

# REET

# THE FUTURE OF

By Becky McCray

# AIL

There's no doubt about it, the retail landscape is changing and getting more complex. No longer are there clear boundaries between brick and mortar establishments and e-commerce, between big boxes and mom & pops. Yet one thing is for certain: Main Street has a unique competitive advantage and it's up to local leaders and local business owners to understand how to tap into this opportunity.





*The big impersonal retail landscape is evolving quickly due to the rise of online retail and this is ushering in an exciting era for small businesses who position themselves to compete.*

**You couldn't escape the headlines about the retail apocalypse in 2017. Throughout the year, the news reported waves of store closures, how entire chains had declared bankruptcy, how traditional malls were visibly struggling. What does this all mean for Main Street? The answer may surprise you.**

### **THE BIG SPLIT**

Is this the retail apocalypse? Is it really the end of people shopping in physical stores? No. Rather than disappearing entirely, retail is splitting in two.

On one hand, chains of massive stores that competed on convenience, low cost, and wide selection dominated for decades. Now online retailers win on those three factors, and fewer people want to endure today's typical big box experience: parking, hiking, fighting crowds while overwhelmed with choices. On the other hand, massive stores are losing sales to smaller retailers that can better compete

on meaning, interest, and experience.

If people are going to go to an actual store, they want to enjoy it.

**That's retail's big split.**

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Local retailers on Main Streets and in downtowns are well positioned to take advantage retail's big split. Credit: Becky McCray

## THE LARGER SMALL SIDE OF RETAIL

When convenience matters, technology is taking the thought — and the store itself — out of the buying process. Most retail stores — large and small — are adding or upgrading online purchasing options, trying to be part of this market shift.

Yet, despite the attention focused on the predicted future of online retail, online sales currently make up less than 10 percent of all retail sales. In a poll by Square and BigCommerce, 96 percent of Americans surveyed said they shop online, but 65 percent of their shopping budget is spent in physical stores. Then why aren't big chain retailers still thriving in their big boxes? Because sales at small retailers have grown at a faster rate than big retailers since 2012, according to Mastercard Spending Pulse for Small Business. They attribute it to the "general consumer trend to shop small." In 2015, even Chain Store Age admitted that "Mom and Pops Are Cool Again." There are still lots of retail sales being made; they just aren't all happening in the same big stores they had been.

Thus, while big box chains are being pressured to improve their online game, they are simultaneously being squeezed to shrink their stores and improve their service. They're forced to be more like the mom and pop shops that they thought they had replaced.



This is the other, larger side of the split that doesn't get as many headlines. It's all about the unique competitive advantage that smaller stores have in their ability to tap into the meaningful in-person experience. **When consumers want to find something made locally, feel a connection to the artisan who created it, and know that their purchase makes a difference, they want to go to a real store, a small store, a local store.**

Yes, this is the larger side of retail. The chains and online giants get more headlines, but there are far more small retail establishments than big ones. Census Bureau numbers show that over 80 percent of retail businesses have nine or fewer employees. Fewer than 10 percent of retail businesses have 20 or more employees.

### WHAT THIS MEANS TO LOCAL LEADERS

With this much change going on in retail, local leaders will need to shift from recruiting established retail chains to supporting multiple smaller local retail experiments.

Recruiting chains and building complete new lifestyle centers is a terrible bet in today's changing retail

environment. Trying to predict the future retail winners is difficult even for industry experts. Lifestyle centers require a big investment all at once instead of the slow, incremental growth pattern that successful downtowns have followed.

To find future retail successes, local officials will have to flip their ideas of economy of scale. Rather than betting big on individual chains or a few major construction projects, today's leaders will find the successful economy of scale by bringing together dozens of tiny retail experiments by local people. **Main Street leaders play a critical role as they understand the value of small scale development and can help educate others on how local ownership benefits the community.**

### WHAT LOCAL RETAILERS CAN DO

The retailers that survive will be the ones that focus on meaning, experience, and enjoyment. It affects every aspect of the store and is the best competitive advantage for small retailers.

