



The Halo Effect

How Bricks Impact Clicks

About the survey

From February 1 to May 23, 2018, an ICSC survey, conducted by the strategy and research firm Alexander Babbage, tracked retail web traffic and consumer brand awareness among emerging and established brands.

The web traffic analysis included retailers that opened or closed a total of 804 stores, with an estimated 18.6 million square feet of gross leasable area, in 145 markets covering a population of approximately 222 million residents. For each store opening, a five-week buffer was set around the opening date, and the 13 weeks before and after the buffer were analyzed. For each store closing, share of web traffic was analyzed in the 13 weeks before and after the quarter in which the store closed.

The analysis of consumer perceptions, including approximately 4,200 respondents, compared results from a national benchmark (created from 21 retailers with 9,516 stores across the United States) to a subset of 923 stores in 10 markets where those retailers specifically had at least one store.

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Executive Summary

Bricks and clicks are not an “either or,” they are a relationship.

The halo effect is the tendency for an impression created in one area to influence another. In retail, the halo effect is measured through the impact of physical stores on consumers and brand awareness – in ways that can boost or diminish web traffic and online sales. The proof exists at both established retailers and emerging brands that are radically transforming the way they conduct business to compete in this new reality. On one side are traditional retailers that are bolstering their online presence and acquiring e-commerce companies to expand their digital reach. On the other are digitally native brands building a brick-and-mortar presence to sustain growth and customer loyalty. Together, these complementary interests are charting new territory – where physical and digital retail converge to create a seamless experience for shoppers.

The core of that experience continues to be the retail store and its halo effect on digital engagement and brand awareness. That’s one of the key findings from our latest research, which looked at more than 800 individual retail stores covering 145 U.S. markets and more than 4,000 consumers nationwide. In the largest study of its kind, ICSC examines not only how the presence of bricks impacts clicks but also why the relationship between bricks and clicks matters. The study, which includes multiple real estate developments and formats, analyzes whether physical stores affect retailers’ overall web traffic and their share of web traffic in a specific trade area, along with consumer perceptions of brands and how they interact with them.

Key Findings

Physical stores are an essential ingredient to the success of retailers.

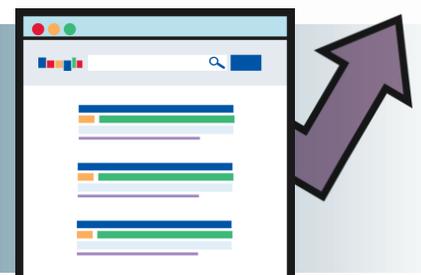
- Opening one new physical store in a market results in an average 37 percent increase in overall traffic to that retailer's website, compared with web traffic prior to the store's opening.
- For emerging brands, defined as those less than 10 years old, new store openings drive an average 45 percent increase in web traffic following a store opening. For comparison, established retailers experience an average 36 percent boost in web traffic.
- On average, the share of web traffic increases 27 percent within a specific market when a new store opens.
- An increase of just 5 percent in the number of physical stores in a single market has a significant benefit on digital engagement and retail web traffic.
- The opposite is also true: Web traffic drops off when retailers close stores. In one retailer's case, the share of web traffic across the markets where they closed declined up to 77 percent.
- Markets where retailers have stores perform better on brand health metrics (including awareness, consumer perceptions, and willingness to recommend) compared with national benchmarks.

As our research shows, physical stores are an essential ingredient to the success of retailers by driving digital engagement and improving brand health. Brick-and-mortar establishments also allow shoppers the ability to experience the products they're buying and provide retailers unmatched opportunities to gain in-depth data on consumers far beyond what online shopping allows, according to analysts who track retail trends. What's more, the costs to acquire new customers are generally lower in physical stores than they are online. Our report demonstrates why physical stores operating in harmony with healthy digital channels creates a powerful synergy to help retailers meet their strategic growth ambitions.

Opening a New
Physical Store

in a market leads to a...

37% average increase in
overall web traffic.



Bricks and Clicks are Not Mutually Exclusive

“We have to look at the integrated contributions, and also understand the negative effects of what happens to the digital business if a retailer closes their only store in a market.”

-Michael Brown, partner, A.T. Kearney

Stores comprise just one of multiple channels where consumers shop these days. Smartphones, car dashboards, and even touch screens in hotel rooms are among the devices that offer a convenient way to make purchases with a tap, click, or a swipe.

