

December 2022

# Retail Trends Forecast 2023

From COVID to inflation, brick-and-mortar retail faced dramatic pressures in recent years – but the space succeeded in adapting to new constraints and proving its continued relevance. Now, with 2022 almost behind us, we look at what 2023 may have in store.



Brick-and-mortar retail has contented with its fair share of obstacles in recent years, from the lockdowns of 2020 to the seemingly never-ending COVID waves of 2021 to the high gas prices and inflation of 2022. But despite each new challenge, consumer demand for in-person retail and retail services has remained strong, with key categories repeatedly bouncing back.

In fact, leading retailers, dining chains, and fitness brands did more than just bounce back. Many companies uncovered opportunities to establish new channels, grow into new markets, and cater to new audience segments – and these initiatives are already opening new avenues for brick-and-mortar success in 2023. At the same time, some of the larger challenges facing the sector are likely to persist, which will also impact the wider retail space going into the new year.

This white paper dives into some of the key trends likely to shape the retail landscape in 2023. We looked at foot traffic data for leading brands and segments, dove into migration flows, and analyzed office recovery patterns to predict what the coming year may have in store. Keep reading to find out what retail and retail services in the brick-and-mortar consumer space need to know going into the new year.

## Retail Media Networks

For anyone who has followed Placer.ai's content, the idea that our top trend for 2023 should be retail media networks will come as little surprise. [Retail media networks](#), long a staple of the digital world, are becoming an increasingly important part of the brick-and-mortar environment – and the result is an exciting opportunity for retailers, landlords, and product companies alike.



**Retail media networks are creating an exciting opportunity for retailers, landlords, and product companies alike.**

Companies like [Amazon](#), [Best Buy](#), [Walmart](#), [Target](#), and [Albertsons](#) are all investing in this channel as a way of increasing revenue and profitability and capitalizing on the immense levels of traffic coming through locations. For advertisers, the key attraction lies in the level

of intent of visitors and the proximity to the point of purchase that physical locations provide.

Looking at physical stores for their marketing and advertising value also allows retailers and the product companies that advertise through them to think about audience segmentation in fundamentally different ways. For example, cross-visitation between a grocer and local fitness chains could be a far better indicator of the performance of protein bar promotions than standard demographic analyses. Even more, retail media networks enable advertisers to think about physical store visits and their unique impressions through a similar lens as that used to think of standard online or television placements. This makes for a better apples to apples comparison and allows advertisers to more effectively measure impact across all advertising channels.

Yet, this is just the beginning. Investments in everything from billboards to endcaps to stadium naming rights and concert promotions also drive a more nuanced and granular ability to measure and analyze. And this means better utilization and efficiency – not to mention the wide opportunity that comes from a marketing channel still in its infancy.





## The Tenant Diversity Trend Picks Up Pace

Pre-pandemic, the defining narrative in brick-and-mortar retail was the [retail apocalypse](#), driven heavily by widespread store closures from top retailers like Sears and K-Mart. Yet, while many previously strong anchors were shutting their doors, a far more significant trend was emerging where retail-oriented centers and malls were embracing [new tenant types](#). From [gyms](#) to [co-working spaces](#) to [medical practices](#), the growing presence of non-retail tenants has made a lasting and significant impact on the brick-and-mortar retail landscape.



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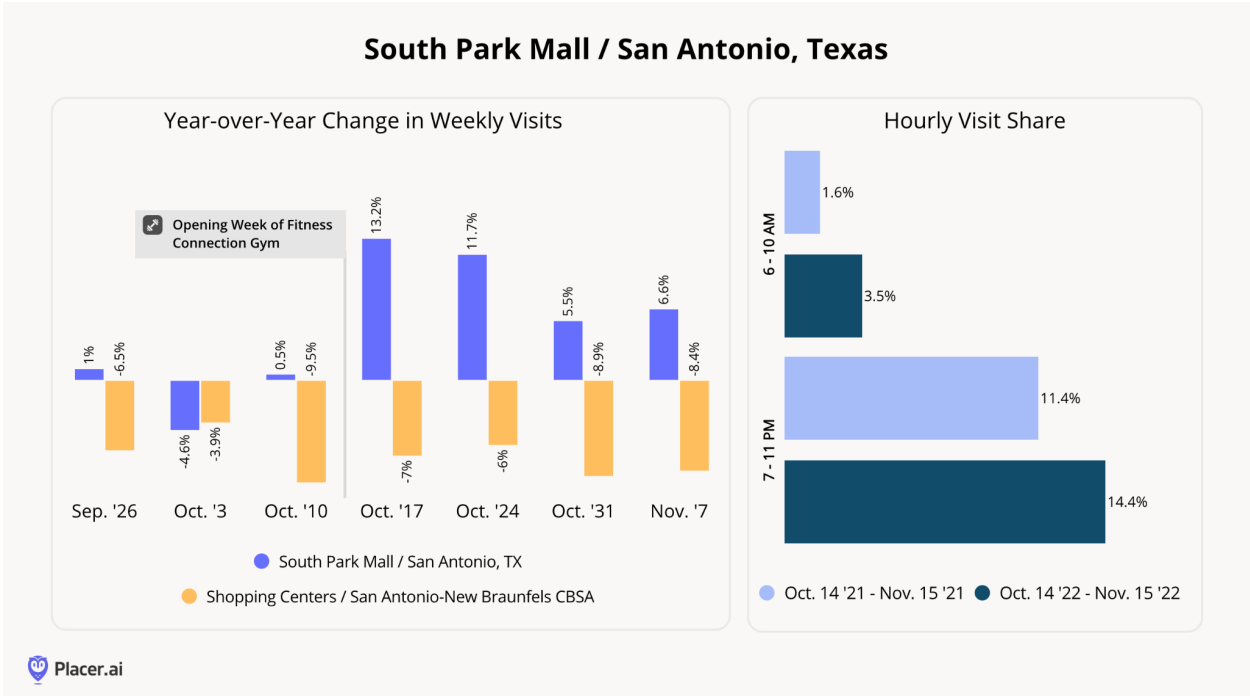
These tenants provide a range of benefits. They increase opportunities for retailers by generating new off-peak traffic and reducing competition between retail tenants. Non-retail