Focusing on the consumer's experience can seem like a distraction from the real business, but increasingly

Local stores not only provide a personal instore experience but can compete in the world of automated reorders and digital assistants.



those unique experiences are the core business of local retail. A hardware store owner in Elkhart, Kansas, and I brainstormed ways to add experiences to the process of buying tools. We talked about a Tool Days event, with lessons and demonstrations about how to use tools, a tool sharpening service in the parking lot and chances to get hands-on right there in the store. No e-commerce site can begin to compete with this personalized approach.

In addition to creating these personalized experiences, local stores will need to adopt technology to provide an immersive mixed physical and virtual retail experience. Trend watcher J. Walter Thomson Intelligence calls this new level of integration transcendent retail. Simple steps like using tablets to improve service don't require a massive investment by small retailers and show a commitment to technology improvement. Local stores can even compete in the world of automated reorders and digital assistants. It's easy for any retailer to deliver a set order of items to a customer on a regular schedule. All it takes is good recordkeeping, and that can be as simple as a calendar.

Because customers are using Messenger, text messages and email to communicate every day, stores can start accepting orders and requests by all those channels. Digital assistants on phones and in homes today are also capable of sending messages, giving another way for customers to place orders with smart local stores. Retailers will need to give customers easy-to-follow instructions for customers to get set up, but they will get repaid every time a customer says, "Siri, email The Copper Penny: 'Please reorder that lemon soap I love.'"



Typically car-oriented vs. people-oriented, lifestyle centers are not the way of the future.

## WHAT COMMUNITIES CAN DO

Retailers can't do it alone. That's why we have Main Street programs, chambers and economic development organizations. There are several steps that these groups and community leaders can take to ensure an environment where small, local retailers will thrive.

### Encourage Businesses to Cooperate

In the Survey of Rural Challenges conducted by SmallBizSurvival.com and SaveYourTown, one of the most common challenges was local businesses acting competitive and uncooperative. The solution may lie in another finding from the survey: many small business owners feel challenged trying to market their businesses in a fast-changing world.

Main Street leaders can leverage this challenge to their advantage by bringing local businesses together to promote the whole district and entire town. Because retailers already feel overwhelmed, leaders need to offer non-threatening ways to start cooperation. Invite retailers to come for coffee and informal discussion, or hold a block party for merchants. Talk through





Local retailers are innovating lower-risk business models like locating one store inside another store. Here, an essential oils retailer joins a yoga studio downstairs inside a clothing store in downtown Aberdeen, South Dakota. Credit: Becky McCray

upcoming ideas and the potential to play a small part. Focus on small but meaningful steps that don't feel like a ton of extra work or a long-term commitment.

### Focus on Downtown

Walkability, livability, and placemaking are all major trends in urban planning. They recognize the importance of a compact town center that people want to enjoy together.

This return to emphasizing downtown as the center of a community is a good sign for traditional Main Street districts. The buildings and spaces people encounter here are more human scale than huge high rises or spread-out car-driven sprawl. New lifestyle centers may be easy to walk around in, but aren't easy to walk to. They are typically located far from the center of the community, surrounded by car-oriented development.

### Provide Smaller Business Opportunities

Remember that we need to flip our idea of the economy of scale. Tiny retail experiments spread opportunity and develop a pipeline of future successful merchants. Community leaders can support these small-scale businesses by providing smaller spaces to do business.

Shared spaces represent an important trend in downtown retail development in both small towns and urban cities. Instead of expecting one potential store owner to spring fully-formed into 15,000 square feet, landlords are dividing open retail spaces into many small spaces. These shared spaces let potential retailers explore their concept in a few hundred square feet with much less risk, adding to the pool of experienced future retailers.

