New Retail Formats Engage Consumers
Convenience, Curation and Value are Key to Enhancing the Shopping Experience

Key Takeaways

- Over three-quarters (77%) of all U.S. adults are aware of new retail formats and among them, nearly four-fifths (79%) have shopped at or visited at least one.
- Marketplaces are the most commonly patronized new retail format followed by subscription boxes, pop-up shops, and product rental retailers.
- When choosing a new retail format to shop at, convenience and reflection of lifestyle values are the most influential factors.
- More than half (55%) of consumers who have shopped at new retail tenants say their presence in shopping centers encourages more frequent trips, while nearly the same share (54%) say those retailers enhance the shopping center experience.
- The number one reason for going to a pop-up shop is the unique or exclusive products/experiences that cannot be found elsewhere (55%). The curiosity/excitement factor (49%) and support of local/independent businesses (47%) follow.
- Consumers using subscription boxes patronize 1.9 of them, on average. Nearly half (47%) of subscribers say that over the next 12 months, they plan to increase the number of boxes received.
- The top reasons for patronizing subscription boxes are for exposure to new/different items (53%), the exciting element of surprise/discovery (52%) and the convenience (50%).
- Consumers renting items from retailers are doing so from and average of 1.8 different companies. Just under half (49%) say they plan to increase the number of companies they rent from within the next year.
- Key motivations for renting items from retailers are trying before buying (45%) and financial reasons (44%).
- More than half (51%) of consumers would be more likely to consider purchasing a subscription box or patronizing a product rental retailer if the company had physical locations to visit.
- More than seven of 10 (72%) consumers would like to see more new retail tenants, particularly marketplaces and pop-up shops.

New retail formats, including pop-up shops, subscription boxes, product rental retailers and marketplaces with a vast array of typically artisanal tenants are gaining popularity as consumer preferences and shopping behaviors shift. Consumers have become less interested in simply buying goods or paying for a service and more concerned with having fun, engaging experiences. More than ever, consumers want greater choice, personalization and participation throughout their shopping journey and for all their brand interactions to provoke excitement. The survey results presented here highlight consumers’ awareness, patronage and reasons for using these new retail formats and provide insight into how they factor in with shopping behaviors.

I. NEW RETAIL FORMATS: THE GENERAL LANDSCAPE

A. Widespread Awareness of New Retail Formats

Strong marketing efforts and consumer interest for unique experiences have resulted in more than three-quarters (77%) of all U.S. adults being aware of new retail formats. Knowledge about these companies is highest among Millennials (86%) and suburban inhabitants (81%). With slightly more than half (51%) of all U.S. adults aware of new retail formats, marketplaces with numerous vendors and subscription box retailers (each cited by 51%) are the most well-known. Pop-up shops follow with over two-fifths (43%) of consumers and then product rental retailers (32%).

How consumers find out about new retail formats illustrates the symbiotic relationship between digital and physical landscapes. Most consumers become aware of these formats through word-of-mouth (54%) and social media/blogs (50%)—a good reminder that providing stellar customer service and creating strong experiences is critical—otherwise, the retailer risks negative interactions being shared. Online searches, apps/websites, customer review sites (40%) and simply coming across the company (38%) follow.

B. New Retail Consumers are Young and Urban

Among consumers aware of new retail formats, nearly four-fifths (79%) have shopped at or visited at least one. Patronage of these companies is more common among Millennials (88%) than Generation X (78%) and Baby Boomers (73%). There are also greater shares of new retail format shoppers among urban consumers and those in the top income group.

Once again, marketplaces are the most commonly patronized format followed by subscription boxes, pop-up shops and product rental retailers. (See Chart 1.) While higher shares of Millennials have patronized nearly all new retail formats, more Baby Boomers have shopped at marketplaces. By community type, pop-up shops are more likely to have been used by urban consumers than suburban or rural ones.