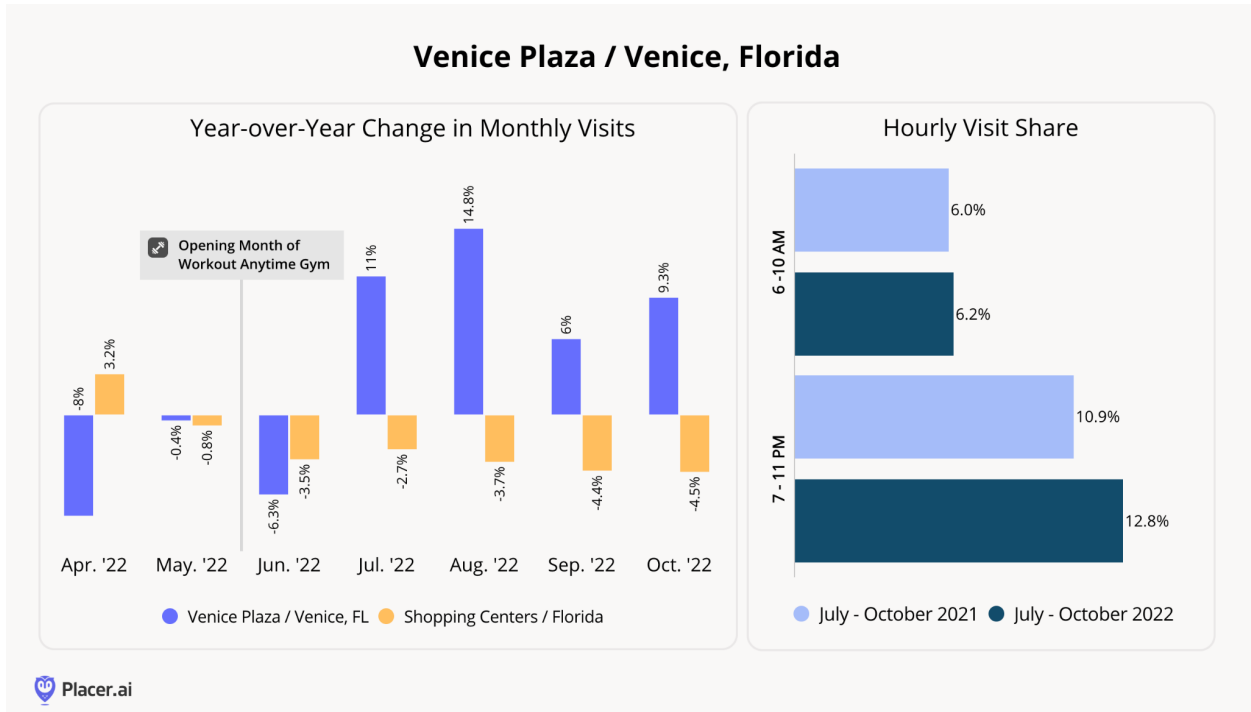
tenants also allow shopping center visitors to have a more holistic, immersive experience which extends visit durations and gives consumers more reasons to frequent a shopping center. And non-retail tenants dramatically increase optionality for landlords by empowering shopping center operators to identify the ideal tenant without the standard limitations dictated by traditional understandings of fit.



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The result is a unique win-win-win situation that benefits landlords, tenants, and visitors. Expect landlords to be particularly fond of this trend as it increases their optionality in a period where demand for space in top tier centers is only increasing.





## Shop-in-Shops & New Store Formats

In addition to uncovering the non-traditional tenant trend, a more [nuanced view of store closures](#) also reveals the push by retailers across segments to improve their retail footprint – and [optimizing](#) the actual number of locations is a major piece of this puzzle. Equally significant is the push to maximize the potential of each location with a greater emphasis on usage of the internal space and the [size of the store](#) in general.

### Shop-in-Shops

Starting with maximizing the space within, retailers from [Target](#) to [Kohl's](#) to [Lowe's](#) have jumped headfirst into the world of shop-in-shop concepts, looking to drive visits, increase basket size, and create engagement with new audiences. The rationale behind these partnerships is relatively straightforward. The larger retailer fills a gap in its product assortment, differentiates itself from competitors, improves engagement, and increases basket size. The smaller retailer gets a capital-efficient way to broaden its target audience and, in many cases, leverages the larger retailer's online ordering and distribution platform.



Leading retailers have jumped headfirst into the world of shop-in-shop concepts, looking to drive visits, increase basket size, and create engagement with new audiences.

The results so far are incredibly promising, with many retailers seeing locations with shops-in-shop benefit from greater year-over-year (YoY) and year-over-three-year (Yo3Y) visit boosts than those without. The concept also has a unique level of staying power in that it dovetails with a rising interest in finding better ways of engaging in physical retail on the part of different digitally native brands, product oriented companies, or even [struggling retailers](#). The concept emphasizes a significant, but often overlooked element of physical locations – they can serve as a platform for brands to maximize their reach. In a digital age that has been heavily influenced by the ability to cross-sell online, leading brick-and-mortar retailers are now bringing that same capability to the physical store.

