

Seven Brick-and-Mortar Industries to Withstand E-commerce Competition

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These retail storefronts are expected to thrive, despite price competition and shifting consumer purchasing habits.

Lifestyle centers will become more popular as consumer per capita disposable income continues to increase.

The retail sector has experienced a sizable disruption over the past five years. Store closures have become commonplace, and even the most established retailers have struggled to drive foot traffic. This retail shake-up has been largely driven by the rise of online shopping, with e-commerce sales increasing at an annualized rate of 13.4% over the five years to 2017.

Traditional brick-and-mortar retail operators have adjusted to the online surge in a variety of ways, with varying degrees of success. Although the number of establishments is expected to decline for the majority of brick-and-mortar-focused industries, a few standout industries remain that are expected to thrive despite the increasingly competitive retail environment.

Try before you buy

While many shoppers enjoy the convenience of making purchases online, there are still several goods that consumers prefer to buy in store. Cosmetics and eyeglasses are two such products, and their popularity in brick-and-mortar establishments is driven by a consumer desire to try merchandise before buying it. Though many online-based makeup and eyewear retailers have launched in recent years, these e-tailers cannot compete with the value-added

experience provided by their brick-and-mortar counterparts; this factor has sustained revenue and establishment growth for the Eye Glasses and Contact Lens Stores industry (IBISWorld report 44613) and the Beauty, Cosmetics and Fragrances Stores industry (44162) over the five years to 2017.

At beauty, cosmetics and fragrance stores, consumers can sample makeup to confirm that the product matches their skin tone or pallet preference, a benefit that e-tailers cannot offer. Likewise, shoppers buying glasses can see if the frames suit them before committing to the purchase; moreover, many operators in the Eye Glasses and Contact Lens Stores industry employ in-house optometrists, allowing consumers to get the proper prescription with their eyewear. These value-added benefits enhance the shopping experience, and drive consumer foot traffic to brick-and-mortar stores. In the coming years, these industries will continue weathering competition from online-based retailers and post revenue and establishment gains. Over the five years to 2022, IBISWorld expects that the Eye Glasses and Contact Lens Stores industry and the Beauty, Cosmetics and Fragrances Stores industry will experience annualized establishment growth of 1.3% and 3.2%, respectively.

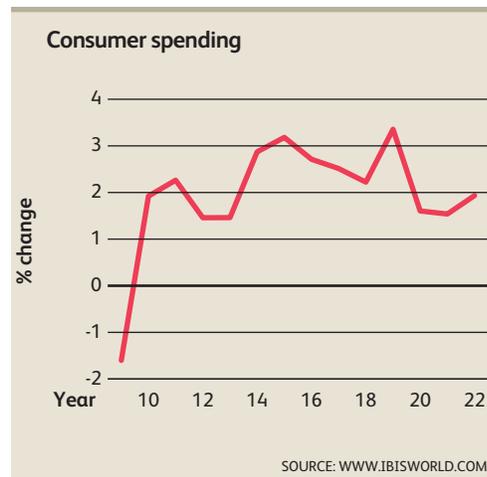
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Searching for the gem

While e-tailing has made it increasingly simple for buyers to compare prices and bargain hunt from the comfort of their own homes, some deals cannot be found online. For example, most operators in the Used Goods Stores industry (45331) do not have an e-commerce site, and those that do, only offer a very limited range of goods on their websites compared with the array of merchandise they sell in store. As a result, many shoppers visit brick-and-mortar establishments in the Used Goods Stores industry to hunt for elusive, one-of-a-kind finds not available online. This has contributed to 0.7% annualized growth in the number of stores in this industry over the five years to 2017, and is expected to facilitate 1.9% annualized growth in used goods store locations over the five years to 2022.

The treasure-hunt phenomenon is also expected to increase consumer demand for brick-and-mortar operators in the Dollar and Variety Stores industry (45299) and the Warehouse Clubs and Supercenters industry (45291).

Similar to operators in the Used Good Stores industry, operators in these industries generally do not sell their entire product portfolio online, and they also often offer deals that can only be found in-store. For example, a supercenter with overstock of a certain product will sometimes offer a discount on the item, making the deal only available to consumers who visit the brick-and-mortar store. With their sights set on a bargain, shoppers have continued to visit operators in the Dollar and Variety Stores industry and the Warehouse Clubs and Supercenters industry over the past five years; over the five years to 2022, IBISWorld expects that this high foot traffic will continue, leading to 1.3% and 2.3% annualized increases in industry establishments, respectively.



