

COVID-19:

The Great Accelerator Forcing Bifurcation



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Hindsight is officially 2020. Bifurcation is the division of something into two branches or parts. The global health crisis of COVID-19 served as the great accelerator of disruption and forced changes in every individual, business, and government. Following are five examples of bifurcation impacting commercial real estate.



Lacy Beasley

People vs Business

In our personal lives, we were asked to stay home and cancel vacations, events, and the majority of activities filling up our nights and weekends. We learned how to sit on the couch, have our food delivered, and binge watch Netflix. We shifted our vacation money to home improvement projects and got to know our neighbors.

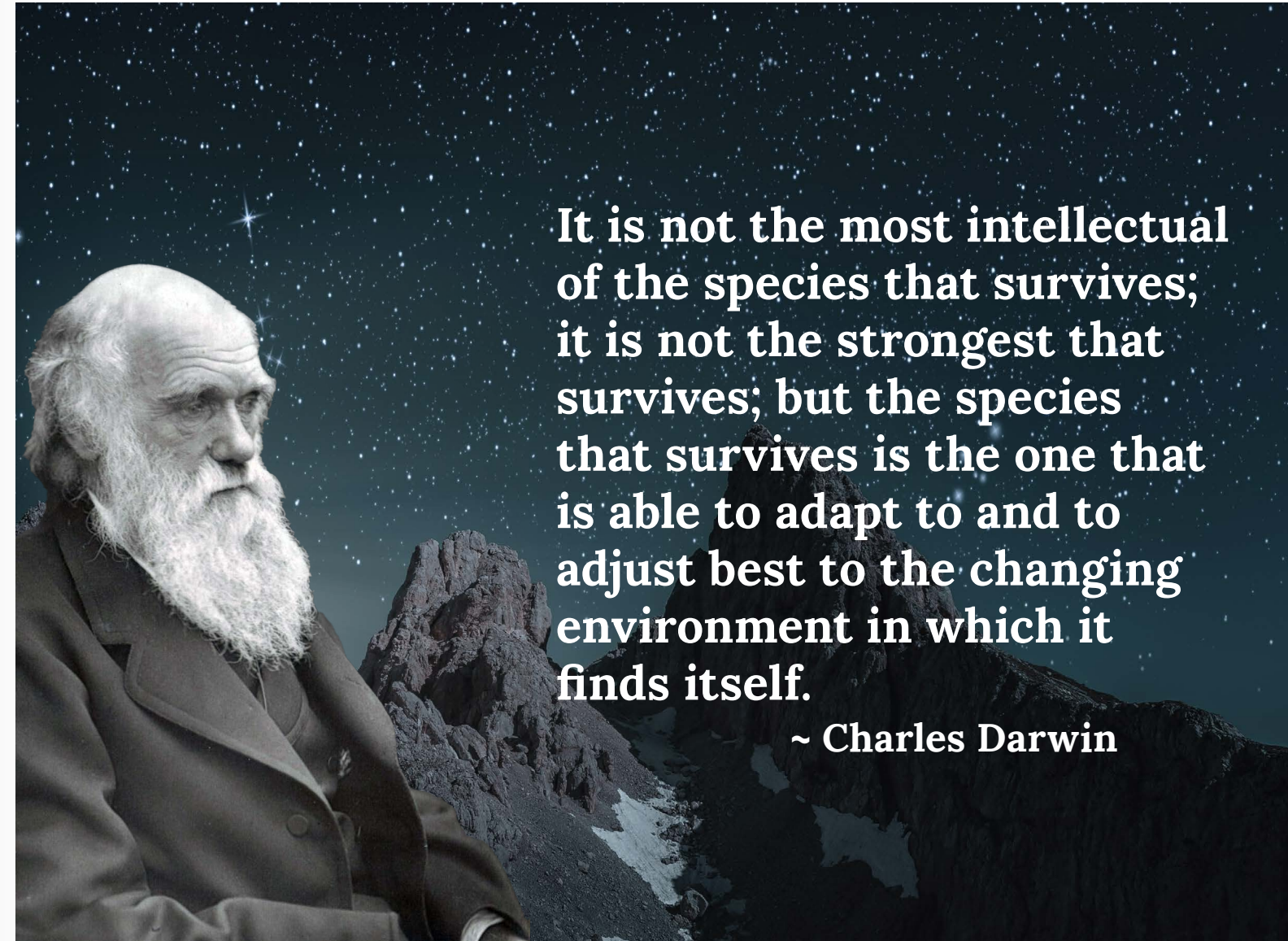
Meanwhile, businesses and governments worked around the clock to learn, plan, implement changes and forecast steps for survival. Business practices that would have naturally taken years to implement, took place in nine months. Businesses created policies and best practices for Work From Home, implemented Department of Health Guidelines, learned how to access relief dollars, and changed business practices relevant to the new world.

