Global Retail and Innovation

Innovation in the sharing economy – what are the retail implications?

In a "sharing" or "collaborative" economy, parties provide one another access to assets or services—whether for a fee or for free—as opposed to selling and buying them outright. The sharing economy is expected to continue to develop and evolve in 2017. This is an increasingly global trend, and many countries have issued recommendations to increase its benefits and impact.

Executive Summary

- In a “sharing” or “collaborative” economy, parties provide one another access to assets or services—whether for a fee or for free—as opposed to selling and buying them outright.
- The European Commission reported sharing economy revenues for the Eurozone of €28 billion for 2015 - twice the 2014 figure. In its "European agenda for the collaborative economy[1]," the commission expressed support for such businesses.
- The U.K. government expects the sharing economy to eventually claim up to 50% market share in sectors such as holiday accommodation and car-sharing/car rental.
- There is evidence that millennials care less for ownership, and we don’t expect this to change in 2017. The young and technology-oriented drive the sharing economy, according to U.K. innovation foundation Nesta.
- With more freelancers and independent contractors, the sharing economy is affecting retail staffing. A McKinsey report estimates that more than half a billion people could benefit from online talent platforms by 2025—mostly by finding work faster—by which time PwC suggests the sharing economy could be worth $335 billion.
- With consumers increasingly accessing and sharing items via online services, the retail industry could see a loss of in-store business. Internet retailing accounted for 9% of global retail sales in 2016; Euromonitor expects that figure to rise to 13% by 2021.

The Retail Implications

The sharing economy is expected to continue to develop and evolve in 2017. This is an increasingly global trend, and many countries have issued recommendations to increase its benefits and impact. Although the sharing economy has had little negative impact on the retail industry, it would be naïve to assume this will remain the case.

The sharing economy is expected to continue to develop and evolve in 2017. This is an increasingly global trend, and many countries have issued recommendations to increase its benefits and impact.

Research by leading U.K. shopping center operator Westfield addresses this topic. [2] Its survey of 13,000 people in the U.K. and the U.S. found broad consumer interest in renting products and equipment from retailers. Shoppers are looking for retailers to move beyond the buy/sell relationship. They expect more from physical retailers, and this now includes the ability to rent items from them. Twenty percent of U.K. respondents would like to rent items; in London, that figure is a third. The interest is particularly strong among millennials; in the U.K., almost half said they would rent from their favorite stores. Consumer electronics and clothing, along with the expected exercise equipment and bikes, topped the list of items.

Consumers' rising interest in this mode of consumption will continue to push the evolution of the sharing economy, and as new platforms expand the range of goods and services that can be readily shared, the retail industry will find the sharing economy presenting challenges, but creating opportunities as well. It is therefore increasingly important that occupiers, landlords, and developers all understand the sharing economy's implications for retail real estate.

For example, the decline in spending on newspapers and books over the past few years is a result of these dynamics, and approximately 10% of the U.K. population now uses the internet to access or distribute media like books and DVDs, according to Nesta. Online music sharing continues to shift as well, as new modes of distribution are developed. Spotify is an evolving music sharing platform.

It is increasingly important that occupiers, landlords, and developers all understand the sharing economy's implications for retail real estate.