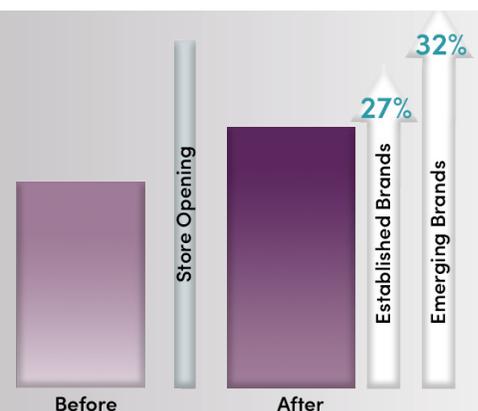
Yet our study found that the performance of retailers in the digital world is very much linked to the presence of physical stores. Our analysis of more than 350 store openings shows that when a retailer opens just one new location, web traffic increases an average of 37 percent in the quarter following the store's arrival. The vast majority of the time – 86 percent – emerging brands see at least a partial boost after opening at least one new store in a specific market. For established brands, there is a lift in web traffic 78 percent of the time.

A newly opened brick-and-mortar store also boosts the retailer's share of web traffic within the local market. With the opening of a new location, the retailer's share of total web traffic in the local market increases on average by 27 percent. For retailers looking to open physical locations, a small number of new arrivals goes a long way. For instance, a retailer with 20 locations in a single market can more than double its share of web traffic after opening one additional physical store.

"That new store serves as a constant billboard in the customers' daily travels, helping reinforce the strength of that brand and the presence of that brand," says Michael Brown, partner in A.T. Kearney's consumer products and retail practice. "It gives the consumer a place to engage with the product and try the product, and it puts a face on the brand."

Share of Web Traffic Boost

Emerging brands (less than 10 years old) see, on average, a 32 percent climb in their share of web traffic when a new store opens, and established brands enjoy a 27 percent bump in their share of web traffic.



Out of Sight...Out of Mind

The halo effect produces the opposite result when stores close, as web traffic tends to fall. Generally speaking, the greater the proportion of stores closed in a market, the greater the decline in the share of web traffic in the markets where the retailer operates stores. In one instance, a retailer that closed one-third to one-half of its locations generally saw its share of web traffic drop by 50 percent or more.

Closings affect retailers differently, depending on the number of stores shuttered versus the total number of locations. For instance, one national apparel retailer that closed nearly 190 stores saw an approximate 10 percent drop in the share of its overall market web traffic. Yet another retailer that closed about 40 stores saw a 16 percent decline in its share of web traffic.

As retailers contemplate the ideal number and configuration of physical stores in a specific market, these are some of the potential consequences they have to anticipate, according to A.T. Kearney's Brown. When planning, retailers need to consider how the presence of brick-and-mortar locations – places where consumers can not only see merchandise up close but also interact with sales staff and even make returns – sustains the mutually beneficial relationship between physical and digital retail.

“Do I serve a market area with five stores and my web capabilities, or do I look at having three stores and a fulfillment center supporting the omni-channel experience in that area?” Brown says. “On the flip side, do I want a store that delivers marginal profitability at that location but contributes to the overall profitability of a market because we understand the positive impact of the halo effect? We have to look at the integrated contributions and also understand the negative effects of what happens to the digital business if a retailer closes its only store in a market.”

“

At The Container Store, we create a bridge between the online experience and the store experience for our customers – offering design and customized solution services through multiple touch points. We leverage online and digital technology with the power of human experience and relationships offered in our stores – that's where the magic happens!

”

-Valerie Richardson, vice president of real estate, The Container Store

Brand Health, Consumer Views

“The touch and feel and the interaction certainly matters. That’s something that you can’t replace online.”

-Dana Telsey, CEO and chief research officer, Telsey Advisory Group

The research results from our study clearly show that physical retail locations drive digital engagement. But there's another important dimension of retail success that's a direct result of retailers' online ventures as demonstrated in our research: brand perception.

