Can Entertainment Save Malls and Shopping Centers?

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A white paper presented by:

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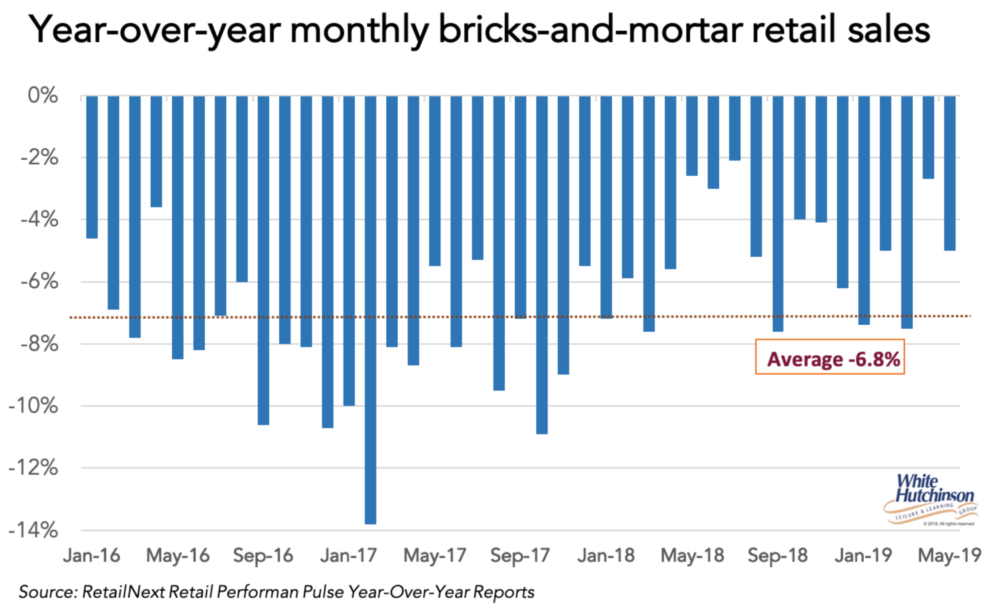
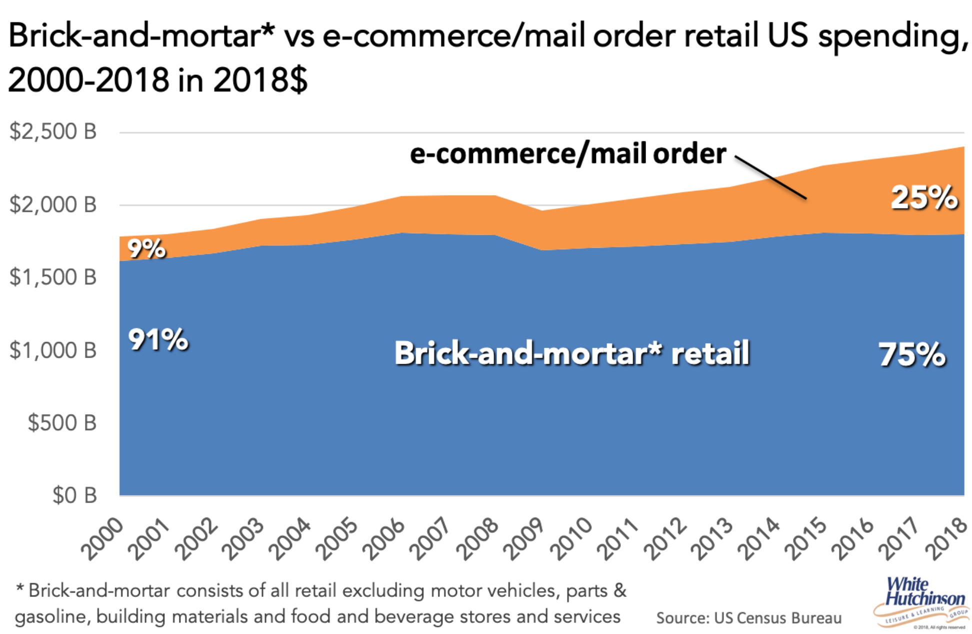
There's no mistaking that e-commerce is eating brick-and-mortar retail's lunch. Brick-and-mortar retail sales are on a continuous decline. Over the past three plus years they have been declining at an annual rate of 6.8%.

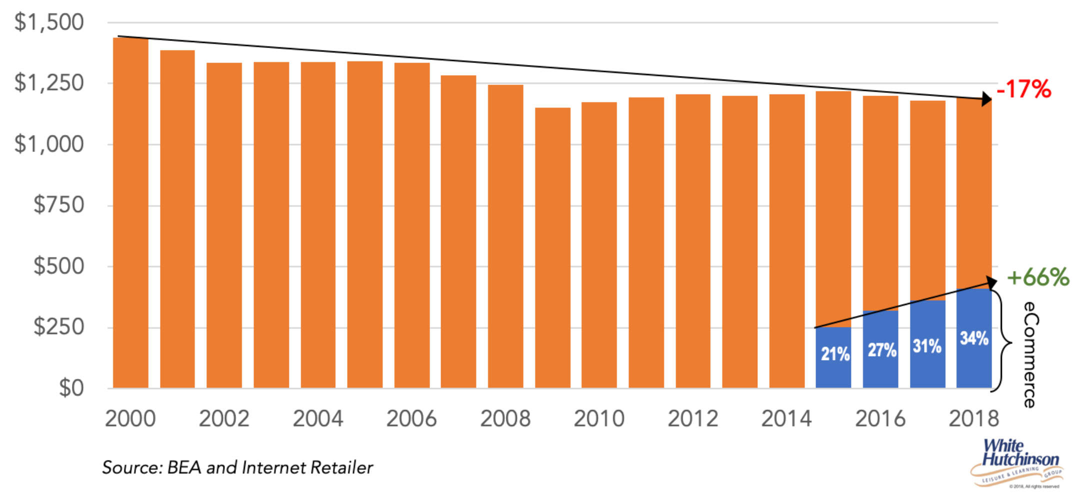


If we look at retail from the perspective of the type of retail stores that are typically found in malls by excluding sales from motor vehicles and parts, gasoline, grocery, building materials and food and beverage stores and services, our company's analysis shows that e-commerce has grown to 25% of retail sales and all signs indicate its share will continue to increase.



