An Evolution of Malls:
Past, Present, and Future

Invited Chapter for *The DeMallification of the US*, ed. Christian Gilde, Routledge 2019

Anthony Dukes (University of Southern California)

Many Americans have lasting memories of their suburban mall—long corridors of boutique shoes, home, and clothing shops, the food court, movie theaters, and novelty kiosks. Therefore, it is not surprising that people are saddened by the closure of a mall in their suburb. By most accounts, suburban malls across the country are going through a slow and drawn-out death. When a mall is not closing, per se, it is often repurposed into an office space, a mega church, or a "lifestyle center."

Why are malls dying? Can they continue to exist in a market dominated by online retailing? And, if so, what will they look like? This chapter provides answers to these questions by looking at *shopping economics*—namely, the microeconomic incentives of the shopping process and how social and technological trends affect this process. Through this lens, the chapter explorers the rise of the suburban mall in mid-twentieth century America and why it is currently in decline. Then the chapter extends this lens to investigate what future malls might look like.

The Dismal Signs

There is good reason to portend the death of the classic suburban mall. The total number of mall visits in the U.S. has been decreasing since the 2014.[1] Consider also the following facts:

- In 2017, 20% of malls reported vacancy rates of over 10%, up from 6% in 2006.[2]
- Real estate investors expect a quarter of the 1,100 malls in U.S. to close by 2022.[3]

[1] Falk, Adam (2017), "A brief history of retail," *Wall Street Journal*, September 17, 2017.
[2] Schwartz, Nelson (2015),"The Economics (and Nostalgia) of Dead Malls," *New York Times*, January 3.
[3] Sanburn, Josh (2017), "Why the Death of Malls Is About More Than Shopping" *Time*, July 20.

- In 2007, 24% of mall survey respondents noticed mall store vacancies. In 2017, that number reached 48%.[4]
- Revenue in the mall management industry has continuously declined more than 1% annually over the past 5 years and over 2.5% in 2017. Five-year forecasts show an even greater decline.[5]

Complementing these economic data are sentiments found in online forums such as deadmalls.com. Users share their personal relationships with a dying or dead mall and upload post-apocalyptic photos of empty corridors and shuttered storefronts. More than simply the loss of a place to shop, these anecdotes suggest that malls represent an important aspect of twentieth-century American culture and makes one wonder: How could such an important retail institution be allowed to decay?

It is very unlikely that the decline of the shopping mall is due to the normal business cycle and decreased economic activity. Measures of GDP have consistently increased—on average, over 2% per year (in nominal terms) since 2009[6]—and unemployment has steadily diminished over the same period.[7] In fact, consumers are spending more since the Great Recession of 2008, and clearly, they are buying things.

Online/Offline

It is tempting to explain the decline of the suburban mall by changing generational tastes. Marketing researchers and demographers point to Millennials, those born before the 1990s, and their distinct preferences. For example, younger generations have collectively eschewed car ownership, making them less likely to travel by car to a mall,[8] a pattern that is consistent with the re-urbanization of many downtowns. Just as families in the latter half of the twentieth

[4] Survey conducted by Mintel Research, Shopping Malls, March 2013.
[5] IBISWorld Industry Report OD04700, *Shopping Mall Management in the US*, February 2017.
[6] Nominal GDP. Source: Public data from the U.S. Bureau of Economic of Economic Analysis.
[7] Source: Public data from the U.S. Bureau of Labor Statistics.
[8] See "Demographic Shifts: Shaping the Future of Car Ownership," from *Knowledge @ Wharton* and Ross, Darren (2014), "Millennials Don't Care About Owning Cars and Car Makers Can't Figure Out Why," *Fast Company*, March 26.

century moved to the suburbs in order to have a house, garage, and yard, younger generations seem to prefer the infrastructure of downtowns.

Some also make the case that developers' expectations in the 1990s exceeded reality, leaving us "over-malled." In 2017, the U.S. had 2,751 square feet of retail space for 1,000 people, 10 times the rate of Mexico.[9] How could so many developers get it wrong? It may seem obvious now, but before the 2000s, few outside of Silicon Valley could visualize how the internet would change retail.

But it is now impossible not to associate the decline of the mall with the growth of online retailing. Online sales grew 16% annually in 2018, outpacing overall retail sales growth of only 5%.[10] And, according to Mintel Research, 27% of survey respondents indicate they plan to increase the amount they buy from Amazon—an amount that does not include additional increases in other online shopping.[11]

Developers' miscalculations and intergenerational preferences help to explain short-term patterns in retail. But, as this chapter will show, the growth of online shopping goes farther in explaining the long-term evolution of the mall.

A Trip to the Mall

Before the possibility of shopping online, one did not pay much attention to the fact that going to the mall required significant effort: driving, parking, walking, and carrying purchases back home. Once inside the mall, people trekked through long corridors—up and down escalators—comparing prices and styles in different stores until they settled on a purchase. People paid little attention to these efforts because there was no better alternative.

