THE HALO EFFECT III

Where the Halo Shines: How Physical Stores Drive Online Sales

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Executive Summary

How New Stores Drive Engagement, Loyalty, and Sustainable Growth

For almost a decade, we have been researching the high expectations consumers hold across the physical, digital, and increasingly virtual channels that make up today's retail marketplaces. Shoppers tell us they want to transition as effortlessly as possible between physical stores and e-commerce platforms. They expect a personalized experience in stores and online. And as you'll read in these pages — our third detailed look at the halo effect of sales between brick-and-mortar stores and their digital counterparts — consumers not only bemoan when a physical store leaves their local marketplace, they frequently take their dollars with them altogether.

Our latest research shows that opening a physical store boosts online sales in the trade area surrounding that location by 6.9% on average in the immediate weeks following the opening of the store. And the online halo effect is twice that percentage for emerging, direct-to-consumer (DTC) retailers that open physical stores in the same trade area.

The converse is true when stores shut down physical locations: Across the retail categories and retailers in our study, closing a store reduces online sales in the trade area surrounding that store by 11.5%.

New Perspectives on the Halo Effect

In our first report on the halo effect in 2018, we established that new stores serve as a billboard for brands, fostering brand recognition that builds customer loyalty. We followed up that report in 2019 with a new study that quantified exactly how much shoppers spend online in the days after visiting a retailer's brick-and-mortar store, and vice versa. Our newest research digs into hundreds of market areas to provide a hyperlocal analysis of the ways a new store can drive online awareness, reinforcing the cycle of sales for the brand.

While new physical stores continue to billboard brand awareness, they also directly correlate to increased sales — both online and in-store. According to Scott Mushkin, R5 Capital Founder and CEO, "In retail, sales are the great elixir that enable brands to grow, open new locations in new markets, and continue to build their following."

There is reason to be optimistic. In 2021, retail store openings began to eclipse store closings for the first time since 2016, according to ICSC's data. This is a positive shift when you consider the loss of tangible shopping experiences, the harm to local economies, and the degradation of brands that come with store closings.

In this report, we provide additional context, expert perspectives, and observations from the youngest cohort of adult consumers, Gen Z, to show why physical stores remain an indispensable component of marketplaces where people shop and gather.

Methodology

An analysis by the strategy and research firm Alexander Babbage for ICSC examined $848.1 billion of in-store and online spending by zip code to quantify the impact of opening and closing stores. The analysis covered in-store and online sales of 69 retailers, including 2,103 individual stores in 50 states plus Washington, D.C., from 2019 to 2022. Data was computed by looking at the 13 weeks following the opening or closing of a store. The study excluded the two weeks before and after the week of the store closing or opening to minimize any final sales for closing or honeymoon periods following the opening of a store. The study included established retailers across six categories: apparel, big box specialty, cosmetics, department stores, discount department stores, and home stores. The study also included emerging retailers identified from a list of 140+ DTC brands across multiple categories. Our analysis of the apparel category highlighted a difference based on momentum. Where applicable we have called out two apparel sub-groups: brands that were mostly expanding their total number of stores and brands that were mostly shrinking their total number of stores.

Opening a store leads to a 6.9% increase in online sales in the trade area surrounding that store.

Section 1: Revisiting the Halo

What the Numbers Show

For many consumers, the value of omnichannel shopping amounts to convenience: There's a nearby, familiar brick-and-mortar location, an e-commerce site accessible through their smartphone, and products are reliably in stock through both channels. Together, the physical and digital channels provide a seamless experience — from selection and purchase to pickup or delivery.

However, when retailers open a new physical store, the value to the brand extends beyond customer convenience and even beyond the millions in additional sales from that store. A review of nearly $850 billion in credit card transactions tagged to zip codes over a four-year period shows that there's a powerful correlation between the arrival of a new physical store and a boost in online sales. Across multiple retail categories, opening a new brick-and-mortar location is a reliable indicator that shoppers will increase their online purchases, in addition to shopping in the new store.

Specifically, our analysis shows that opening a physical store increased online sales in the trade area surrounding that store by an average of 6.9% over the 13-week period following the opening of the store (Figure 1). The positive online halo effect is even greater for emerging DTC retailers that open physical stores. This cohort of up-and-coming brands saw a 13.9% boost in online sales when they opened a new location, according to our study.

