Matt Wagner:

Welcome to the Main Street Business Insight Podcast. I'm your host, Matt Wagner, chief program officer at Main Street America, a nonprofit leading a collaborative movement dedicated to strengthening communities through place-based economic development and community preservation. Each week, join me as I travel the country and take a deep dive into the personal journeys of downtown and neighborhood entrepreneurs, the stories that far too often go unnoticed and unheard. Whether you're a small business owner who wants to learn from your peers or community leader looking to better support your local business base, Main Street Business Insights is here to provide you with the tools, strategies and personal stories to help you and all of your main street businesses thrive.

Matt Wagner:

Welcome back, everyone, to the kickoff episode of the Main Street Business Insight Podcast season number two. I have to say, I'm so pumped to be back. And for all of you Spinal Tap fans out there, this season goes to 11, episodes what is. We have so many absolutely amazing guests in store and rich topics we're going to be featuring throughout. But before I jump right in, I want to quickly thank our in-house team of Rachel Boden and Liz Yang, along with our wonderful editors over at Notice Pictures for all the terrific work putting season one together as well as the highlight podcast that we were running over the last few weeks, hope you got those.

Matt Wagner:

For the past three years, I've put together a series of annual predictions in a blog which covered the macroeconomic technology and societal trends that I believe will impact our work in downtowns and neighborhood commercial districts and the businesses we seek to nurture and support in those places. We decided that, given the topics coming up in this season, it would be good to create an episode that lays out these issues and trends and shifts that so many of our small business owners are likely to experience in the coming year. Now, I will admit, making predictions is always a risky proposition but, with great humility, I hope this can be a value for thinking ahead and planning around the key issues, topics and shifts in the coming year.

Matt Wagner:

Now, I will also take some time to examine my predictions from last year, which you can explore if you like, through the links in the show notes along with the 2024 predictions blog. Now, looking back, this past year, in many ways, represented a slowing pace of change and settling into a new norm situation out there. This could be called a cautionary time in which all the talk about recession and economic headwinds, inflation made for decreasing consumer confidence and shifting spending priorities. So, let's take a look at one miss, when and a push prediction from 2023.

Matt Wagner:

So, the first miss was bricks and mortar growth continue to outpace e-commerce growth. Yes, I totally missed on that. So, while the exuberance for return to in-person shopping in 2022 didn't quite go away, it certainly settled into a much more normal growth pattern, much like what happened with the 2020 e-commerce growth which came back to earth in 2021, we saw that same pattern with bricks retail shopping. However, much of the shift in 2023 was actually driven by changes in consumer spending, really moving from retail to more services, from personal services, leisure and, of course, we had to fix all the things that we had bought during the pandemic. If you traveled last year, you likely noticed this shift firsthand, it was quite visible.

Matt Wagner:

So, to demonstrate how dramatic the spending shift was, according to OAG Company, the number of flights was up a whopping 137% in 2023 compared to 2022. Just flat out amazing. And while overall revenue for retail was up during the year, what we saw in the last data in November and December of 2023, it highlighted many of the shifts throughout the year as much as the growth that was coming from online shopping in restaurants and bars and that was the big shift.

Matt Wagner:

So, to summarize, some key 2023 retail sales highlights, compared to the same period in 2022, revenue amongst American bricks and mortar stores was down 3.2% in 2023. In-store sales represented 85.1% total retail sales in the first half of 2023 which was down about 2% compared to the same period. Basically two takeaways here. First, retail, overall, is still way above 2019 pre-pandemic. So, this new norm has set another tier which is much better than it was in 2019 in terms of bricks and mortar retail. Secondly, small businesses really need to continue to diversify revenue streams with having that digital, that eCommerce and perhaps even a service element as another core component of their overall business model.