As part of our study, we examined consumer perceptions of 21 retailers in 10 metropolitan markets and compared those results with a national benchmark. Having identified the benefits of physical store presence, we assumed physical stores would have a measurable impact across several metrics of brand health:

- **Awareness:** Brand awareness
- **Impression:** Consumer perceptions of the brand
- **Consideration:** Willingness to consider purchasing from the brand
- **Identification:** Developing consumers who believe that the brand says something about them and their values
- **NPS (Net Promoter Score):** Consumer willingness to speak positively about the brand and recommend to others

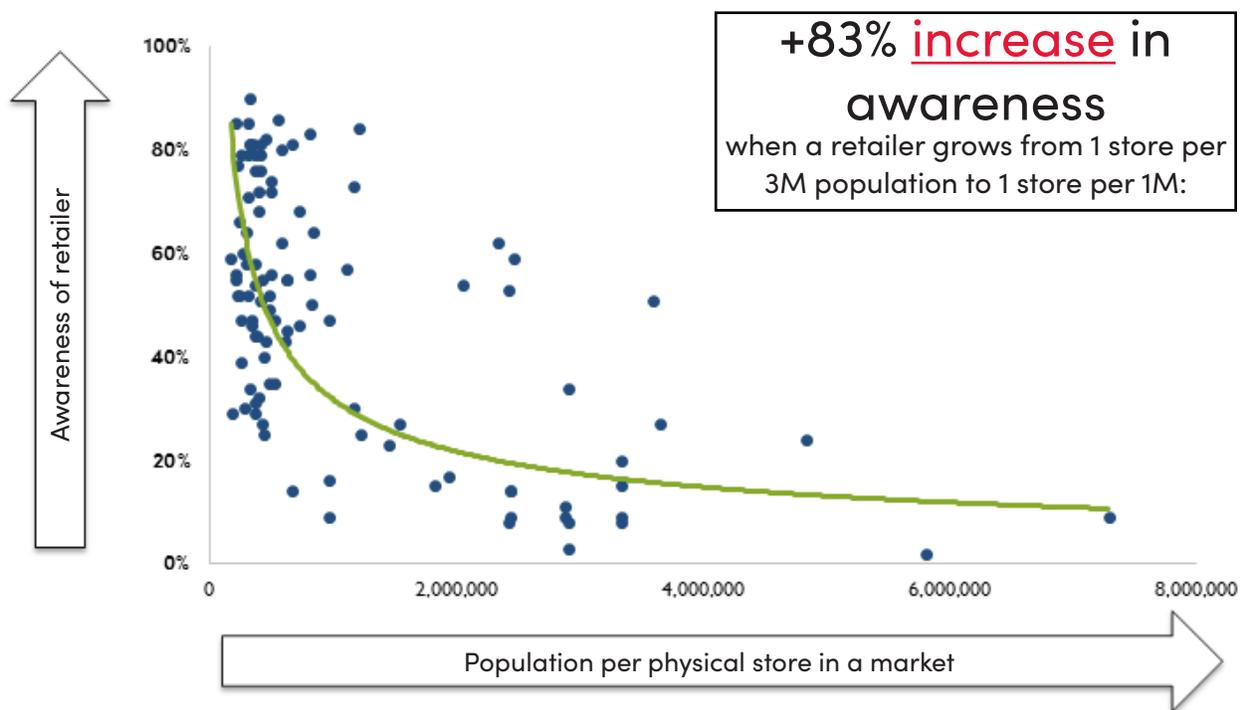


In all of the markets tested where retailers had stores, the brands showed increases on each of these metrics when compared with national benchmarks. Some increases were subtle. For instance, in markets with physical stores, 48 percent of respondents were aware of the brands, compared with 44 percent of respondents nationwide. In other cases the differences were more pronounced. For example, among emerging brands across all markets 51 percent of respondents were willing to consider the brands. But when those brands had stores in specific markets, 69 percent of respondents were willing to consider those brands.

Dana Telsey, CEO and chief research officer of Telsey Advisory Group, says physical presence offers a boost in perception that can't be matched online. "You gain brand awareness by having a physical store. The touch and feel and the interaction certainly matters. That's something that you can't replicate online."

Our study also reveals a clear link between the number of stores per capita in a given market and brand awareness. For instance, when a retailer shifts from one store for a population of 3 million people to one store apiece for each subgroup of 1 million residents, the change leads to an 83 percent increase in brand awareness.

The more stores per capita in a market, the higher the awareness of that retailer.



A clear trend emerges for awareness of a retailer based on number of stores per capita. The lower the population count per store, the higher the awareness of that retailer.