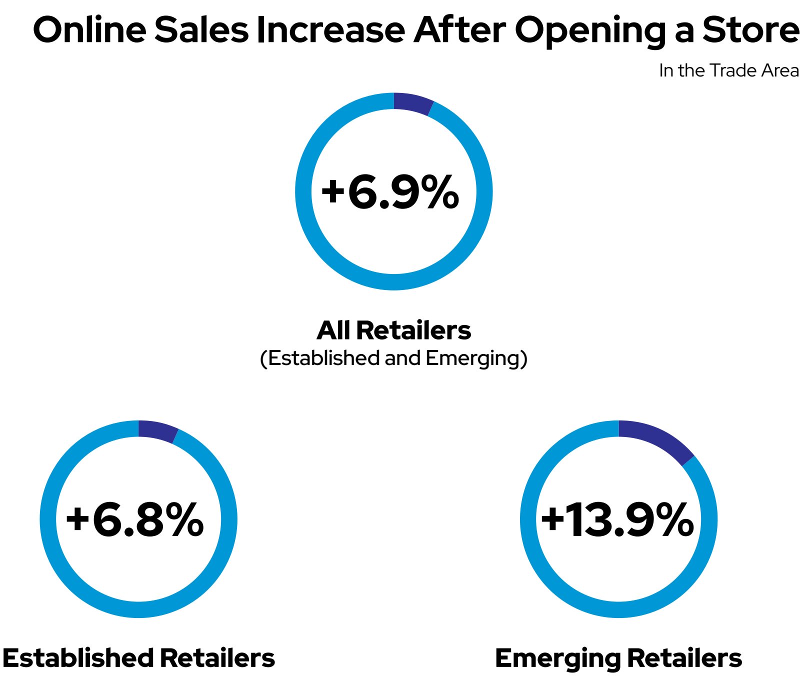

Figure 1

The Halo Effect: A Look Back

This new research offers additional context to the halo effect we have been studying since 2018. In our initial analysis, we looked at the halo effect on online web traffic when stores opened or closed, leading to an uptick or drop, respectively, in web traffic for those retailers' sites. We established that opening a new physical store leads to a 37% average increase in overall web traffic. In 2019, we then quantified how much consumers spent online or in-store within 15 days of shopping through one of the respective channels — showing how physical and digital channels behave as extensions of each other. We found that when a consumer spends $100 online then goes to a physical store within 15 days of that purchase, they spend an additional $131 for a total of $231. The halo effect is even more powerful for shopping that begins in stores and moves online, with $100 initial spend at a physical store leading to an additional $167 spent online for a total of $267.

Categories Capture Mindshare

In our sample, nearly all retail categories saw boosted online sales following the opening of a new brick-and-mortar store. The positive halo effect varied by category, with department stores experiencing a 50.6% increase in online spending, followed by apparel retailers, which saw an 11.6% rise in e-commerce sales (Figure 2). Only cosmetics brands saw a dip in online sales (–4.6%) after they opened a brick-and-mortar location in a new market area. In this category, some online sales transferred in-store following the opening of a new store. Still, opening a cosmetics store resulted in a 7.3% increase in combined in-store and online spending.