[9] Whelan, Robbie (2018), "Why So Many Shopping Malls are Being Built in Mexico: While U.S. Malls are Dying a Slow Death, Malls in Mexico are Thriving," *Wall Street Journal*, February 13.
[10] Source: U.S. Census Bureau News, August 17, 2018. Figures adjusted for seasonal variation, but not price changes.
[11] Survey conducted by Mintel Research, Shopping Malls, March 2013.

Types of Shopping Costs

Any shopping trip involves two types of costs: transaction costs and inspection costs. The costs exclude price or any amount actually paid to the seller. A *transaction* cost is the time spent driving to the store—time that could have been spent doing something else, like working or enjoying a good book. This type of cost includes wear-and-tear on the car, as well as the effort required to carry purchases from the store to the car and then home. Transaction costs represent all costs incurred by a shopper, excluding the price paid for an item, when he/she does not have to figure out what to buy.

Inspection costs represent the effort put into comparing products and prices. Buying a replacement battery for a home appliance requires only a transaction cost, not an inspection cost. By contrast, a college student searching for the right pair of shoes for a job interview incurs both types of shopping costs.

Total shopping costs, namely, the sum of transaction and inspection costs, are real—an economist could put a dollar amount on its value[12]—and a smart profiteer can figure out how to make money by reducing the cost. Marketers of the 1950s determined that, if they could persuade stores to place themselves in one location, all of the stores would then attract more customers. Social scientists, including myself, have studied the economic processes that make a mall possible. This area of study, known as a*gglomeration*,[13] asks the question: What market conditions must be in place before the free market will produce a mall?

Agglomeration in Equilibrium

The mall eventually became a "one-stop shop" for most of a shopper's needs. Rather than travel from store to store through a congested downtown, consumers could buy items with lower shopping costs. But why were there not malls before there were malls? Practically, the

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[12] Economists have done just this for the purchase of insurance, estimating that inspection costs were between $35 and $170. Honka, Elisabeth (2014), "Quantifying search and switching costs in the US auto insurance industry," *Rand Journal of Economics*, Vol. 45(4): 847-884.

[13] The German economist, Konrad Stahl, is credited with developing many of the formal ideas of agglomeration in a pair of 1982 articles: "Consumer Search and the Spatial Distribution of Retailing", *Journal of Industrial Economics*, Vol. 31, 1/2, September/December 1982, 97-114 and "Location and Spatial Pricing Theory with Nonconvex Transportation Cost Schedules", *Bell Journal of Economics*, vol. 13, 2, Autumn 1982, 575-582.

mall had to be outside of town, where there was plenty of land available to build a structure to house the stores. The challenge for early mall developers was ensuring that customers would find it in their best interest to make the effort to shop outside of town.

Therefore, it is no coincidence that the growth of malls in the second half of the twentieth century coincides with the increase in automobile ownership. Between 1950 and 1990, automobile registration increased 235% (6% annually)—faster than the population growth.[14] The increased availability of cars meant that shoppers could reasonably drive from the suburb to the mall, provided there was ample parking.[15]

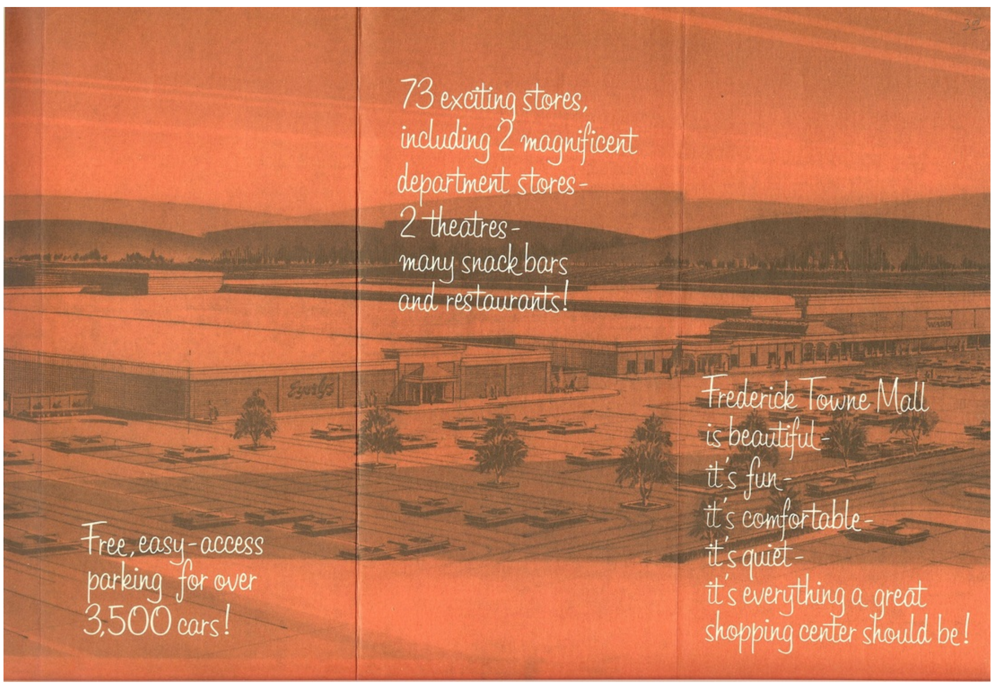

Exhibit 1: Marketing Flyer from a Mall Opening in 1972 (Photo courtesy of Christopher Haugh)