BRANDS WHO DID IT WELL:

Zoom, Netflix, Amazon, Walmart, Disney+, Microsoft, Instacart, Grubhub, Peloton

INDUSTRIES HIT HARD:

Airlines, Malls, Automotive, Hair Salons, Business Attire, Fitness Centers



It is not the most intellectual of the species that survives; it is not the strongest that survives; but the species that survives is the one that is able to adapt to and to adjust best to the changing environment in which it finds itself.

~ Charles Darwin

FACT CHECK:

Darwin never said these exact words, though it does succinctly portray his observations. Leon Meggison said this about Charles Darwin's "Origin of the Species" in 1964.

Risk Averse "DEPARTMENT OF NO"

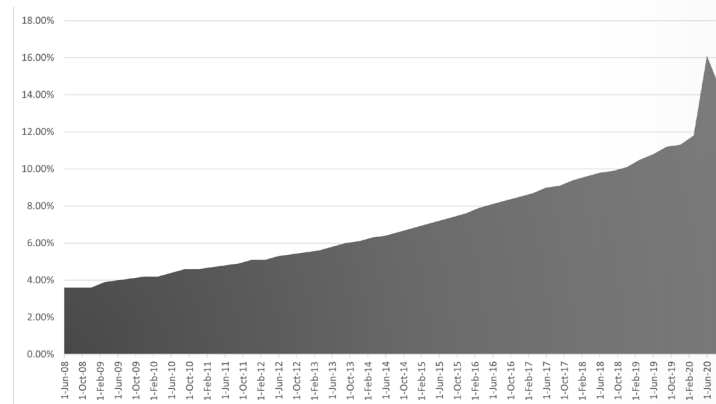
VS

Investment in Innovation

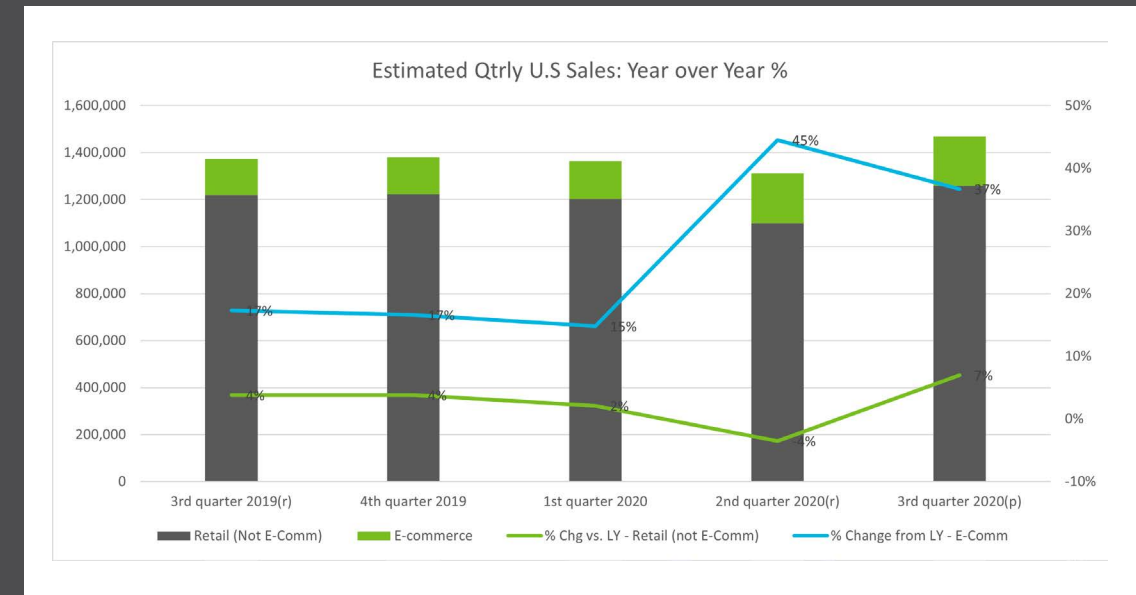
To oversimplify the topic, publicly traded retail businesses must make their investors confident in the brands' growth and profit. Traditionally, the path to profit was through increasing same store sales or opening new units. This drives retail expansion which fuels a \$3.9 trillion dollar industry [source National Retail Federation].