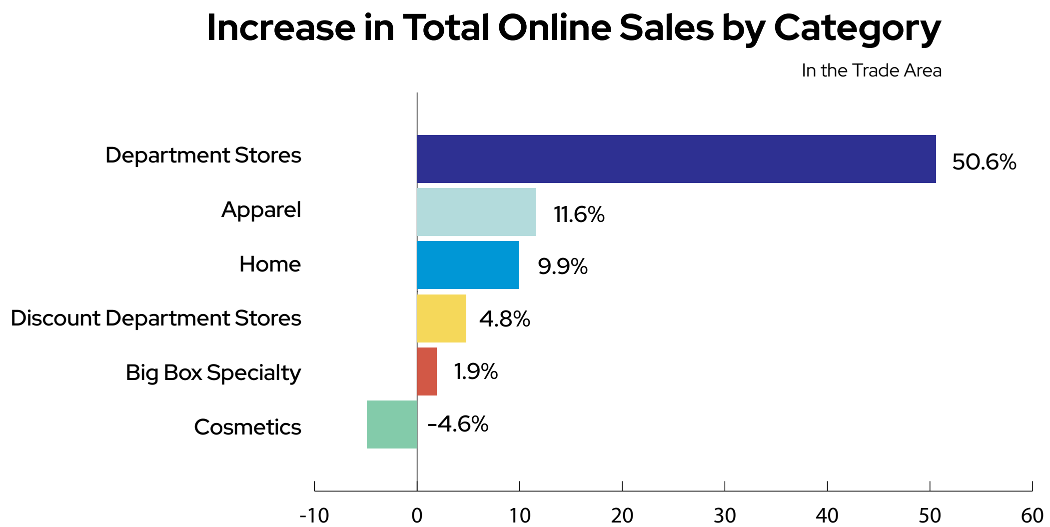

Figure 2

Notably, apparel brands came in second among established categories in creating a positive online halo effect when opening new stores, but we also examined sales at these brands based on their momentum — those that were expanding their total number of stores or those that were shrinking their total number of stores. We found apparel brands that were expanding their total number of stores experienced a boost in online sales at more than twice the rate (12%) compared to those reducing their total number of stores (5.5%).

Bigger Baskets

Our analysis of credit card data also shows that when retailers open a new location within a designated market area, their average online basket grows. For instance, among established retailers, the average online basket was $94 prior to opening a store but increased to $104 after opening a physical location (Figure 3). There's a similar bump among emerging retailers, with the average online basket rising from $111 to $120.

Two categories saw the biggest increase in the average online basket after opening a store: big box specialty retailers and home goods. The average online basket among big box specialty retailers increased from $85 to $111 following the opening of a brick-and-mortar store. The spread was even greater among retailers that specialize in home goods – driving the average online basket from $194 to $243 following the opening of a physical store.

Mushkin says retailers must balance multiple elements to secure maximum sales. First, retailers need to ensure that the consumer shopping experience is comfortable and convenient by focusing on the basics, including adjusting labor schedules to flex with in-store demand, maintaining orderly stores, and managing the checkout process. For certain retailers, layering in services such as health care offerings at physical stores and promoting experiential attractions such as sports are two ways to keep the brick-and-mortar offerings fresh and dynamic. But Mushkin added that these aren't silver bullets when it comes to maintaining a healthy store fleet.

"Everyone is competing for mindshare," Mushkin says. "The challenge is how to maintain the store experience and run a very good omnichannel operation. The bar has to be raised in-store."

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SCOTT MUSHKIN
FOUNDER AND CEO
R5 CAPITAL

Average Online Basket Jumps With a Store Opening

In the Trade Area

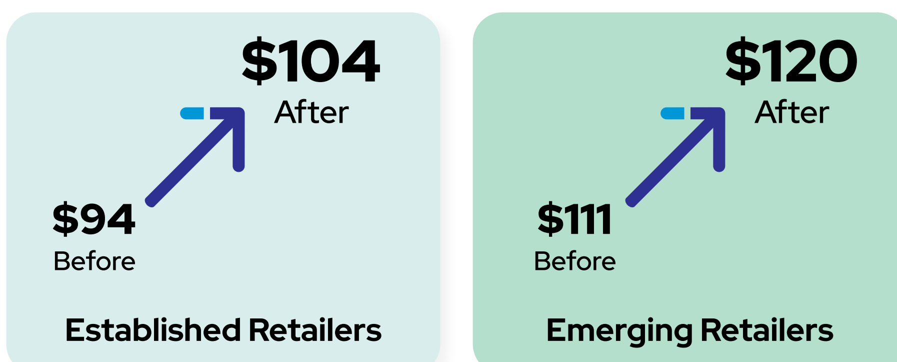

Figure 3

Closing a store leads to an 11.5% decrease in online sales in the trade area surrounding that store.

Section 2: The Eroding Halo

Closings Cast Shadows on Online Sales

Closing a retail store or shuttering a cluster of locations is a complex endeavor. It requires retailers to liquidate merchandise, sell furnishings and equipment, and reassign sales staff or dismiss them altogether. There are logistics arrangements needed to get rid of inventory as well as the expenses of breaking commercial lease agreements. This was the fate for nearly 1,500 U.S. stores in 2022, according to ICSC's data.

Our research in 2018 on the halo effect established how the closure of brick-and-mortar locations leads to diminished web traffic. But what happens to online sales when retailers close stores and there are fewer opportunities for consumers to touch or think about the product and be reminded that the store exists?