There is no mall without stores to populate it. And, there are no customers to shop at the mall if they do not expect a better shopping alternative. The potential to reduce transaction costs was the mall owners' selling point in bringing shoppers and shop owners together—known as agglomeration in equilibrium. This notion goes far in explaining the explosion of malls in the 1970s and 1980s. Car ownership combined with cheap real estate outside of the city created an

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[14] Publically available data from the Office of Highway Policy Information, Federal Highway Administration.
[15] The Westfield Century City Mall in Los Angeles has 5,000 parking spaces and serves 20 million customers annually (Source: Skidata Parking Management website.)

opportunity for mall developers to reduce transaction costs for the joint benefit of shop owners and consumers—that is, rent space to shop owners and attract more shoppers interested in cutting their transaction costs. Mall marketing, as illustrated in Exhibit 1, highlights these selling points.

There is empirical evidence of "mall effects" with big-box retailers. In a 2011 article,[16] my co-authors and I demonstrated that the entry of a big-box discounter, such as Walmart or Target, created mall effects for local incumbent grocery stores. We found that because discounters carry products that grocery stores do not, shoppers who visit a Walmart, for example, find it practical to also visit the neighboring grocery store.[17]

The previous story explains why *some* shop owners sign up with a mall developer. Having a shoe store, a record store, and a drug store all under one roof makes a lot of sense, but developers also rent space to multiple stores in the same categories. Marketing fundamentals tell any shop owner to not be too close to a competitor. If it is easy to compare prices, sellers will then offer heavy discounts in order to win market share. Why, then, do so many sellers of shoes co-exist in a single mall? There is more to the agglomeration story.

The reason lies in the fact that consumers now have many alternatives for products to choose from. Over the past half- century, labor and global shipping costs have been declining dramatically, greatly impacting the variety of consumer products available. This has been particularly true for apparel, which is manufactured in low-wage countries and shipped to the U.S. Having a larger variety of shoes, clothes, and other fashion products raises the possibilities of what consumers can acquire. It alters the incentives of shopping because consumers expect that, and if consumers look long enough, they will find exactly what they are looking for (Exhibit 2). Because lower inspection costs enable a shopper to sample more from this increased variety, most of the consumers are willing to pay more for the perfect product.

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[16] Zhu, T., V. Singh, and A. Dukes (2011), "Local Competition, Entry, and Agglomeration," *Quantitative Marketing and Economics*, June.

[17] The data in this study considered Wal-Mart's that did not carry a wide selection of grocery items like fresh produce and upscale packaged goods.

Therefore, for sellers of products for which consumers have a wide variety of tastes (i.e., clothing or shoes), the reduction of inspection costs means higher prices. Hence, agglomeration can lower all forms of shopping costs and generate joint benefits for consumers and shop owners alike. Here agglomeration arises in equilibrium, not simply for multi-purchase occasions, but also for a simple purchase of a pair of shoes.

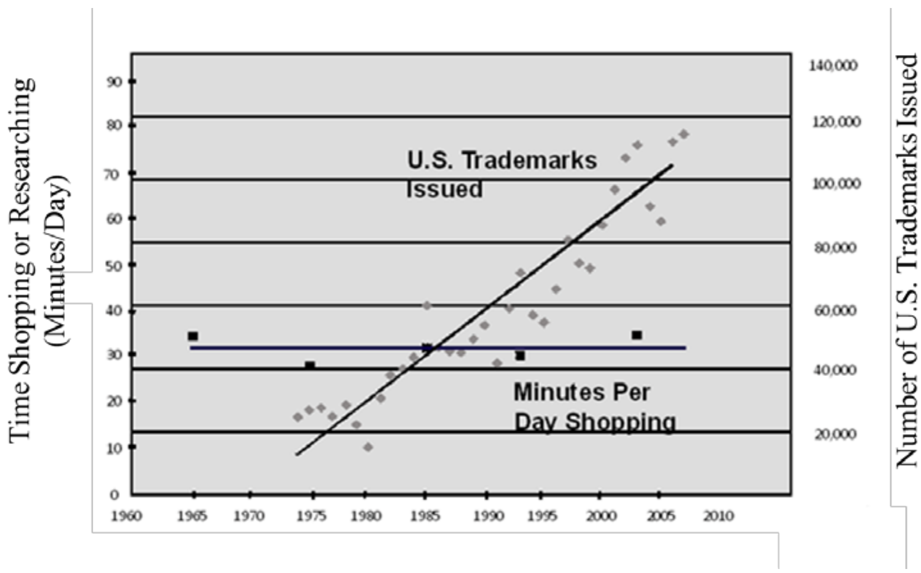

Exhibit 2: A Measure of the Amount of Available Products and the Amount of Time Products are Evaluated[18]