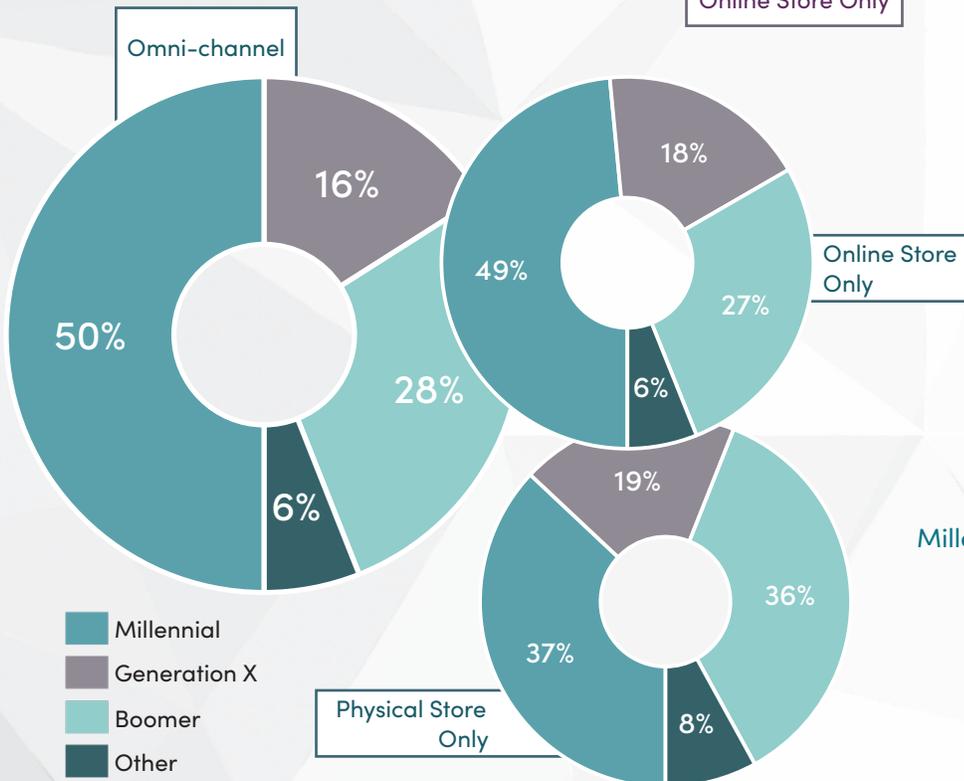
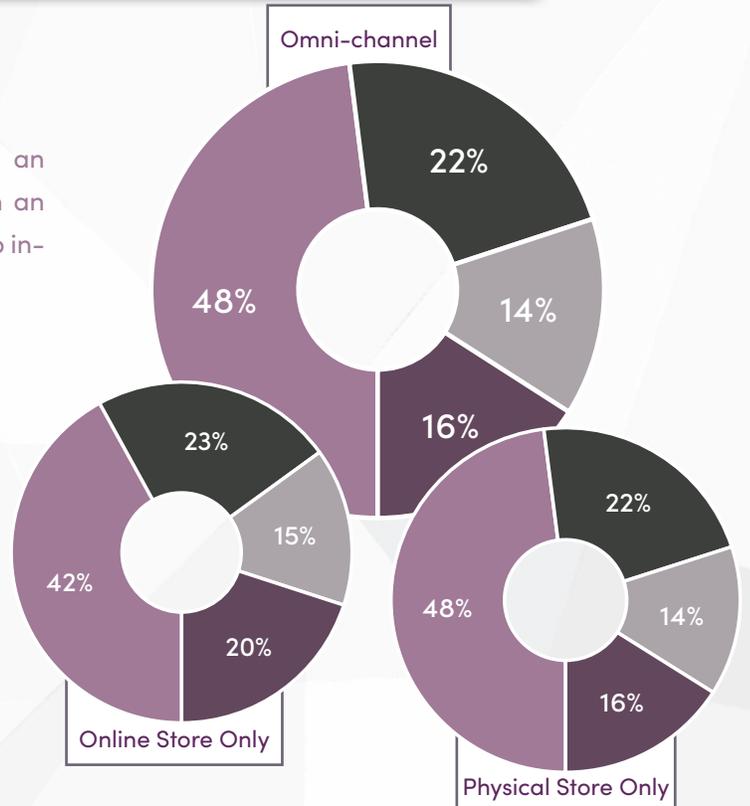
In markets where physical stores are present, 84 percent of shoppers either buy exclusively in-store (53 percent) or in combination with online (31 percent). Just 16 percent say they have shopped online only. For established brands in particular, 89 percent of their customers shop in stores only or in combination with online.

Who's your shopper?

Household Income

More than half of omni-channel shoppers have an annual income of over \$50,000. Of shoppers with an annual income of at least \$100,000, 89 percent shop in-store only or omni-channel.