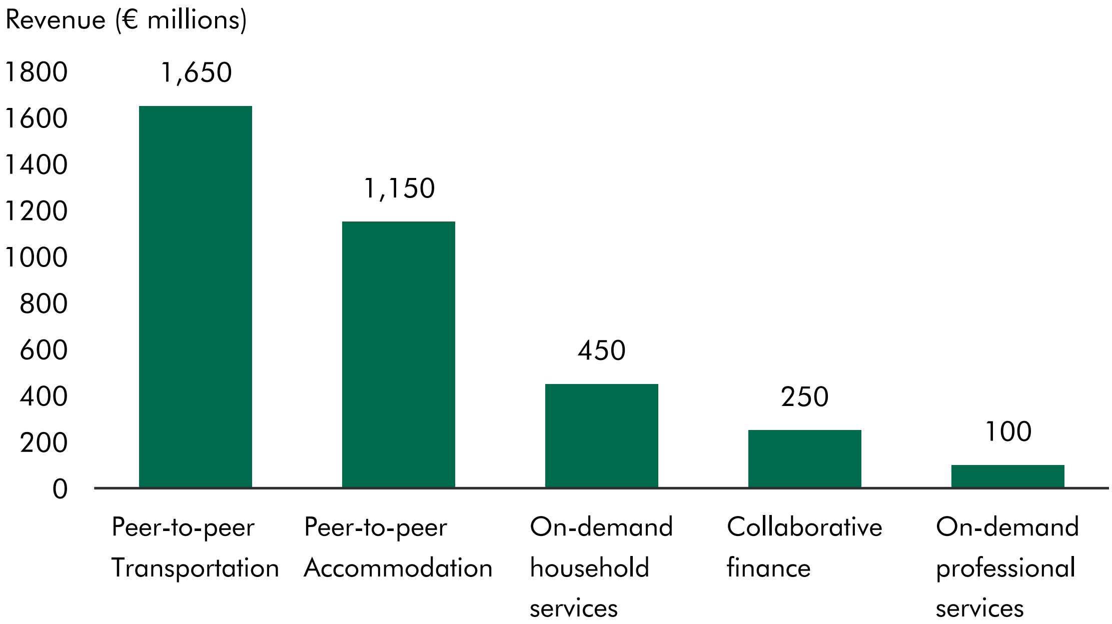
The retail industry has recognized the growing demand for pay-to-use options and is striving to meet it, with established retailers are creating leasing and rental offerings for a variety of products, and new companies forming based on a rental model. U.K. electronics retailer Dixons Carphone leases computers, for example, with consumers paying a monthly fee and receiving a new device on a regular basis. This is not new news to those of us that recall renting a television during our time in student accommodation. What is new is the scale and breadth of the items that are now accessible to all. There is a distinction between the semi-permanent rental of an electronic item and the ability to hire a handbag for an evening; it is the latter of these two that is grabbing the headlines when we discuss the growth seen in the sharing economy.

For certain retail sectors, including luxury fashion, there is significant growth potential in this model. Items are typically rented at 10-20% of the full retail value. Rent the Runway, an online retailer that offers rentable luxury clothing for specified period, has around six million members and has recently opened a physical store in a Neiman Marcus in San Francisco. The tie-up aims to attract millennial customers to Neiman Marcus while offering the traditional customer a new experience. With Rent the Runway's success, others have adopted the approach, including Girl Meets Dress in the U.K., Glam Corner in Australia and Chic by Choice in Europe. In the jewelry industry, Eleven James is a watch-sharing company that allows members' to select a different luxury watch every few months.

The main difference between the model currently being implemented in retail and that of Uber, Airbnb and other well-known members of the sharing economy, is in who owns the product. Whereas Uber and Airbnb do not own hotels or cars, retail providers of a rental service will need to invest in the rented stock (and having the "right" items remains as important as ever). As the difference between the two models is a meaningful one, a number of retail sectors will surely see players attempting to provide only the service of linking supply with demand, rather than being the source of the supply themselves.

That next step—a third-party sharing platform that moves the ownership of items away from the retailer—could allow a variety of brands and product owners to generate value from their items, despite the service being branded as a single entity. The model is one that has proved successful in other industries. NetJets, for example, is a successful sharing economy company that provides the opportunity to fractionally own a private jet, at a much lower cost.

Figure 1: Revenue of five key sharing economy segments in Europe in 2015

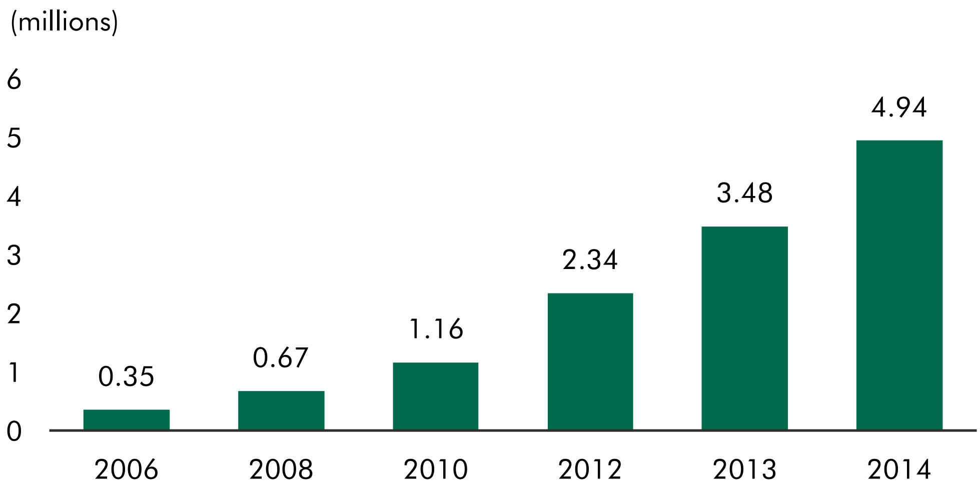


Source: Statista & PWC, 2015.