Reducing inspection costs through agglomeration applies not only to the formation of malls. Many buyers have observed that car dealers are typically located within close proximity to each other. If one is in the market for a new car, this is quite practical. One can visit the showrooms of competing dealers and test drive different brands before making a decision. Car dealers are not forced to locate together by any zoning code; rather, they choose to be close together for precisely the same reason that ten shoe stores might co-exist in any given mall: to give the customer the largest product variety possible.

As can be seen, the concept of agglomeration is a big part of the evolution of the American mall. Throughout the latter half of the twentieth century, supply and demand conditions were

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[18] Data Source: Bureau of Labor Statistics and US Patent and Trade Office. See Ott, Adrian C. (2011), “The Invisible Hand of Time: How Attention Scarcity Creates Innovation Opportunity,” *Ivey Business Journal*, March/April.

ideal for the ascension of the mall. Increased car ownership, suburban living, and more product variety meant that the mall was an attractive alternative to shopping downtown. In addition, the prospect of many shoppers made it easy for developers to attract shop owners to rent mall space. However, while agglomeration in equilibrium conveys a sense of stability in market forces, it is not impervious to technological changes.

Déjà Vu Online Again

Since 1990, automobile registration has been stagnant—even dropping in recent years—as computer ownership and internet connectivity have increased. The historic dynamic that occurred between malls and downtowns is currently happening between online retailing and malls. The story of agglomeration relied on malls' low shopping costs. E-commerce has shown that costs can go even lower.

To understand the fundamental role that e-commerce is playing in the decline of malls, it is helpful to examine the trajectory of one company in particular. In the mid 1990s, Amazon.com sold only books. It may seem like a pedestrian product to sell in hindsight, but looking at Amazon's rise, the decision to sell books was visionary. Often, a book is a product for which one has only transactions costs. In many situations, one learns of a book that he/she wants to buy either from a friend or a product review. For college textbooks, the professor specifies what book the student buys. Therefore, assuming the book is new, there is no uncertainty about its physical condition and no need for inspection. At that time, the only question in the consumers' minds was: If I give them my credit card number, will the product actually arrive? But after some time, consumers were willing to provide their payment information to a computer and receive a book a week later.

By the mid 2000s, the American consumer was more comfortable buying certain things online. It was clear that online sellers made shopping more efficient by reducing transaction costs, as long as the customer knew what items he/she wanted, such as books or music. But what about clothing or electronics? For these products, a shopper needs more information. With these types of products, two sources of uncertainty exist, both which can be resolved by inspection. The first is whether the product delivers what is claimed. Can the shopper be assured that the loudspeakers perform to the standards stated by the seller? The second uncertainty is whether the product fits with the shopper's specific tastes or needs. Will these shoes fit and match my outfit? In the mid-2000s, it was easiest to answer these questions by visiting the physical store. In other words, inspection costs were still higher online than at the mall.

In resolving the first source of consumer uncertainty—delivered quality—e-commerce start-ups recognized a market opportunity: provide an online platform through which previous customers can share their experiences for the benefit of other shoppers. For example, Yelp, founded in late 2004, systemized user-generated reviews and sold advertising to make money. While Yelp has focused solely on services, it exemplifies the willingness of users to post helpful remarks and rate sellers.

It is important to recognize that many customer reviews contain much noise and are subject to exaggeration. In fact, considerable evidence from business researchers indicates that many reviewers only leave comments when they are extremely displeased or upset with a product. There is much skepticism about the trustworthiness of online reviews and whether an individual's bad experience implies that others that will have a similar one. This shortcoming of online reviews plays a role in the future success of brick-and-mortar stores, including the mall, as the chapter will discuss in the next section.

Interestingly, in 1995, some in the business press considered Amazon crazy for letting customers review books.[19] Why let dissatisfied customers dissuade future buyers? Yet, there is equally ample evidence that consumers use reviews when deciding whether to buy a product.[20] Amazon figured that customer reviews would be a more credible form of information than exaggerated sales pitches.[21] By establishing openness in the customer experience through user reviews, Amazon erected another pillar in supporting trust in online retailing.

The second source of uncertainty, product fit, continues to remain a challenge for e-commerce, although recent software improvements have helped consumers inspect fit, color, and styling.

