CHAIN STORE AGE
NEWS AND ANALYSIS FOR RETAIL EXECUTIVES

Retail Report:

Growth Forecasts and Impacts of Real Estate Technology

Sponsored by EVOCO construction program management

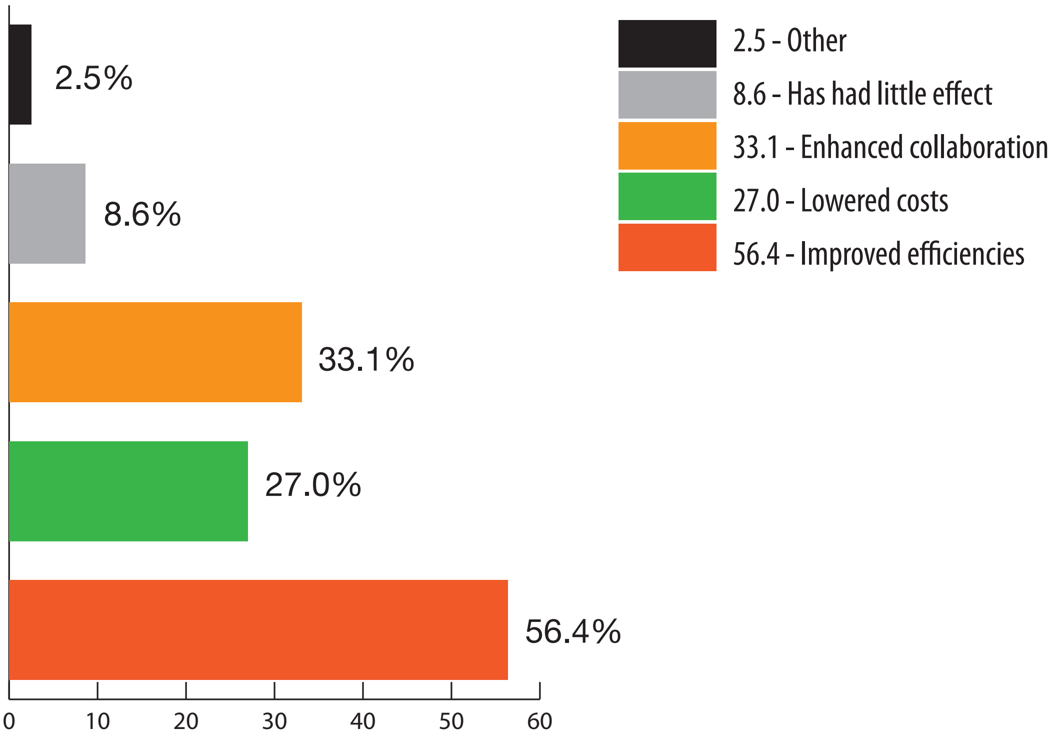
Leveraging information from a recent survey of senior executives in leading North American retail companies, this report provides visibility into growth trends across the retail industry, including how the use of technology augments and supports retail growth strategies. Analysis of data collected in the survey is further defined by each respondent's size relative to store count and footprint, providing retailers with valuable insights into current expectations and forecasts for new store openings and remodels, and enabling readers to compare their company to the industry as a whole, as well as contrast the forecast at their company against competitors of comparable size.

The information provides a snapshot of technologies deployed, retailers' satisfaction with their chosen solutions, and the impact of technology on the management of retail portfolios so that readers can benchmark their tactical plans against those of competitors.

Among the most impressive benchmarks that emerged from the survey was the nearly unanimous endorsement for the use of real estate technology. Seventy percent said technology is more important now than it was 12 to 24 months ago. When asked how technology impacted their business, 56% of respondents reported that technology had improved efficiencies; 33% said it enhanced collaboration; and 27% noted the use of technology lowered costs (figure 1).

Figure 1.

How has the software solution(s) affected your business?



Scope of Survey:

Retailers who responded to the survey represented sectors throughout the industry, including apparel, convenience stores, department stores, discount stores, drug stores, grocery stores, hardlines and specialty stores. Responses were received from 163 retail executives who were invited to participate via a targeted email distribution. (*See "Methodology" footnote on page 8.)