Our 2023 analysis quantifies in dollars how shuttering a physical location leads to an online sales slump. Across all retailers, we found that closing a store reduced online sales in the trade area surrounding that store by 11.5% (Figure 4). For emerging retailers, there was less of an impact, as online sales for largely DTC brands that closed a store decreased by 5.2%.

Online Sales Decrease After Closing a Store

In the Trade Area

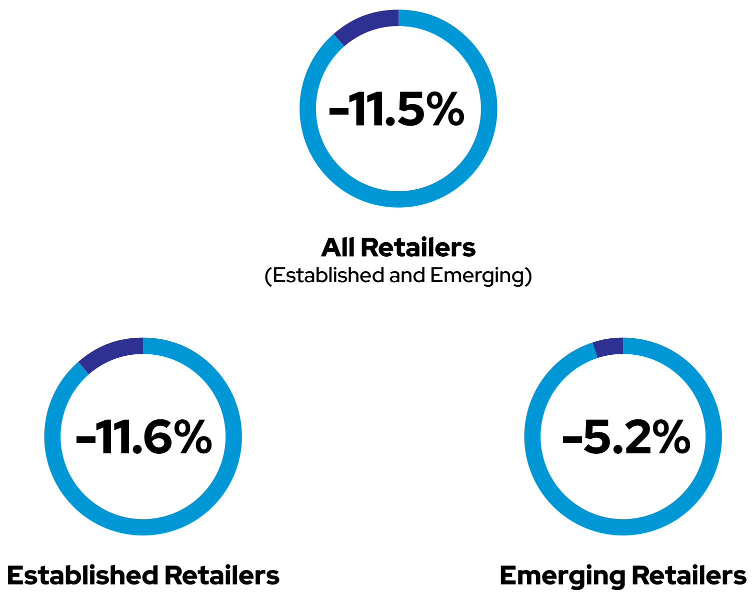

Figure 4

Spending Slows

Three retail categories in our study saw the biggest drop in online sales following the closure of physical stores within a market area: Home stores experienced a 32.2% decrease, department stores followed with a 26.1% dip, and apparel chains took a 19.4% hit in online sales (Figure 5). These top three categories mainly include discretionary products. When a store within these categories closes, consumers may be less likely to shift online to purchase products in those categories that benefit from in-person discovery, like a shirt, lamp, or bath towel.

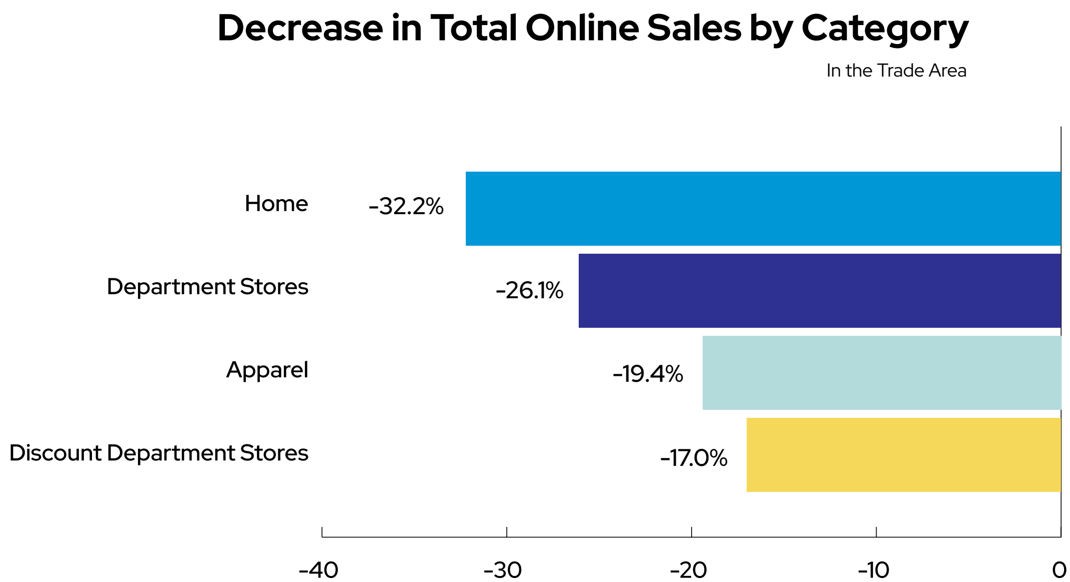

Figure 5

In Section 1, we established that opening a new store caused apparel brands expanding their total number of stores to experience a larger positive halo effect than apparel brands reducing their total number of stores. The opposite is also true. For apparel brands reducing their total number of stores, online sales declined at double the rate (-22.4%) compared to online sales for apparel brands expanding their total number of stores (-11.1%).