The bread and butter retail appeal of malls, apparel, is also on a brick-and-mortar decline, not only because of e-commerce, which now make-up a one-third of apparel spending (34%) according to *Internet Retailer*, but also because Americans are spending less on clothing than in the past, one-sixth less per person (-17%) than at the turn of the century.

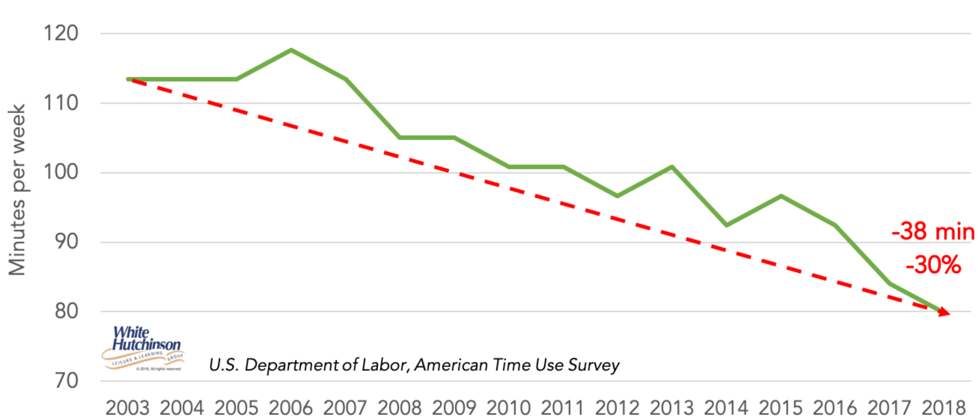
Total US per capita spending on apparel, 2000-2018 in 2018$ and percentage ecommerce spending 2015-2018



Time spent shopping

Another way to measure the trend for bricks-and-mortar retail is the time consumers spend away from their homes shopping. It is on the decline as well. Americans on average are spending 38 fewer minutes per week shopping, almost one-third less time (-30%), than in 2003. That decline corresponds very closely with the decline in brick-and-mortar retail.

Minutes per week spent shopping by the U.S. population age 15+
(except for groceries, food & gas)



The main reason for the decline of brick-and-mortar shopping is simple. Retail is really just B2C distribution and consumers now have a more convenient, time saving and better solution for acquiring many goods. *Nielsen* found that 46% of shoppers now view shopping as a chore. With the intensity of daily life and its hectic pace, what Faith Popcorn, CEO of *BrainReserve*, calls "25/8 pace," many time famished people don't have the time nor patience to trudge through stores searching for something to buy, let alone through a cavernous mall, power center or even a lifestyle center, when they can sit comfortably at home, browse, price compare and click to have it delivered to their homes, probably while multitasking or watching some digital entertainment.

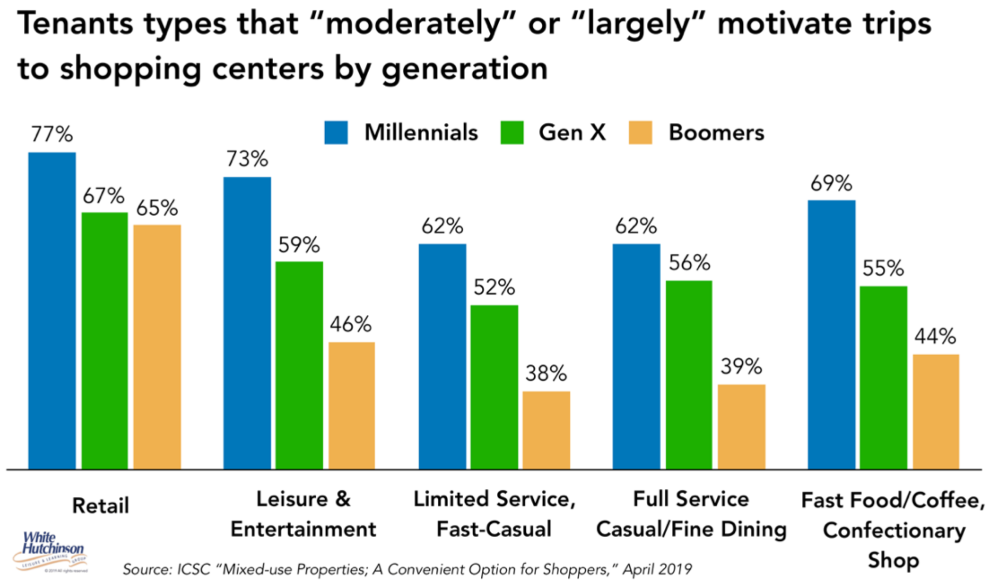
We are seeing continuing announcements of store closures. The number of square feet of supportable retail stores continues to decrease. Many shopping centers and malls face a bleak future. There are even retail vacancies on the Magnificent Mile in Chicago and Fifth Avenue in New York. One prediction is that 30% of the nation's remaining 1,100 malls will close or be repurposed in the coming years. This disruptive trend is now often referred to as the "retail apocalypse" or a "tsunami of closures."

Not only are malls and shopping centers experiencing growing store vacancies, but many have also lost their anchor tenants, whether they were department stores or other types of big box tenants, the tenants that drive shopper traffic for the other tenants. As a result, many landlords are looking to not only fill vacant space with entertainment, but also to have entertainment serve as new anchors.