- Less than \$50,000
- \$50,000 - \$74,999
- \$75,000 - \$99,999
- \$100,000 or more



Generations

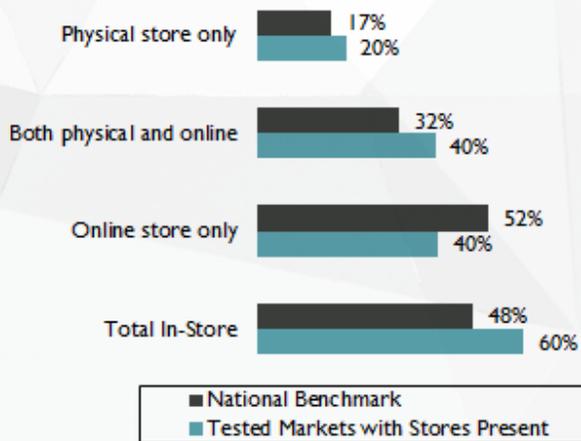
Millennials make up half of omni-channel shoppers.

The Millennial Influence

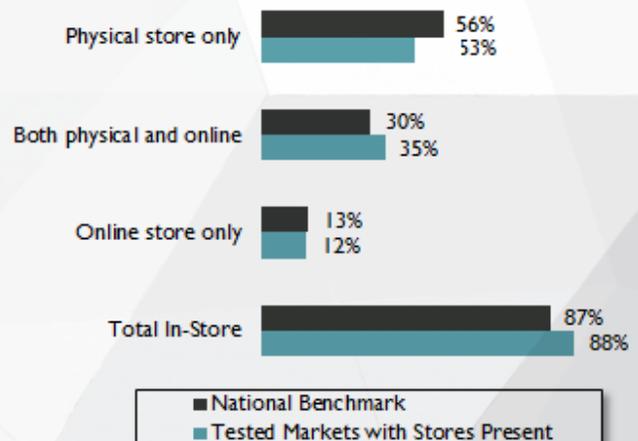
The importance of physical stores holds true for Millennials across both emerging and established retailers.

With emerging brands, more Millennials shop online only than in-store only. However, when a physical store is present, most will shop at those locations and online. With established brands, significantly more Millennials shop in physical stores than online.

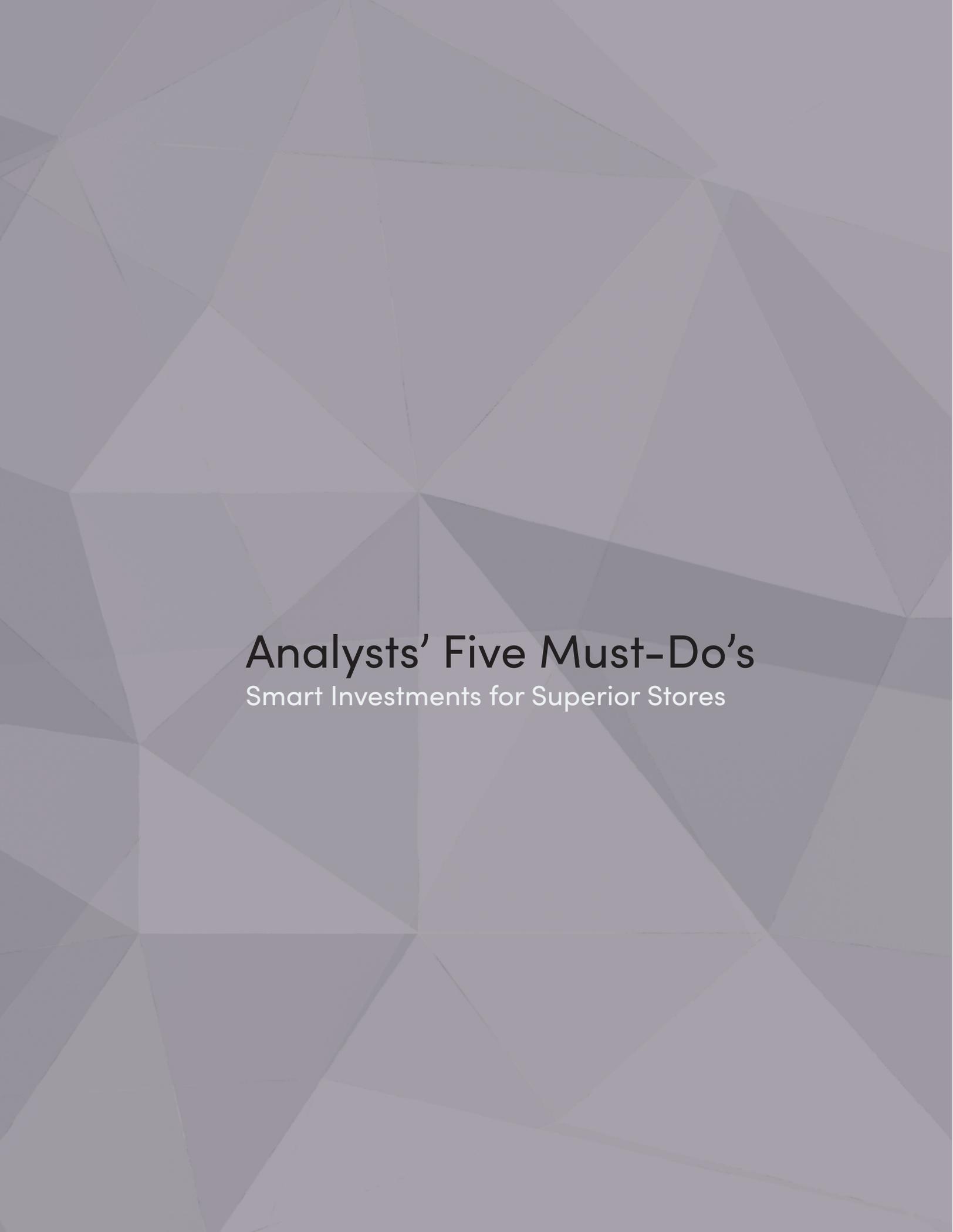
Emerging Brands (Millennials)