Matt Wagner:

Now, when we talk about a win, I correctly predicted that services would be on the comeback and that certainly happened a lot in 2023. Now, much of this shift was actually found in leisure travel, restaurants and bars, despite the prevalence of inflationary pressures in all of those categories. Now, first, restaurant spending and openings grew a ton. Diners spent more on restaurants this year and many restaurants opened to meet the increased demand. That amounted, actually, to about 7% more on restaurant spending this year with an average check total of about $22.46, if you wanted to know the exact, and we had about 6% more openings of restaurants than in 2022.

Matt Wagner:

On the leisure side, Marriott said global room demand for leisure travels was up about 10% in 2023 over 2019 and Southwest Airlines said its quarterly operating revenue by the end of June 2023 was already above pre-pandemic levels. And then looking at Placer.ai, we saw that personal care services like beauty and fitness spending far outpaced overall retail spending throughout the first half of 2023. So, many retailers reacted to this trend line by focusing on new service offerings, are moving to a place in which businesses are offering retail goods, now services and even data monetization as part of their overall strategy.

Matt Wagner:

Now, moving on to the push, okay? Not quite there but I had predicted that entrepreneurial ecosystems, the place of those, would really move these hotbeds of ecosystem or support systems would migrate to more small and mid-size cities. And while places like Skowhegan, Maine and Emporia, Kansas maybe aren't at the same level of recognition as a Silicon Valley or a Research Triangle, there were a lot of waves generated in the entrepreneurial ecosystem space this past year. And you can just look at ... Let's take Skowhegan as a great example of this. In 2023 ... And granted, if you don't know Skowhegan, population 7,000, in the mid central part of Maine and they grew a new entrepreneurial center in 2023, they received support funding from the Maine Technology Institute and most recently received a US Economic Development Administration Recompete Program to the tune of $495,000.

Matt Wagner:

Now, the initial success of Maine Downtown Center's pilot entrepreneurial ecosystem work that resulted in a Senate direct appropriation really has grown out and built up the ecosystem in many rural and small towns in Maine. And while that's forthcoming in a number of different areas, I think we still have some strides in national media and even conferences and really being able to call out and feature main street communities as models for small and midsize small business support system. So, we're getting there but still got a little ways to go.

Matt Wagner:

Now, let's move on to 2024 predictions. So, number one, I'm predicting that we're going to move from really a bricks and clicks discussion to more a dialogue around experience versus transactional spending. Now, case in point. Over the past year, I think we could all agree that distinctions between bricks and mortar and online sales have become far more blurrier as physical stores begin to migrate to having more growth online as part of their revenues and purely online stores, like Wayfair for example, are now seeking out real estate plays. In fact, salesforce.com recently predicted, predictioning themselves, that bricks and clicks businesses would grow essentially at 1.5 times the rate over if you were standalone e-commerce or bricks and mortar space.

Matt Wagner:

So, I think, this year, the consumer attraction really comes down to offering an experience versus being purely transactional. And what I mean by transactional is, if you need a ... Let's just say you want to buy a refrigerator filter or placement for your fridge, consumers might likely go onto Amazon and have it shipped the very next day to their house, that's a very transactional relationship, there wasn't a lot of experience built into that. But winning main street small businesses, I think, will be those that craft a business model, that structure an in-store and digital experience where consumers want to engage with the purchase, share social time, create a memory, et cetera. And at the same time, those very small businesses should think about moving products and services that are purely transactional to more of an online format in which consumers might prefer convenience or delivery, in store pickup, et cetera.

Matt Wagner:

All right, let's move on to prediction number two. I'm forecasting a continued decrease of the average retail square footage which essentially will turn every existing business into a potential incubator. So, what I mean by that is the bricks and clicks evolution combined with massive enhancements to logistics has really resulted in a continuing decrease in the average amount of square foot dedicated to retail. That doesn't mean that retail businesses overall is dropping the number but that the square footage that they're looking for or need is dropping. Now, given that most of our main street businesses are in fixed size buildings that are difficult to break into smaller storefronts, retailers will need to find creative ways to generate increased traffic and more fully utilize their spaces that they're renting or paying utilities on or whatever.