The impact of closing a physical store is even more pronounced on total spending (for both in-store and online channels). Home stores suffered a 59.3% drop in total spending, department stores experienced a 48.9% decline, and discount department stores saw a 41.6% decrease (Figure 6).

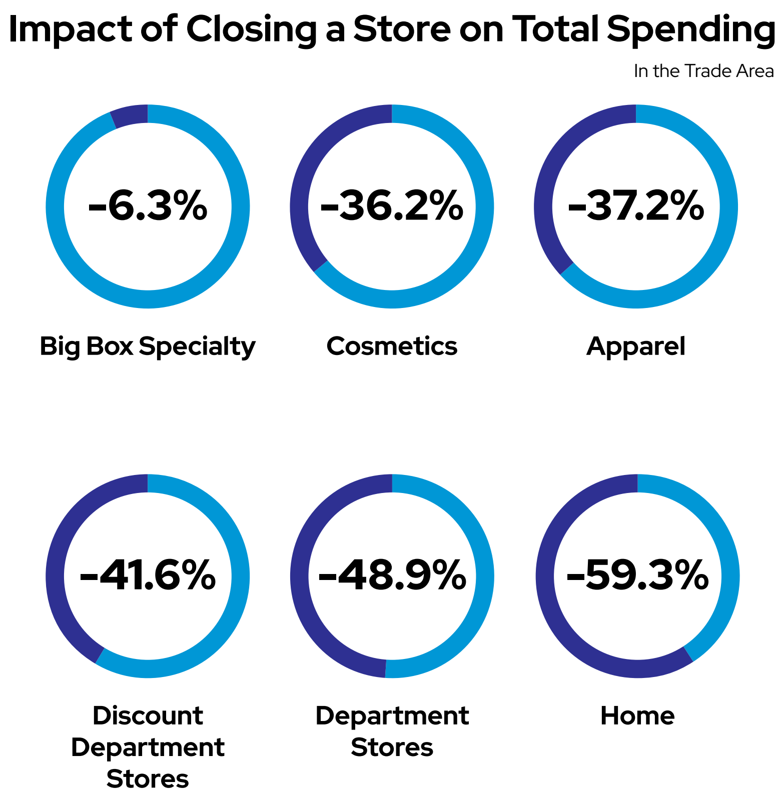

Figure 6

Just as there's a positive impact on the average online basket when stores open, for emerging retailers there is a negative impact when they close physical stores: The average online basket dropped from $126 to $109 after a store's closing (Figure 7). While emerging retailers experienced a 13.5% decrease in the average online basket when closing a store, established retailers, typically having more stores, experienced no impact to the average online basket, which remained at $91. Stores are not just sales drivers, but they can also help emerging retailers drive brand awareness and build trust with consumers.

Online Spend Decreases With a Store Closing

In the Trade Area

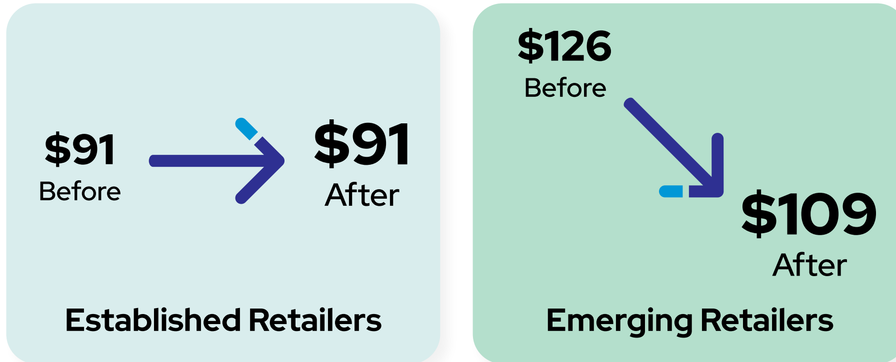

Figure 7

> “Companies are much better off losing volume by cutting promotions than losing volume by closing stores.”
>
> SIMEON SIEGEL
> SENIOR RETAIL ANALYST
> BMO CAPITAL MARKETS