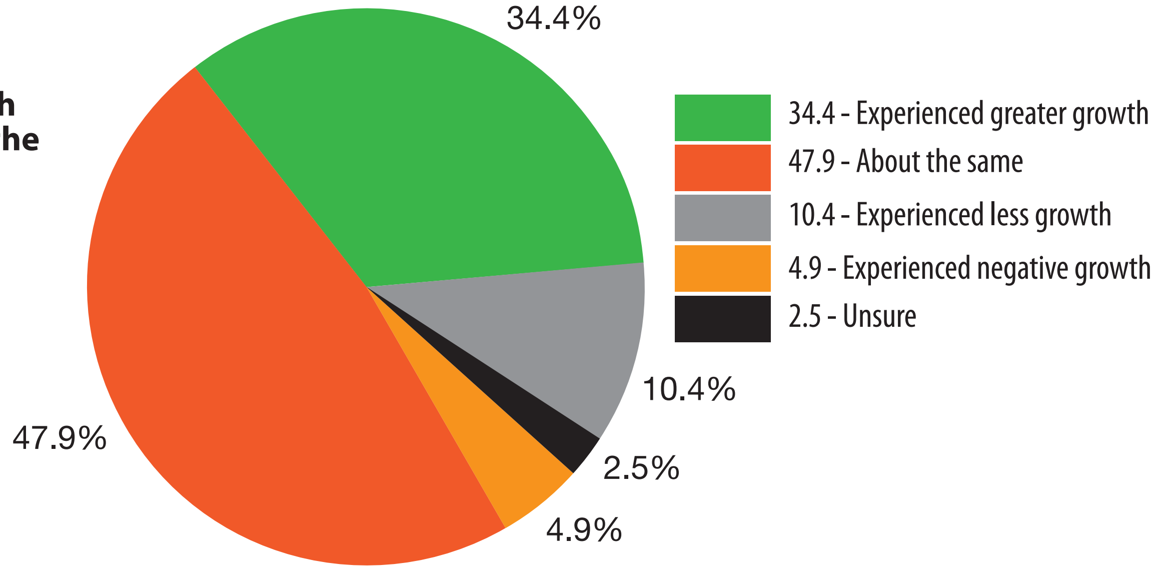
The survey canvassed retail companies of all sizes with 50% of respondents responsible for 100 stores or less; 20% with 101 to 400 stores; 13% own 401 to 1,000 stores; and 17% have more than 1,000 stores. Varying store sizes had equal representation as well: 41% of the retailers have formats under 5,000 sq. ft.; 22% had stores ranging from 5,001 sq. ft. to 10,000 sq. ft.; 29% were in the 10,001-sq.-ft. to 50,000-sq.-ft. size; and 8% were greater than 50,001 sq. ft.

Forecasts for New Stores and Remodels:

When the survey was conducted from late June to mid July, the consensus was that the rate of store growth was either holding steady (according to 48%) or accelerating (noted 34%) over activity in the preceding 12 months. Only 15% of those responding indicated they had less growth or negative growth compared with activity in the last year (figure 2).

Figure 2.

How would you rate store growth compared with the last 12 months?