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[19] "Amazon: Turning Consumer Opinions into Gold," *Business Week*, October 15, 2009.
[20] "Nielsen: Global Consumers' Trust in 'Earned' Advertising Grows in Importance," April 10, 2012, www.nielsen .com.
[21] Aral, Sinal (2014), "The Problem with Online Ratings," *Sloan Management Review*, Winter, Vol. 55 No. 2.

Web interfaces now allow a shopper to try on clothing by constructing a virtual model based on the shopper's dimensions. Moreover, the drastic drop in the cost of computer screens enables sellers to post high-resolution images of product materials and colors. Although Amazon, like many other online sellers, provides multiple visual perspectives with magnified views to help customers inspect potential purchases, these technologies do not yet perfectly replicate actual physical inspection or give the consumer the ability to remotely touch, feel, or test unfamiliar products.

Shoppers' need for inspection only applies to unfamiliar products and services. Thus, repeat purchases are not subject to high inspection costs because the customer knows the fit and quality. For repeat purchases, therefore, once a customer trusts the transaction, online shopping clearly dominates over a visit to the mall. For instance, Lens.com has made a fortune repeatedly selling contact lenses to consumers. But online sellers are trying to bridge the inspection gap for unfamiliar products too. Amazon, for example, has strived to make returns relatively easy with pre-paid shipping labels and physical drop-off locations. This tends to reduce the risk of buying online when full inspection is not possible.

Amazon's evolution demonstrates the broader process of trust building in e-commerce. Consumers now understand the convenience of buying online over visiting a mall—convenience defined by a reduction in transaction and inspection costs. However, convenience is not the only factor in a consumer's decision of where to shop. Identifying these other factors enables us to see the future of the mall.

The Malls of Tomorrow

While most suburban malls are dead or dying, there are many instances of malls thriving. The Grove, built in the 2000s in Los Angeles at the same time e-commerce was predicted to kill the brick-and-mortar stores, is among the most profitable malls in the country. Woodbury Common, an outlet mall 60 miles outside of New York City, grossed over $1.3 billion in 2014.[22] The owners of Woodbury Common recently renovated and expanded, suggesting expectations

[22] "Wahba, Phil, "The 10 Highest Sales-Generating Malls in the U.S." *Fortune*, October 29, 2014.

of a growing market. Developers of these and other malls recognize that some features of shopping are not, in fact, better online.

The Virtues of Offline

Immediate Possession. Physical stores, like those in malls, maintain their inventory to accommodate consumers' desire to take ownership at the time of payment. Immediate possession is an important benefit for many purchase occasions. When buying a replacement battery for an electric shaver or a part to fix the kitchen faucet, consumers may want or need the item sooner than can be delivered from an online seller. As such, they are willing to incur the larger transaction costs of traveling to the store to buy the item. It is very unlikely that online shopping will replicate this ability anytime soon. This implies that malls, shopping centers, and brick-and-mortar stores, in general, still have an important role to play in the market. Experiments with drone delivery and the use of local distribution centers are indications that Amazon and other online sellers are trying to close this gap. It is not clear how soon, if ever, online shopping will deliver immediate possession. Until then, malls and shopping centers will pay close attention to the benefits of immediate possession.

Physical Inspection of Products. It is still impossible to feel the fabric of a blouse or test the sound quality of pair of speakers when buying online. Such inspections are relevant for first-time purchases and particularly important when the purchase is expensive. While virtual fitting rooms and online reviews can be helpful, they are often insufficient. A virtual fitting room, for example, can help the shopper assess fit or accessorize, but it cannot accurately depict how the item will feel or how well the material is put together.

In assessing quality, user reviews can give us confidence in an online purchase or flag a dud, however, there are two good reasons to be suspicious. First is the social effect of reviews.[23] Because people are likely to trust others' opinions when forming their own, reviews trend toward extremes. For example, if someone intends to post a mediocre review but sees glowing reviews from prior postings, he will probably provide a more positive assessment. This pattern

[23] The research on social influence in reviews is more fundamentally established in online social networks and user generated content, such as online reviews. See, for example, S. Aral and D. Walker, "Identifying Influential and Susceptible Members of Social Networks," *Science* 337, No. 6092 (July 20, 2012): 337-341;

is exemplified in a “J-”shaped distribution of 1-to-5 star ratings in which most reviews receive a 4 or 5. The distribution tends to bunch up reviews, which results in a lack of distinction among well-rated products.