The rise of the lifestyle center

As e-commerce rises, an increasing number of brick-and-mortar locations have been shutting their doors. As a result, businesses that rely heavily on rental income from retail tenants have struggled. Despite this, the Commercial Leasing industry (53112), which generates 37.4% of revenue from the retail sector, has grown at an annualized rate of 2.4% to \$199.0 billion over the five years to 2017. While this growth has been slightly hampered by falling occupancy rates in large shopping malls, the rise of lifestyle centers has kept this industry segment from plummeting. Between 2011 and 2016, mall construction and renovation decreased from 17.5% of multiretail construction to 15.4%, while shopping centers, which include lifestyle centers, grew from 50.5% to 69.2% of multiretail construction. Lifestyle centers differ from shopping malls, since they are located in high-income suburban towns, smaller in size, outdoor and are anchored by upscale specialty stores rather than large-format department stores. Another distinguishing characteristic of lifestyle centers is the presence of entertainment, such as small music venues and theaters, and numerous dining and snack options.

The construction of these centers is encouraging not only upscale national

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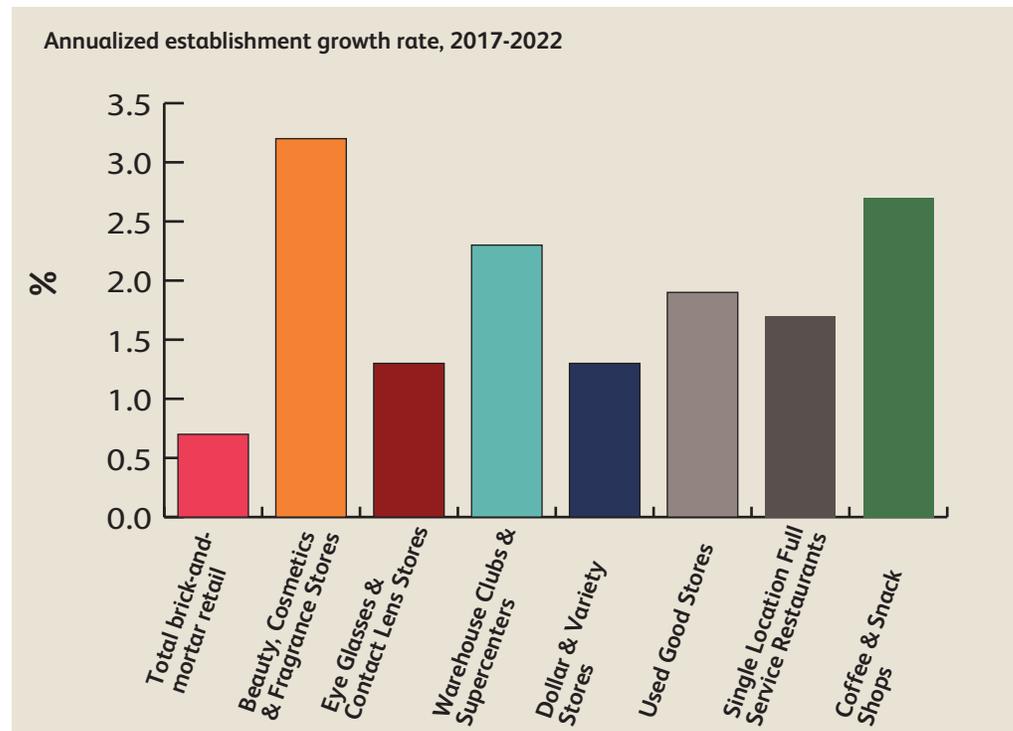
chain stores and boutiques to open, but also some small eateries. Over the next five years, establishments in the Single Location Full-Service Restaurants (72211b) and Coffee and Snack Shops (72221b) industries are expected to increase at an annualized rate of 1.7% and 2.7%, respectively. Although establishment growth in these industries will mainly stem from growth in per capita disposable income and overall increasing spending on meals outside the home, the construction of lifestyle centers will help bolster establishment growth, particularly for operators targeting upmarket clientele.

Conclusion

As mobile technology becomes even more embedded into the daily lives of consumers, brick-and-mortar retailers are expected to operate in increasingly hostile

conditions. With e-commerce set to rise an annualized 7.8% over the five years to 2022, more brick-and-mortar stores are expected to shut their doors. Despite growing price competition and shifting consumer purchasing habits, some physical stores will still continue to flourish.

Operators that provide consumers with services and value-added options not available through the internet will continue to attract consumers to their stores and in doing so, will compete head-on with e-tailers. Additionally, as incomes rise and lifestyle centers become a more prominent and popular retail option, many retailers are expected to modify their store format to cater to this type of channel. While the brick-and-mortar retailing environment is becoming increasingly hostile, for some industries there will always be a place for physical stores.



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