### Shifts in Store Size

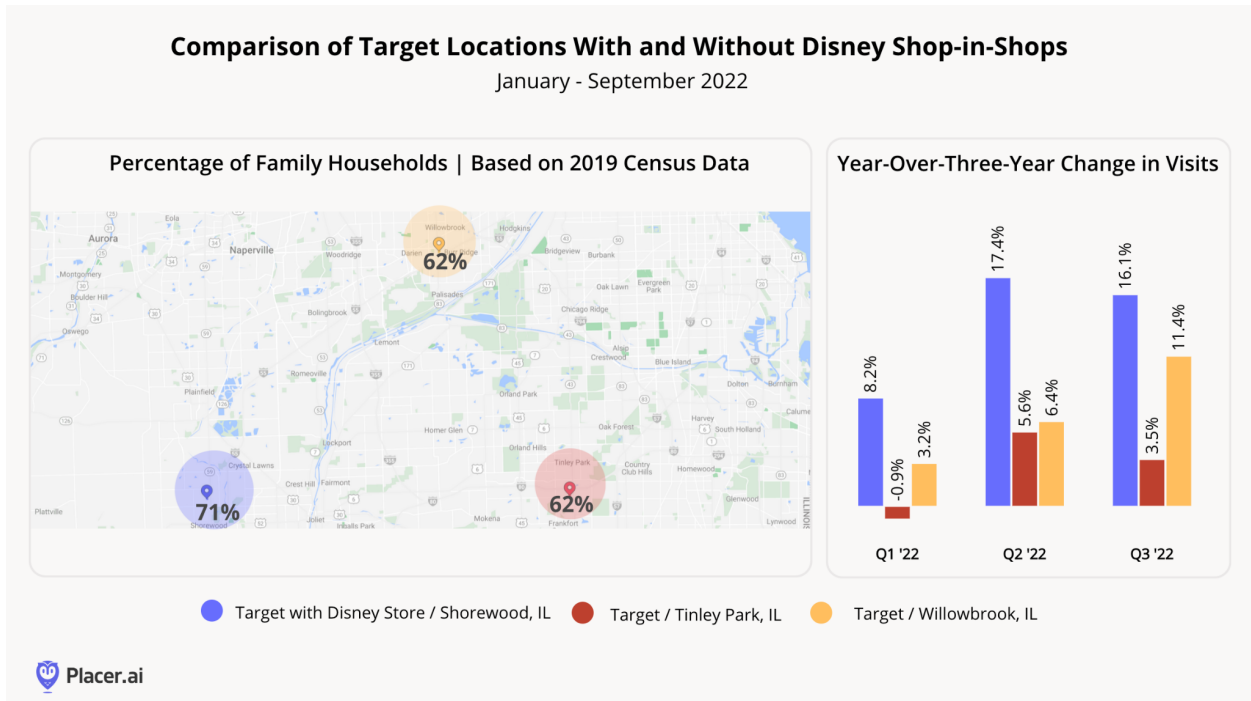
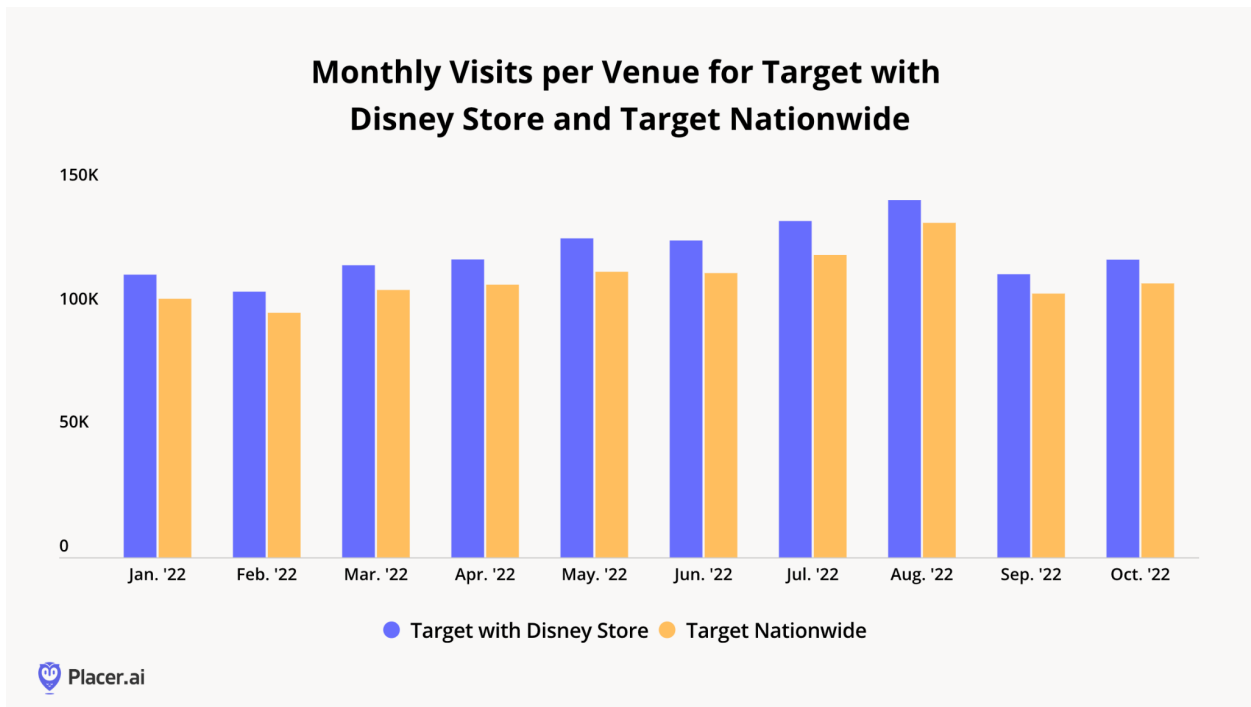
Another important aspect of the experimentation with new store formats centers around shifts in store size. Whether it be embracing [small-format stores](#) or making stores even [larger](#), format flexibility is a key component of maximizing a company's retail footprint. Small locations can enable retailers to maximize impact in a given market, identify the ideal locations to reach core audiences, and improve the marketing value of a store – all with a focus on keeping costs down. Larger locations can create space for more [experiential](#) concepts and even advanced distribution capabilities.



Format flexibility is a key component of maximizing a company's retail footprint.

The critical idea, though, is that retailers have many ways to optimize their physical presence beyond just choosing an appropriate site for their store. And this flexibility empowers companies to focus more on bringing the right products to the right audiences

and to maximizing the impact of each location – a process that will ultimately drive greater success.





## The Mall Waterfall / Rise of the B Mall

The idea that the U.S. is fundamentally overmalled is almost as widespread as the retail apocalypse narrative. But while there is truth to this argument, a key trend indicates that the narrative may be exaggerated.

The wider diversity of tenants coming to top tier malls and the growing number of brands jostling for these now limited openings has increased competition for space, driving many potential tenants to look elsewhere. Alternatives include open-air lifestyle centers, downtown areas, and strip centers, as well as shop-in-shops and pop-ups.

But there is also the very real potential for retailers to look at less popular malls for their next location – and the opportunity here is significant. Retailers that had struggled to stand out within a packed top-tier mall may find that their role in a lower-class mall is actually elevated, giving them a stronger position within the market and more sales. And if these malls shift their focus from competing with the regional supermalls to focusing on specific audiences or providing differentiated experiences, the potential symbiosis can be powerful.

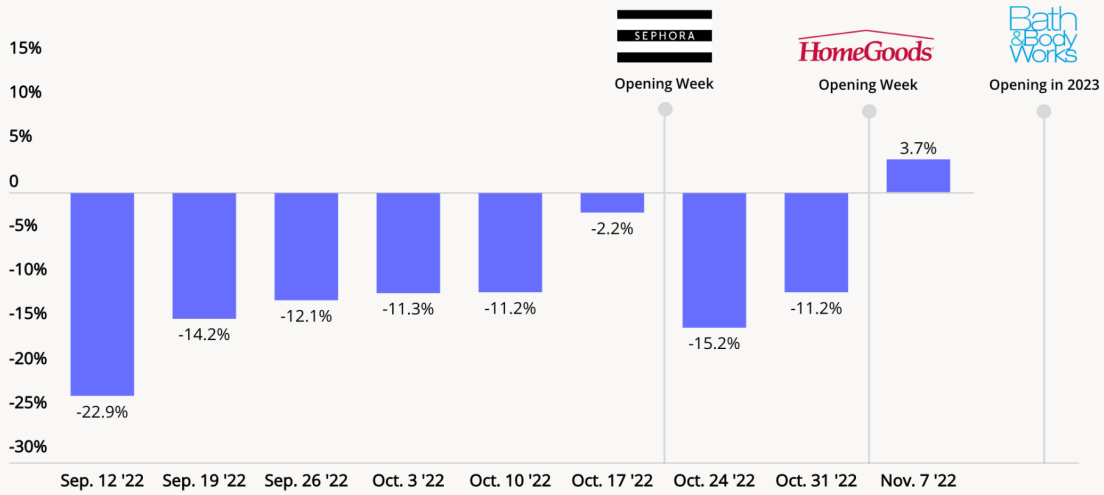


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Critically, the rise of lower-tier malls demands that these shopping centers embrace the opportunity and focus on differentiation and audience targeting as means of driving necessary visits – especially considering the strength of top tier malls is increasing, not diminishing. But, if this shift does take place, it will prove that the magnitude to which we are in fact overmalled is far less than previously expected.