The second and perhaps most concerning problem with online sources of product quality is fake reviews. Sellers themselves, or agents working on behalf of a seller, will post fake positive reviews to outweigh any legitimate bad ones. There are a host of online services for hire such as BzzAgent that generate positive reviews, using programmers and cheap labor to set up accounts, rate products, and write positive reviews. AMZFinder is also a site devoted to helping sellers on Amazon buy reviews.[24]

The ability of online sellers to keep inspection costs down and attract consumers is heavily reliant on user reviews. Indeed, the success of platforms such as Yelp requires that consumers trust the information users obtain from reviews. For that reason, online sellers take fake reviews seriously and work to prevent them. Many use text-mining algorithms to detect and filter reviews that appear artificial or generated by a bot. They also monitor the source of reviews through IP addresses and delete those with suspicious origins. Exhibit 3 exemplifies the volume of fake reviews. However, VPN accounts and clever programmers try to stay one step ahead of these filtering systems. As long as sellers are willing to pay money for positive buzz about their product, there will be an incentive to provide this service—even if fraudulent. While fake reviews certainly frustrate participants in online markets, suspicions of online reviews are a blessing for malls and brick-and-mortar stores.

[24] AMZFinder’s website indicates that buying reviews is “not recommended” but nevertheless provides easy instructions on how to do so.

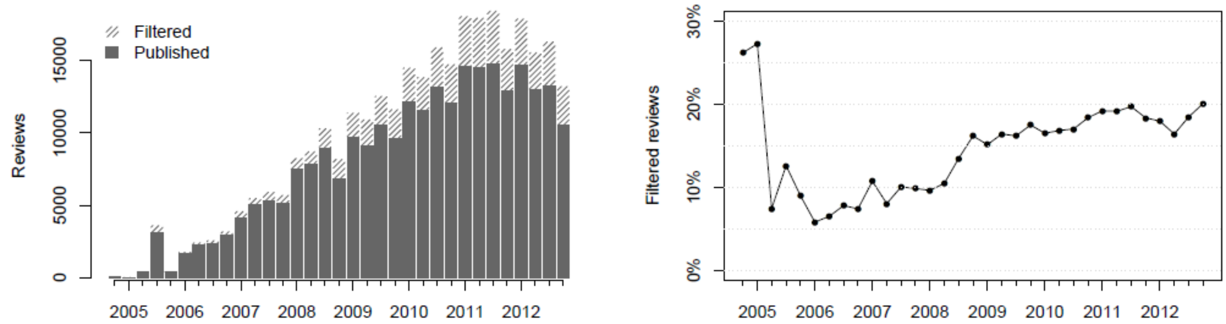

Exhibit 3: Absolute (left) and Relative Volume of Filtered Yelp Reviews for Boston Restaurants through 2012.[25]

Advice & Guidance. Another dimension in which malls have an advantage over shopping online is in providing expertise for the customer to find the right product. A shopper may seek expertise for many products, from fashion to electronics. And, while advice and guidance are available online in the form of online reviews and user forums, understanding a customer's idiosyncratic needs is often better accomplished in person. Big retail brands have long-term incentives to ensure that their customers find the right product and train their staffs to be experts in specific departments. Electronics retailer BestBuy, for example, understands this quite well. Their management utilizes differences in customer patterns across their online and mall-based stores to tailor products and sales assistance. The company recognizes that customers who enter their stores are not as tech savvy as online customers. As such, in their stores, BestBuy stocks older product models and staffs them with patient salespeople to explain product features and give advice. For online customers, however, the company offers the newest technologies, assuming that younger shoppers have confidence in selecting their purchases.

The inability of online shopping to fully provide advice and guidance is an opportunity for malls in the future. Upper-end apparel shops are experimenting with small retail spaces that stock no inventory, but have trial items with change rooms and an accommodating staff to offer suggestions and to take orders. Nordstrom Local is one of the more famous brands that senses

[25] Data from Luca, Michael, and Georgios Zervas, (2016) Fake It Till You Make It: Reputation, Competition, and Yelp Review Fraud, *Management Science* 62(12):3412-3427.

potential in this new format.[26] The customer bridges the online inspection gap and the retailer saves on real estate and inventory expenses.

Social Interactions. Perhaps the most difficult barrier for online shopping to overcome is in combining socializing with shopping. Malls have always served this social function; for many, it is the primary function. The author of the chapter has fond memories of meeting friends at the mall, playing video games, and enjoying the freedom to roam around without parents. People shop with other people for many reasons. Parents bring their kids to the store for back-to-school items. A trusted friend provides a boost of confidence for a fashion purchase or a partner in hunting for bargains. Even if consumers do not buy anything, they enjoy the prospect of it, along with some lunch or a movie.

It is unlikely that e-commerce will satisfy the shoppers' perpetual desire to combine social interaction with shopping. To exploit this very important factor, today's profitable malls have been reconfigured to accentuate the pleasures of being out with friends and socialize. Of course, shopping and dining with friends and family is nothing new. However, as more routine purchases migrate to online sellers, this aspect will take on a more prominent role for malls in the future. Not surprisingly, therefore, many malls now have a park—including grass, trees, and benches—with weekly activities for kids (Exhibit 4). There are art galleries, pet sitting services, and massage bars. The advantage of focusing on such services is that it attracts shoppers with larger incomes. A Michelin-starred restaurant symbolizes the high-end clientele at Americana at Brand, a retail center in Glendale, CA.[27] This focus on luxury brands is also a likely factor in the development of new malls.