Matt Wagner:

Now, one solution is adding additional services as part of the retail revenue model or, vice versa, adding products to your service business. Now, research from Square and Wakefield found that 59% of consumers are likely to buy an item from a restaurant or a retail store that isn't part of its main offering. Spontaneous shopping, that's why they put things at in caps or when you check out. Now, mixing retail and services provides a lot of additional reasons for consumers to come into the store, a different mix of consumers perhaps and differentiation from being just a pure e-commerce business. Now, rather than trying to populate via a standalone pop-up location, main streets and other place-based programs can likely leverage existing small businesses as event spaces and pop-up locations for new businesses that are seeking market exposure.

Matt Wagner:

We know that, throughout the country, vacancy rates are lower and, thus, it's harder to find standalone pop-up space or spaces for micro enterprise. So, this format really creates a number of win-win scenarios where consumers benefiting from new shopping opportunities and, thus, a great density of activity and engagement is also created. Now, note to self, this is a five-year looking out prediction as small businesses begin to incorporate predictive artificial intelligence, AI, around their customer needs, thus, making inventory much more strategic and timely, this trend will only accelerate in terms of creating these space opportunities.

Matt Wagner:

Now, prediction number three. We have this massive generational marketing shift that's occurring and it's becoming much more complex for our small businesses. Some of you may have seen the recent headlines Peak 65 in 2024, i.e., this is going to be the year of the largest group of retirees. And just anecdotally, in my work in traveling around the country, I've seen a significant gap between younger generations and the marketing and communications tools utilized by main street businesses. So, to engage this younger demographic, businesses are going to need to continue to shift social media usage from things like Facebook, perhaps places like TikTok and communication engagements from email and e-newsletters to more SMS.

Matt Wagner:

Now, data is showing that younger generations are spending a greater portion of their resources on experiences. A June 2023 report from Experian revealed that 63% of Gen Z and 59% of Millennials would rather spend money on life experiences like travel and concerts that they can enjoy right now rather than saving up for things like a house or even retirement. Now, each generation's spending habits vary significantly and something that we need to pay attention to. Unfortunately, that means marketing to each one of those generations, considering their product inventory and experience gets even more complex.

Matt Wagner:

For example, looking at retail marketing, many small businesses have gotten accustomed to simply just posting pictures on Facebook and Instagram. However, there is increasing segmentation emerging in social media marketing. For example, TikTok's top demographic is 18 to 24-year-olds and that age group actually makes up an even bigger percentage on Snapchat. Then you think about Facebook, that skews much older. And as retail advertising transitions to where we're trying to be much more personalized in content and through these distinct channels, we're now having to think more about how do we direct that to consumers. So, the pie, the sliver, the skewing continues to get deeper with all these social media platforms and, thus, direct to consumer is going to have to be where we begin to transition in order to get the best return on investment.

Matt Wagner:

So, for the past several decades, what that's looked like in direct to consumer market is primarily focused on, yup, continuing social media, email, traditional advertising and, to some extent, leveraging influencers. But as consumers become overwhelmed and just swallowed by the amount of content out there and messages they're receiving, I'm predicting that SMS will quickly rise to the top. According to Gartner, SMS, this is texting, boasts an open rate is high as 98% and a response rate as high as 45%. Those are unbelievable numbers. Feedback is nearly instantaneous. As Google Research suggests, an average response time between 15 and 20 minutes to text messages. Now, just think for yourself, you get a text and, automatically, you just pick up the phone and look at it. So, very instantaneous and, oftentimes, you open up the text, you read it, you may react to it.

Matt Wagner:

So, I think if we just take our own personal considerations, it's high value and lots of ROI. So, this makes SMS for retail one of the highest performing marketing strategies. Now, the benefit of SMS include more customer engagement, increased customer acquisition at cheaper rates and, hopefully, then soaring sales, that's the goal here. Now, a sub prediction here when it comes to social media and one I don't think is being talked about enough. I would suggest we need to keep an eye on WhatsApp, okay? For those that aren't familiar, WhatsApp, another online messaging platform but, in parts of Latin America, in Asia, Asian businesses across the world, this is a primary source for consumers contacting, reaching out and, in essence, shopping with local businesses.