## Change in Weekly Visits to Trenholm Plaza / Columbia, SC

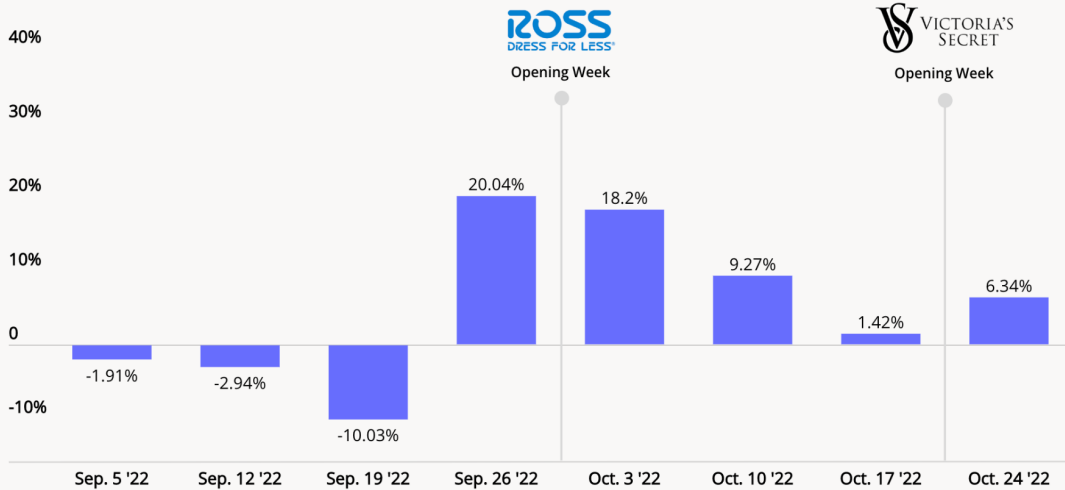
Year-Over-Three-Year Comparison



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## Change in Weekly Visits to Sun Plaza / Dublin, OH

Year-Over-Year Comparison



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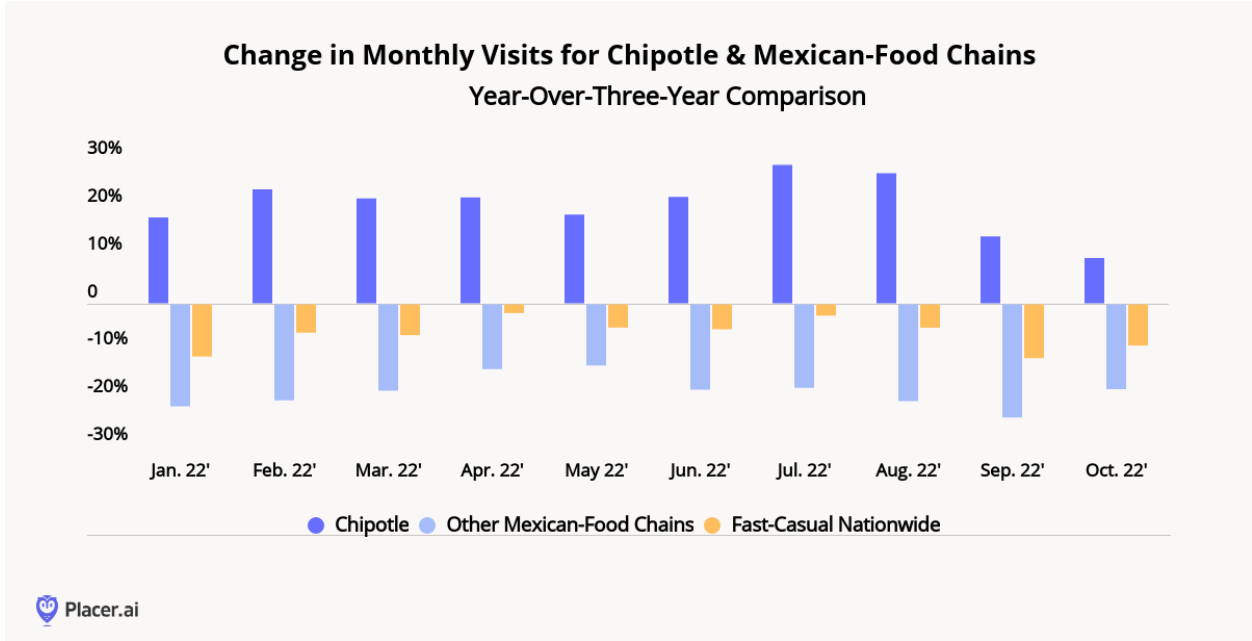
# Dining Facing Inflation Obstacles

The past year has been challenging for consumers and for restaurants. Rising food and labor costs led to steep price increases at Quick Service Restaurants (QSRs), Fast Casual Restaurants, and other dining concepts. Many chains raised menu prices by high-single-digit or low-double-digit percentages in the past 12 months – and Chipotle is no exception. Nevertheless, the company has done exceptionally well compared to pre-pandemic levels, with Yo3Y visits up each month of the year 2022. Other Mexican-themed dining chains have not seen the same success.