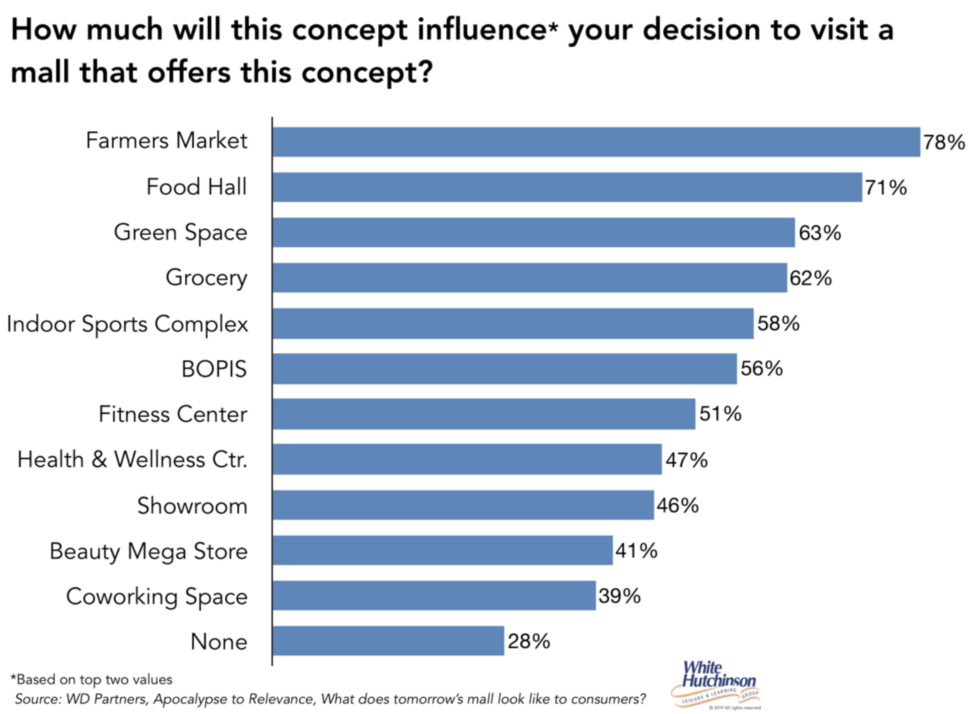
So, can entertainment, what is called location-based entertainment (LBE), be the savior for suffering malls and shopping centers? Can it replace the loss of foot traffic anchor tenants once brought? Can it attract shoppers back in the digital age? The answer is that in some situations it can, but in others, mostly likely not.

What type tenants motivate consumers to visit?

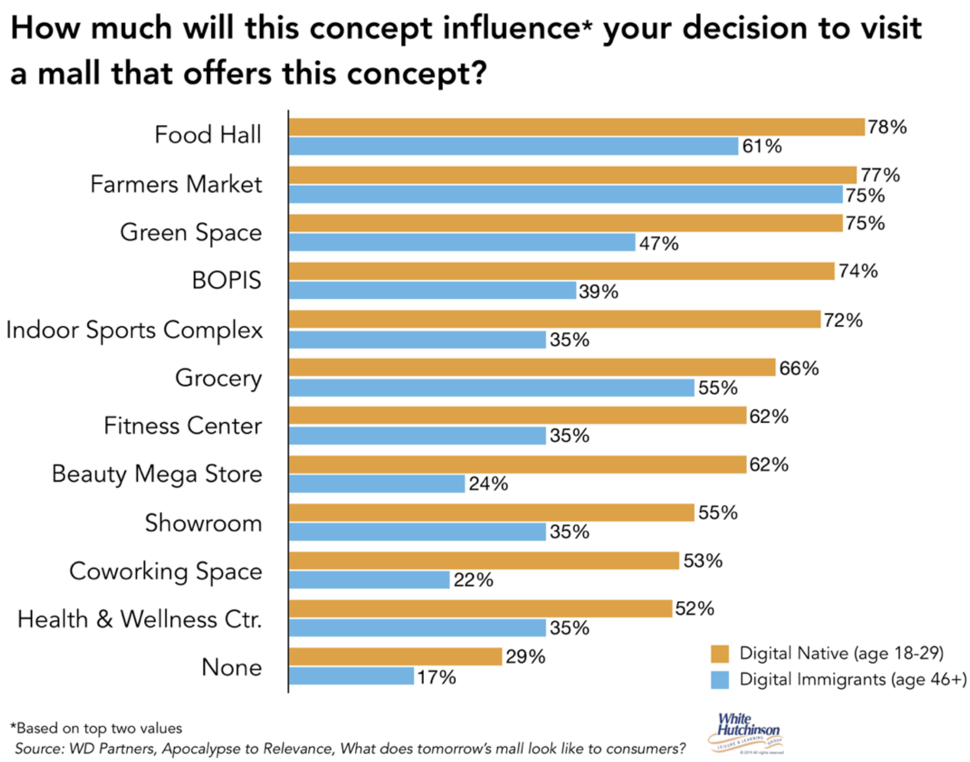
2019 research by the *International Council of Shopping Centers* shows that leisure and entertainment tenants come in only second to retail in motivating consumers to come to shopping centers, slightly more so than restaurants. Millennials are most attracted to shopping centers by leisure and entertainment tenants



WD Partners conducted a survey of 4,012 mall shoppers in April 2018 to determine how mall anchor stores, the empty department stores, and their malls can be reinvented and made relevant again to consumers. The survey found that modern food concepts of food halls and farmer's markets are highly likely to influence a visit to a mall followed closely by the appeal of indoor recreation and sports, LBEs such as bowling, paintball, trampoline parks, all forms of out-of-home (OOH) entertainment, as well as outdoor community green spaces that could include amenities like a playground and host events like outdoor movie nights, concerts and yoga classes.



All of these non-retail type uses ranked much higher with the younger Digital Natives then with Digital Immigrants.



WD concluded in their survey report, "Most notably, they [Digital Natives] want concepts that create social opportunities. A chance to do more than simply buy things, but to do things—take a yoga class, play a volleyball match, attend a makeup seminar, scale a climbing wall, make gnocchi with a master chef. . . You must find a way to engage shoppers in the physical world."

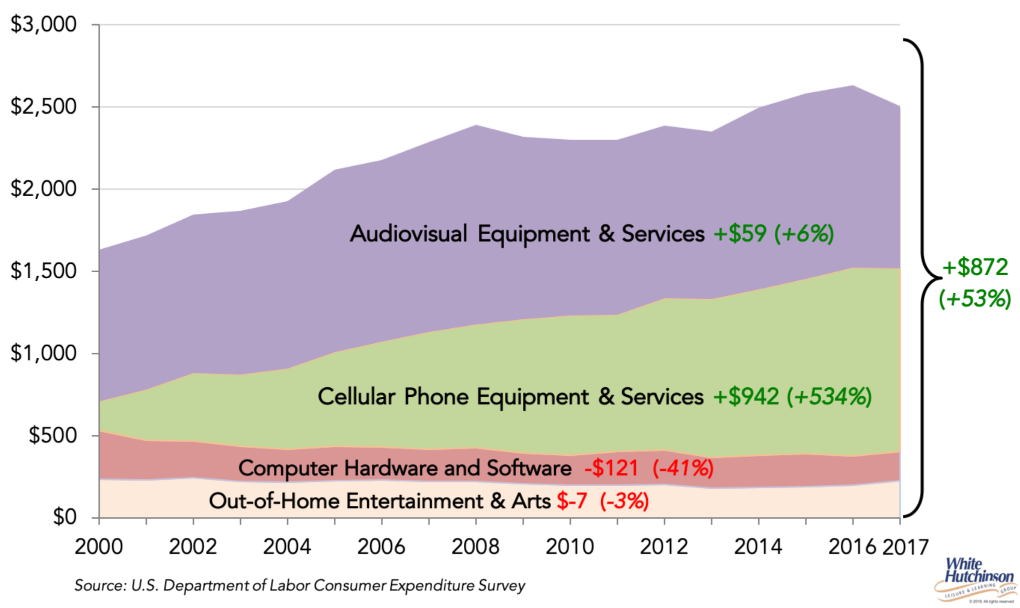
However, adding entertainment may not be the answer or a sustainable option for all shopping centers and malls. It's important to understand some fundamental facts, trends and structural changes that are impacting the out-of-home (OOH) entertainment landscape in order to determine where and how entertainment can be viable.