Brand Loyalty Sustains Some Sales

Online sales do remain strong in some categories after a store closure, suggesting brand loyalty can keep customers engaged online even when companies shutter their brick-and-mortar locations. For instance, cosmetics stores saw a 23.7% rise in online sales in the wake of store closures. Big box specialty stores saw a 6.8% rise in online sales. Still, while some of those big box specialty and cosmetics sales transferred online, the total impact in the trade area was a reduction in overall sales. The overall impact of closing a big box specialty store was a 6.3% drop in sales. At cosmetics stores, the result was even more dramatic, with a 36.2% drop in overall sales.

Simeon Siegel, BMO Capital Markets Senior Retail Analyst, observes that, historically, store closures don’t raise profits, so retailers would be well served to thoroughly weigh the potential harm to the brand by closing stores. “Stress test what the return will be, what that recapture rate will be, and what you’ll save by removing the fixed costs when closing stores,” Siegel recommends.

Instead, retailers should look at refocusing their price strategies within stores, rather than losing valuable customers.

“If your stores have a gross margin issue, it’s more beneficial to focus on elevating the product margin by improving what makes you special by driving or heightening scarcity value,” Siegel says. “I think companies are much better off losing volume by cutting promotions than losing volume by closing stores.”

Section 3: It's a Generational Thing
Thriving in Brick and Mortar

According to ICSC's research, in-store is the preferred channel for all generations. However, the generation of shoppers that's most likely to want to see, touch, and try products in a physical retail store isn't the one that's settling into their 30s and 40s, focusing on advancing careers, or shouldering mounting caregiving responsibilities. Nor is it the generation that's eyeing retirement or the one that's already left the workforce with money and leisure time to spare.

In fact, it's the digital natives that comprise Gen Z (ages 11–26 in 2023) who prefer shopping in-store the most among almost all generations – more than Millennials (ages 27–42 in 2023) and Gen X consumers (ages 43–58 in 2023), and comparable to Boomers (ages 59–77 in 2023).

In ICSC's 2023 Gen Z report, we found that nearly all respondents (97%) shop at brick-and-mortar stores, thanks to the immediacy with which they can walk away with a product. Our recent analysis exploring the halo effect shows that Gen Z consumers are shopping in-store more than Millennials and at a similar rate to Boomers. Overall, the trend follows a U-shaped curve (Figure 8). Gen Z is nearly equal to Boomers in the share of revenues they drive in-store, compared to online. On the other hand, Millennials are last among all generations, followed by Gen X.

The U-shaped curve generally holds true across store categories, such as apparel and discount department stores.

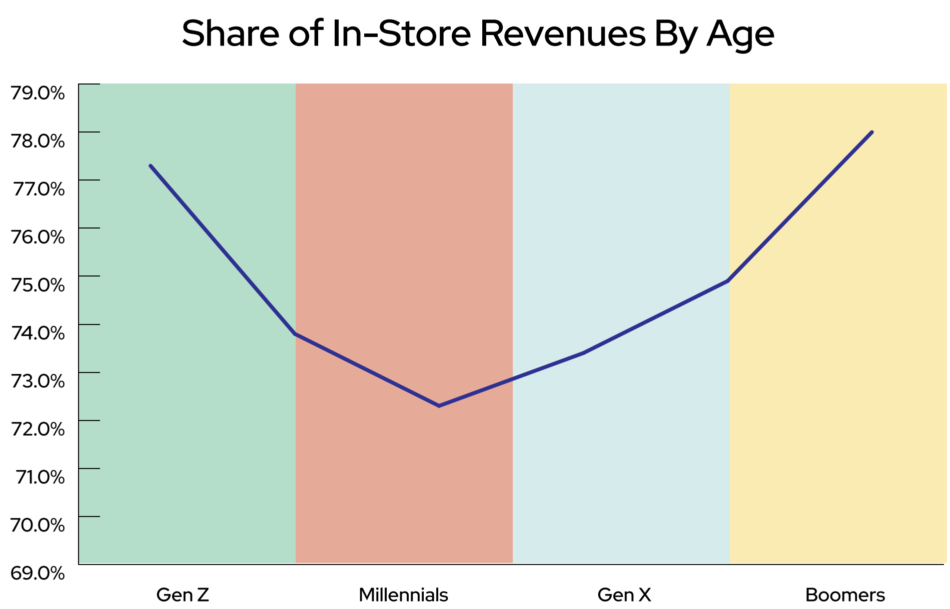

Figure 8

While Gen Z grew up entirely with digital and mobile technology at their fingertips, their penchant for in-store shopping at times even exceeds that of the generations that grew up shopping in physical stores. They see the convenience, ability to try new products, and relationship-building aspect of in-store shopping as value added and back up that perspective by opening their wallets. Gen Z are digital natives, but it's clear that they're also retail revivalists, helping to play a major role in revitalizing the physical retail landscape.