*Communities that provide more small, low-risk opportunities will grow their base of local entrepreneurs. Communities that focus on recruiting out-of-town businesses will grow someone else's base of prosperity.*

### Relax the Rules

The rules that govern our towns and cities weren't written to support these smaller opportunities. Zoning, licensing, codes, and rules all were written for big monolithic businesses that are expected to endure for decades and will of course be located inside of perfectly maintained buildings. That's not where most Main Streets are today. Officials don't have to throw all the rules out, but should be open to reevaluating them and approaching them with flexibility.

What if officials enforced rules in order of priority? They could start with critical safety issues, then give new businesses time to grow and be able to afford the less-critical needs. Governing boards could declare a bureaucracy-free zone for three months and see what happens. Municipalities could cut fees or fines from huge amounts down to a pittance, to encourage experiments.

Officials can selectively choose whether to notice tiny tests or temporary events. If it's only there for the weekend, is it necessary to be enforcement-heavy? Officials can work with people to find solutions that work better for the business owner and community and are still legal. If the rule says no selling from trucks on the street, can they sell in a parking lot? Or set up inside an empty building? Be as creative as possible in allowing positive rule-bending.

## INNOVATIVE RETAIL BUSINESS MODELS

What does a local store look like? A standard downtown retail storefront filled by one business may be the image that springs to mind, but local retailers can be more creative than that. Shared spaces, booths at events, and even empty buildings present new opportunities for today's local stores.

**TINY** Smaller scale offerings give retailers small steps towards full-scale stores.

**TEMPORARY** Short-term stores give instant feedback on the viability of a concept.

**TOGETHER** Locating inside another store or a non-retail business provides access to established markets.

**TRAVELING** Trucks, trailers and carts bring the store to the customers, wherever they are.

## COMMUNITIES THRIVING WITH INNOVATIVE RETAIL

Every community has a mix of retailers, some flexible and innovative, others stuck in the past, and a bunch somewhere in the middle. Any community can probably find local examples of some of the future retail trends we've just talked about. Let's look at specific communities where people are trying some of the new ways.

### Shed-Based Retail Stores

Whether you call them storage sheds, garden sheds, or backyard sheds, the modern pre-fab sheds that are about the size of an extra bedroom or tiny house make usable business spaces. These build on the need for smaller spaces where potential retailers can run experiments and gain experience. When multiple sheds are clustered, together they create a critical mass of interest and traffic. It's like a mini-business

ecosystem. They also address the shortage of usable buildings many downtown districts face and may avoid triggering some of the more onerous zoning requirements if they are installed temporarily instead of permanently.



Tiny retail experiments are thriving in the Tionesta Market Village, filling the pipeline of future local business owners. Credit: Rowan Rose

## Mini-Downtown Made of Sheds

*Tionesta Market Village, Tionesta, Penn., pop. 500*

Tionesta, Pennsylvania, had a commercial lot that was vacant after a fire in their downtown. Officials tried unsuccessfully to interest a developer in building a full-scale retail project on it. After 10 years, they decided to try a different idea.

They cleaned up the lot and added storage sheds that measure just a few hundred square feet. The sheds were decorated with 19th century-style false fronts to coordinate with the downtown architecture. They called it Tionesta Market Village and offered the sheds for rent to tiny businesses. They have had a waiting list since the project started.

“The goal was to create healthy traffic in the downtown that would help boost sales at our existing businesses, spur new businesses, and encourage façade improvements,” Julia McCray of Tionesta told me. “It’s working! The coffee shop and art gallery extended their hours and saw a boost in sales. A vacant building was purchased and is being renovated for mixed-use.”



## Upscale Sheds

*Artist Shanties, Hyannis, Mass., pop. 14,000\**

Stroll around popular tourist destination Hyannis Harbor, and you’ll come across artist shanties. The tiny buildings are just over 100 square feet of temporary retail space for painters, photographers, jewelers, and other arts and craftspeople. They are so popular that artists apply to a competitive program to earn the right to display. Over 12 seasons, the 600 artists who participated have collectively earned over \$1 million in sales.