Digitalization of entertainment

OOH entertainment, no different than brick-and-mortar retail, is being impacted by the internet, digital screens and shifting consumer preferences. Over the past few decades, expanding screen-based digital entertainment options have offered consumers more and more reasons to just stay home. These include video games, streaming movies and shows, social media, *YouTube* and what is being called the *Netflix* effect – binging on shows. Social media and texting have allowed consumers to socialize with friends via digital connections such as on *FaceTime* and *Snapchat* rather than in person. We are now seeing the incorporation of virtual and augmented reality into those at-home options, further increasing their attractiveness. All the digital and at-home options are crowding out time and money that was previously spent out-of-home, including at LBE venues. Consumers are now cocooning in their homes with all their digital options, often to the extreme extent that futurist Faith Popcorn calls 'bunkering.'

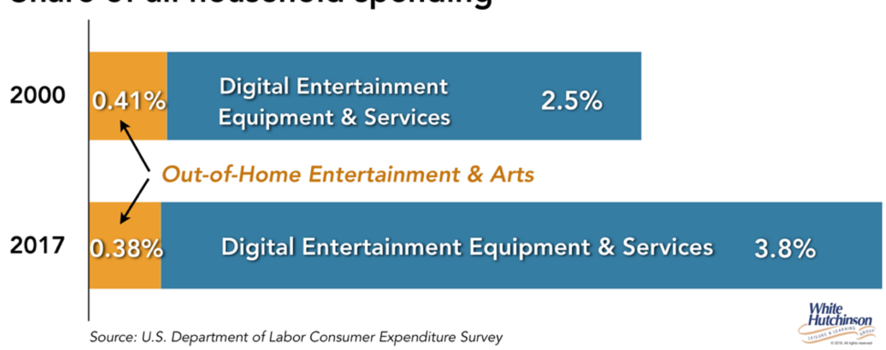
Consumers have increased their overall entertainment spending since 2000 by more than half (inflation-adjusted), but all the increase has gone to at-home and screen-based digital entertainment and socialization, not fees and admissions to (OOH) entertainment and art (E&A) venues.

Average household annual expenditures in 2017 dollars

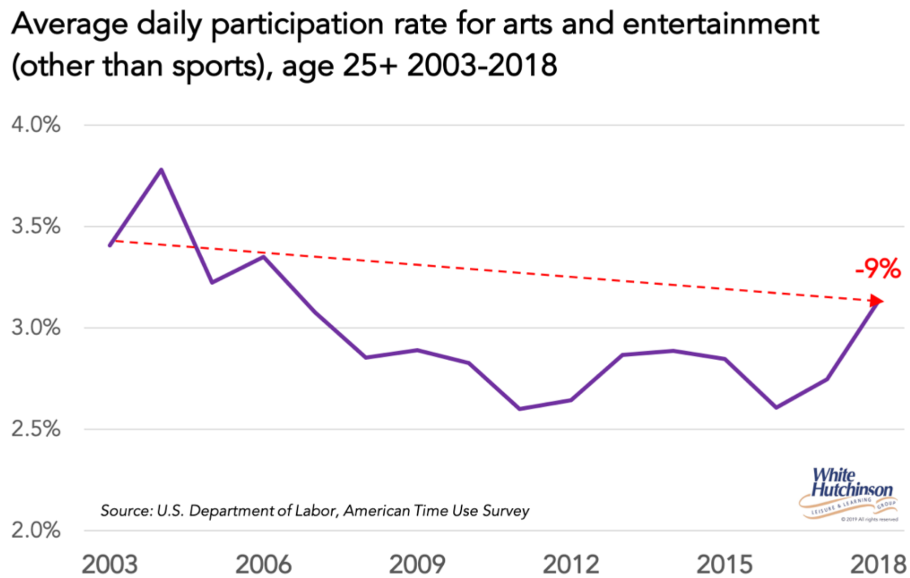


A larger share of all household spending is now going to digital entertainment while the share for OOH E&A has decreased.

