expected to increase demands for physical stores to have websites and offer online shopping. The retailers also believe that it will become even more important to have a good location (high visibility and accessibility). Property managers believe that it will become even more important to experience goods in the store. The shopping centers will also need to increase technological offerings (more WiFi). There is consensus that the option to shop online in stores is of growing importance. Landlords also believe that it will become increasingly important to invest in premium products in stores and to give customers the opportunity to try out products. They also think that restaurants will become more common. Both retailers and property managers agree that the retail trade will not become less important to the shopping centers. However, they do not think that there will be increased demand for more floor space.

The conclusion is that in the future the industry must work towards integrating online retail services and physical sales.

A scale of 1-10 was used. Not a threat = 1-3, A potential threat = 4-6, A threat = 7-10

Question: Do you agree with the statement that online retail poses a threat to shopping centers?
Online retail will cause shopping centers to change

- Store locations with good visibility and accessibility becoming increasingly important
- All physical stores having websites for online sales and marketing
- Greater demands being made of the centre’s WiFi capability
- It becoming increasingly common to order online and collect/return goods in-store
- An increased need to try out/feel/smell/experience goods in stores
- The option to shop online in stores becoming more common
- Greater demand for more flexible retail space
- It becoming increasingly important for stores to invest in premium goods
- Greater demand for temporary showrooms/pop-up stores
- An increased need for more restaurants
- Shopping centres offering e-commerce solutions via their websites and in collaboration with tenants
- Greater demand for private services (gyms, hairdressers, etc.)
- Stores’ ranges being expanded to include more product groups
- Increased demand for public services (libraries, dentists, etc.)
- Greater demand for cultural events and entertainment
- Stores needing less storage space
- Stores needing more retail space
- The retail trade becoming less important for shopping centres

The figure shows average agreement on a scale of 1-10

Question: The development of online retail will result in...
Lease agreements will change

The survey included questions about how lease agreements may possibly develop. The industry believes that more flexible lease agreements and short-term contracts for temporary showrooms, for instance, will become more common. The industry is more divided when it comes to the issue of basing retail rents on the number of visitors to centers. A lot of respondents also think that the negotiating position of retailers will be strengthened in the matter of retail rents for shopping centers.

One question that still lacks an answer is how shopping center stakeholders will react to a greater proportion of store sales coming from online orders and to far more stores potentially becoming service points and thus reporting a lower turnover. In all probability increased cooperation will be needed between the parties to promote greater understanding of one another’s mutual dependence, driving forces and objectives.

The figure shows average agreement on a scale of 1-10

Question: What impact will the growing online retail market have on retail rents?
What is required to attract tenants to shopping centers?

A number of questions in the survey asked what needs to be done to attract tenants. The general response included classic contributing factors such as size, location, accessibility, good mix of stores and attractive store concepts. The most important factor for property managers is a good mix of stores, while retailers think that accessibility is the most important factor. Factors not mentioned perhaps as much as might have been expected are generous opening hours and professional ownership. Perhaps these are regarded as hygiene factors that must be present. Important factors, but not the most important, are image, design, profile, customer interaction, quality, service, urban environment, dynamics and management.

The industry was also asked to name examples of interesting shopping centers. A lot of centers were mentioned. Among the most popular answers are Storo storsenter and Gulskogen senter (Norway), Forum and Jumbo (Finland), Rødovre and Lyngby storcenter (Denmark), and Emporia and Täby centrum (Sweden).

The figure shows the proportion of responses for the most important factors from each participant group. The number of responses per factor is indicated by the figure in brackets.

Question: What do landlords need to work on to attract tenants?
What is required to attract tomorrow’s consumers?

A number of questions in the survey asked what needs to be done to get tomorrow’s consumers to visit shopping centers.

The industry believes that the most important factors needed to attract shopping center customers are a **good mix of stores and attractive store concepts**, as well as increased satisfaction and free parking. More restaurants and food courts are also seen as important means of attracting customers.

For retailers, a good mix of stores, attractive store concepts and free parking are generally considered most important. Restaurants/food courts are least important. Landlords tend to rank factors in roughly the same order. However, restaurants/food courts are regarded as being more important than free parking, for example.

The figure shows the proportion of responses for the most important factors from each participant group. The number of responses per factor is indicated by the figure in brackets.

### Question: What do landlords need to work on to attract tomorrow’s customers?
Ways to counter online retail growth

One question in the survey asked the various participants to suggest tips that the industry could use to counter online retail growth.

One element mentioned is the need to coordinate the online sales of various stores and to arrange for delivery of goods to shopping centers for collection. Closely linked to this is the fact that the shopping centers can become an interesting alternative to online-only retailers by offering efficient logistics (e.g. goods collection and returns).

Another suggestion is that shopping centers should reward concepts that focus on both channels in order to be part of the growing online retail market. This could include, for instance, establishing showrooms and service points in order to attract visitors to the shopping centers.

Making interaction between shopping centers, consumers and tenants easier both digitally and in the real world is also considered important. Thus, shopping centers also need an online presence. There is emphasis on active marketing, websites, social media, etc., which can all contribute to raising the profile of shopping centers.

One clever and comprehensive tip is that it is important to invest in knowledge and infrastructure in order to ensure interaction with multi-channel consumers. This means acquiring knowledge that benefits shopping centers.
A challenge from online retail?

An important conclusion in this report is that both the industry and various expert reports expect the online retail business to continue to grow and perhaps even achieve market shares within predominantly the durable goods segment of almost 20 per cent.

In order to understand the potential impact of a development of this kind on traditional retail and shopping centers, we have come up with three trend scenarios for the durable goods segment.

