



RETAIL SECTOR UPDATE

The need to upgrade the shopping experience is driving renovation of the retail sector.

■ By Darius Helm

In its design of the Crayola Experience lobby in Easton, Pennsylvania, Reztark Design Studio used a self-leveling concrete micro-topping over the existing concrete floor. The Crayola Store in the background features LVT by Tandus Centiva. Photo by John Ruth Photography.

The first decade of the millennium has seen the virtual dismantling of the traditional retail store model. The initial impact came from the big boxes and buying clubs, which chewed through the sector, thinning the ranks of mid-sized regional brands and driving smaller specialty retailers and one-of-a-kind operations out of the business. Then came the Internet, an even more transformative force, indifferently siphoning from large and small retailers alike. Now that the dust has settled and the retailers still standing have, at least for now, consolidated their positions, the pressure is on to compete in the new, and fundamentally different, retail landscape. This need to adapt is helping to drive renovations as well as new construction.

This new landscape is, first and foremost, wired. It's survival of the fittest in the retail market, and that means brick and mortar stores need to compete directly with online retailers by integrating online interactive capabilities into their physical locations, where they can leverage their one unassailable advantage, the hands-on experience. On top of that, the environment has to be more entertaining than in the past. And the pressure to refresh and revitalize brands is stronger than ever.

Commercial flooring producers have seen growth in sales to the retail sector, which is dominated by hard surfaces flooring

like porcelain, VCT in specific sectors and, increasingly, luxury vinyl. Strong demand in this sector is expected for this year, and potentially for the next few years, as long as the U.S. economy continues to strengthen and foreign economic issues don't impact domestic growth.

THE STATE OF THE SECTOR

Typically, retail construction follows home building by a couple of years, and that's more or less what's been occurring in the U.S. market. During the recession, new construction and renovation



TK Architects specified porcelain tile from Daltile and StonePeak for Cafe Gelato, one of many attractions at Santikos Palladium, a 22-screen theater complex near Houston, Texas.

practically ground to a halt, as many retailers found themselves teetering on the brink and too preoccupied with fighting for every sale to consider renovating or elevating their brands.

The retail sector, as a whole, remained stagnant until three or four years ago, when incremental gains began to lift the market. And recently, the higher end of the sector has been particularly strong. However, the other end of the market, which did comparatively well during the recession, is also in growth mode. For instance, according to the 2015 Dodge Construction Outlook, Costco and Target have invested \$116 million and \$99 million, respectively, in new development. Other chains with sizeable investments in expansion include Dollar General and Family Dollar. Dollar Tree is also expanding.

The retail sector stalled a bit in 2014, shadowing weakness in single-family housing starts, but industry experts anticipate that it will regain momentum this year.

Some of the activity is due to dynamism in the sector from all those shifting fortunes. Many malls, for instance, lost tenants during the recession, often putting the entire mall space in flux. According to Brian Arial, national retail leader for DLR Group, a top 30 A&D firm headquartered in Omaha, Nebraska, mall owners whose larger tenants have gone out of business have had to figure out how to turn a dark three-story department store into something that works for multiple smaller tenants.

Many retailers have also been downsizing. "They don't need as much space as they used to," Arial says. "Lots of tenants are trying smaller formats."

All of these changes in spaces and formats can also create

opportunities, and with retailers still operating under tight budgets, many are shopping around for retail space at attractive rents.

Reztark Design Studio, an A&D firm focused on retail development and master planning both in North America and in overseas markets, is seeing a lot of activity in the retail sector, including malls. According to Christie Kratzer, a principal at the Cincinnati, Ohio based firm, the retailers and retail malls that didn't invest in renovating and upgrading through the recession are all behind the eight ball now. In fact, Reztark can barely keep up with all the projects coming its way.

Reztark does about half its business in master planning and architecture, another third in retail and the balance in multi-family and senior living, so it has a well rounded perspective on the market. Kratzer says, "All parts of the business are growing fast right now." Senior living is growing fastest, while the multi-family market may be on the verge of slowing.

However, multi-family is still a strong market, and it has not been as impacted by single-family home sales as one would expect. Kratzer attributes that in part to the culture of millennials, who are not as inclined to own because they saw what their parents went through when the housing market collapsed. And on top of that, they're hobbled by student loans.

THE NEXT GENERATION OF CONSUMERS

Those same millennials are the driving force behind the retail sector's transformation. There's no formal definition of millennials, but the term more or less corresponds to people

born in the 1980s and 1990s, some 80 million Americans in all, from teenagers to thirty-somethings. They're the first digital generation—they're called "digital natives"—which represents a massive cultural shift, and on top of that most of them have spent the last half of their lives in an economic climate that has featured two recessions and a global economy that's constantly out of balance—so they are not as reckless about spending as earlier generations.

According to DLR's *Arial*, millennials are behind the migration into urban cores, and retailers are following them. This is forcing retailers—and retail chains in particular—to think beyond their standard store formats, as they have to adapt to an already developed environment—for instance, by moving into a converted bank, an old factory, or a second or third floor location.