[26] Andrews, Travis M. (2017), "Nordstrom's Wild New Concept: A Clothing Store with No Clothes," *Washington Post*, September 12.
[27] Kang, Matthew (2018), "Tokyo's Michelin-Starred Ramen Shop Will Open in Glendale," *Eater Los Angeles*, June 18.

Exhibit 4: Mall Park at the Americana at Brand, Glendale CA

Segmentation by Geography. Finally, because malls have a physical location, they can be used to identify and segment customers based on their shopping tastes. For example, geography sorts consumers by their tastes, shopping habits, and income levels. Malls are located in a way to attract a certain type of buyer. Take, for example, Santa Monica Place, a mall located near the beach and the city's famous pier, which is a tourist destination year-round. Marketing researchers have shown that vacationers tend to be less price sensitive than local, resident consumers. Therefore, Santa Monica Place is an attractive location for sellers of luxury brands who can expect consumers willing to open their wallets. In a similar way, geography is an important factor of success for outlet malls. As we discuss in more detail later, geography sorts the deal-prone from those who are eager to pay top dollar for the latest fashions.

Geography is not the only means of sorting customers for the purposes of price discrimination. By tracking internet browsing behavior, enabled by cookies, marketers can categorize their consumers as price sensitive or price insensitive. For instance, there is evidence that some online sellers show higher prices to Apple users than to PC users because the former, on average, have been shown to be less price sensitive.[28] But, despite the power of big data and

[28] See Hannak, A., G. Soeller, D. Lazer, A. Mislove, C. Wilson (2014), "Measuring Price Discrimination and Steering on E-Commerce Sites," *In Proceedings of the 14th ACM/UNSENIX Internet Measurement Conference* (IMC'14), Vancouver Canada, November.

internet tracking, geography remains a reliable means for marketers to keep low prices impractically out of reach for those willing to pay higher prices.

Formats of the Future

What do these offline virtues mean for the malls of tomorrow? At least in the near future, malls will adopt the retail formats that exploit the abovementioned advantages. Below we consider three formats that utilize offline advantages.

Showroom Model. This mall format contains, *inter alia*, showrooms with reduced or little inventory. Nordstrom Local, as previously discussed, is one such showroom. It carries no inventory. The idea is to maintain a mall space that facilitates consumers' physical inspection of products without taking immediate possession. Shoppers try out products before ordering, either in the showroom or online, and then pick them up later. One big advantage for sellers using the showroom model is that it drastically reduces the need to rent inventory space.

The showroom idea is advantageous when physical inspection is an important factor in consumer choice. Apparel is an obvious category, because immediate possession is not possible. However, this format applies best to higher-end apparel, because the shopper is less impulsive and more patient with expensive purchases. Selling apparel in this format has another advantage in regards to "fast fashion"—i.e., the trend in which new styles are introduced quickly and often. With the showroom format, regular shoppers are kept well informed of new styles each time they visit. Indeed, the expectation of fast fashion may also incentivize fashion-conscious consumers to visit more often.[29]

Relatedly, the ability to maintain customer relationships is an advantage of the showroom model. Tesla, Apple, and Amazon have all instituted this format at malls in the U.S. For shoppers strolling with friends after dinner at the mall, the showroom can be a reminder of the brand. The hope is that shoppers feel invited to come in and browse new products.

[29] See also Narayan, Shanika (2018) "TechStyle Adds Brick-and-Mortar Channel to its E-Commerce Base," *Los Angeles Business Journal*, March 2.

Experiential/Lifestyle Centers. For decades the mall has been a destination, not just for shopping, but also for sharing experiences with friends and families; for example, parents who take their children to the mall in December to meet Santa Claus. Such experiences, of course, are impossible to replicate online and remain, perhaps, the most important comparative advantage of the mall. As a result, future malls will emphasize experiential services to a greater extent. Experiential services are interpreted as traditional services, like movies and dining, but more generally reflect a broader connection to consumer lifestyles. As one retail architect put it,[30]

> "Increasingly savvy consumers have expressed the need for an elevated experience when they venture out to establishments where they shop, eat, attend events, exercise, engage, and hangout. How these environments are conceived, sited, designed, and constructed to create relatable and experiential environments is a[n] … opportunity in the retail industry."