Airbnb is the market leader in the sharing economy's temporary accommodations industry. Analysis by CBRE Hotels Research shows that the expansion of the sharing economy into traditional lodging space is not impeding hotel industry performance at the macro level. According to STR, the U.S. hotel industry realized its highest annual occupancy level ever in 2015.

Figure 2 shows the number of car-sharing users worldwide from 2006 to 2014. While the number of vehicles in the global sharing market remains low it is growing every year[3]. Perhaps more interesting are the associated affects that will be noticed over the next decade. The majority of people accessing car-sharing services are likely to be city drivers and there will be an impact on the requirement for parking facilities. The need may be for car hubs as opposed to car parking; a place to go to collect or deposit a car instead of somewhere to leave your own vehicle. The growth in autonomous vehicles will further boost this part of the car industry.

Figure 2: Number of car sharing users worldwide from 2006 to 2014



Source: Frost & Sullivan, Statista, 2006 to 2014 .

Sharing Economy Revenue Estimates

The European Commission reports that gross revenues from the sharing economy reached €28 billion last year—twice the value of 2014—and PwC has calculated that, globally, the sharing economy could be worth $335 billion by 2025. The Commission has warned against bans on sharing-economy businesses, stating its support for such businesses in its "European agenda for the collaborative economy." France, Belgium and the Netherlands have attempted to limit the growth of companies such as Airbnb.

The sharing economy may change consumption trends. Consumption in the European Union has increased 7% over the past ten years, to $7.5 billion. The sharing economy is expected to reach 50% market share in sectors such as holiday accommodation and automobile sharing, according to the U.K. government.

An estimated 50 million people worked for sharing economy-related companies in 2015, accounting for 5.5% of China's working population.[3] China's sharing economy is expected to grow 40% over the next five years, eventually making up 10% of China's total GDP, according to China's National Information Center.

If the cost of certain items rises in the U.K., following the fall in the value of sterling post-EU Referendum, this could encourage more consumers to consider renting/sharing options for big-ticket items. The added likelihood of inflation outstripping wage increases brings a subsequent decrease in the amount of disposable income.

Globally, off-price retailers are growing rapidly, suggesting that consumer demand for lower costs will further advance the sharing economy.

A further indicator that affordability is becoming more important is the growth of off-price retailers. The annual growth rate of this sector has increased faster than any other retail sector over the past five years, according to Euromonitor. The overall net result of these issues may well be positive for the sharing economy, allowing access without the cost implications of ownership.

Millennials and the Sharing Economy

There is evidence that the millennial generation is less focused on ownership than previous generations. According to PwC, around twice as many 18-24 year olds believe that having access to goods is more important than owning them.

The collaborative economy is driven by the young and technology-oriented.[4] Millennials are more connected to technology than previous generations and a quarter of millennials believe that their relationship to technology is what makes their generation unique.[5]

The sharing economy is advanced by social media platforms like Facebook, as social networking technology facilitates faster and easier sharing. Three-quarters of millennials have an account on a social networking site, compared with only half of generation Xers and less than a third of baby boomers.[6]

A recent CBRE consumer survey identified Facebook as the most popular social media platform among its European respondents, with more than 40% saying they use Facebook to engage with retailers, share information and have direct contact with non-food retail brands. The millennials driving the sharing economy use Facebook in greater numbers; among younger millennials 18-24 year olds, 58% use the platform. In a Nesta survey, 45% of respondents believed social media use was necessary to participate in the sharing economy.

As the spending power of millennials and generation Z increases, retailers will have to be aware of how the ownership habits of their customer base may be changing. There is a natural correlation between the growing spending power of millennials and the growth in access to the sharing economy. Millennials are more confident in accessing products and services online. They have grown up with the technology and the barriers that might be 'seen' by older generations don't exist for them.