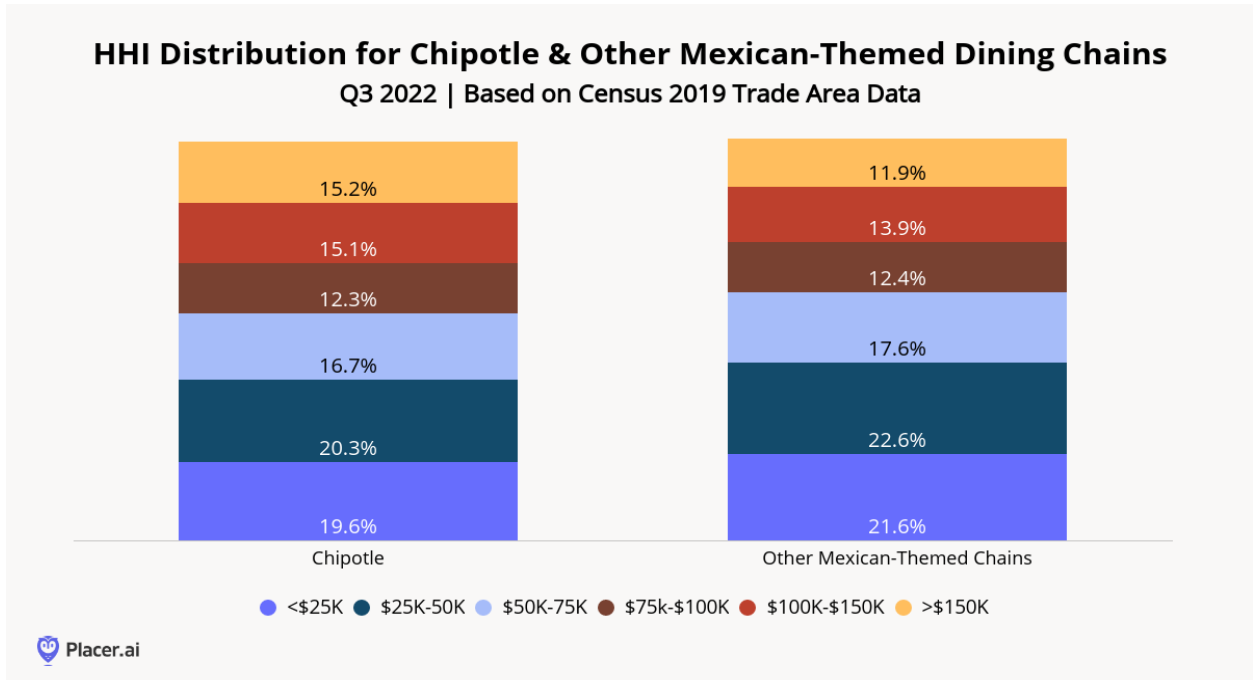
Over the past year, Chipotle has employed several strategies to offset increased costs and boost traffic to its locations. The brand’s successes include new menu innovations like its Garlic Guajillo Steak limited-time offer, effective digital marketing, and strong performance from new stores (many of which feature “Chipotlanes” pickup windows and have been located in [smaller markets](#), where the chain has seen strong visitation trends as of late).



Chipotle has employed several strategies to offset increased costs and boost traffic to its locations.



Chipotle has also insulated itself from price increases by attracting higher earners, which can be seen by comparing household income (HHI) data for the True Trade Area (TTA) of Chipotle with other Mexican-themed dining chains. In Q3 2022, over 30% of residents in Chipotle’s TTA had a HHI of over 100K, compared to less than 26% of residents for the TTAs of other Mexican-themed dining chains. This gives Chipotle a significant advantage during times of tighter consumer budgets, as high-income consumers are less likely to limit their daily food spending as a result of inflation-driven price increases.



## Migration Trends Stabilizing

Yes, a lot of people moved to new places in recent years. And while much of this was a hastening of [pre-existing trends](#), there are major opportunities that come from migration shifts – especially now that these patterns are settling.

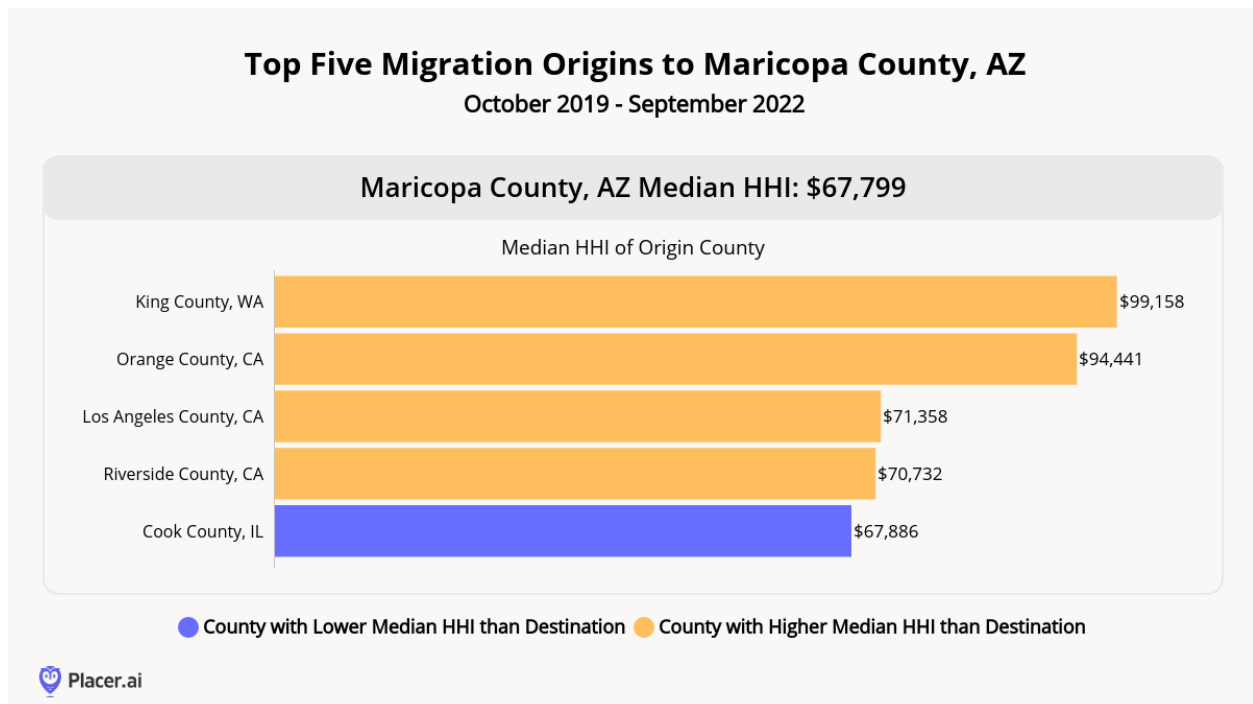
In some cases, the opportunity centers around the movement of high income consumers into new areas where first time demand can drive a significant wave of visits and spend to key categories such as [home improvement and home furnishings](#). The influx of new shoppers can also boost the ability of certain retailers to tap into markets that might have previously been less capable of enjoying their offerings. For example, some wholesale club

leaders saw an [increase in younger visitors](#) as former urban residents moved to larger homes in the suburbs, giving them both the physical space at home and the proximity to wholesale stores to avail themselves of membership club offerings.

But migration trends are not just bringing new and affluent audiences to the suburbs – the shifts are being seen in many major urban areas too. Residential areas within major cities are seeing a boost, and there were signs early in the pandemic that newer – and in some cases – younger audiences were coming to major urban areas. This could provide a necessary boost and even create unique opportunities for those retailers looking to reach Gen Z – a cohort that is uniquely affected by physical brand engagement.

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The ultimate takeaway? The impact of migration shifts is significant. For those retailers, product companies, and landlords that are aware of the shifts within these audiences and know what can be done to excite them – a major opportunity awaits.



