

Clicks and Bricks

by

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Many real estate firms continue to be family-controlled. The second-, and third-generation family members are generally either caretakers, preserving the wealth that was created by previous generations, or entrepreneurs, taking what already exists to an new level. It is also possible to be caretakers *and* entrepreneurs. The combination of technology and real estate--so-called clicks and bricks--provides a great opportunity for entrepreneurship. But first, most real estate companies are going to have to reinvent themselves.

A company such as Intel has made major changes with respect to the internet and networking, enabling them to remain a power in the microprocessing and chip development business. Cisco Systems, a newer company than Intel, has dominated its market in a similar fashion. But Cisco is not resting on its laurels. In the past year it has acquired sixty different firms in an attempt to anticipate where its business is going. If companies like Intel and Cisco feel the need to embrace the new electronic future, surely real estate firms should be doing the same. To date, while a lot of options are being explored, many in the real estate industry have been reluctant to become fully engaged with new technologies. I believe that these owners are being shortsighted.

Most real estate companies were created with a single focus, such as owning and operating shopping centers, and they have done this one thing for a long time. However, given the changes that are occurring in both the "old" and "new" economies, these companies need to adapt. All new ideas need incubation, and this certainly applies to shopping center operators. To re-invent our core business we need to leverage our companies' advantages, as investors want to put their money where they see value being

created. This means that companies whose activities straddle real estate and technology must change the way they think about real estate in ways which will have far-reaching effects, not only on the industry, but also on investors, consumers, and retailers.

KNOW AND CONTROL YOUR CUSTOMERS

The regional shopping mall is the place where community and commerce intersect. The challenge facing us is to translate the town square model into an on-line business while adding value to the consumer. When you are trying to combine bricks and mortar with technology, it is important to keep a clear focus, because there are many distractions. The first thing to ask when examining an existing bricks-and-mortar company is: "What is the goal of the business?" The goal in operating a regional shopping mall is to increase traffic in order to drive sales on behalf of the retailer. If the retailer does not do well, the mall operator is not going to do well. Thus, any technological changes adopted should aim to increase traffic and sales for retailers.

A regional shopping mall owner has four basic customers: consumers, owners, retailers, and employees. The aim is to give all these customers what they want, when they want it, and where they want it. For example, when regional shopping centers were first developed, what consumer customers chiefly wanted was convenience. They had moved to the suburbs and they wanted their favorite retailers to follow, that is, they no longer wanted to shop downtown. They also wanted to shop "after hours." Downtown retail was typically open Monday-Friday from 10:00 a.m. to 5:00 p.m., and maybe

Saturdays as well. Suburban shopping centers opened from 10:00 a.m. to 9:00 p.m., Monday-Saturday, as well as noon to 6:00 p.m. on Sunday. In many respects the evolution from downtown retail to suburban retail is now complete. But today, customers want greater choice. Owners have to offer on-line or off-line shopping when customers want it. But this means not only 10:00 a.m. to 9:00 p.m., Monday-Saturday, and noon to 6:00 p.m. on Sunday; many customers want to be able to shop seven days a week, 24 hours a day.

And where do they want to shop? Not just in the suburbs. They want to be able to shop from home, from their office, or from wherever they are. There are ways of doing this. Influencing the customer's purchase behavior goes along with what you're going to be able to offer in terms of on-line initiatives. According to the *Wall Street Journal*, the Insignia company has been investing in technology-related companies in order to acquire businesses that influence their consumer customers' purchase behavior. Insignia already has a customer base composed of people who live in their apartment buildings, who can order car services and groceries and a host of other things. Other companies similarly serve office building tenants. What leading office building, apartment, and mall owners must do today is to communicate with their customers. For, if you can successfully communicate with the customer, you will have the ability to influence some of their shopping behavior.

Amazon is a good example of this retailing phenomenon. After you buy a book, Amazon e-mails you a confirmation. If you bought a book on mountain climbing, they will later notify you about other books that have to do with mountain climbing, camping,

the outdoors, and so on. Compare this to a typical shopping mall. The average customer visits the mall once a week. Thus, over a period of ten years, this customer will make more than 500 visits. However, after she walks in the front door, we really do not know much about her. We know that she spent money in the mall, and we knew which stores are doing well and which stores are not. But, unlike Amazon, we really have no direct, personal communication with our consumer customers, and only minimal understanding of their shopping desires. Technology offers us the hope of beginning to fill this knowledge gap.

WIRING THE MALL

On-line shopping is often described as if it were totally different from shopping in a traditional store. It is different in the sense that the on-line customer is obviously not going into a bricks-and-mortar environment, but it is still shopping. If you ask teenagers how they shop, they will tell you that they go to the mall to buy certain things, while they go on-line to buy other things. They do not differentiate between the two types of shopping--to them, it is just shopping to satisfy their desires.