For subscription boxes and product rental retailers in particular, consumers who have patronized them appear satisfied. Roughly three-fourths (74%) of subscription box users currently receive one, while only 26% no longer do so. On the other hand, almost

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2 These results and others in this report are based on a representative poll of 1,003 adults in the U.S., conducted from June 24 to 26, 2019, by Engine Insights on behalf of ICSC.
two-thirds (64%) of consumers who have ever dealt with product rental retailers are current patrons, with 36% not subscribing now. However, even among consumers not receiving boxes, 44% say they would be willing to try one soon, while 40% of consumers not renting would be willing to try doing so in the near future.

C. Convenience and Lifestyle Values Influence Consumers
Several factors come into play when consumers choose the new retail format(s) to shop at and the specific brands they patronize. Unsurprisingly, the number one response among consumers is that the format and brand must offer convenience (52%)—the top reason among all generational cohorts and community types.

Ranked second among consumers’ responses is that the brand must reflect their lifestyle values and preferences (38%). Tied for third, each cited by 30%, is the ability to have face-to-face interactions with knowledgeable/experienced staff—indicating the importance of having a physical presence—and a certain level of excitement or entertainment. Having positive, even memorable experiences and receiving tailored recommendations are also important as they are key attributes of the current retail landscape.

D. Traffic Boost and Improved Shopping Experiences
New retail formats are having positive impacts on shopping behaviors and are perceived highly by consumers. More than half (55%) of consumers who have shopped at/visited such tenants say their presence in shopping centers encourages more frequent trips. (See Chart 2.) Perhaps one reason for this is that nearly the same share (54%) say that new retail tenants in shopping centers have significantly enhanced their overall shopping experience.

More generally, 77% of consumers who have shopped at/visited new retail tenants indicate that having a good mix of them integrated with traditional formats increases the vibrancy of their local community.

II. POP-UP SHOPS

A. Pop-Ups Play an Increasing Role in the Retail Sector
Pop-up shops, a roughly $10 billion industry,4 heavily driven by social media, are gaining popularity among retailers, landlords and consumers. From the retailers’ perspective, these temporary physical locations allow them to build relationships with consumers in person by generating a buzz and awareness,4 capitalizing on people’s fear of missing out, the sense of exclusivity and the desire to learn and build memories.5 Pop-ups maximize consumer experiences by creating physical spaces that are as interactive as online shopping with the goal being to better understand the consumer through data collection and ultimately, increase customer engagement and loyalty.6 The temporary nature of pop-ups also ensure businesses are not bound to long commitments and can exit if the market is wrong.7

For landlords, pop-up shops can be a quick solution to filling recently vacated space. Pop-ups fill spaces on a short-term rather than a long-term basis, bring energy to traditional retail spaces and may eventually become permanent tenants.8 They also generate traffic, continuously attracting consumers to shopping centers as they rotate in and out. Even during a single pop-up’s temporary residency, almost three-fourths (74%) of shoppers say that if they like the shop, they would be willing to make multiple trips during the period it was open.

To consumers, pop-ups are places to receive the personalized attention they crave, interact with employees face-to-face, see, try on and touch products and leave with the items they bought. Slightly more than three-quarters (76%) of pop-up shoppers say these tenants are helpful when introducing new brands/products and demonstrating how they could fit into their lifestyle. Furthermore, a bit less (73%) say the pop-up experience they have is a determining factor in whether they would be loyal to the brand, while 71% indicate they would be more likely to purchase from the pop-up retailer’s online platforms after their visit.

B. Exclusivity and Excitement Encourage Pop-Up Shop Visits
Survey results based on consumers who have visited/shopped at pop-up establishments confirm many of the characteristics discussed above. As shown in Chart 3, the number one reason for going to a pop-up is the unique or exclusive products/experiences that cannot be found elsewhere (55%). Next is the curiosity/excitement factor (49%) that these shops possess, followed by support for local/independent businesses (47%). These top three reasons given for patronizing pop-ups are the same among the generational cohorts (though percentages of respondents vary) as well as among consumers living in urban/suburban/rural areas.

