



How the mall business can reinvent itself for the digital age

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The digital shopping revolution offers new opportunities to mall operators agile enough to seize them.

Shuttered stores, thinning crowds, empty parking lots, and retailers filing for bankruptcy. These are tough times for shopping malls and the major retailers who serve as their anchors. Product oversupply and the rise of e-commerce are squeezing margins, and customers are demanding unique and personalized experiences, not just the same thing every time for everybody. If you follow the headlines heralding such woes, you might think the digital age is an extinction-level event for malls.

It isn't. There is still a vast opportunity for mall operators to innovate, capture value, and stay relevant for 21st-century shoppers. This is particularly true in emerging markets, where rising incomes, higher discretionary spending, and urbanization have created an opportunity for social and commercial "destinations." As McKinsey noted in a recent article, malls of the future will be less about in-store shopping and more about giving people novel in-person experiences they can't get on their smartphones—what some call retail-tainment.

Leading mall operators have already begun transforming their properties into destinations that look, feel and operate very differently from their predecessors. In China, malls already allocate 30 to 40 percent of their floor area to food and beverages. Certain developers, such as Wanda Commercial Properties, which integrates retail, leisure, and residential into a single large complex, allocate as much as 50 percent of their footprint to public space.¹ In the US, operators are courting unexpected tenants, such as the Michigan Women's Hall of Fame, which recently relocated to Michigan's Meridian Mall. Others are considering zoning changes that will allow for medical offices or light industry.

Yet even the most innovative operators are facing economic and profitability challenges associated with all these changes. Malls with large amounts of public space tend to have poorer space utilization than traditional malls, and the shift away from the tried-and-true mix of high-paying retail tenants and loss-leading entertainment categories is generating lower mall revenues.

Based on our experience working with mall operators around the world, we believe that malls can still thrive. But to do so, there are four areas in which operators will need to focus their energies:

1. Reinventing lease agreements

The traditional model of charging retail tenants rent based solely on their sales will not enable operators to capture the full value from retailers. Companies must be willing to challenge past practices and look ahead to new leasing models. As malls invest in new features and attractions that generate increased foot traffic, they can explore novel ways to structure financial arrangements with retail tenants. We see two primary possibilities, which could be adopted in addition to, and not necessarily in lieu of, existing revenue mechanisms:

- **Footfall-based charge:** Tenants pay based on either the traffic that's coming into their stores or moving through the area of the mall where they are located. This model allows mall operators to capture value from the growing trend of customers coming into stores to touch and feel products but completing the purchase online.
- **Online revenue sharing:** In an even more direct capitalization of "browse offline, shop online" behavior, tenants pay a portion of their brand's online sales that occur within the mall's geography, normally mapped according to zip codes. A few leading-edge retailers are already pursuing this approach with their salespeople.

¹ Michael Cole, "China's malls go social in the face of e-commerce competition," Forbes.com, November 22, 2015.

2. Generating new revenue streams and value-added services

To be financially successful in this new era, malls will need to be creative about getting the most from their assets. Mall owners can sell tenants access to physical real estate for inventory storage, for example, since in the future many stores are likely to be smaller and lack storage capacity. Operators could also provide tenants with logistics services.

Other new revenue streams might include utilizing a mall's open spaces for pop-up stores, temporary showrooms and other events. Retailers could be charged for this on a per-traffic basis. Digital facades, hallways, and atriums also offer opportunity as flexible advertising space. Finally, technology gives mall operators enormous potential to package and sell shopper data to their tenants.

3. Using technology to build mall value

Digital technology is a threat to malls because it enables shoppers to buy online. Yet at the same time, technology presents meaningful opportunities to operators who know how to use it.

Shopper insights: Using apps, free Wi-Fi service, point-of-sales data, and security cameras, mall operators can develop a greater understanding of who exactly is shopping at their properties and what these consumers' shopping habits and preferences are. Wi-Fi analytics, for instance, can reveal what websites shoppers are visiting, thus providing insights into what people are looking at while traveling within a particular area of the mall. From its use of beacons to analyze foot-traffic patterns, the Kamppi Shopping Centre in Helsinki, Finland, learned that shoppers congregate at lunchtime, not after work, as was previously assumed.