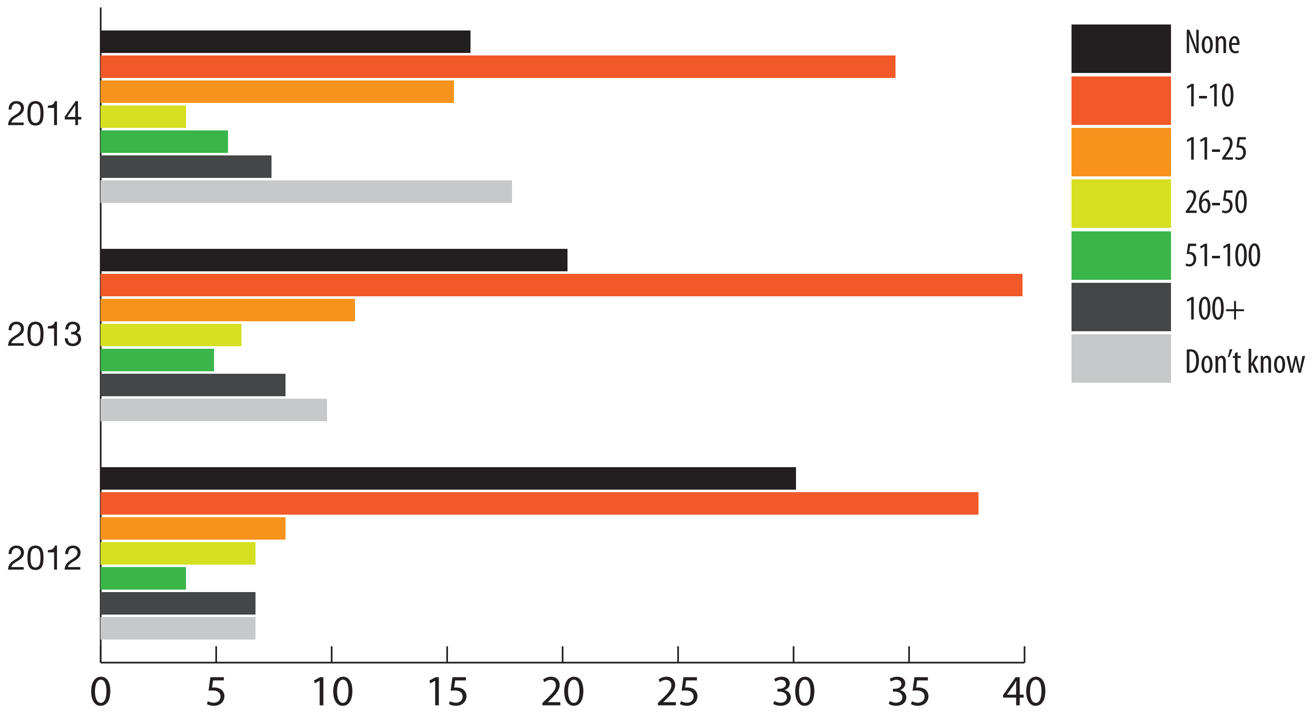
4.

Sixty-three percent of the retailers expect to open stores in this calendar year, and 73% were remodeling stores. Thirty percent said they had no plans to open any stores in 2012, and 21.5% did not plan to remodel stores this year.

However, forecasts for the next two years suggest activity will continue to climb. The percentage of retailers who said they would not open any stores declines year over year, from 30% in 2012 to 20% in 2013 and 16% in 2014. The percentage of retailers opening stores not only increases year over year, but greater increases are seen in the quantity of stores being opened. For instance, only 8% of retailers said they would open 11 to 25 stores this year, but in 2013 and 2014 the number of respondents who planned to open 11 to 25 new stores grew to 11% and 15%, respectively (figure 3).

Figure 3.