Gen Z Voices

"I'm 5'2", so a lot of clothes that are mass produced don't fit me. That's why I prefer going in person to shop and build trust with a brand. I'm not very adventurous when it comes to shopping online because I'll have to spend a bunch of money then send it back because whatever I just bought won't fit my torso or my legs. And I know people at the stores that I frequent. There are workers that know me by name. It's a consumer relationship that you can't get from behind a screen. If I need a lip gloss that's running out, that won't stop me from ordering online. But there is the instant gratification of going in-store and being able to pick out and see what I'm buying."

ERIKA, 19
TENNESSEE

"I don't do a particularly large amount of shopping. The brands I consistently buy from don't have a physical store. Most of it is word of mouth or they're involved in a space I like, such as a ski brand. Maybe there's one special specialty shop that carries them or they have them at their manufacturer, but it's mostly online. For buying skis or a winter jacket, I usually try to do that in-store. I like having the physical item there. It's easy to see how it measures and get the feel of it. I like having all the options in front of me, rather than having to visit five different manufacturers' websites."

HENRY, 21
CALIFORNIA

"I definitely prefer in-store shopping as a social event with my friends. I like in-store shopping for trying things on or seeing something online that I was really excited about. What's cool about in-store shopping is you get to just be there physically and see different colors and styles. But if I really need something or know exactly what I want, I tend to order that online. Still, I think experiences for me are definitely more important than my clothes. My parents have taught me the value of experiences over just buying things all the time."

ANNA, 19
GEORGIA

ICSC MARKETPLACES IQ: DIVE DEEP INTO DATA

In Section 1 of this report, we discussed how retailers saw a 6.9% positive online halo effect when they opened a new physical location. While demographic information can be valuable in helping retailers determine where to open new stores, psychographic information from potential markets, including general lifestyle preferences, activities, and interests, can help retailers decide whether stores might be successful by generating the strongest online halo effect. That's where ICSC MARKETPLACES IQ comes in.

ICSC MARKETPLACES IQ is a new prop tech tool to conduct trade area analyses, perform market research, and search commercial and retail properties. This centralized platform aggregates information from 15 data sources to offer versatile value to anyone in the Marketplaces Industry.

Our research shows that opening a new store drives increased sales both in-store and online. For those wanting to leverage the halo effect and find the best business for a location or the best location for a business, ICSC MARKETPLACES IQ can help you gather detailed demographic and psychographic data on an area's population. The following chart shows demographic information in four potential markets for a new store.

Market	Population	Number of Households	Average Household Income	Median Age	Population Growth	Average Home Value
Huntersville, North Carolina	70,645	26,290	$128,489	37.1	10.51%	$375,318
Shreveport, Louisiana	19,965	9,752	$82,772	39.4	-2.94%	$223,869
Tyler, Texas	42,681	18,356	$91,392	38.2	6.07%	$304,612
College Station, Texas	61,907	23,382	$44,322	22.7	6.47%	$287,910

Based on the demographic information, Huntersville could be the ideal market for an emerging retailer. However, the halo effect, or the impact to online sales after a physical store opens in a market, tells a different story. The halo effect in College Station is nearly five times as much as in Huntersville despite a much younger age and lower income of its population.

Market	Online Halo Effect
Huntersville, North Carolina	+26.9%
Shreveport, Louisiana	-31.9%
Tyler, Texas	-59.1%
College Station, Texas	+128.5%

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According to the ICSC MARKETPLACES IQ trade area report for College Station, nearly 96% of the market's population belongs to two consumer segments: Dorms to Diplomas and College Towns. Both segments show strong preferences for socializing and going out. These psychographic markers are the ideal lifestyle preferences for an emerging brand to look for in a potential market. Aligned with the overwhelmingly positive +128.5% online halo effect, College Station may generate the strongest halo effect for an emerging brand that opens a new store.