Since the beginning of the year, many reports have appeared about internet retailers experiencing tough times. Why? Not because people no longer like shopping on-line. The answer is really quite simple: business plans that rely explicitly on losing money while trying to rapidly build brand awareness do not work. While the number of on-line shoppers continues to grow, on-line retailers are finding that it is prohibitively expensive

to find and to serve customers. It has been estimated that to create a successful retailing brand name costs upwards of a billion dollars and takes many years. In fact, if it did not, brands would have little economic value. Successful existing retailers already have brand identity, which is perhaps their single greatest asset. They also have established distribution channels. These are the advantages of traditional shopping malls; national retailers and customers. General Growth Properties, for example, has more than 35 million mall customers, who make 1.3 billion visits a year to our malls, and spend approximately \$35 billion. These are compelling numbers to retailers. Last year everybody wanted to get in cyberspace; today a lot of cyberspace retailers want to get into our space in order to effectively service those customers desiring on-line shopping.

The traditional retail experience and the digital marketplace are going to converge. This convergence means that bricks-and-mortar retailers will have an on-line presence, and on-line retailers are either making their own bricks-and-mortar identities or are aligning themselves with existing bricks-and-mortar companies. If 1998 and 1999, were the years of clicks; then 2000 was the beginning of the era of clicks and bricks. This is the new, multi-channel feature of retailing. Bricks-and-mortar retailers need to establish on-line operations and by doing so they will be able to tie together the brand recognition, inventory management, and distribution channels that they have expertly fashioned over the years. Electronic retailers will continue to form affiliations with--and disappear into--existing bricks-and-mortar retailers. Multi-channel selling is going to become seamless, mirroring the experience of the teenagers who sees no difference between shopping on-line and shopping in a mall.

There is no better venue than the regional mall to host the convergence of clicks and bricks. However, while there is absolutely no reason to kiss the mall goodbye, it is imperative that there be many solid reasons to newly kiss the mall hello. Here are some of the good reasons" that we are exploring. First, the "e-marketplace," a retail real estate exchange to supply chain and procurement activity, working together to connect buyers and sellers in terms of aggregating purchases. This is going on in every industry, including real estate. Next, network services in the form of broadband connectivity delivering data, video and voice applications to retailers. Broadband services will ultimately provide high speed internet access, credit card approval, check approval, marketing chips, inventory information, and so on. Broadband services represent the single biggest opportunity to take the retailer to a new level and provide new ways to be more productive and more efficient. It is a major challenge for General Growth, since we have to build and service a wide area network covering more than 100 malls across the country.

Negotiating leases and planning store layouts through the mail is slow and cumbersome. Reducing the cycle time from negotiating to signing a lease means more dollars for the landlord and the tenant. Terms of sales, inventory management, and pricing for profitability are all positively affected by improved communications. So are relations between stores and district managers. Customer service is another area that retailers are going to be able to take advantage of using distance learning, and better customer service means better customer satisfaction. The hardest task retailers have today is finding and training good help. All chains with 500 or more stores have a hard time getting uniform

training programs. Distance learning through video or data will be available because of broadband in the stores in our malls. Finally, banks, who currently process retail credit card transactions, would love the opportunity to be able to address our 15,000 retailers directly.

In-store cameras offer new possibilities to management. You can look at the merchandise in stores. You can move things around and watch customers' reactions. You do not have to be in the store, you can do this in multiple stores and yet be in the home office. This video perspective for the retailer is going to be very important. Obviously in loss prevention the camera can be multi-purpose, so you have the ability to cheaply add additional security functions. Web-based point of sale systems tie cash registers into inventory control systems, helping retailers to be better buyers and to control their on-line orders. Voice-over internet protocol means that all the malls in a company can be interconnected. In the case of General Growth, our annual long distance telephone bill is about \$1 million dollars, half of which goes to our properties from any of our offices. So there is a half million dollars of savings driven by technology alone.

We are enabling our malls with technologies such as broadband, wireless receivers, and antennas. In the future you may be walking by a shoe store and a message could pop up on your cell phone or handheld communication device telling you that the shoe store is having a sale on the particular style of running shoe you prefer. This technological capability already exists, although it is still in limited use.

You might ask why retailers, who are undertaking their own e-commerce initiatives, want to be part of our mall network. One must remember that major retailers

have hundreds, often thousands, of stores across the United States. These stores are their primary distribution centers. For a retailer it is much more efficient to fill an order from a store that is three miles away from where the customer lives, rather than doing it from a central warehouse, as most retailers' warehouses, unlike catalog operations, are not set up for "pick, pack and ship." Instead, most have systems that ship pallets of merchandise to individual stores, which then sell on a piece-by-piece basis. The modern shopping mall will bring e-commerce to these individual stores. We have already tested this business model in one mall and it was a good experience, especially for non-national retailers, who could not afford to create their own logistical distribution systems.

CONCLUSION

Technology is the fiber-optic thread weaving through the fabric of a company. If you weave it through the entire company you can create a collaborative and interactive retailing quilt. It works. We have had a great run for the last 48 years at General Growth, but that does not mean that the next 48 years is going to be similar. I cannot promise that the changes I have described guarantee success, but I think they give us the opportunity to succeed. And that is all you can attempt to do.

[Endnote: The article was adapted from the Farash Distinguished Lecture, given at the Fall 2000 Members Meeting of the Zell-Lurie Real Estate Center.]

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