Experience services embody not simply a collection of individual services, but the interaction of the mall environment with the consumer. It is therefore not surprising that the new malls of this sort, such as The Shoppes at Arbor Lakes in Maple Grove, MN, are sometimes referred to as "lifestyle centers." For example, the Silicon Valley lifestyle center, Santana Row, simulates downtowns of yesteryear with its own Main Street, town square, and urban row houses (Exhibit 5).[31] The space is intended to be a community where people interact as they once did before the suburban sprawl. Some of these malls have community events, such as art exhibits or activities for kids. From a mall owner's perspective, it can be profitable to develop a community-like space where people come simply to linger. With enough lingering, a person will be enticed to eat, drink, or even shop. As of 2017, there were 419 officially classified lifestyle centers according to the International Council of Shopping Centers. While only 2.2% of all

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[30] Source: Promotional brochure, "Authentic Destinations" from CTA Architects Engineers.
[31] Hardwick, Jeff (2015), "Lifestyle centers: reinvented communities or dressed-up shopping malls?" *The Conversation* (theconversation.com), March 3.

shopping centers,[32] it accounts for a much bigger share of shopping center spending due to the high-end clientele.

Exhibit 5: A Lifestyle Center in Silicon Valley

Outlet Malls. The outlet mall is a large outdoor shopping area in which major retailers sell discontinued merchandize, slightly damaged goods, or product lines designed exclusively for major discounts. Once known for selling factory seconds and over-production, outlet malls have become a key marketing channel for fashion brands. Such malls are beacons for bargain hunters—perhaps now even more so given trends in retail. Rental revenue from outlet malls accounted for 22.5% of revenue from all mall formats in 2017.[33] This means that almost a quarter of mall activity stems from the outlet format—and it is expected to keep growing. Tanger Factory Outlet Centers, one of the biggest property owners of outlet malls, is one of the few retail stocks recommended for private investment.[34]

While outlet malls have been around for decades, their recent growth and future sustainability can be understood by the offline factors previously discussed. As the suburban mall has declined and the upscale lifestyle center has taken its place, consumers have otherwise few

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[32] See research from the International Council on Shopping Centers, available at http://www.icsc.org/uploads/research/general/US_CENTER_CLASSIFICATION.pdf.

[33] IBISWorld Industry Report OD4700, Shopping Mall Management in the US, February 2017.

[34] Forbes argues that Tanger Factory Outlet Centers, one of the biggest property owners of outlet malls, is one of the few retail stocks that is investment worthy in 2018. See Owens, Brett (2018), "5 Cheap Stocks With 5%+ Dividends, Plus 25%+ Upside," *Forbes*, June 30.

opportunities for bargain hunting.[35] And geography becomes a more relevant vehicle to identify the deal-prone shopper. By agglomerating far from the city, branded manufacturers set “deals” for the bargain hunter without harming their caché at urban, flagship locations. Deal-prone shoppers make the trip because they expect prices to be lower than at urban retail stores, which is probably why most outlet malls cultivate and retain the “factory store” image that existed before most clothing manufacturing was done abroad. Plus, making the long trip to the outlet mall is nicer with a friend or family member, which makes bargain hunting a social activity not available online.

Conclusion

This chapter suggests that internet shopping and e-commerce have a systemic role in the death of the suburban mall. Yet it is hard to argue that the online/offline dichotomy is the only factor in the metamorphous of mall formats. As previously suggested, intergenerational differences may also be at work. Driving habits, living preferences, and shopping routines of generations born after 1990 are considerably different from their parents. Reflective of this difference is the fact that many features of lifestyle centers seem to consciously reject “the mall” as an institution. In contrast to traditional suburban malls, for instance, most lifestyle centers are outdoors and maintain some architectural eclecticism in an attempt to appear “authentic.” Furthermore, in marketing lifestyle centers, there is a conscious effort to avoid the use of the word “mall” altogether.

In assessing the long-term future of the mall, one might imagine that as millennial tastes are eventually replaced, the suburban mall will once again be a novelty. Imagine, for instance, young adults of 2050 rejecting lifestyle centers as passé and hearing their great-grandparents’ fond recollections of the suburban mall! Indeed, the revival of downtowns was equally farfetched in the 1980’s.

[35] Retailers at traditional suburban malls routinely used the calendar to entice bargain hunters. “After Christmas” sales or “Summer Savings” events were designed to attract bargain hunters at times when less price sensitive shoppers were unlikely to be at the mall.

Such a wholescale reversal seems unlikely. Technology is a one-way street. While we may not predict exactly how and when a new technology will disrupt our lives, we do expect improvements. Even minor technological advancements liberate us from routine tasks and give us more freedom with our time. If our lives seem harder, it is only because we must decide what to do with this new freedom. As such, technology makes life more convenient, and it does not go in reverse.

The internet technologies that have enabled e-commerce can be viewed in this way. Shopping, particularly for reliable and repeat purchases, is increasingly more convenient through the reduction of transaction and inspection costs. Even though we may yearn for “simpler times,” no one is ever nostalgic for inconveniences of the past. So, while generational preferences ebb and flow, internet technology assures us that the suburban mall is unlikely ever to return to its 1980s’ heyday.