Established Brands (Millennials)



Millennials, like most consumers, will shop in a physical store if given the opportunity.



Analysts' Five Must-Do's

Smart Investments for Superior Stores

We discussed the findings of our research with industry and financial analysts who cover various facets of retail. The analysts have witnessed the expansion of e-commerce giant Amazon, which increasingly has ventured into brick-and-mortar locations. They have seen how traditional and digitally native apparel retailers have upgraded stores to create highly curated customer experiences. The experts have also tracked how retail staff in nonapparel categories such as home improvement have become increasingly knowledgeable product experts. While the analysts agree with our findings that physical presence is a powerful force for brand awareness, they also stress that retailers need to innovate in order to survive and thrive in an evolving digital world.

Contributing Analysts

Michael Brown,
partner,
A.T. Kearny

DJ Busch,
retail lead analyst,
Green Street

Oliver Chen,
managing director and senior
equity research analyst,
Cowen and Co.

Scott Mushkin,
managing director of consumer
research,
Wolfe Research

Dana Telsey,
CEO and Chief Research Officer,
Telsey Advisory Group

Experience and engagement

First, retailers have to compete with consumers' shrinking attention spans. DJ Busch, the lead analyst for Green Street Advisors' retail team, says retailers are already taking a number of steps to enhance the in-store experience so customers show up and stick around. Landlords are making investments in food and beverage offerings. Retailers are also ensuring they have the right merchandise mix to cater to today's well-informed consumers. Busch sees pragmatic reasons for investing in physical stores. For one, digitally native retailers are discovering that they can operate more efficiently by being closer to their customers. "The acquisition cost of customers by having a physical location is much lower and more efficient than online," Busch says.

Busch also believes the investments are necessary as the bar for creating a superb customer experience continues to be raised. He suggests that the digitally native retailers that are turning to brick-and-mortar formats are particularly well-prepared for this challenge: "They already have a lot of data; they know if they do really good business in one city, they can be a lot more targeted on where they open their stores."

Store Closings

Closing stores causes a drop in the share of web traffic.



