

THOUGHT LEADERSHIP FROM CONNEX

connexfm.com

Connexus

JULY/ AUGUST 2019

Plus:

The latest on restaurant equipment, permits and health & safety trends

◀ IKEA is famous for its Swedish fare, in addition to its affordable furniture.

What's Cooking in Retail?

RETAIL AND FOODSERVICE
ARE COLLIDING IN
BOTH DELICIOUS AND
CHALLENGING WAYS.



WHAT'S COOKING **IN RETAIL?**

Retail and foodservice are colliding in the most delicious way.

When mail-order catalogs reached peak popularity in the 1960s, pundits predicted the end of brick-and-mortar retail. When televised home shopping arrived in the 1980s, observers again put physical retail on the endangered species list. And when e-commerce reared its head for the first time in the 1990s, traditional retail stores received yet another death sentence. But brick-and-mortar retail isn't expired, obsolete or extinct. In fact, 86 percent of U.S. retail sales still happen in physical stores, according to market research company Forrester.

These days, one of the most delectable reasons traditional retail continues to survive is its marriage to foodservice, which is one of the top five trends driving the retail facilities management industry today, according to Connex's "2019 Trends Report." Based

on industry research and feedback from retail facility managers, the report calls retail-foodservice partnerships "one of the most powerful trends in retail."

Retail facility managers must therefore take note: In the emerging retail landscape, success hinges as much on consumers' stomachs as it does on their wallets.

◀ An interior shot of the dining room in the café of the huge international IKEA store shows how IKEA has found a way to engage with customers in a more intimate way.

Why Retailers Are Hungry for Foodservice

Comprising everything from quick-service eateries, cafés and gourmet food halls to onsite breweries, wine bars and even full-service restaurants, in-store foodservice is helping retailers of all stripes feed their bottom line by way of feeding their customers.

But foodservice is more than a potential new profit center. In fact, the median cost to open a new restaurant is \$375,000, according to industry website RestaurantOwner.com. What's more, restaurateurs say it can take three to five years for a new restaurant to turn a profit. So, even with the support of a successful retail partner, revenue alone typically makes for a poor business case. Instead, retailers are ringing the dinner bell primarily because it helps them attract and retain the customers that will grow their core business, suggested Nick Egelanian, President of SiteWorks Retail Real Estate Services, a real estate consultancy specializing in retail clientele.

According to Egelanian, integrated foodservice typically offers retailers one of three benefits. The first is customer loyalty. Take Costco, for example. "Costco's food court is very basic but very busy," Egelanian explained. "Costco sells a hot dog and a soda for \$1.50. That's not a money-maker for them, but they have an

almost religious policy about not raising the price, because that basic hot-dog-and-soda combination has an almost cult-like following."

Another benefit is increased dwell time, suggests a 2018 report by commercial real estate company Jones Lang LaSalle. When customers eat at malls, the study found, they spend an average of 35 additional minutes browsing stores compared to customers who don't eat.

That's why Swedish home retailer IKEA sells its famous Swedish meatballs at its onsite restaurants, according to Egelanian. "IKEA is trying to make a family event out of going to IKEA," he said. "People who go to IKEA commit a pretty serious amount of time to shopping there, and IKEA has found a great way to engage them in a longer stay so they can complete what can sometimes be pretty big and complicated purchases. Although they make money on their food, they're not doing it to run a restaurant; they're primarily doing it as a service to their customers so they can sell more merchandise to them."

Yet another benefit is differentiation. In its report, Jones Lang LaSalle found that 40 percent of consumers choose the malls and shopping centers they visit based on the restaurants that are located there.

What's true of malls is also evident at other retail formats, according to Egelanian. "If you look at the Walmarts of the world, they're putting Subway and McDonald's outlets in their stores in part to offer a better experience, but also out of a desire to add a little bit of pizzazz — a little bit of something extra to help set them apart," he said.

Exemplary Edible Experiences

Indeed, what increasingly sets some stores apart is not necessarily the products inside them but rather the experiences, which are a growing priority for



▲ Costco is famous for its \$1.50 hotdog.

consumers, according to research firm McKinsey & Company. In 2017, the firm analyzed personal-consumption expenditures (PCE) over the preceding three years and found that consumer spending on experiences — including eating at restaurants — had grown more than 1.5 times faster than overall spending and nearly four times faster than spending on goods.

“There’s no evidence that this is true in commodity retail, which is 80 percent of U.S. retail, but in malls and specialty retail, food is being offered as part of the need to offer more experiences,” reported Egelanian. He said the percentage of anchor space that malls are dedicating to food and entertainment has more than doubled in the past decade, from 7 percent to 17 percent. “And I would submit that it could get up to 25 or 30 percent in the coming years. People need a reason to commit their time

and energy to leaving their house to shop in [malls and specialty retail stores], and food gives them that.”