Many of these millennials are making good money, but they don't succumb to the lure of ownership as much as their parents. This shift away from the suburbs is putting even more pressure on retailers to efficiently serve those traditionally vibrant commuter bands, considering that suburban consumers are already a big driver of online retailing.

This migration, reversing a trend toward suburban expansion established after WWII, ends up generating a significant, and growing, displacement of retail square footage, and it represents a steady revenue stream for flooring manufacturers and other producers of interior elements. It also broadens the range of flooring designs, as stores look to integrate urban styles into their often standardized brand designs.

TRENDS IN RETAIL

One of the busiest retail sectors right now is malls. While retail slowed a bit in 2014, mall activity didn't slow at all. Not only are malls busy reconfiguring their spaces to accommodate new tenants and the changing needs of existing tenants, but they're also re-imagining mall public space.

Millennials like to visit environments that offer an entertainment aspect, and malls can be an ideal venue. Mall developers



A rendering of DLR's expansion and renovation of the Mall of America in Minneapolis, Minnesota showcases the latest trends in mall design.

OMNI-CHANNEL RETAILING

The new retail model everyone is talking about these days is omni-channeling, which essentially means reaching customers through every sales channel, including the physical store, online store, catalogs, etc., and doing it seamlessly. That can mean, for instance, starting off by shopping online, then going into the store to see product first-hand, then using in-store connectivity, say through a kiosk, to order it in a color not in stock and complete the sale.

One way in which omni-channeling helps the retailer is by taking off the pressure to carry inventory. While consumers are still hooked on the idea of the sale as the peak of the shopping experience, they've done enough purchasing online to get used to the idea that a sale does not mean a product in-hand. As they take this understanding into the brick-and-mortar environment, where they're increasingly likely to use familiar online tools as part of the shopping or buying process, they're not as fixated on walking out of the store with the product—which could be a boon for retailers, for whom carrying inventory is one of the most enduring challenges to profitability.

Successful omni-channeling increasingly means offering the same terms, regarding pricing, delivery and returns, no matter the channel used by the consumer. According to KPMG's 2014 Retail Industry Outlook Survey, 83% of surveyed retailers claim that their pricing strategy is consistent across all channels, in recognition of how price sensitive today's consumers really are. Competitive prices and promotions are the top influencers of in-store purchase decisions, according to a recent Cognizant study, and consumers don't react well when they find out that prices are different online.

However, it's not enough to simply integrate the online component into the in-store experience. If retailers want people to come into their stores to establish a physical bond with the products and the brand, they have to provide an elevated shopping experience, because competition with other brick-and-mortar retailers is as fierce as ever. It's not just about selling products anymore; it's about selling the shopping experience.

are increasingly creating hubs in their space to attract consumers, like enhanced food courts with not just Wi-Fi connectivity but also charging stations. Bigger malls offer live music and other performances, and events to draw people in during the holidays.

That's certainly the case with the iconic Mall of America on the outskirts of Minneapolis, Minnesota. Built in 1992, it's the busiest mall in America and the largest in number of retailers, and it's filled with entertainment and attractions, including a roller coaster, an aquarium and movie theaters.

DLR Group is currently working with the Mall of America on a massive expansion, designed to boost the mall as an entertainment center and tourist destination. The first phase of the expansion, scheduled for completion in August, includes three levels of retailing (over 240,000 square feet), a 342-room luxury brand hotel with all the amenities, and a seven-story office building. The complete expansion will double the mall in size, making it the largest mall in America by retail space and just about every other measure.

One design firm with a unique perspective on the convergence of retail and entertainment is TK Architects, which specializes in movie theaters. According to Amanda Philhour, head designer at the Kansas City, Missouri headquartered firm, the trend in movie theaters, which don't make profits from actual ticket sales, has been toward retail and entertainment businesses.

Movie theaters compete with both the couch and other movie theaters, so if and when potential patrons can be lured from their homes, theaters need to give them a reason to choose them. And that means having more to offer than the competition.

Philhour reports that it's increasingly common to design spaces for profit centers beyond the traditional concession stand, like chocolatiers, cafes, restaurants, game rooms and bowling alleys. "Even with those smaller theaters," she adds, "the trend is to get as much in the way of goods to sell in that space."

In the U.S., these sorts of movie theater renovations are strongest in regions like Texas and California, and of course Las Vegas. And the trend is also strong in overseas markets, like Russia, China, India and Dubai.

When it comes to flooring, the number one concern for Philhour's clients is durability because of the high traffic, and after that it's budget, then aesthetics. However, the elevation of design in flooring is impacting priorities. Black and white VCT and cheap carpet used to be the norm, but these days Philhour uses more LVT than VCT—as much for design as for LVT's far lower maintenance profile.