Share of all household spending

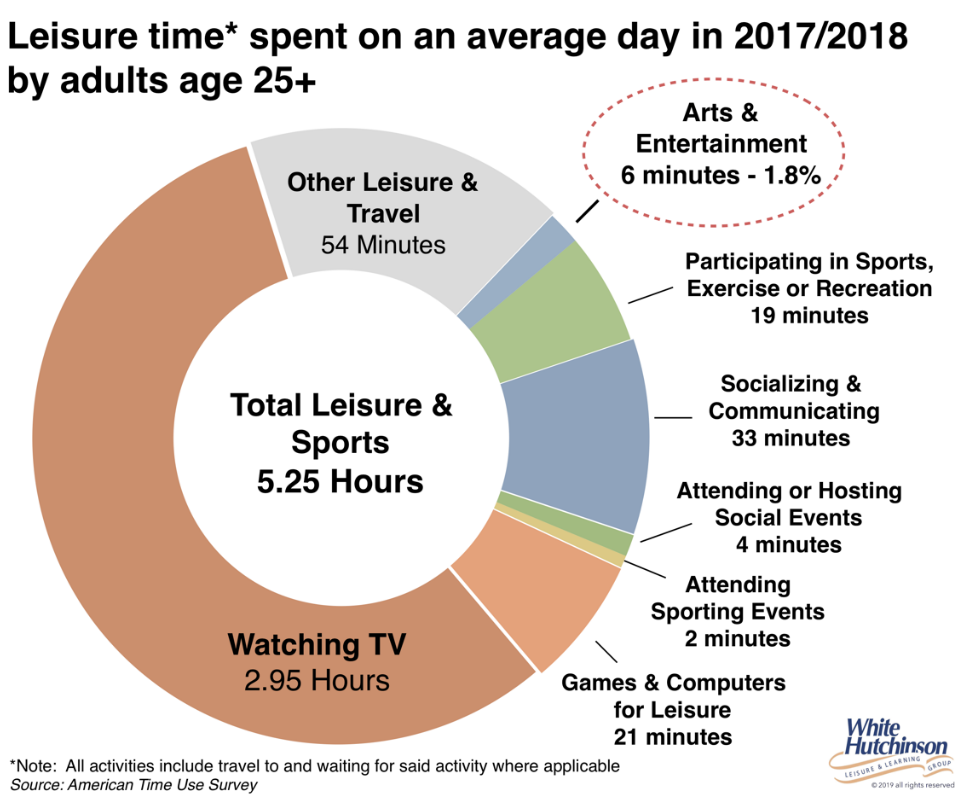


The percent of the population participating in OOH E&A on an average day has declined by nine percent since 2003.



Leisure time

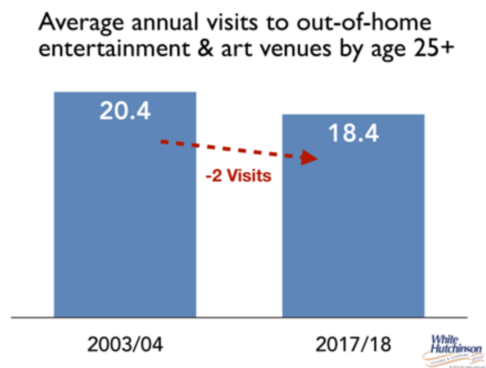
The amount of average leisure time American's age 25 and older have varies up and down by only a few minutes each year. In 2018, people age 25+ on average only had 5 minutes more leisure time than in 2003.



However, only a very small portion, less than 2% of that time, an average of 6 minutes per day, is spent traveling to and attending entertainment and arts activities.

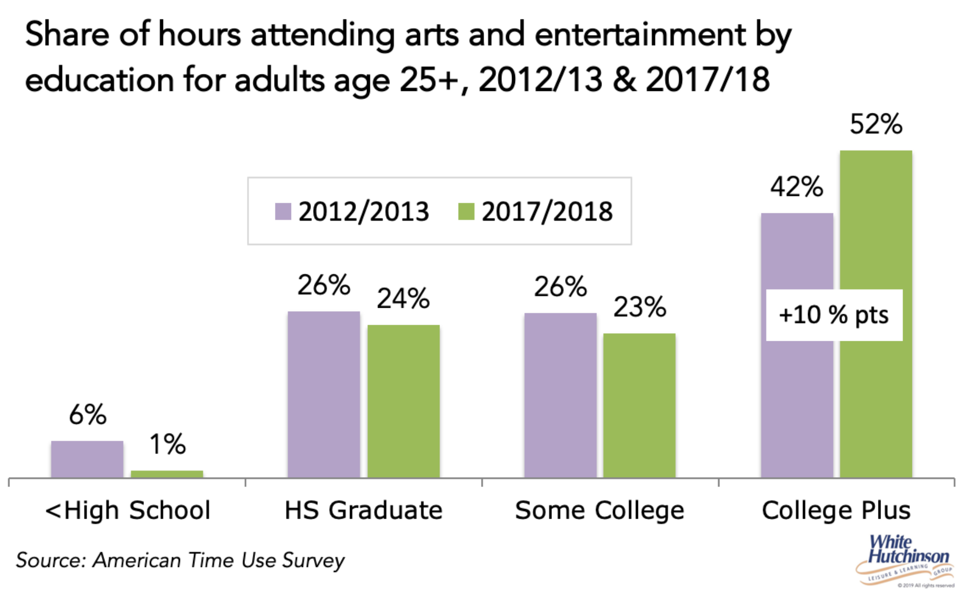
The same as with expenditures, peoples' entertainment leisure time is shifting from attendance at brick-and-mortar entertainment and art venues to the digital screen. People are participating less and spending less of their leisure time at OOH E&A venues. Overall, people age 25+ are spending 10% less time visiting OOH E&A than 14 years previous.

As a result, our calculations show that the annual number of times the average American age 25+ attended an OOH E&A venue has declined by two visits per year over those 14 years. One less visit is attributable to a decline in movie attendance and one less to all other type OOH A&E venues and events.

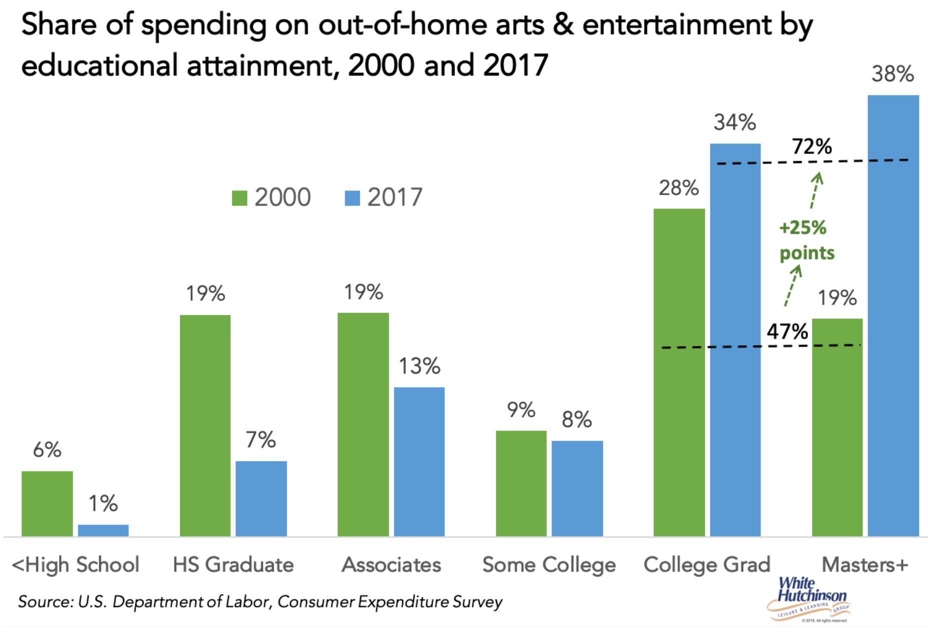


Gentrification

There is gentrification trend to these changes. The greatest declines in attendance, time spent, and number of visits is occurring within the middle and lower classes. Over just a five-year period, 10 percentage points of the amount of time spent attending OOH E&A has shifted to adults with a bachelor's degree or higher. They now account for over half of all time spent at those experiences (52%).