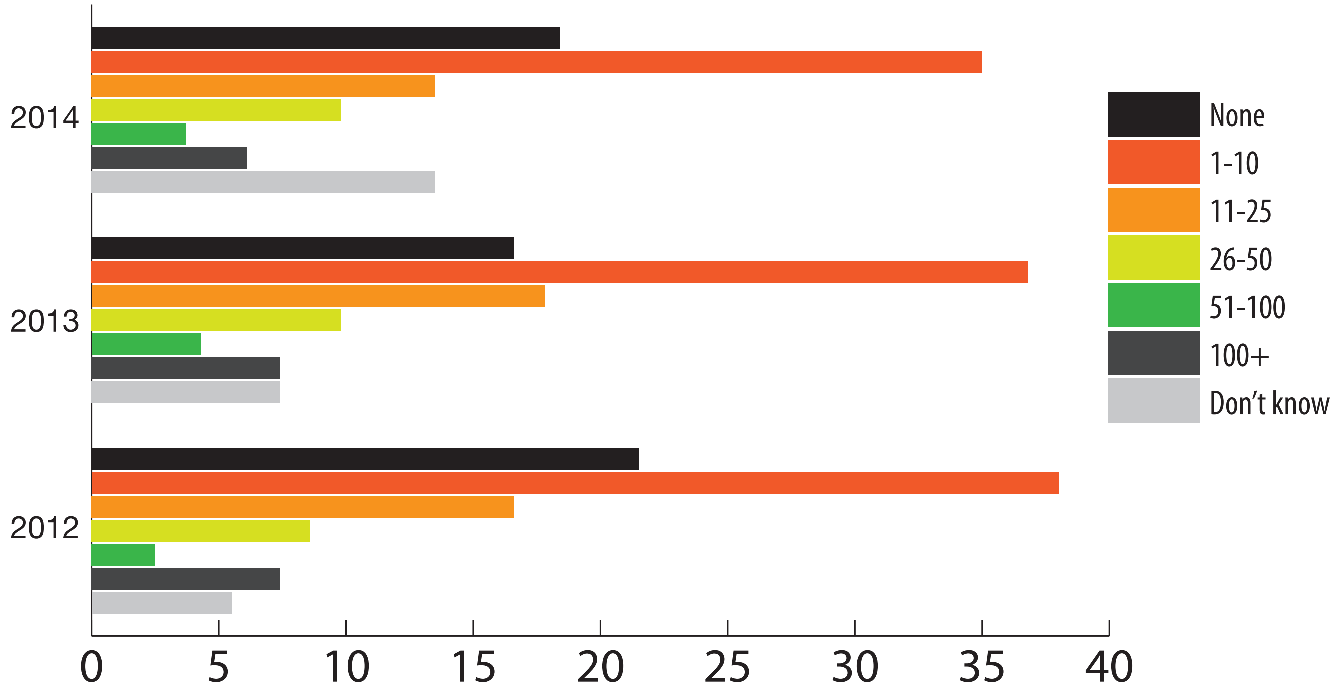
Approximately how many new stores do you plan to open in the following time frames?



Remodel activity, which outpaced store openings slightly in 2012, should remain fairly steady but with less marked increases in 2013 than new-store openings. By 2014, the projection is that the number of retailers with remodeling projects, 68% of respondents, will be comparable with the 66% who said they would be opening new stores (figure 4).

Figure 4.

Approximately how many stores do you plan to remodel in the following time frames?



"With 70% of retailers who responded to the survey stating they plan to open new stores in 2013, up from 63% opening stores this year, the outlook for growth in the retail industry is clearly trending positive," stated Alice Reimer, President, CEO & Co-Founder of Evoco. "We chose to sponsor this report because we wanted to highlight the uptick in positive momentum while providing retailers with quantifiable data around which they could make decisions and build growth strategies."

The data become even more pertinent when they are analyzed by the retailer's size as defined by number of stores or by the average square feet in the retailer's typical store. In general, retailers with the largest portfolios are opening the greatest number of new stores and, unsurprisingly, remodeling more stores.

Retailers with 1,000+ stores had the highest rate of "greater growth" compared with the last 12 months and, in 2012, plan to open and remodel the most new stores. In fact, 33% of respondents with more than 1,000 stores said they would add more than 100 new stores this year and remodel more than 100 of their existing stores. Chains with zero to 100 stores had the least amount of new store activity in 2012, with 53% saying they would not open any stores and 35% saying they would open one to 10 stores this year. These trends hold true into 2013 and 2014 forecasts, although overall new store openings increase at least modestly for every size retail chain.

In terms of store footprints, growth patterns are more difficult to define. The largest formats appear to be opening a higher percentage of stores in the lower-quantity categories, but the smallest stores and the mid-size to large stores stand out in the "opening 100+ stores" category. Across all size formats, the greatest activity is in the opening of one to 10 stores.