## Top Five Migration Origins to Ada County, ID

October 2019 - September 2022

Ada County, ID Median HHI: \$69,952

Median HHI of Origin County



● County with Higher Median HHI than Destination



## The Office Recovery Question Will Be a Dominant Narrative

The rise of hybrid work has empowered professionals across the country to take greater control over their schedules and remove time consuming commutes. Yet, the trend has also had a major effect on the real estate sector, with [many companies reevaluating their office needs](#). There are also significant side effects from these decisions that impact local restaurants and retailers for whom the traditional flow of traffic had been a significant source of visits.

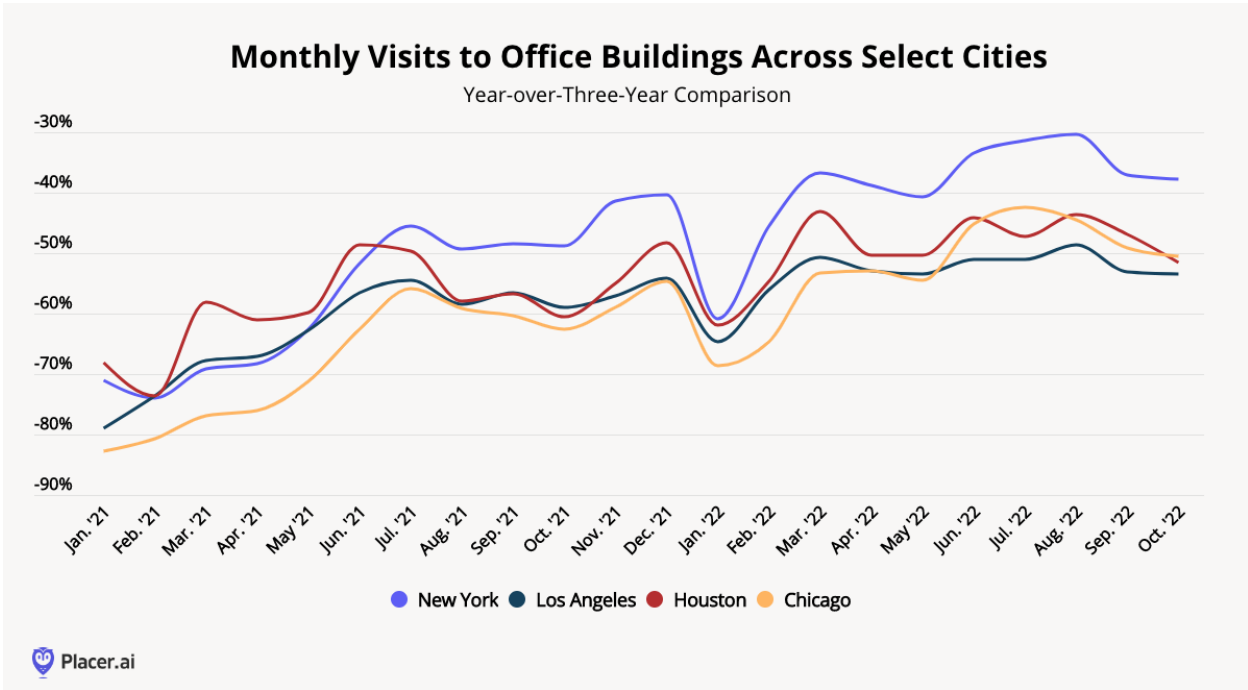
So, what can we expect from the office recovery?

While the visit recovery to offices in major cities throughout the country was consistently inching towards 2019 levels earlier in 2022, the trend has plateaued in recent months. This could indicate that a new equilibrium has emerged and that the current office occupancy patterns will likely serve as the new baseline. At the same time, there are an array of factors that muddy the waters for such a conclusion, including the challenges currently facing top

tech companies, continued inflation, high gas prices, and the time it could take for migration patterns to settle.



Recent trends indicate that a new equilibrium has emerged and that the current office occupancy patterns will likely serve as the new baseline.



The likeliest scenario is that Q1 will bring a boost to the workplace recovery process, though a full return to pre-pandemic norms will remain elusive. Still, many workers do seem to [prefer hybrid work](#) to a fully remote model – so offices will continue to play an important function in attracting employees and promoting an appealing company culture. But the changing role of the office means that location will no longer be a primary concern, since employees who come in a couple times a week will likely be willing to put up with longer commutes. Instead, the focus will shift to investing in amenities, meeting spaces, and other placemaking elements that allow companies to appeal to employees and boost the employer’s value and status. In addition, challenges currently facing some major

employers could shift the power balance of where we work more into the hands of employees.

Virtual work is clearly going to have a lasting impact on professional decisions and office environments, but expect the conversation around the ideal long-term balance to cement itself in the coming year. Although the office recovery patterns are stabilizing, the current situation is likely not the endpoint.

## Q1's Big Retail Bump

The summer shopping season was always going to face significant challenges because of the difficult comparison to a [particularly successful](#) season in 2021. And the same pattern will likely happen in reverse when looking at brick-and-mortar visits to retail locations in December considering COVID's impact on retail towards the end of last year.

The significant influence of the previous year's unusual foot traffic patterns on YoY comparisons will likely continue in 2023, when the start of the year could see a particularly strong YoY boost. The Omicron variant had a massive impact on visits across the country in January and February 2022 as record COVID cases swept the nation. This sets a very low bar that should be exceeded by many different retailers and tenant segments in 2023.



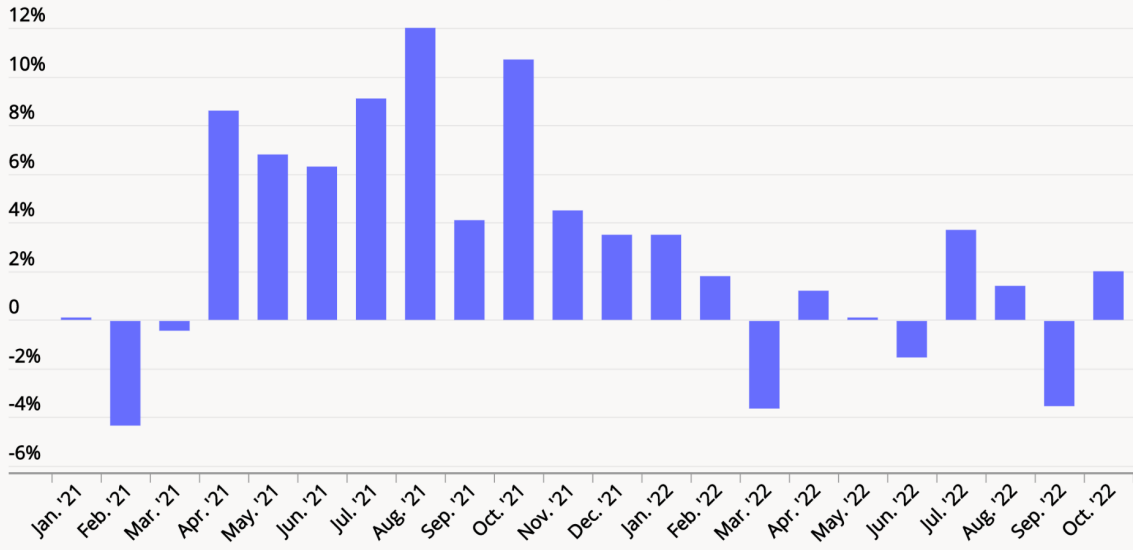
**Q1 2022's brick-and-mortar retail performance sets a very low bar that should be exceeded by many different retailers and tenant segments in 2023.**