In the theaters themselves, aisles are often carpet, which helps the acoustics of the space, though some clients will use stained concrete. LVT is increasingly used under the seats because it's durable and easy to clean. Porcelain tile is often specified in corridors and lobbies, while retail and entertainment areas like bars are highlighted with wood or wood look LVT.

DESIGN DIRECTIONS

Robert Ruscio, founder of Ruscio Studio in Montreal, Quebec, has specialized in interior design in the retail sector for most of his career, and he notes that a long-term trend in mall

public space is toward more pale neutral palettes—mostly whites—with small accents for visual interest.

"The mall owners view their properties as museums, spaces where the retailers are the show pieces," he says. However, he sees a different design trend in stores, both chains stores and one-of-a-kind retailers: a swing back toward darker, more intimate aesthetics, along with a repurposing of materials that goes from Bohemian at one end to sophisticated and refined at the other (like reclaimed wood elevated as a centerpiece of high design).

Arial sees mall stores as more simple and less cluttered than in the past, all focused on showcasing the product. He says, "Lighting and finishes are more sophisticated and less busy."

According to Ruscio, one of the most transformative developments for retailers in recent years has been in LED lighting, which now rivals the quality of illumination traditionally derived from high intensity discharge lighting. LEDs consume far less energy, and they have also become less expensive, with a return on investment in just a few years. Upgrading lighting has been an effective tool, particularly for retailers looking for alternatives to full-scale renovations.

Because money is still tight, many retailers look for ways to keep down renovation costs, and one method is to develop smarter designs that create neutral backgrounds and focus on updating the accents. TK Architects' Philhour says that it's cost effective and it's also the trend in terms of where design is going. "This can mean smaller jobs," she points out.

FLOORING AND THE RETAIL ENVIRONMENT

When it comes to flooring, budget, maintenance and durability trump aesthetics for the bulk of retailers. And in most applications, flooring's role is as a backdrop—a high performance backdrop. Hard surface flooring is far more common than carpet, and it's mostly ceramic tile. Few floors can take the punishment of foot traffic as well as tile, and few have such straightforward maintenance profiles.

Designers also favor ceramic tile—and the standard is generally porcelain, which is stronger and less porous—because of all the design developments in the category over the last decade. No longer do designers have to choose between aesthetics and durability. Thanks to digital inkjet technology, they can get whatever look they want, including convincing wood looks, without having to sacrifice performance.

Arial reports that in a recent golf club project, his firm chose a wood-look porcelain over real hardwood for the golf shop, something that wasn't possible just a few years ago.

In addition to enhanced designs and convincing replications of natural materials, the development of larger formats also works well in retail design. The larger scale can help create an understated look that serves as an even better stage for product and signage.

Except for back of house applications, VCT is only used in the lower end chain stores and in the food and drug sector—and it's losing share in those niches. VCT's maintenance requirements are particularly onerous, and no matter how well it's cleaned, it's still VCT, a homogeneous product with significant design limitations.



Ruscio Studio's design of Tokkad, a clothing boutique in Montreal, Quebec, features Adrift Pine, an Armstrong laminate. Photo by Elizabeth Martel, Leeza Studio.

The trend in these retail segments is to replace VCT with polished concrete—it's happening in supermarkets all across America—while smaller stores are often using LVT instead.

When carpet is specified, it's almost always carpet tile. The ability to swap out tiles is hugely appealing, and has enabled the use of carpet tile in environments that previously used hard surface flooring. It is commonly used in medium traffic retail environments where spills are not much of an issue. For instance,

pharmacy chains across the country use high performance carpet tile. Other retail environments for carpet include high end stores, where both broadloom and tile are specified, and product sections in department stores and in some retail chains.

LVT is becoming more common in retail environments, generally in hardwood looks. But when the opportunity presents itself, designers prefer to go with the real thing. Ruscio, for instance, will find opportunities to use engineered wood, and Reztark's Kratzer also reports regularly specifying hardwood, but, more often than not, a wood-look LVT or porcelain will do the job better, and without a sacrifice in aesthetics. And Arial finds that the randomness from different widths and lengths in luxury vinyl plank enhances design possibilities.

However, despite advances in porcelain and LVT technology, the bulk of retail flooring is likely to remain subdued and neutral simply because it serves the retailer better as a long-term investment. It's a lot cheaper to swap out signage and other interior elements.

Flooring producers with a strong position in the retail sector should see growth this year, and, if the economy continues to improve, the pressure to update the retail environment should lead to a few more years of gains. And even though there's a movement toward renovating by switching out accents and other high profile interior elements, and thereby making that floor last a little longer, renovation cycles in the retail market have gone from ten years to five, which should help offset that impact.

Some of the best prospects for sales of higher end flooring products lie not just in developments like the Mall of America but also in the emerging overseas markets, where newly affluent populations are eagerly embracing the Western consumer experience. These markets include regions in India and China, as well as in the Middle East in places like Dubai and Abu Dhabi, where there is massive investment in infrastructure development. ■