Matt Wagner:

Now, WhatsApp's popularity in the US has steadily grown over recent years. In 2019, it was something close to 70 million mobile phone users were using WhatsApp. That figure has since grown and now is projected to be about 85 million in 2024. Now, 18 to 34-year-olds are the highest using population demographic of WhatsApp, so just understand that point. But more importantly, WhatsApp is the dominant player in Latin America and Asia and that's key. This further eye aligns with where US population in small business growth is heading, whereby, Latino and Asian-American owned businesses are the fastest growing segments of small business and of racial and ethnic demographic groups in the US population wise.

Matt Wagner:

Now, moving on to prediction number four. Could I really have a prediction blog if I didn't include something on AI? It just somehow wouldn't seem right and I would be oblivious to technology. Now, throughout 2023, we saw artificial intelligence create headlines both for its potential for wonderful economic innovation and productivity and, of course, oh, my god, big brother and the world is going to end and you're like both ends of the spectrum here. Now, global and large national retailers are already beginning to focus and incorporate this into improving everything from marketing to supply chains. Now, as we migrate to thinking about our small business owners and our main street programs, I think 2024 is going to be the year when we see AI much more incorporated into our work in probably two primary areas.

Matt Wagner:

One is just simply as a personal assistant. You see people all the time using ChatGPT or other platforms as a way to create content, do research, what have you, and, much like a personal assistant, be able to draft social media content or business strategies. And I think the second area that we'll see begin to migrate is more on the predictive AI. Less so right now but I think that's where we're moving where you can better predict what your consumers are going to be seeking and, thus, that helps with inventory planning and even curating more personalized products for key customers that opt in.

Matt Wagner:

As with any new technology, there's going to be early adopters and so we continue to see that. Even with our Grow with Google Initiative, we have many businesses that we're tinkering around with AI and using that and I plan to actually catch up in episode three of season two with a much deeper conversation on this topic with Janet Hurn from Future Ready Consulting and one of our Main Street America digital coaches.

Matt Wagner:

Now, prediction number four, five, sorry, is really about this growing intersectionality between main street ecosystems and what we call or refer to as high propensity business ecosystems. Think of those as the high-tech, Silicon Valley forms of ecosystems. It was only seven years ago, and I can remember this distinctly, going to my first ESHIP Summit hosted by the Kauffman Foundation. It was truly inspiring but I remember wondering where was the discussion around the importance of place in supporting small businesses.

Matt Wagner:

Now, fast forward, there has been much progress in this area and, I believe, a great deal of understanding that place, frankly, matters and it matters a lot. And the Kauffman Foundation has been one of our biggest supporters and making this happen. And so, just of note of gratitude, thank you, thank you, Andy Stoll, for being such a huge supporter of ours. Now, much of that is because of the great work of local main street ecosystem builders like the ones I spoke about earlier in Skowhegan and Emporia and others across the country.

Matt Wagner:

Now, taking this idea one step further, this intersectionality discussion, I'm predicting in 2024 that we're going to see more attempts to create greater synergies between what we're doing and factoring in place in these hyperlocal support systems for small businesses but then intersecting that with these more high-tech manufacturing sector ecosystems that really focus more on unique forms of capital infrastructure, talent agglomeration and sector infrastructure, for example. This intersectionality, I think, has two primary macro drivers and the reason why I'm predicting this is what we'll see more of in 2024.

Matt Wagner:

First, economic development has become highly dependent on human capital. And given mobility within these high propensity ecosystems, human capital is really seeking quality of place and they have far more choices in the ability of where they live and where they choose to work because, frankly, number two is we live in this age of dispersion in which nearly everything can be done online. And there's also, at the same time, this pendulum swinging reaction where people are really demonstrating a natural yearning for community engagement and human interaction that really put the significance into place.