Even some of the strongest performing segments – like fitness – saw visits plunge in January, which could present an opportunity for outsized gains considering that sector's normally significant Q1 seasonal peak. The beginning of the year also offers another opportunity for retailers to drive urgency on returns and gift card use from the holiday season, potentially driving an even greater post-Christmas peak in visits.



## Change in Monthly Visits to Overall Retail Nationwide

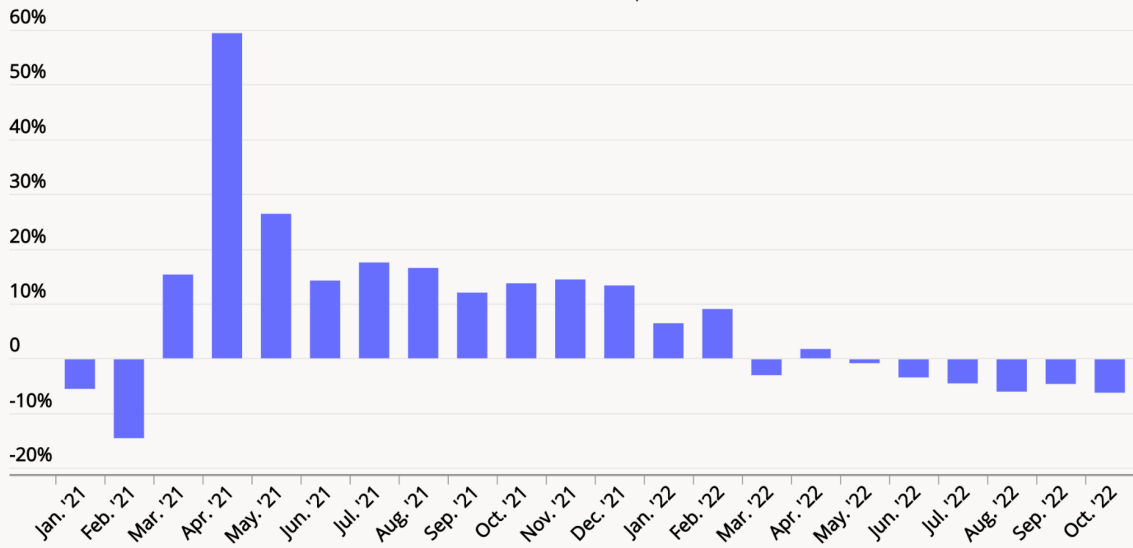
Year-over-Three-Year Comparison



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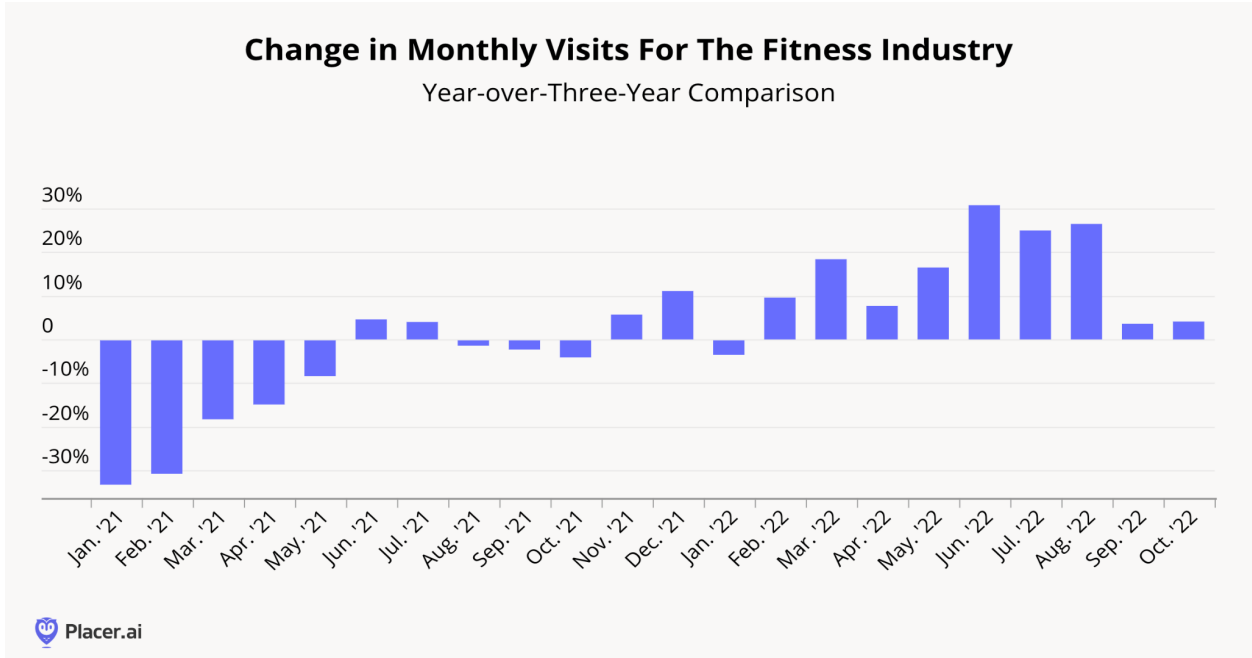


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# Patience

The pandemic kicked off an extended period of extreme volatility. While this is perhaps the most obvious statement one can make, it is very important to keep in mind. Why? Because there are some retailers and retail segments that have been unfairly impacted by the unique elements of this volatility that are still likely to bounce back.

One compelling example is the fitness sector. By mid-2020, many were convinced that the rise of Peloton and other [connected fitness brands](#) signaled the demise of physical gyms. And while connected fitness is still a very exciting segment, the prediction of a fundamental transformation in how we exercise was clearly premature. Fitness chains like Planet Fitness, Blink Fitness and others didn't just recover, they rebounded with such strength that they were among the [biggest winners of 2022](#). And the fitness segment will likely remain strong – despite the economic headwinds – thanks to lower monthly fees from chains like Planet Fitness, high interest in health and wellness, and increased connected fitness options from the chains themselves.