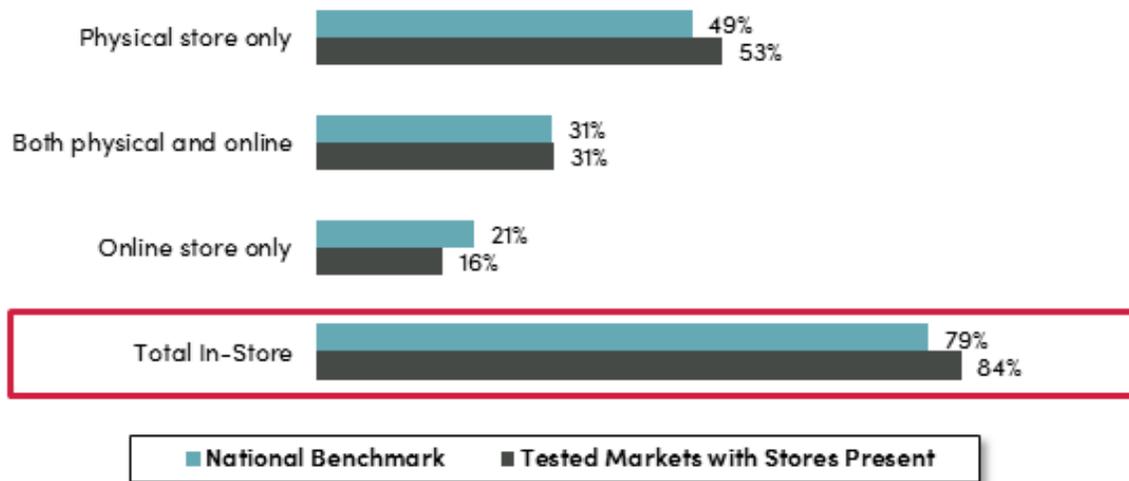
Personalization

Another data-driven area of focus is personalization. One tactic includes loyalty programs that capture individual shoppers' preferences across multiple points of sale. Based on that intelligence, retailers can target consumers' desire for customization, down to the color, design, or monogram. "You can target shoppers in a more effective way in order to eliminate the noise and maximize what's relevant to them," Telsey says.

Oliver Chen, a managing director and senior equity research analyst at Cowen and Co., believes retailers need to be prepared to build these capabilities into their offline and online endeavors. "Integrating digital and physical, drawing in personalization, and using data to enhance the experience are all part of the solution," Chen says. "The burden and the opportunity are with retailers to respond to rapidly changing consumer tastes and to the customer of tomorrow."

Consumers still prefer to shop in a physical store if they are able to do so. In tested markets with physical stores present, more than half of respondents have only shopped in the physical store.

Shopping Behavior: All Tested Retailers



In markets where stores are present, 84% of respondents have shopped in the store while 16% have shopped online only.

“

Walmart is delivering a seamless shopping experience at scale, so no matter how customers choose to shop with us – mobile, online, in-store, or a combination – it will be fast and easy. We can bring together a dense network of stores, supported by digital and eCommerce options. Customers want to shop when they want and how they want. We are delivering multiple ways to shop with us.

”

–JP Suarez, executive vice president and chief administration officer,
Walmart International

Best-in-class curation

Chen points to “three Cs” (convenience, culture, and curation) as the basis for success for physical stores. “Customers value a convenient shopping experience with curated and thoughtful product assortments, in an engaging cultural and experiential shopping environment.” Additionally, Chen and the other analysts we interviewed say retailers need to learn the individual preferences of their omni-channel customers and provide best-in-class merchandising strategies to keep them coming back for visits. Chen added, “Execution on the sales floor helps drive loyalty, retention, and customer engagement. For example, helping customers with personalized product advice and service, delivery options, and inventory access across channels, and providing human solutions to any customer pain point in the shopping experience is more important than ever.”

Scott Mushkin, managing director of consumer research at Wolfe Research, points to retailers in the home improvement space such as Home Depot and Lowe’s, whose locations are designed to store merchandise, ship, or facilitate click-and-collect orders, as proof that retailers have to curate and configure physical locations to adapt to evolving shopping behaviors.

“These retailers were doing omni-channel before omni-channel was even a word,” Mushkin says. “The stores are warehouses. They were always pulling products off the shelf for customers. They were always pulling items for contractors, delivering to the work site. Now they’re turbo-charging that. That’s a huge advantage.”

The benefits of curation extend beyond the individual retailer to the shopping center itself. Busch points to the addition of entertainment venues, fitness centers, and dining options as just a few of the ways landlords are making destinations more attractive. Those new additions can create a halo within individual centers that benefits all tenants. “You’re going to go there to buy groceries, workout, see a movie, or grab a meal,” Busch says. “It becomes part of your behavior.”

Seamless shopping

There's also the importance of convenience. As traditional retailers work to erase walls between offline and online shopping, and digitally native brands explore physical channels, the ultimate goal is a seamless experience in which barriers between consumers and products continue to come down.

"Consumers expect the store experience to become more frictionless, from the ease of checkout, leveraging technological advances such as being able to buy online and pick up in the stores, buying in-store with their own devices, or as we get further and further down the line, to walk into a store and grab and go," according to Brown.