There is a natural correlation between the growing spending power of millennials and the growth in access to the sharing economy.

Conclusion

What impact will the sharing economy have on retail? Inherent in the trend is a lower importance placed on ownership—a change that could prompt any number of innovations in the retail space. As the sharing economy evolves, retail leases will likely become more flexible. Retail stores might be used for alternative purposes during non-business hours. Retail's seasonality also allows for greater flexibility, and pop-up shops in major shopping centers will be increasingly popular. Online sites for renting short-term flexible retail spaces will also increase in popularity.

Retailers are deploying sharing-economy strategies in the areas of marketing and delivery. Some retailers are introducing programs that offer shoppers discounts for delivering orders to other customers. Crowdsourcing offers cheaper delivery. Sam's Club created such a platform in partnership with delivery company Deliv in Miami. UberRUSH is an on-demand delivery network that makes getting things in your city more affordable. Walmart has partnered with Uber and Lyft to test same-day grocery deliveries. Such crowdsourced developments may decrease the market share of third-party delivery companies like UPS.

A greater tendency among consumers to access and share items via online services could result in a loss of in-store business for the retail industry, and for department stores in particular. Over 2012-2015, the department store sector saw its total year-over-year growth in space decline at both the city and country levels.[7] In 2017, the shift from traditional department store anchors in shopping centres to non-traditional anchors such as food halls will continue.

The facilitated sharing of goods that used to be purchased individually by consumers represents a threat to some retail demand. To address this, retailers will need to be 'better' than sharing economy competitors, whether through more economical offers, or through strategies that build on brick-and-mortar strengths such as placemaking.

According to Euromonitor, internet retailing accounted for 9% of global retail sales in 2016, of which 44% was mobile internet retailing. Euromonitor expects those figures to rise to 13% and 55% by 2021. Despite such pressure from online retailing, retail in-store spending is still growing in certain cities, such as Dubai, Rome, Paris, and London. A trend in European shopping centers is increasing leisure facilities and restaurants which build a sharing community with interactive social space. The sharing economy is stimulated by improving the customer experience and combining online and in-store shopping. The results of a recent CBRE survey indicate that leisure and non-retail activities in shopping centers are proven to increase dwell time. Consumer preferences suggest the in-store experience will continue to play an important role in the future.[8] Shopping centers should allocate more space to ultra-short term retail leases. Pop-up shops and restaurants featuring rotating occupants create new opportunities for sharing. Eatery formats such as food halls and celebrity-chef restaurants are increasingly popular.

Occupiers, landlords, and developers must plan for the sharing economy's future impact on the retail real estate market. New opportunities for sharing will continue to evolve and as opposed to seeing this as competition for spend, the forward looking will see this as an opportunity to be embraced.

Footnotes

[1] European Commission (2016) A European agenda for the collaborative economy. Brussels

[2] Westfield (2016) How We Shop Now: What's Next? London

[3] China Sharing Economy Development Report

[4] Innovation foundation Nesta

[5] U.S. Council of Economic Advisors

[6] Ibid

[7] CBRE (2016) *How Global Is the Business of Retail?*

[8] CBRE (2016) *Retail and Placemaking, What Is The Role of Retail In Placemaking?*

FOR MORE INFORMATION ABOUT THIS REPORT, PLEASE CONTACT:

Andrew Phipps
Head of Retail Research, UK & EMEA
+44 207 182 2116
andrew.phipps@cbre.com

Margaret Heavey
Associate Director, EMEA Research
+44 207 182 3129
margaret.heavey@cbre.com

FOR MORE INFORMATION REGARDING CBRE RESEARCH, PLEASE CONTACT:

Nick Axford, Ph.D
Head of Research, Global
+44 207 182 2876
nick.axford@cbre.com

Richard Barkham, Ph.D
Chief Economist, Global
+44 207 182 2665
richard.barkham@cbre.com

Neil Blake, Ph.D
Head of Forecasting and Analytics, Global
+44 207 182 2133
neil.blake@cbre.com

Henry Chin, Ph.D
Head of Research, Asia Pacific
+852 2820 8160
henry.chin@cbre.com.hk

Spencer Levy
Head of Research, Americas
+1 617 9125236
spencer.levy@cbre.com

Jos Tromp
Head of Research, EMEA
+31 20 626 26 91
jos.tromp@cbre.com

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at *www.cbre.com/researchgateway*.