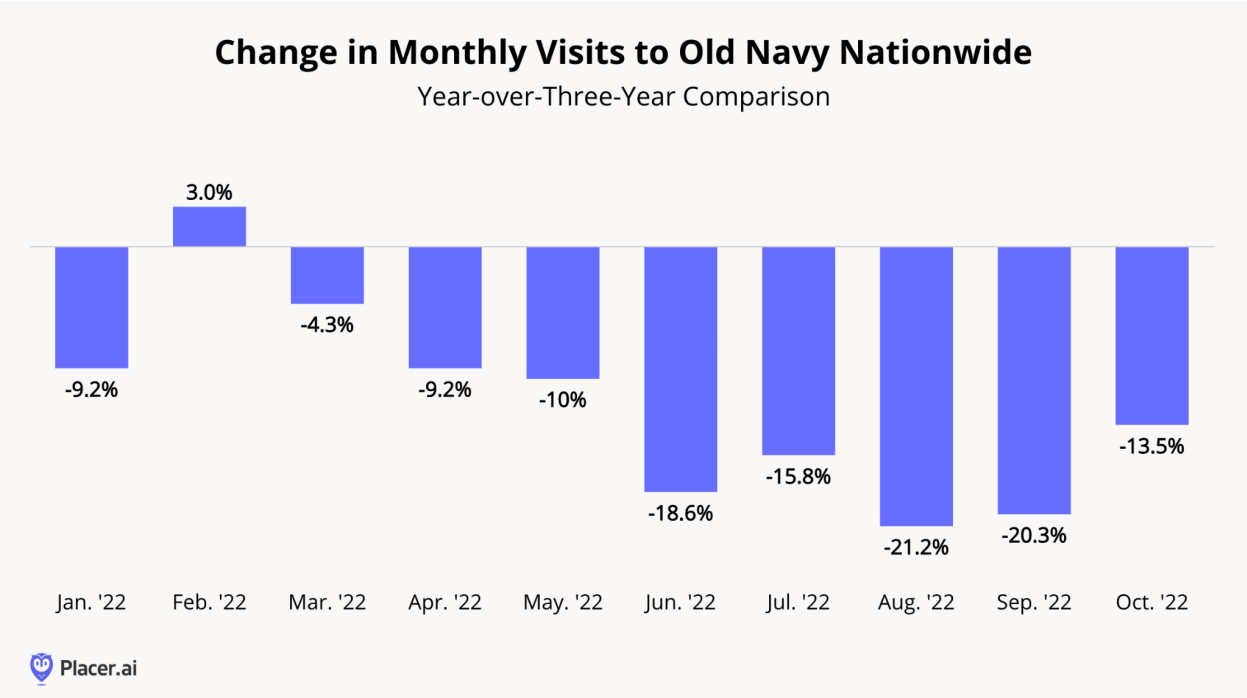
The fitness recovery story is critical because the model can be applied to other service segments like full-service restaurants, and retail chains like Old Navy, that were also heavily affected by the unique events of the last few years – and that may experience a similar

comeback. The recovery potential of the full-service dining category can only be appreciated in the context of the category's strong performance every time the wider health or economic environments showed even the slightest bit of forgiveness. And predicting what 2023 holds for retailers like Old Navy requires looking beyond the last three years to remember pre-pandemic trends when the [driving narrative](#) held that the retailer was so strong it needed to spin off from its parent company.



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Does it mean that every brand that struggled will recover with aplomb? Of course not. But it does push us to take a wider view at both pandemic overperformers and underperformers before we become completely convinced that a positive or negative trajectory must, by definition, continue even as the wider environment normalizes.



## Key Takeaways

1. **Retail Media Networks:** In-store media networks are an exciting channel that could help drive increased revenues for retailers, landlords, and product companies. But their true value comes from the shift they necessitate in widening our understanding of the full potential of the retail location. Retail media networks don't just signal a new and critical channel, but a fundamental step forward in how retail will evolve.
2. **Tenant Diversity:** The definition of what belongs in a retail center is changing, and with this blurring of traditional tenancy perspectives come powerful opportunities. Landlords are able to create more immersive experiences that augment performance by strengthening current non-peak periods and creating more reasons for a visit.
3. **Format Evolutions:** Retail is being defined by a push to flexibility – in the overall size of stores, in the things being sold within them, and in the places where they are located. From shop-in-shop concepts to adjusting store footprints to drive more exciting innovations and/or to reach different audiences in premium locations – the shift is on and its impact will be significant. This is especially true because it empowers retailers to maximize the impact of each store, and to identify the ideal path to market penetration less limited by traditional constraints.
4. **Mall Waterfall:** Top tier malls are thriving and the result has been a major push by retailers to increase their presence in these locations. This is happening at the same time as many of these malls are looking to decrease their focus on traditional tenants and widen their focus to non-traditional tenants. The result is greater competition for limited spaces. So where will the tenants go? While there are a range of options, one area that could see an immediate boost is second tier malls. And if they embrace the shift and focus on differentiation and better audience targeting, the wider bump that top tier malls have seen could drive a trickle down process of success to others below.

5. **Dining Resilience:** COVID and inflation have challenged many major dining chains, but the ability of companies such as Chipotle to overcome the successive obstacles indicates that the right strategy can still lead to success. Other dining concepts looking to offset rising costs by boosting traffic can learn from Chipotle's approach and introduce menu innovations, engage in effective digital marketing, and open new stores and drive-thrus in smaller, high-demand markets.
6. **Migration:** Migration patterns are settling, which is enabling companies to better understand which shifts were longer-lasting and which were more a "flash in the pan". The result is an opportunity to focus efforts on addressing new needs early and grabbing a first-mover advantage to serve and develop relationships with recently migrated audiences.
7. **Office:** Office work was fundamentally disrupted over COVID, and while a comeback has certainly occurred, visits are still far from where they were pre-pandemic. While virtual work's impact will clearly last, the true magnitude is still unclear – but the long-term effects of the shift to hybrid and remote work should become far clearer in the coming year. In short, the "new normal" is not here yet, but we should be able to define it in 2023.
8. **Q1 Retail Bump:** The rise of Omicron had a heavy effect on brick-and-mortar performance in Q1 of 2022, and this low bar should give some sectors the chance to show outsized gains to start the year. The Q1 2023 bump could be especially important for segments like fitness, which traditionally see major peaks to start the year.
9. **Patience:** The pandemic kicked off an extended multi-year period of tremendous volatility. And as a result, some companies and segments look much worse – or in some cases better – than they should. The need for patience is critical as the return of greater degrees of retail normalcy will provide significant boosts to some and limitations to others. But the question of how much of the success/failure for this chain is related to external factors and not their core strength is a significant one to keep in mind.