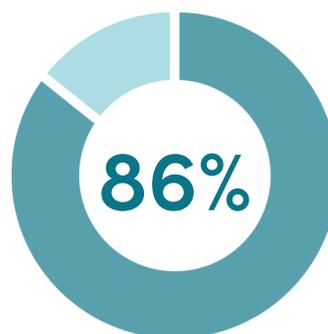
Chen agrees. "The name of the game is a seamless customer journey across channels," he says. "Customers don't necessarily care about the constraints a retailer may have. They just want to have an experience across mobile, desktop, and physical that is easy for them."

Mushkin points to Amazon's acquisition of Whole Foods Market in 2017 as a prominent example of the surge in seamless shopping. Amazon's investment in physical stores demonstrates its commitment to omni-channel shopping, even as retailers decide on the right format, store size, and product mix to keep customers engaged.

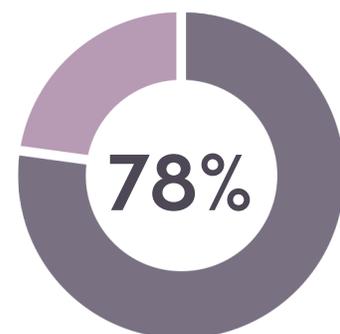
"The expectations of the store are higher," Mushkin says. "Sometimes shoppers may want a purchase delivered to their home. Sometimes they're going to pick it up. Sometimes that means they're going to shop in your store. You have to meet the consumer where and when they want."

Specific Markets

The vast majority of the time – 86 percent – emerging brands see at least some boost after opening at least one new store in a specific market. For established brands there is a lift in web traffic 78 percent of the time.



**Emerging
Retailers**



**Established
Retailers**

“

At Target, our stores are at the center of everything we do – from delivering an easy and inspiring in-store experience, to serving as local fulfillment centers to make online shopping fast and convenient. It's why part of our company's more than \$7 billion investment and multi-year plan to become a more modern Target includes opening new stores and reimagining existing stores across the country. We believe that a continued commitment to our physical stores will allow us to offer an incredible, differentiated experience for our guests, no matter how they choose to shop with Target.

”

-Laurie Mahowald, vice president of real estate, Target Corporation

Culture of service

From the innovations they are seeing in store technology and employee training to the economic realities of customer acquisition costs in online versus physical locations, the analysts say that retailers also can continue to be leaders in their categories if they focus on a culture of service.

Chen predicts that technology will help salespeople provide better service and build trust in the process.

Mushkin says employers such as home improvement retailers are making calculated investments so that engagements between shopper and staff become solutions-oriented interactions. Telsey adds that in the omni-channel environment, physical stores will continue to play a role as retailers tap into the core human desire for in-person connections.

“These are additional points of contact for retailers to engage not just with consumers but also with employees,” Telsey says. “The engagement that employees have with customers? You can't replace that communication.”

Conclusion

An Enduring Path for Physical Stores

A bright future lies ahead for physical retail stores. When retailers invest in brick-and-mortar locations, their online presence thrives. What's more, retailers with physical stores perform better on measures of brand awareness and consumer perceptions than in markets where those brands lack physical locations. As the findings, examples, and insights in this report reveal, physical stores matter, but retailers must continue to innovate in order to flourish in today's environment.

Look no further than digitally native vertical retailers such as Allbirds and Casper, which are opening brick-and-mortar stores for categories ranging from mattresses to menswear. Or check out companies that led the online shopping revolution but are now opening stores that sell books or groceries. These examples and others show how physical locations are an indispensable part of the retail mix: Brick-and-mortar stores are places where brands can make genuine connections with consumers who are considerably more informed today than they were yesterday.

Just because physical stores remain relevant doesn't mean they can coast on past successes, however. Consumers are fickle, customer expectations continue to rise, and new brands and products continue to change the trajectory of retail. As the analysts in this report suggest, integrating digital and physical experiences will inspire shoppers of the future. Today's digitally empowered consumers may enjoy an increasing array of methods to buy what they need, but physical stores remain the dominant channel for building, growing, and sustaining brands.

“This study confirms what we have anecdotally known for years: stores drive online sales. And the reverse is true as well: closing stores has an adverse impact on online sales. More importantly, it's the integration of these two channels that represents the future of retail, driving better margins for retailers and giving consumers what they want, when they want it and how they want it.”

-John Rulli, president of malls, Simon Property Group Inc.



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