## Tiny Houses

*Anchor Square, Pascagoula, Miss., pop. 22,000\**

After Hurricane Katrina hit the US Gulf Coast, tiny-house-style Katrina Cottages were provided as temporary housing. When the temporary housing was no longer needed, the city of Pascagoula ended up with 17 of the cottages. They placed them on an empty lot near their downtown, and filled them with tiny businesses, a mix of retail shops, restaurants, galleries, and studios. The open green space in front of the cottages is now a popular public gathering spot and plays host to even more pop-up businesses during special events.

## Pop-ups

Pop-ups are just temporary businesses. Anyone with a business idea can try it out temporarily while they learn more about the market, improve their business skills, and make actual sales for cash flow.

Pop-ups can be big or small, lasting a few hours or a few weeks. They can stand alone or be inside other businesses. This is one area where small towns have an advantage; some rural building owners are more flexible about not requiring a full-year or multi-year lease.

## Pop-ups Grow Businesses

### Delaware\*

Project Pop-up in Delaware has a record of success. Of the 18 businesses selected for their pop-up program, 17 went on to sign a long-term lease and go into a full-scale business. They carefully target business people who are already running some tiny retail experiments.



“The businesses that are most successful have shown a strong readiness to occupy a brick and mortar space as they are already generating some revenue, have a customer base (even if small), and they are typically using the Internet for sales and marketing,” State Coordinator for Downtown Delaware Diane Laird said.

### **Popping up for the Holidays**

#### **Homewood, Illinois, pop. 19,000**

Homewood wanted their holiday shoppers to enjoy their downtown without having to walk past a bunch of empty buildings. The Community Development department featured a pop-up program to fill as many buildings as they could, improve the downtown experience and encourage temporary business experiments. Two businesses used the program to test whether Homewood was the right market for them to open a new location, and five more were new local businesses.

“In Homewood, we see our downtown becoming an incubator for new ideas, the perfect place for entrepreneurs to try out new concepts,” Marketing and Events Director Rachael Jones said.

### **Shared Spaces**

Remember the trend toward multiple retailers sharing one larger space? Time for the examples.

#### **Shared Artist Spaces**

##### ***ARTesian Gallery and Studios***

#### **Sulphur, Oklahoma, pop. 5,000**

The ARTesian Gallery and Studios bring together five small spaces for artist studios, a gallery, shared equipment, and classroom areas. At 7,400 square feet, the building was too large for any one artist to have renovated and occupied alone, but makes perfect sense as a shared space.



Co-owners Keila Montalvo and Albert Sierra and family celebrate the grant opening of Petite Sweets on Walnut Street in downtown Milford, Delaware. Petite Sweets features cake pops, selling through both “brick and mortar” location and on-line. Credit: business.delaware.gov

### **From Vacant Department Store to Mini-Downtown**

#### ***The Village, Washington, Iowa\****

What can fill up the large buildings left behind by former downtown department stores? Washington, Iowa, had one that included 15,000 square feet of retail space that sat empty for years. Today it houses The Village, a collection of little shops that looks like a mini-downtown inside the building.

There are stores with only a few hundred square feet, and in the “town square,” there are tables and push carts available for micro-businesses to get started. Many businesses grow from a tiny table to a little shop to a full-scale business ready to move into their own building. Others reach a size that is comfortable for the business owner and stay there.

One of the organizers Cathy Lloyd said, “I truly believe that this is the future of retail in small communities.”

### **Roofless Buildings and Empty Lots**

When downtown buildings are demolished or collapse, often only the walls or façade may be saved. Before investing in a complete rebuild of a missing building, tiny experiments like these can temporarily make positive use of an empty space.

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EXAMPLES OF MAIN  
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## THE SMALL WINNERS AFTER RETAIL'S BIG SPLIT

Despite all the media attention on retail closures this past year, these more complex trends have not fit into the sound bites. Pinched on both sides, big box retailers are experimenting with doing more online while also trying to be smaller. Small retailers find themselves in a better position, already small, already connected to customers, already providing an experience worth enjoying.