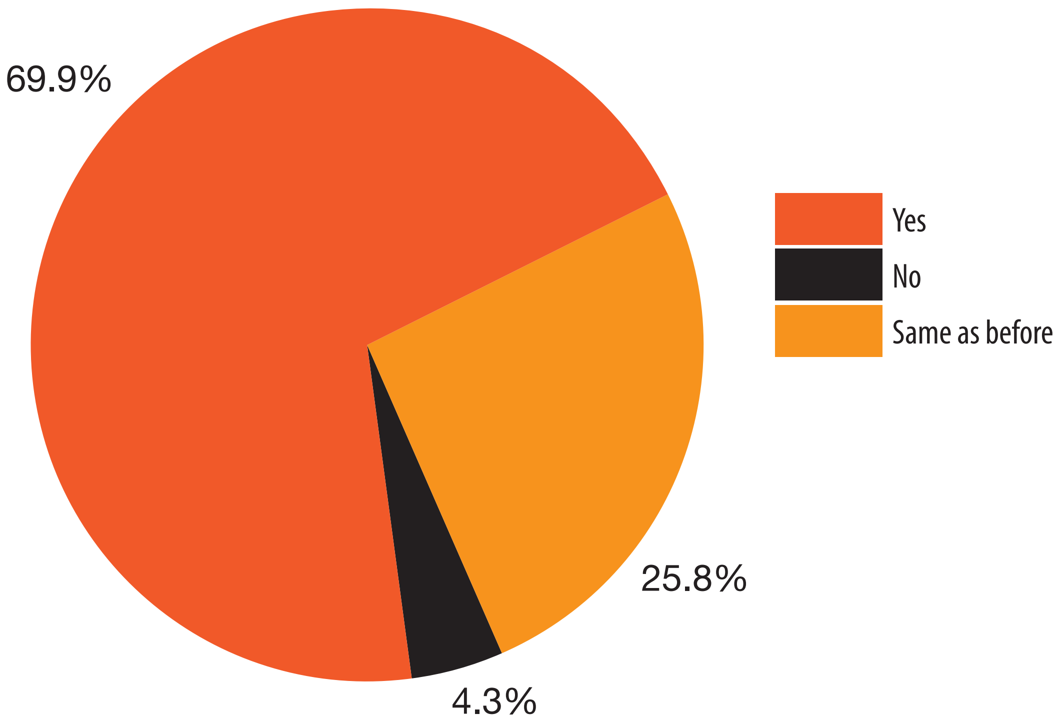
Ironically, that trend does not play out in remodel activity. In 2012, retailers with the largest footprint, more than 50,000 sq. ft. per store, have the most aggressive remodeling plans, with 39% remodeling 11 to 25 stores, 23% remodeling 26 to 50 stores, and 15% remodeling more than 100 stores. To some extent, this profile continues through 2013 and 2014 forecasts.

Technology Rules:

The survey not only revealed that the rate of growth in new store construction continues to accelerate and remodeling activity is holding strong as well, but it also confirmed that increasingly, retailers recognize the value of using technology to support their growth strategies (figure 5).

Figure 5

Would you say real estate technology is more important than it was 12 to 24 months ago?