Now there is a third element driving growth – e-commerce sales. The investment in omni-channel and tech innovation as a loss leader traditionally has been met with resistance. Globally, tech innovation that could have taken 10-12 years, happened in a matter of months. Going forward, it will be painfully clear that a brand will not be successful without a seamless integration between online and brick and mortar. The increase of e-commerce in 2020 accelerated at the same rate as the previous decade.

US E-Commerce Sales as Percent of Retail Sales



- Before the pandemic, E-commerce sales were only 11% of total retail sales.
- E-commerce sales grew to 16% in Q2 2020.
- This 5% growth is the same growth from 2010-2019.



2021 gives businesses a 6-month mulligan.

BRANDS WHO DO IT WELL:

Apple, Starbucks, Nike, Best Buy, GAP

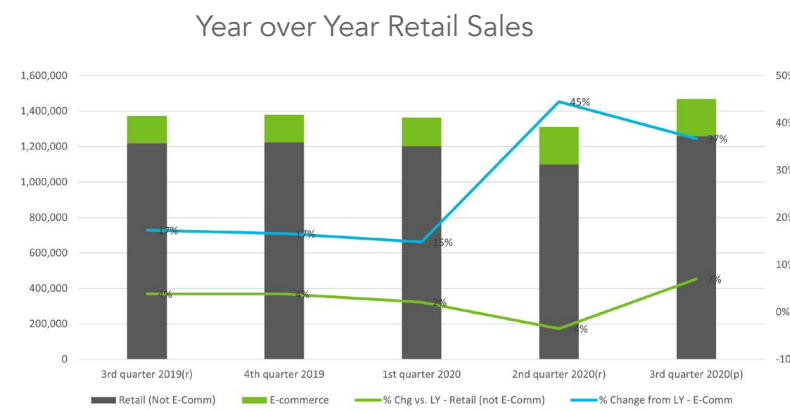
INDUSTRIES FALLING BEHIND ON CUSTOMER-CENTRIC TECH INNOVATION:

Healthcare, Government, Voting, Commercial real estate, Fitness, Therapy, Senior care, Education