- **Scenario 1**: Online retail’s market shares are unchanged. The entire durable goods market expands by 3 per cent.
- **Scenario 2**: Online retail takes market shares and within 10 years has a 20 per cent share of the durable goods market. This equates to annual growth of approx. 10 per cent and also corresponds with the industry’s own forecast. One further assumption is that there will be growth of 1 per cent for the durable goods market as a whole. This weaker growth across the entire durable goods market is based on the premise that the economic crisis will continue for a number of years to come.
- **Scenario 3**: Online retail wins 20 per cent of the market. The market as a whole expands by 3 per cent annually, which is due to overall economic development picking up speed and consumers’ willingness to spend returning to more normal levels.

Scenario 1 is less probable. Online retail is experiencing strong growth that will continue. However, it can be noted that if this scenario comes true, a lot of new shopping centers will need to be built. This will take place in expanding metropolitan regions. Scenario 2 is slightly more probable. Online retail exhibits continued strong growth, but economic development in general is weaker. In this scenario, online retail will exceed all growth. In other words, all retail growth over the next 10 years takes place within the online retail segment. This means that there is no significant demand for new shopping center space and in all probability we will also see a loss of retail space. The market for new shopping centers is considerably tougher and marketplaces that fail to remain attractive will experience weak development. In scenario 3 overall trade

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<th>Country</th>
<th>Durable goods, annual increase 1975-2008, %</th>
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will increase, which is also the most likely scenario for most of the Nordic countries. This will lead to competition for rising consumer spending between online retailers and other marketplaces, such as shopping centers and city centers. In this scenario online retail accounts for almost half of all growth up to 2023. In this scenario we will see an increase in shopping center space. A cautious rough estimate is that 1-1.5 million m² of new durable goods space will be required in each country. Much of this space will be in the metropolitan regions. If all this space is built in the form of large shopping centers (approx. 30,000 m²), then it will be necessary to build between 30 and 50 new shopping centers in each country. City centers and other locations can probably also accommodate this new retail space, resulting in a slight reduction in the number of new shopping centers.

These scenarios also show that trade and the shopping center industry are not just facing a challenge from online retail; a rapid economic recovery is equally important.

Are scenarios 2 or 3 possible? Long-term economic development will probably recover, which supports scenario 3. The Danish economy in particular looks the weakest at present, meaning scenario 2 will be more likely there. The other countries appear closer to the more positive growth scenario. In order to assess the likelihood that online retail will take a 20 per cent share of the market, its development needs to be viewed in a broader perspective. Phenomena with the potential to cause structural change only have an impact if a number of conditions are met.

- Are customers ready for online retail? Yes!
- Are there profitable business models? Yes!
- Is there scope for achieving major commercial successes via the Internet and is there risk capital to be invested? Yes!
- Is the established retail trade interested in adding online sales and does it have the knowledge to do this? Yes.

In summary, there is every reason for the shopping center industry to increase its level of preparedness.
The figure shows the expected increase (in SEK billions) in traditional retail and online retail in each of the three scenarios.

**Scenario 1:** No increase in online retail. The entire durable goods market grows by 3% per year.

**Scenario 2:** Online retail has a 20% share. The entire durable goods market grows by 1% per year.

**Scenario 3:** Online retail has a 20% share. The entire durable goods market grows by 3% per year.
Concepts come and go, but some endure

The retail trade’s history is littered with concepts that have come and gone and some that have endured. City centers built around a marketplace have existed for as long as there has been trade. In recent decades the traditional city center has been challenged by out-of-town shopping centers. Many city centers have managed to compete relatively well with these by actively working to make the city more attractive and creating conditions for modern retail activities (e.g. shopping arcades). Large and medium-sized cities are growing; if the city’s advantages hold up, cities will remain a natural meeting place.

Shopping centers (out-of-town and edge-of-town) have recorded strong growth in the last few decades. These are now being challenged by competition between one another, as well as from online retail. Home electronics, clothes, sporting goods and other durable goods are products that sell well online. If this trend continues, shopping centers will have to further develop their offering. The importance of multi-channel strategies is growing. Restaurants will probably play an increasingly important role. Shopping centers will have an incentive to introduce more experiences and perhaps more public services. Shopping centers will also be interested in homes being built nearby in order to safeguard purchasing power in the immediate market. This would also make them a more accessible alternative for more people.

As a more city-like offer develops, competition with the city centers will return. Marketplace competition continues and those who do not adapt will fail to grow and start losing ground.
Vigilance is everything

Online retail still accounts for a small proportion of total retail sales. It remains a sales channel that is trying to find its way. It is not possible to determine in detail which segments will be successful over the next 10 years.

In order to prepare for the expected, but essentially vague, developments ahead, there needs to be a continuous flow of business intelligence. Online retail has already outcompeted record stores and bookshops. Computer game stores also look set to disappear. Holidays are being booked and paid for online. Online services are also challenging the newspaper industry. What concepts are waiting in the wings?

Within the next decade the first Internet generation will enter employment and start earning, buying homes and having children. This means that the retail trade and shopping centers will have to deal with customers who have grown up with the Internet. The following decades will see the gradual disappearance of generations unfamiliar with the Internet, to be replaced with ever more Internet-savvy customers. How these future customers will shop has yet to be seen. For those players that want to be present in the market the key is identifying and following the important trends. Periods of change like this demand a high degree of flexibility and the ability to adapt. The future is not set in stone but is what you make it.
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Knowledge review based on a number of sources and own calculations

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Diagrams and figures: WSP
NCSC, Nordic Council of Shopping Centers, is the association for the shopping center industry in the Nordic countries. The aim is to continuously develop the Nordic shopping center market and strengthen the industry’s status as a professional and strong player in the community. Our over 1100 members encompasses all sides of the industry, from developers to tenants and suppliers as well as city planners.