Local officials and Main Street leaders play a crucial role in fostering and supporting smaller footprints, tiny tests, and temporary experiments. Suddenly, it seems like everyone wants what our Main Streets and downtowns have. Now is a great time to show everyone the power of local, small, and personal retail.

When downtown buildings burn or collapse, there may not be funds to replace them immediately. In St. Francis, Kansas, a coffee shop started in the roofless shell of a former building. They've continued to improve the old structure over several years and now have a roof over their heads. Credit: Kansas Sampler Foundation.

### Coffee Shop

*Union Square, Saint Francis, Kan., pop. 1,300*

In the footprint of a former downtown building, Union Square houses a walk-up coffee shop in a shed-like temporary kitchen. An outdoor seating area is open to the sky with the remaining rafters used for decoration.

### Beer Garden

*107 Grand, Paris, Texas, pop. 25,000\**

Doesn't a beer garden sound so much more entertaining than just "the façade of a missing building"? The kitchen is housed in a tiny shed-sized building inside the old building's footprint. A partial tin roof shades some of the outdoor seating, and ceiling fans provide a steady breeze.

### Breaking the Old Rules

#### Making Space for Informal Businesses

*Zuni, New Mexico, pop. 6,000\**

The pueblo of Zuni, New Mexico, had little in the way of traditional businesses and almost no public space. Today it is transforming into a place where everyone can gather and informal businesses can start and grow from pop-ups to street vendor carts to small indoor spaces within a new Main Street corridor.

\* Main Street America member community

## RESOURCES

**The Survey of Rural Challenges**, conducted in 2015 and 2017 by Small Biz Survival and SaveYour.Town, surveyed over 450 rural people about their challenges in business and community building. Website: [smallbizsurvival.com/ruralchallenge](http://smallbizsurvival.com/ruralchallenge)

**IBM Research's 5 in 5 report** predicts that in 5 years, buying local will beat online. Website: [mashable.com/2013/12/17/ibm-5in5-report/](http://mashable.com/2013/12/17/ibm-5in5-report/)

**J. Walter Thompson Intelligence report on Transcendent Retail** predicts further blurring of the lines between online and offline retail (fee for the full report). Website: [jwrintelligence.com/trend-reports/transcendent-retail](http://jwrintelligence.com/trend-reports/transcendent-retail)

**The Complete Omni-Channel Retail Report: What Brands Need to Know about Modern Consumer Shopping Habits** issued by Big Commerce, Square, and Kelton Global, explores online and offline shopping behavior. Website: [smallbiztrends.com/2017/09/small-business-retailers-need-know-online-consumer-behaviors-right-now.html](http://smallbiztrends.com/2017/09/small-business-retailers-need-know-online-consumer-behaviors-right-now.html)

**Chain Store Age admits "Mom and Pops Are Cool Again"** and looks at the changing retail dynamics favoring small stores for purchases that matter. Website: [chainstoreage.com/article/mom-and-pops-are-cool-again](http://chainstoreage.com/article/mom-and-pops-are-cool-again)

**Tionesta Market Village** is a mini-downtown made of storage sheds that measure just a few hundred square feet. Website: [marketvillage.forestcounty.com](http://marketvillage.forestcounty.com)

**The Artist Shanties** in Hyannis, Massachusetts are so popular that artists apply to a competitive program to earn the right to display. Website: [hyartsdistrict.com/visual-arts/art-shanties/about](http://hyartsdistrict.com/visual-arts/art-shanties/about)

**Delaware's Project Pop-up** works with building owners and potential retailers to temporarily fill buildings and give businesses a step up. Website: [doverpost.com/article/20160225/NEWS/302259992](http://doverpost.com/article/20160225/NEWS/302259992)

For additional resources, please visit [smallbizsurvival.com](http://smallbizsurvival.com).