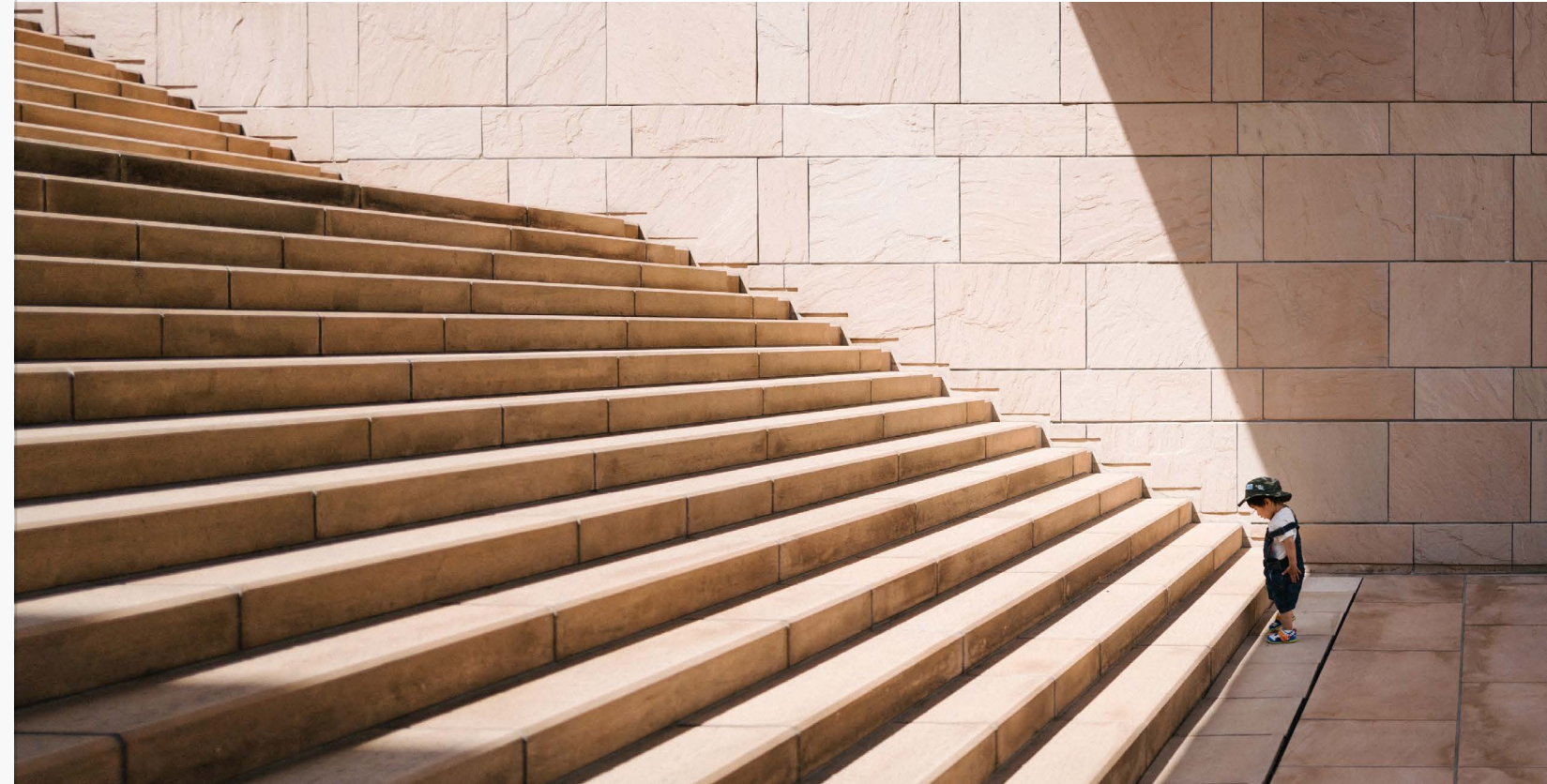
Congressional Gridlock vs Action

COVID-19 was the great accelerator of Congressional Action. The gridlock of Congress broke in March 2020 when a bipartisan commitment manifested to act quickly and aggressively saving the United States from economic collapse. It's frightening to imagine 2020 without the CARES Act and its \$2.2 trillion infusion.

In reflection we are pleased to report retail sales year-over-year increased by 6.3% per the US Census Bureau.



2020 Retail Sales **UP 6.3%** over 2019



WHAT WENT WELL:

Direct payment to Americans, small business support, funding for personal protective equipment

WHAT NEEDED IMPROVEMENT:

Unemployment, Access to Coronavirus Testing, Contact Tracing, Direct Funding to Cities and States

In-Store Spending vs Out-of-Store Spending

“You can’t stop the waves, but
you can learn to surf.”
~ Jon Kabat-Zinn

Drive-thru and curbside pickup are here to stay. BOPUS (Buy-Online-Pick-Up-In-Store) is here to stay. Mothers with children could not be happier about this forced innovation. Curbside pickup has forced innovation from businesses, landlords, and municipalities.

Drive-thru lanes are being adopted by convenience stores, casual dining restaurants, grocery stores, and healthcare providers. Several brands are shrinking the in-store square footage in their new prototypes and are focusing investment on out of store product sales.

BRANDS WHO DO IT WELL:

Chick-fil-A, Chipotle, Shake Shack, Best Buy, Costco, Walmart

NEEDS IMPROVEMENT:

Government, Healthcare, and Shipping

Slow Death of Tired Brands

VS

Filing for Bankruptcy

Brands cannot cost cut their way to improved profits. Not to say they can't close underperforming stores. Dying retail companies have a brand relevance and differentiation problem more than a cost problem. They lost track of their customer and haven't figured out how to grow share of wallet and market share. It's a downward spiral. Most retail companies that filed for bankruptcy were no surprise to commercial real estate investors. They have been on the "watch list" for several years.

The problem is that these brands acted as if they had time. Disruption happens faster and faster all the time. Brands must be customer-centric to a relentless and unforgiving consumer.

These stores closing will free up prime real estate for new and emerging brands. The pruning process will be painful in the short-term but lead to a healthier retail real estate environment.

"The future is uncertain but the end is always near."
~ Jim Morrison



BRANDS THAT FILED BANKRUPTCY:

JCPenney, Sears, Pier One, True Religion,
Aldo, GNC, Stein Mart, Lord & Taylor



**“... we also glory in our sufferings,
because we know that suffering
produces perseverance; perseverance,
character; and character, hope.”**

~ The Apostle Paul; Romans 5:3-4

In Closing

In 2020 we learned we are far more adaptable and resilient than we knew. We have learned what we can live without and what we cannot live without. The COVID-19 fatigue is real. Is the pace of change sustainable or will we see burn out if relief is not in sight in 2021? In 2020, we learned our ability to conquer disruption.

In 2021 we will learn that our endurance is far stronger than we realize. Failure is not an option we are willing to accept. The trials of 2020 have tested our perseverance, proven our character and created hope. A global rise of hope will create a world even stronger than the one we enjoyed pre-pandemic.



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