Interestingly, two out of the top three reasons (unique products and support of local businesses) are the most popular motivations for consumers in the United Kingdom to visit pop-ups.9

Some noteworthy differences, by cohort, include the slightly higher share of Millennials (29%) who say they shop at pop-ups

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3 Jason Albanese, “This is the Reason Every Brand is Launching a Pop-Up Store,” Inc.com, December 2018.
6 Albanese, December 2018.
7 "Britain’s Pop-Up Retail Economy," Centre for Economics and Business Research, 2014.
9 "Britain’s Pop-Up Retail Economy," 2014.
for the personalized shopping experience compared to Gen Xers (27%) and Baby Boomers (25%). Also, a greater share of Generation X (30%) notes the higher quality of items/experiences offered at pop-ups than Millennials (25%) and Boomers (16%).

Related to their preferences about pop-up shops, just over three-quarters (76%) of pop-up customers would like permanent space dedicated to these rotating tenants at their shopping centers. Most of them (69%) are also equally interested in pop-ups from traditional/established brands as they are in ones from new/emerging brands.

III. SUBSCRIPTION BOXES

Though not typically associated with store-based retailing, subscription boxes have become a popular retail phenomenon. Forbes, citing an article by Fast Company, indicates there were 3,500 subscription box services as of October 2018, which represented a 40% increase over the previous year. Data from Hitwise also illustrates their explosive growth. In Q1 2018, about 18.5 million U.S. consumers visited at least one subscription box site, representing a 24% increase from the previous year.

A. Subscription Boxes Complement Traditional Retailing

Despite their rapid growth and online predominance, subscription boxes are complementary to traditional retailing. Only about two-fifths (42%) of those receiving boxes say they could foresee a time when they get most of their items via these retailers, thus replacing visits to physical stores. In actuality, subscription boxes drive additional business for brands, including brick-and-mortar retailers as more than three-fifths (61%) of subscribers say they shop more often for the items they receive.

Based on survey results, consumers currently using subscription boxes patronize an average of 1.9. Gen Xers subscribe to slightly more boxes (2.1) on average, compared to Millennials (1.9) and Baby Boomers (1.4). Additionally, urban consumers have an average of 2.5 subscriptions, while those in suburban and rural areas have fewer, 1.7 and 1.5, respectively. Among those with subscriptions, 47% say that over the next 12 months, they plan to increase the number of boxes they receive.

B. New Items and Element of Surprise Delight Consumers

According to McKinsey & Company, there are three types of subscription boxes: replenishment, curation and access.

- **Replenishment**: Gives consumers the ability to automate purchases of ordinary, everyday items.
- **Curation**: Consumers receive new, personalized items based on predefined preferences on an ongoing basis. These “surprise” boxes are the most popular, accounting for 55% of subscriptions.
- **Access**: Allows customers to pay a monthly fee and procure lower prices and member-only perks.

The most popular subscription box categories in order of number of site visits are food, beauty, apparel, lifestyle, pets and kids.

Like other new retail formats and similar to the initiatives implemented by traditional formats, subscription box retailing provides consumers convenience, personalization and a more cost-effective way to buy goods. Overall, subscription boxes are meant to turn a routine task into a unique, easy, satisfying experience in several ways:

- They cater to **distinct interests**, allowing brands to curate relevant offerings to buyers.
- They **build excitement** because subscribers are unaware of the items they will receive.
- They offer **value and convenience**, frequently providing high-end products at a lower cost for consumers to try at home.

Consumers say the top reason they subscribe to these boxes is for **exposure to new/different items** (53%). This is followed by the exciting element of surprise/discovery (52%), the convenience of getting items (50%) and the value or cost effectiveness of getting what they need (38%). For Millennials, the number one reason for their subscriptions is the exposure to new items (63%), while it is the element of surprise for Gen Xers and the convenience for Baby Boomers (63%). Urban consumers are more enticed by the convenience (51%) of subscription boxes, whereas suburban and rural inhabitants are enticed most by the exposure to new products.

Other generational differences exist as well. Suggesting their strong desire for personalized services, more Millennials (43%) than other generational cohorts say they get these boxes for the curated products. A higher share of Generation X (31%) say they

have these subscriptions because they provide a source of ideas, likely for activities to do with their children, and a greater percentage of Boomers than other cohorts find them to be cost effective.