Bachelor's and higher degree households have grown from 47% of all OOH E&A fees and admission spending in 2003 to almost three-quarters in 2017 (72%).



If a mall or shopping center is targeting higher socioeconomic consumers, the OOH entertainment trends aren't that terrible, as that group of consumers accounts for the largest share of time and money spent at OOH E&A. However, there is one more trend that has impacted that segment, as well as all consumers.

The decline in repeat appeal

LBEs that rely on fixed attractions are seeing a decline in repeat appeal. The vast majority of Americans now have the desire for adventure, discovery and uniqueness when it comes to OOH experiences. When they are motivated to leave home, rather than repeat same old, same old, they now seek out new and unique experiences to expand their sense of self, of who they are and what they can do, as well as add to their Experiential CVs and to share on social media to build their social capital. The desire to collect a variety of experiences, especially for higher socioeconomic workers, is also driven by a desire to feel productive, as checking off items on their experiential check list creates the feeling that they have used their leisure time productively. People want to enjoy, share and collect as many different experiences as possible in their limited leisure time. Today, it's all about a culture of novelty-seeking and the pursuit of new, unique and sharable OOH experiences.

Our brains are hard-wired by evolution to crave novelty. The desire for novelty, to explore something new, is rooted in enabling us to learn something new about our environments and how to survive. Novelty triggers the production of dopamine, making us feel good, which, in turn, increases our motivation to seek more novelty.

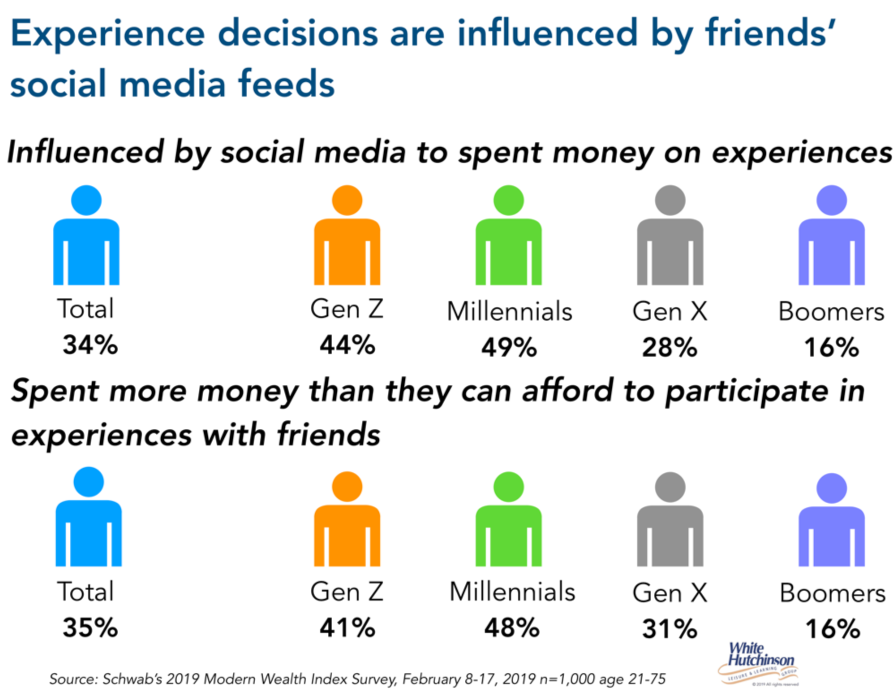
What our company is hearing from our LBE clients about their decline in repeat business is confirmed by research by *PGAV*. Their *2018 Voice of the Industry Report* said that 2017 marked the "Year of the New" for many attraction guests. It found a marked uptick in the percentage of visitors looking for new experiences. It reported that attendance at all 16 different types of attractions they examined, with the exception of sightseeing tours, declined between 2016 and 2017. *PGAV* also found that repeat visitation was falling at 13 of the different attraction types. They found repeat visits at family entertainment centers had declined from 78% in 2015 to 63% in 2017. *PGAV's 2019 Voice of the Visitor* annual outlook on the attraction industry found that visitors only visited 3.3 different attractions in 2018, down from 3.9 in 2017. Their research also found that first time visitors to attractions reached its highest rate in history in 2018, 47%, reinforcing that consumers are more than ever seeking out fresh and new experiences. Their research also found that attraction visitors' desire for fresh and new experiences extends into 2019 with a continuing decline to return to the same attraction as last year.

The rise of one- and limited-time events

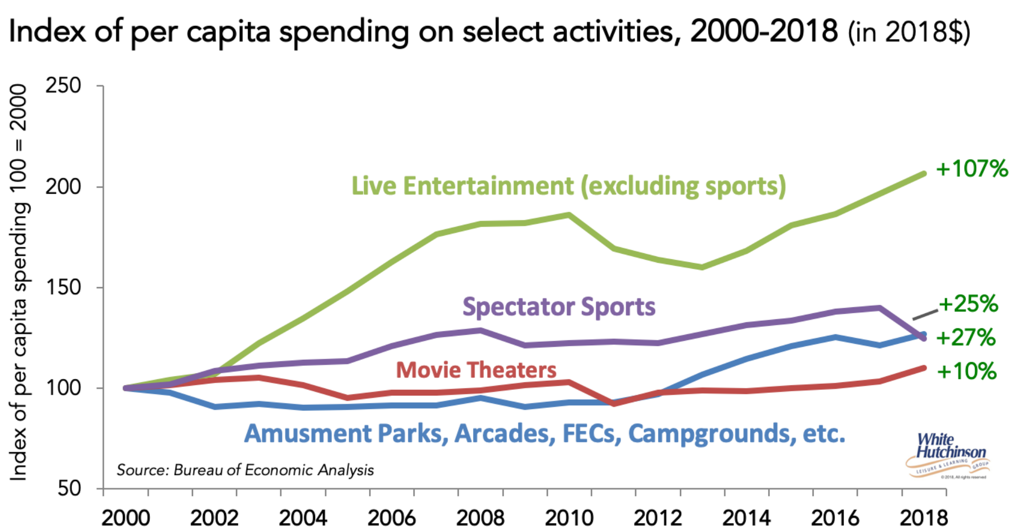
PGAV's 2018 The Fight for Attendance report found a growing appeal of non-attractions, limited time and live, non-permanent entertainment experiences such as festivals, concerts and other live events and how they are winning a greater share of guests' time and wallets. People are choosing one- and limited-time experiences (O&LTEs) over brick-and-mortar venues with fixed attractions that don't offer new unique experiences (been there, done that).