ICSC MARKETPLACES IQ | **Trade Area Report** | College Station, TX 77840

Criteria Used for Analysis

Median Household Income	Median Age	Total Population	1st Dominant Segment
$29,746	**22.5**	**64,536**	**Dorms to Diplomas**

Consumer Segmentation

Life Mode

What are the people like that live in this area?

Scholars and Patriots

Highly mobile, recently moved to attend school or serve in military

Urbanization

Where do people like this usually live?

Metro Cities

Affordable city life, including smaller metros, satellite cities

Top Tapestry Segments	**Dorms to Diplomas**	**College Towns**	**In Style**	**Exurbanites**
% of Households	14,961 (67.0%)	6,373 (28.5%)	663 (3.0%)	347 (1.6%)
% of College Station	16,622 (37.9%)	11,167 (25.4%)	2,818 (6.4%)	1,259 (2.9%)
Lifestyle Group	Scholars and Patriots	Scholars and Patriots	GenXurban	Affluent Estates
Urbanization Group	Metro Cities	Metro Cities	Metro Cities	Suburban Periphery
Residence Type	Multi-Unit Rentals	Multi-Unit Rentals; Single Family	Single Family	Single Family
Household Type	Non-Family Households	Singles	Married Couples Without Kids	Married Couples
Average Household Size	2.1	2.08	2.33	2.51
Median Age	21.7	24.7	42.8	52
Diversity Index	66	64.2	49.9	47.1
Median Household Income	$23,000	$43,200	$88,900	$120,800
Median Net Worth	$9,200	$13,200	$241,500	$748,400
Median Home Value	$256,600	$252,800	$319,300	$489,700
Homeownership	9.2 %	27.9 %	70.5 %	86.4 %
Employment	Professional or Services	Professional or Services	Professional or Mgmnt/Bus/Financial	Professional or Mgmnt/Bus/Financial
Education	Bachelor's Degree	Bachelor's Degree	Bachelor's Degree	Bachelor's Degree
Preferred Activities	Socializing, having fun, and learning new things are valued . Participate in sports go out to bars for drinks.	Go out to the movies and out for drinks . Popular activities: backpacking, Pilates, and Frisbee.	Support arts, concerts, theaters, museums . Prefer organic foods, grow their own vegetables.	Gardening and home improvement are priorities . Active in their communities.
Financial	Carry a balance on ... they	Limited incomes result in thrifty purchases	Variety of investments often managed ...	Rely on financial ...

Retailers searching for markets to open new stores or property owners searching for the right types of tenants can use ICSC MARKETPLACES IQ to find valuable demographic and psychographic data on a market's consumers, in addition to commercial and retail property listings, deep market and property analyses, and more.

Conclusion: Expanding the Halo

Physical stores are one of the catalysts for consumer trust. A positive store experience can help a brand build or strengthen a connection with its customers — one that may help them extend the relationship beyond in-store transactions. This analysis of the financial impact of the halo effect offers convincing evidence for established and emerging retailers to maintain a strong network of physical stores.

The calculus for closing stores, according to Siegel, often comes down to the view that retailers are holding excess space when there might be other economic factors, such as pricing and positioning, at play. Ultimately, it's a decision that offers an opening for competitors to step into the void.

"Closing a store often feels like a clear-cut action," Siegel says. "The problem with North America retail is not an oversaturation of stores, but an oversaturation of discounts. People have watched the brand value they create fade. It's not to say that you shouldn't prune stores if they are cashflow negative, but not when the recapture rate of sales on a closed store is materially lower than it was initially hoped to be."

Before embarking on a path to store closure, these are some existential questions for brands to consider:

- What is the role of brick-and-mortar in fostering trust among your customers?
- What is the cost of driving brand discovery online compared to in-store?
- Are you better off rethinking in-store promotions?
- Should you look into more experiential options?
- Ultimately, what's the best way to get the product to your consumers?

ICSC promotes and elevates the marketplaces and spaces where people shop, dine, work, play, and gather as foundational and vital ingredients of communities and economies. ICSC produces experiences that create connections and catalyze deals; aggressively advocates to shape public policy; develops high-impact marketing and public relations that influence opinion; provides an enduring platform for professional success; and creates forward-thinking content with actionable insights – all of which drive industry innovation and growth.

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