

Blurred Lines: When Bricks & Mortar and Online Retail Merge

The rise of online retail has presented an increased threat to traditional brick and mortar over the last decade. Market participants have seen the battle as essentially a zero-sum game: one side wins, the other side loses. However, that line of thinking may merit reconsideration with recent evolutions across the retail segment influenced in part by the COVID-19 pandemic.

A recent story in Chicago, IL tells the fascinating story of a Whole Foods, located in the Lincoln Park neighborhood, which [transitioned to an online-only presence](#), closing the store to traditional shoppers. The move is surprising given the fact that it's located in a very dense, infill location populated by many families who have children that are home more, as well as a workforce operating out of their homes as many downtown offices remain shuttered. And Chicago is not alone. Whole Foods has taken a similar approach in other markets as well, along with [other large market participants including Kroger](#).

Many of these recent changes are in response to altered shopping patterns and behaviors stemming from the COVID-19 pandemic. Yet it would be naïve to believe that this is in a vacuum. Grocery shoppers walking into a traditional grocery store that is open to the public have noticed an [increasing number of "professional" shoppers in the aisles of their local stores](#), including services such as Instacart and DoorDash, along with Amazon's recently launched service. Many shoppers have also noticed the ability to order online from a grocery store and pull up curbside for pickup.

Slowly but surely, American retail is seeing a transition from a purely in-person consumer experience to a merger of online and in-person, co-existing in the same space. Said differently, the traditional store and the distribution warehouse are beginning to live together, especially in urban settings.

This dynamic has far-reaching implications that are only beginning to be understood but will be critical for the next decade of retail in the United States. Among some of the most interesting trends we will be watching include:

Preserving the Customer Experience

- Customer experience has been a critical area of focus for most retailers and grocers over the last decade with increasing competition.
- The merger of professional shoppers and traditional customers in grocery aisles has the potential to make the traditional experience less enjoyable as professionals are more focused on order fulfillment versus the actual shopping experience.

Retail Sales Performance & Profitability

- The increasing fulfillment of customer orders could increase store-level sales performance as customers elect to purchase more goods with greater regularity from grocery stores. This could have the effect of pulling store sales back from competitors, the restaurant industry being the largest of them all.

Impact on Leases

- Landlords will need to turn a cautious eye to ensuring they are drafting and maintaining leases in a fashion that accounts for these changes.
- If a vintage lease has a "Go Dark" provision either for a tenant or a co-tenant, a decision by a grocer to offer only online fulfillment could have serious consequences to the real estate value, suppressing that value for years.

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