The legacy LBE business model that primarily relies on fixed entertainment attractions has lost some of its appeal. While the size of the pie of attendance at OOH E&A has shrunk, O&LTEs are getting a larger percentage share of the smaller pie and LBEs are getting a smaller size slice then in the past. O&LTEs are gaining in market share due to their uniqueness and social shareworthiness, plus the added urgency to visit them due to peoples' anxiety between what others are doing, versus what we are doing, often called FOMO – fear of missing out.

FOMO is powerful marketing that only feeds the growing O&LTE trend. According to *Schwab's 2019 Modern Wealth Index Survey*, more than a third of Americans admit their spending on experiences have been influenced by images and experiences shared by friends on social media. For millennials, nearly half say so (49%).



Per capita spending for live events (excluding sports), which are mostly all O&LTEs, has more than doubled since 2000 (+107%), whereas per capita spending for non-live entertainment including movie theaters, theme parks, arcades, FECs and related recreation has increased far less, only by 27%. For the 12 months ending June 30, 2018, 46% of all household spending for fees and admissions at OOH E&A was for live events.



To understand how large the universe of O&LTEs is, we researched all our home town Kansas City metropolitan area festivals, fairs and fests that took place during a one-year period. We were surprised to find 133 and we certainly missed several dozen or more that weren't identified as festivals or posted at the time on the internet. This year, between Memorial Day and Labor Day, we've identified 97, yes, NINETY-SEVEN different festivals scheduled in Kansas City (we again know we've missed some that didn't get posted on the published list). That's one for every day between the two holidays. When we've examined other markets, we've found a comparable ratio of festivals based on their populations.

Not only are there more live and O&LTEs, but consumers are also attending them more often. *Nielson* reports that 52% of the U.S. population attends some sort of live music event each year and the percent who attended a music festival in 2018 was 23%, up from 18% the previous year. They also found that attendees at live music events are 35% more likely to come from households earning more than $80,000 a year (the gentrification trend).

Research by *EventBrite* shows that Americans are attending more live events, including festivals, than ever before. They found that 4 out of 5 Americans (78%) attend live events, ranging from entertainment-focused experiences like music concerts and beer festivals to more cause-related events like marches and rallies. For millennials, the participation rate was 90%, an increase from 82% just three years earlier. And half said they attended a live event so they had something to share online (building their Experiential CVs and social capital).

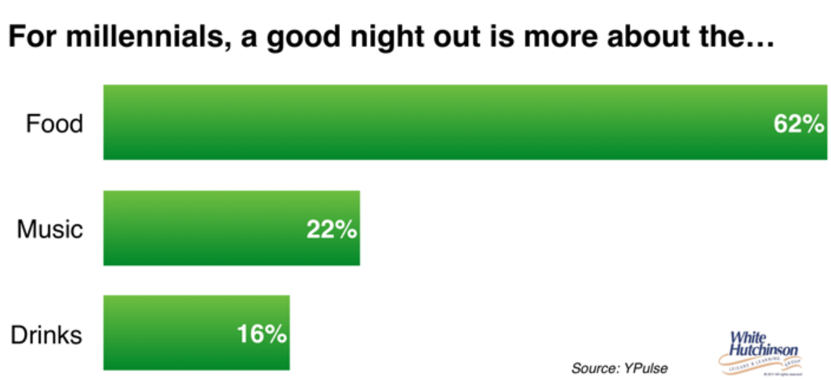
Our company's own nationwide consumer surveys found that in 2018, 43% of Americans age 18+ attended a beer and/or wine festival, 57% attended a food festival and 58% attended a paid music concert. And of those who attended, they attended approximately two times. Those participation rates are much higher than for many types of OOH entertainment, including such activities as bowling, the most popular type of indoor OOH entertainment other than the cinema.

Expanding out-of-home entertainment & arts options

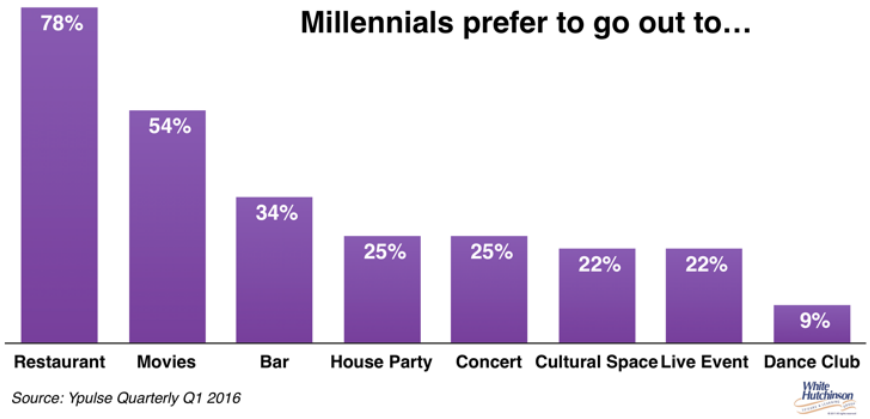
In addition to all the at-home entertainment options consumers have, the OOH E&A landscape is rapidly expanding with new options that didn't exist in the recent past. There's an endless ocean of possibilities for what we can do with our leisure time when we do decide to leave home. This includes everything from axe throwing, escape rooms, virtual reality, arcade bars, eatertainment, bowling, trampoline parks, miniature golf and cocktails, Ferris wheels and ropes courses at big box stores, and grocerant-tainment – dining and entertainment at grocery stores. The number of legacy LBEs, such as family entertainment centers (FECs), as well as many of the new concepts are also expanding to the point of over-saturation in many major metropolitan markets.

OOH entertainment, arts and leisure options continue to grow in variety and number

Food and drink at restaurants is now considered a form of OOH entertainment, especially among younger adults. Research by *YPulse* found that the vast majority of millennials (62%), a prime target market for OOH entertainment, consider a good night out as more about the food than the entertainment.