Matt Wagner:

So, local intersections of these two focused ecosystems, I think, really, where they come together, if you think of a ... Picture of Venn diagram where they intersect, first is in housing. Our downtowns and neighborhood commercial districts offer affordability in some cases and availability of unique housing. Third spaces in places for accidental collisions like breweries and libraries and cafes and barbershops often occur in these very places. We often have the broadband infrastructure that's needed, professional services, we host incubators and accelerators and shared kitchen facilities and co-work spaces.

Matt Wagner:

And then, finally, it's where oftentimes you find museums and other cultural and entertainment venues. And so, these are the spaces or the places in programming that human capital desires which is what high propensity ecosystems need. And so, that's the coming together, that's the intersectionality and that's the power of having a main street ecosystem in this hyperlocal focus.

Matt Wagner:

Prediction number six, and this is my last prediction for 2024, as loneliness and isolation rise throughout the country and, in fact, the world, third spaces, I'm thinking, are going to move to really in-store micro communities and that's where the dialogue will move. While this age of dispersion has created wonderful opportunities to work remote, shop anywhere, educate oneself online, even receive medical advice, it has also resulted in the demise of real community and connection, certainly put pressure there.

Matt Wagner:

For decades, Americans reported spending about six and a half hours a week with friends but, from 2014 to 2019, it suddenly dropped to 37% or four hours a week. There are growing concerns around this impact of loneliness and isolation on mental health and physical health. In fact, one in five Americans reported feeling lonely or socially isolated often or all the time. In 2018, one study found the rate of loneliness among young adults rose almost every year between 1976 and 2019. And in a 2019 YouGov poll, 22% of Millennials reported having no friends at all.

Matt Wagner:

Third spaces, historically, have represented these important gathering spaces outside the home and outside of work where people can create and build community in both public and private spaces and they often are found in our downtowns and neighborhood commercial districts. Traditional examples often include coffee houses, breweries, libraries, even your local salon or barbershop. And throughout my travels last year, I started to pick up and notice that there were a number of retailers and service providers, one, talking about the impacts of mental health and loneliness and how they were using their stores as a way to create community.

Matt Wagner:

For example, I was in Tucumcari, New Mexico and I walked into Blanco Creek Boutique, a women's clothing store there, and what I found was this wonderful seating area and I could buy coffee from a cafe that was also inside the store and sit and lounge and you can shop, of course, but it really began to create a sense of community and people were talking and interacting there. According to the owner, the coffee shop and the clothing store used to actually be separated but they saw this wonderful opportunity to provide a value add experience for their customers and, in fact, create community.

Matt Wagner:

In 2024, I anticipate that this strategy will continue as more and more hosted in-store events begin to percolate, designed to foster spaces where customers can connect and share and engage with the brand and one another. This sense of community is, not only enriching the shopping experience, not transactional, but also driving brand loyalty and turning customers into brand advocates. I'm a big believer that innovation occurs at the crossroads of people's different backgrounds and experiences.

Matt Wagner:

So, while these are just some of my thoughts based on visiting with many of you, your businesses and the communities throughout the year, I hope that you'll reach out and share some of your own observations as well and maybe a few of your own predictions. It would be great to know what's on your mind and what you're thinking and where you see the world of small business and main street headed. We'll continue to monitor the trends and predictions and incorporate our findings and your experiences into evolving adaptable planning tools for main street programs and their continued resiliency.

Matt Wagner:

If you're interested in learning more about small business trends and main street impacts, please continue to listen to season two of the Main Street Business Insight Podcast. Of course, subscribe, rate us, tell your family, friends, colleagues, neighbors and pets to listen as well. Next week, you're going to find me in Cincinnati, Ohio where I'm sitting down with Derrick Braziel, co-founder of Mortar and Pata Roja Taqueria. It's fortuitous timing that this episode really touches on the mental health and isolation that I just talked about in prediction six. You don't want to miss this amazing, amazing story. So, until our next chat, please stay well, everyone, and thanks for all you do in support of your main streets.