IV. PRODUCT RENTAL RETAILERS

A. Access Over Ownership

The rise in consumers’ interest in borrowing rather than purchasing what they need has spurred the sharing economy or lending/rental services. Consumers with limited space—unable to afford big-ticket purchases, or reluctant to commit to long-term ownership—are being enabled by the sharing economy to remain flexible in their options. According to a Forbes article, two additional factors that have increased adoption of the rental model are demand for constant wardrobe variety (driven by social media) and greater awareness of sustainability.15

Currently, consumers renting from retailers are patronizing 1.8, on average. (See Chart 4.) Gen Xers borrow from 2.1 on average, compared to Millennials (1.7) and Boomers (0.8). Urban consumers rent from 2.1 companies, while suburban and rural inhabitants utilize fewer, 1.7 and 1.5, respectively. Among those borrowing, 49% say that over the next 12 months, they plan to increase the number companies they rent from.

B. Cautious Consumers Give Rise to Renting Goods

The top reasons for renting items from retailers are trying before buying (45%) and avoiding large expenditures at once (44%). (See Chart 6.) Consumers who have used these retail services also say the access to luxury goods (28%), for one-off special occasions (28%) and for flexibility in times of uncertainty about the future (19%) are key motivations.

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There are some notable differences by generational cohort and community type. A recent New York Times article about these renting services highlights how young, typically college-educated, urban consumers are resorting to non-ownership. Their interest in this derives not just from financial necessities, but also because it is trendy, experiential in nature, and flexible for a group that often moves around among cities, apartments, jobs and schools.16

Confirming this, survey results show that more Millennials (49%) say they rent goods for financial reasons because it is an affordable way to budget, compared to Gen Xers (45%) and Baby Boomers (25%). Furthermore, a greater share of Millennials (23%) indicate the flexibility in times of uncertainty about future plans than Generation X (15%) and Baby Boomers (11%).

Also in support of previously noted behaviors among urban consumers, a greater share of that group indicates renting because they do not have enough space to own everything they need or want.

V. PLENTY OF OPPORTUNITIES FOR NEW RETAIL FORMATS TO EXPAND

While there are already many product rental and subscription box brands, as well as pop-up shops and marketplaces, more than seven of 10 (72%) consumers, particularly Millennials (82%) and suburban inhabitants (74%), would like to see more. The largest share of consumers (42%) want to see additional marketplaces with artisanal vendors. This is followed by pop-up shops (32%), subscription boxes (26%) and product rental companies (16%).

Suburban consumers (37%) are more interested than others in additional pop-up shops, while more rural inhabitants (44%) want a greater number of marketplaces. Additionally, a higher share (21%) of urban consumers want to see an expansion of product rental retailers. This confirms that small living spaces likely limit the amount of stuff urban consumers can own and their lifestyles, which often leads to a discretionary spending shift from traditional retail goods to services, boosting demand for product rentals, subscriptions, on-demand fulfillment and leisure-based activities.

Most consumers would shop at new retail formats more often if companies offered greater value for the time and money spent (52%). In addition, consumers also say more convenient/ accessible stores, websites or apps (44%) and a wider range of more appealing or better curated items (38%) would boost their new-retail visits and expenditures.

More than half (51%) of consumers would also be more likely to consider purchasing a subscription box or patronizing a product rental retailer if the company had physical locations to visit. This further supports the “halo effect” and proves once again of the mutually beneficial relationship between physical and digital retailing, where online platforms drive traffic to physical spaces and those physical spaces, in turn, drive sales online.

CONCLUSION

The retail industry is evolving to meet the needs of consumers. Stemming from new shopping behaviors, shifting preferences and increasing expectations, new retail formats have emerged to offer consumers unique products through exciting, but convenient experiences. These creative formats, which are designed to keep their offerings fresh and shoppers coming back, drive traffic to retail real estate, build brand loyalty and underscore the symbiotic relationship between digital and physical environments.

16 Sapna Maheshwari, “They See It, They Like It, They Want It, They Rent It,” The New York Times, June 2019.

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