Propositions for Tomorrow's Retail Part 1: Evolve the Revenue Model

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What do you like about where you live? If you ask this question, most people will probably bring up a nearby park, or theater, most certainly favorite restaurants will be mentioned. Then stores might appear on the list: this clothing boutique, a zany gift place, other specialized offerings where one feels welcome and at ease. We all carry a mental map of all the "good places" around us, which help make our home a great place to be. For me, it is the old-time Pizza place on Fifth Avenue, that great coffee spot with the self-important baristas, Housing Works, the local outpost of the amazing thrift store chain started by four Act Up Aid activists, and a few others.

But I have another mental map just as easily summoned: that of all the stores that disappeared over the years. Flirt, for example, a wonderful, very girly clothing and jewelry place that supplied birthday presents for my kids' friends for years, a local bookstore, or too many restaurants to list. Small scale "mom and pop" retail and restaurants are, as we well know, tenuous business propositions, for many reasons, led by the price of rent, employee and liability costs, "showrooming" and the fast and free delivery offered by online competitors.

There is little doubt in my mind that great local retail is an essential part of the makeup of a quality neighborhood. Further, we know that quality retail attracts other quality retail since it drives "qualified foot traffic": once the right customer is near, it becomes easier to divert her into another store. This is the secret sauce that makes for great malls: smart leasing operations at places like Simon Malls and others are well aware of the necessity to host certain brands as part of their offering for others to consider joining their mix. It is well known for example for Zara of group Intermix, to obtain lower rents and much more favorable lease terms than other similar fast-fashion retailers as "if you don't have a Zara, you don't have a mall." Similarly in the luxury segment, many brands will not locate in a new environment if Louis Vuitton is not part of the mix, a well-established truth that allowed Louis Vuitton to arrange for unheard of lease terms at their new Hudson Yards store when that mall opened in 2019 (contact the author for details). As is the case for many things in life, good things will beget good things whereas bad outcomes -store closings, for example, or too many banks or check cashing places, or Dollar Stores in an area- will lead to worse things.

Hence two unrelated ideas to help today's retailers. Since it is increasingly hard for them to make ends meet, and since they indirectly accrue value to local real estate, we should, first, encourage retailers to diversify their income by developing revenue sources separate from product sales and, second, develop systems to leverage the action of real estate based community organizations such as Business Improvement Districts, Empowerment Zones or Local Development Corporations that include a form of value capture from local real estate to benefit them. My objective here is to discuss the first of these two, while the second one will be the subject of its own article, hopefully in the near future.

To get us started, and while we all bemoan how difficult it is for retailers to make a living, we should recognize that surviving in todays' business environment requires being willing to rethink stores relationship to the customer and what it means to be a shopkeeper. Shop owners have to be willing to think outside the box and consider new business models to survive, or thrive. Further, they should strive to better communicate how integral they are to the success of their neighborhoods. Capitalizing on this essential but ignored insight will help them realize income that is not part of their P&L at this time.

Encouraging retailers to develop non-sales-based income is a distinct path from existing experiments with what is typically labeled Community Supported Retail. That label covers as many iterations of setups as to capital and operations as there are stores themselves, and typically involves the community taking an active hand in the ownership and operation of the store. I will cite one here as an example: the famous Park Slope Food Coop, in Brooklyn, New York, which regularly draws interest from the New York Times, where every shopper is both a shareholder and a worker.
I don't believe the current model of Community Supported Retail is scalable. Rather, and to address the idea that retailer should diversify their income, I postulate that restaurants and retailers that bring high value and personality to their neighborhood should engage a dialogue with their customers in a way that will make it clear to them that they do so, and encourage them to support them financially above and beyond the value of the purchase of goods and services on a given visit while also, and where possible, provide them with meaningful membership benefits.

The model suggested here is different from Community Supported Retail or Cooperatives in that it does not involve shares or ownership of any kind. It is also different from models such as that of Costco, and its 785 stores, or of One Medical (again here in New York) which require that all shoppers be members and pay fees. Rather, stores would mix direct sales, as they do now, with elements of membership or superior levels of service with recurring fees. It seems off-putting to the street experience to imagine that every store would require a membership. But it is easier to accept that stores and restaurants would offer regulars a greater level of service in exchange for the security of a yearly fee.

`The responses to local crowdfunding initiatives are based on consumer attitudes and preferences that suggest recurring fees might be viable. Again, some retailers in Brooklyn -- a fertile ground of experimentation -- suggest that it is possible that locals will recognize the value of quality retail nearby and be willing to pay for it. Here are a few examples:

> A) One was put forward by a local bar and music joint, Barbes (live music every night!). Their pitch was straightforward (and you can discover it here: https://www.indiegogo.com/projects/barbes-needs-help--3#/): They told the neighborhood: "We owe money. We know you won't buy a glass of our wine for more than $10 as there is a mental block to that price in our area, but that is not enough for us to pay the rent. Still, Barbes' existence is good for the neighborhood. And even if you

only visit us twice a year, you want us to be there when you are ready to. Help us!" They raised $67K out of their goal of $70K and (at least pre-Covid 19) were still in business.

It seemed to me that there was a powerful idea in this pitch, linking a very real mental ceiling for prices on the consumption of a given item (here a glass of wine or beer) versus the willingness of locals to make a contribution towards the existence of the business itself, most likely for a larger monetary amount.

B) Another example comes from Please, one of the nicer storefronts on nearby Fifth Avenue. To date, they raised $4,600 on a goal of $18,000 in their "show us your love" campaign (see it here: https://www.gofundme.com/f/please-brooklyn-beloved-body-shop). I donated, as their brightly lit corner and the friendly people it attracts in the evening is an important anchor for our part of town. In both cases, the stores offered rewards for their financial supporters.

How to move from direct crowdfunding initiatives like these towards ongoing "membership fees" and their attached services will require a whole new education of the customers and long term residents in a given area, as well as a careful analysis of what benefits any store can realistically deliver. But I believe stores and restaurants could start by developing a whole array of special benefits that would accrue to these financial supporters. For example, a restaurant that does not usually offer reservations might offer this option to its "members", as well as take note of their favorite table and ensure they get to enjoy it upon visiting. Chef's evenings or cooking lessons might be added to the mix. A store could have members-only evenings or sales or events, such as same-day local delivery or the ability to use credit cards even on microtransactions. People might wish to volunteer there -as they do at the popular Housing Works chain in New York.

Events and access to special information about the store and its merchandise might also be an avenue to explore: previews of new collections or product arrivals, there are many ways to create an experience around the use of a product. Liquor stores have wine tastings, bookstores have book readings, could such events gain in attendance and prestige by having their access somewhat limited by the requirement for attendees to become supporting members of a store?
Much like museums and other cultural institutions have long learned to engage their choice patrons with a range of activities that go beyond that available to the casual visitor, so it might make sense to encourage retailers to think along those lines.

Managing the transition to this suggested "merchandise plus" model will further allow retailers to differentiate themselves from online offerings and chains that compete on brand familiarity and lower costs by offering a level of service and engagement with the consumer that they cannot hope to replicate. Certainly, it would require more work on the part of the store owner, and the management of a whole new type of activity, but these will be immediately rewarding via the initial contribution and likely aggregate repeat business that will evolve from this new relationship.