All this data can also be analyzed to create valuable insights for tenants who want to improve their product assortments, window displays, pricing strategies, or promotions. Advanced analytics could also allow operators to optimize their mix of tenants and their leasing terms. By determining which customer segments are likely to shop next and for what products, analytics can predict tenant performance and future shopper behavior.

The omnichannel experience: There is great potential for malls to use digital technology to significantly improve the consumer journey and shopping experience. Shoppers want a seamless, frictionless experience between online and offline, with little distinction between the two channels. That could mean buying online and picking up at the store or at centrally located "collection lounges," buying online and returning to stores, getting purchases delivered to one's home, and using a mall's app to make purchases from mall stores, which Westfield has pioneered in some of its malls. Delivering this kind of omnichannel experience requires that both mall operators and retailers update their operations so that back-end systems can absorb and analyze the data coming from front-end applications.

Technology can also be used to provide visitors with a better overall experience at the mall. Mobile apps can offer personalized recommendations and promotions, itinerary planning, digital navigation, and the booking of various services, including advance food ordering so that customers find their meals ready upon arrival.

4. Hiring for modern capabilities

Up until now, mall operators have thought of themselves as running capital-intensive real estate businesses and have hired accordingly. Today, as malls develop apps, pursue omnichannel strategies, and draw insights from huge amounts of customer data, people with three new sets of skills will be needed.

- **Analytics:** With data such a big part of the future for mall operators, companies will need to recruit a wealth of new data analysts, such as the data engineers who will organize, clean up, and store customer data, and the data scientists who will create the algorithms to mine the data and extract the insights. Mall operators will also want someone at a high level in the organization, perhaps a chief data officer, to oversee, prioritize, and secure the management of data. Finally, there are “translators” who sit between business leadership and the technology staff, facilitating communication and transposing business needs into algorithmic requirements.
- **Customer experience:** Now that mall operators will be connecting more directly with shoppers, an expertise in design thinking, customer experience, and even behavioral psychology will become increasingly important to mall design and operation. The Dubai-based developer Majid Al Futtaim, for instance, has commissioned neuroscience studies to understand how conscious and unconscious brain activity drives people’s emotional responses to real estate developments. Malls will also want to create tools and applications that allow them to meet all segments of shopper needs and demands in a way that makes the shopping experience frictionless, pleasurable, and memorable. Loyal mall shoppers who show up for quick trips, for instance, should be able to get free valet parking, and those who make lengthy weekend trips should have easy access to mall navigation on their app and the option to have their purchases dropped off at home.

Both design-thinking practitioners, who perform in-depth, empathy-focused research using ethnographic research and other qualitative techniques, and customer-experience designers, who create end-to-end customer experiences based on research outputs and feedback, are needed.

- **Agile mall operations:** To improve the experience of both shoppers and tenants, operators must constantly come up with lots of new, quickly delivered, technology-driven services and products. This will require embracing agile approaches to testing

new products, events, and services, and then adapting rapidly based on feedback. Mall operators will also need to extend this more agile operating model to their tenants, facilitating significant amounts of close coordination. To operate collection lounges and e-commerce tenant portals, for instance, malls will have to link to tenants' back-end logistics and inventory systems. In order to do all this, operators will want people who understand agile development, process redesign, and IT architecture and infrastructure.

Achieving this new way of working and maintaining a laser focus on the customer will require mall operators to effect a cultural shift. Long accustomed to lengthy development cycles and a low tolerance for risk, operators will need to embrace a test-and-learn mind-set in which all employees grow accustomed to a sense of permanent disruption and an acceptance of failure as a necessary precursor to success. Management will need to take the lead in articulating this vision, managing more collaborative teams and role-modeling digital behavior in a way that drives home the need for profound change.



There is no doubt that mall operators are facing a challenging environment. But those that are willing to jettison old models and build more dynamic and relevant destinations will be able to create profitable malls that today's shoppers almost won't recognize.

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