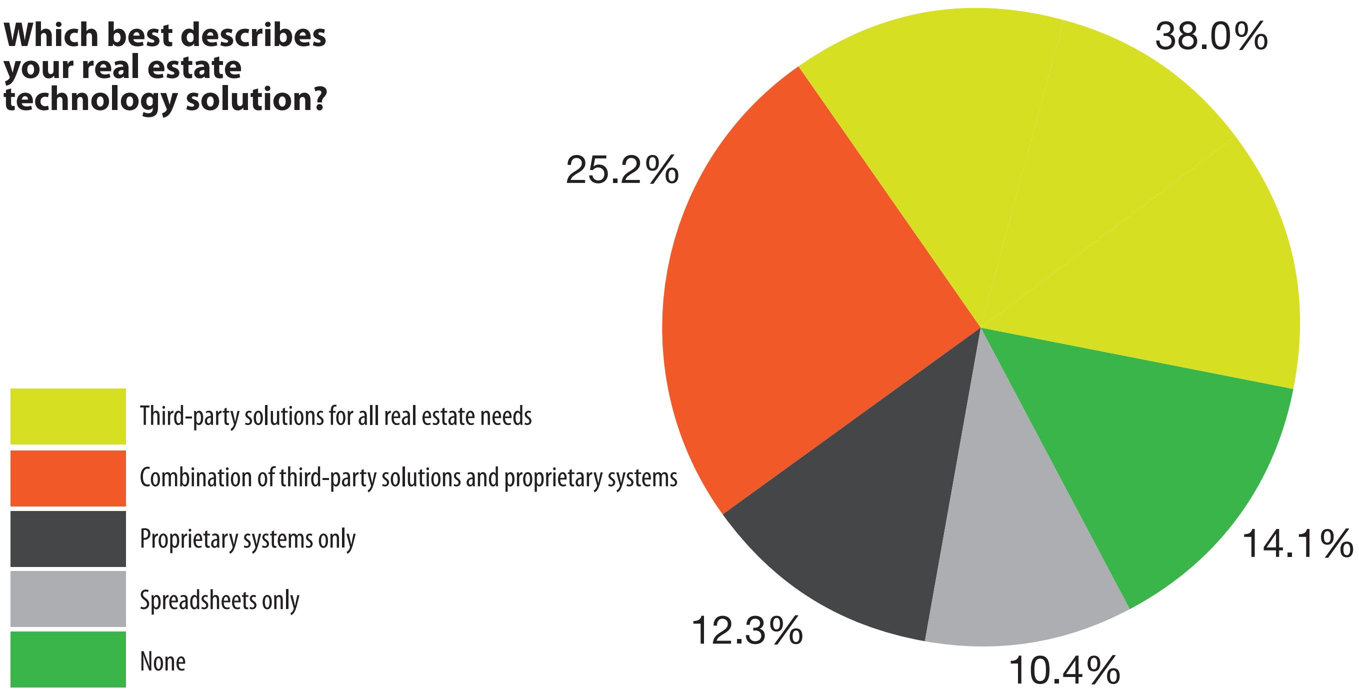
The overwhelming majority of respondents, 70%, said technology is more important now than it was 12 to 24 months ago. Of the 4% who responded that technology was not as important, 71% were not currently using technology, and 29% were using spreadsheets only. Of the 26% of respondents who said that the importance of technology remains unchanged, more than 30% fell into the same category of either using spreadsheets only or not using any technology.

The endorsement for using technology is even more dramatic by larger retail companies: Among those with 1,000+ stores, an impressive 92.6% said real estate technology is more important now. The affirmative response was more consistent across varying footprints, although there was a gap between the smallest footprint, where 59% answered "yes," and mid-size formats, 3,000 sq. ft. to 5,000 sq. ft., where 79% said "yes."

It is also interesting to note the types of technology solutions being used by retailers. Most of the retailers responding to the survey, 63%, rely on third-party solutions, but 12% have proprietary systems, 10% use spreadsheets only, and 14% are not using real estate technology (figure 6).

Figure 6

Which best describes your real estate technology solution?



Implementation time is always a key consideration when retailers are evaluating technology solutions, and 66% of the survey respondents reported their implementation took less than one year. The size of a retailer's portfolio impacts the implementation time and, logically, the more stores the longer the implementation. However, the store's footprint does not impact implementation with the exception of one area. Among the largest retailers, those with stores greater than 50,000 sq. ft., none completed an implementation in three months or less.

For the most part, retailers who implemented technology solutions were satisfied (66%). Twelve percent were unsatisfied but reluctant to change. Unsurprisingly, the longer the implementation time the more reluctant the retailer was to make a change – 19% of retailers with implementations that took more than a year were unwilling to change.

"The survey clearly underscored the importance of technology in supporting retail growth strategies; but when retailers are reluctant to make improvements because of the implementation time already invested, it reinforces the importance of selecting technology solutions that address issues slowing store growth, and that can be implemented in stages instead of an all-or-nothing approach," concluded Terry Sydoryk, COO at Evoco. "The survey validated retail technology in terms of improved efficiencies, enhanced collaboration and lowered costs. All of which help retailers open stores faster and generate revenue more quickly, which directly impacts the bottom line."

*Methodology footnote: Conducted via email, from June 28 through July 19, the survey was co-sponsored by *Chain Store Age*, leading retail news magazine in its 88th year of publication, and Evoco, providers of SaaS-based Construction Program and Project Management Software. For more information, visit www.evoco.com.