A standout example is Westfield Century City, a 1.3 million-square-foot outdoor mall in Los Angeles. Originally opened in 1964, it underwent a \$1 billion renovation and expansion in 2017, adding more than 200 new tenants. According to the *Los Angeles Times*, only half of the three-story mall is dedicated to fashion; the other half is dominated by experiential offerings, including Eataly, which encompasses 67,000 square feet of commingled restaurant and retail space.

“Restaurants ... benefit the retail market by being a constant marketing window for products,” Raffaele Piarulli, Vice President of Operations at Eataly USA, told *Nation’s Restaurant News* in 2017 after the Los Angeles store’s opening. “Where else can you dine at a table, enjoy a

monocultivar extra virgin olive oil from Italy and have your server point you to the shelf where you can purchase it to take home with you?”

In hybrid environments like Eataly, foodservice and retail “feed” off each other, literally and figuratively. “Walking around a produce market will always trigger a craving for your favorite salad; looking at a beautiful steak cut will make you think about the last time you had a nice New York Strip, eventually,” Piarulli continued.

Another retailer that excels at creating experiential foodservice is luxury home furnishings purveyor Restoration Hardware (RH), which opened its first food-and-beverage destination in 2015 inside its Chicago flagship. A partnership with celebrated Chicago restaurateur Brendan Sodikoff — who helms the company’s foodservice operation, RH Hospitality — the concept encompasses three Instagram-able eateries alongside boutique design galleries inside a historic building. The eateries include: 3 Arts Club Pantry & Espresso bar, a small coffee shop with grab-and-go doughnuts, pastries and juices; 3 Arts Club Wine Vault, a wine bar with cheese boards and small plates; and 3 Arts Club Café, a full-service restaurant serving chef-driven cuisine.

“With the ongoing development of RH Hospitality, we are demonstrating that we can execute a profitable, high-quality food and beverage experience across multiple markets while driving traffic into our galleries that result in incremental revenues in our core business,” Chairman and CEO Gary Friedman said in March 2019 during a Restoration Hardware’s earnings call. “We believe RH Hospitality is now a proven scalable business, and our plan is to increase the number of new galleries with integrated restaurants, wine vaults and barista bars going forward.”

Today, Restoration Hardware has six galleries with destination

CHAIN STORE MAINTENANCE

The Store Repairs Specialist

Since 1991

We have been proudly servicing our national accounts throughout the United States, Canada Puerto Rico and Guam for 28 years. If your organization values experience and quality of work at a competitive price, we are the one source for all of your facilities maintenance needs!



Handyman



Electrical



Locksmith



Plumbing



Backflow

800.888.1675 • ATTLEBORO, MA • CHAINSTORE.COM



▲ 3 Arts Club Pantry & Espresso bar, located in Chicago's flagship Restoration Hardware location, is a small coffee shop with grab-and-go doughnuts, pastries and juices.

restaurants, including its newest, RH Yountville in Napa Valley, which includes a coffee bar, an indoor/outdoor restaurant surrounded by heritage olive trees and a two-story wine bar with two outdoor "living rooms" that can be reserved for private tastings.

The Future of Retail

As novel as their partnership seems, retail and foodservice have been fast friends for more than a century. One of the earliest department stores — Harrods of London, which opened in 1849 — opened its world-famous Food Halls back in 1902. The store recently revived them with Eataly-esque offerings that peddle everything from fresh meat, fish, dairy and produce to baked goods, tea, coffee, chocolate and wine.

As far as trends go, it's a scrumptious revival. And young people deserve a lot of the credit, according to the National Retail Federation. In 2017, the group surveyed more than 3,000 Millennial and Gen Z consumers and found that nearly half (49 percent) said they visit brick-and-mortar retail stores more often than they used to because of new entertainment or food options inside them. Millennial parents, it subsequently found, are more than twice as likely as other parents to seek out experiences like dining out.

"Millennials are consuming differently than their parents," Egelanian echoed.

While restaurants and retail continue their courtship, FMs will face new challenges in areas as diverse as cleaning, energy and human resources — which will require not only the right strategies, but also the right attitude.

As RH Hospitality's Sodikoff said in the winter 2019 issue of *Business of Home*, "Old retailing is dead ... Whether you have food or not, having a greater hospitality lens on how to make people feel great is what defines the future of retail." ✕

Rely on

REDSM

RELIABLE

EXPERIENCED

DILIGENT

At Harrison Contracting, we are very fond of RED.

It's our company color. It's in our logo, and on our equipment and uniforms. It permeates every aspect of our business, because for us...

RED is more than a color. It's a company-wide philosophy.

• Reliable

Our clients rely on us to be there when they need us. They depend on us to get the job done on time.

• Experienced

HCC is a national painting and facility maintenance provider with over 20 years experience.

• Diligent

Our clients value our strong work ethic and ability to maintain our schedule with professionalism and attention to detail. We go above and beyond with every job.



**Large enough to handle the volume.
Small enough to handle the details.**

1-888-456-4011 • HarrisonContracting.com