They found millennials prefer to go to restaurants over the movies, concerts and even live events (unless food and drink is a significant component).



53% of Americans consider themselves 'foodies.' American's are seeking better and more unique food at every activity they attend. *Eventbrite* found that food is the second most important factor people consider when deciding to attend any type of event, outranking both the quality of the performers or speakers or whoever else is attending. 62% would go to an event just for the food and 66% would make sure to show up early if they thought the food might run out early.

Death of the legacy LBE business model

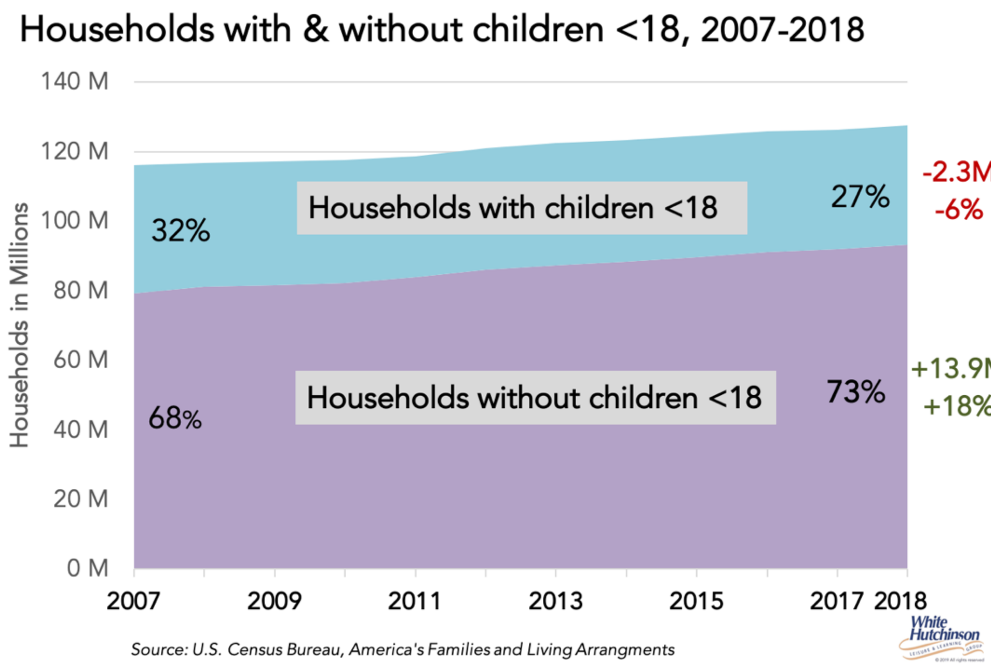
Yes, it used to be that in the not so distant past we had far fewer entertainment options at home, so boredom produced cabin fever and we sought OOH entertainment options. Those were also the days when there were far less O&LTE options such as live events and festivals, before the foodie revolution, when chefs weren't celebrities, restaurants weren't considered as entertainment, and when social media didn't reign to both feed FOMO and the quest for social capital. Those were the days when fixed attractions at brick-and-mortar entertainment venues had repeat appeal. That appeal has now dramatically declined and in some cases vanished. Why do the same old, same old, when there are so many new, different and unique OOH experiences to enjoy with your limited OOH leisure time? Yes, the old business model for LBEs and attractions, especially for FECs, depending on repeat appeal is undergoing serious disruption due the overexpansion of OOH E&A venues, the expanding number of OOH O&LTEs, the appeal of restaurants as entertainment and the appeal of just staying home with all its entertainment and social options.

Targeting niche markets

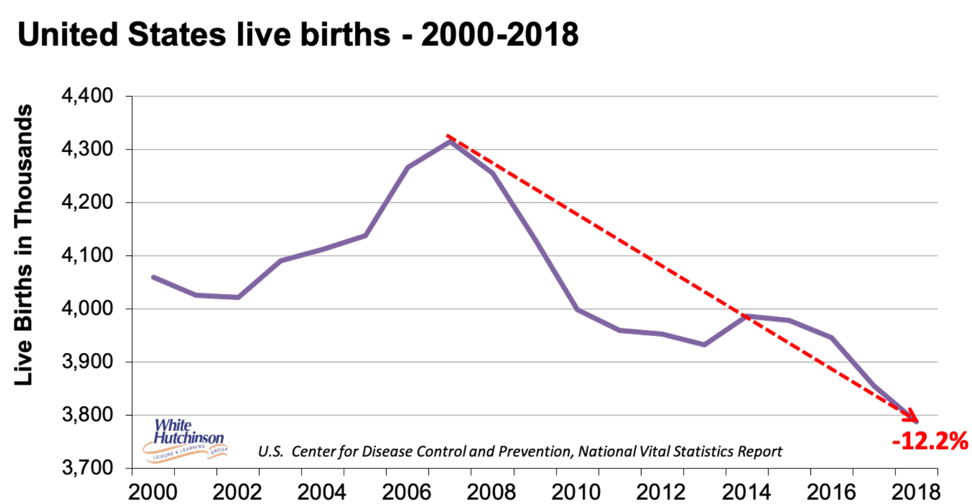
In the early days of what is called the family entertainment center industry, the business model for FECs, the formula for the mix, was to offer a little something for everyone – something for young children, something for teens, something for families and something for adults – with only a concession stand for food and beverage. Back then, before the turn of the century, that worked as there were far fewer both OOH and at-home entertainment options. Over the three decades since that formula first surfaced, there's been an expansion and segmentation of LBE types targeting specific demographic groups with different types of entertainment experiences. So, while in the early days of FECs that formula generated adequate attendance and revenues by also appealing to adults who had few other options, today the industry has segmented into different niche concepts, such as play cafes for young children, children's entertainment centers targeting a broader age range of children, such as trampoline centers, ones with family appeal, such as *Peter Piper Pizza* and pizza entertainment buffets, and then all the adult-focused concepts of which *Top Golf*, *Punch Bowl Social* or *Dave & Buster's* are just a few examples of the many options adults now have. Why should adults go to an FEC when they can go to a venue that is tailored to them? The FEC business model has lost the adult market, a part of the attendance they once had that made them a viable concept. They are also losing some of the family market to venues targeting adults. And of course, since the FEC business model is based on fixed attractions, it has lost much of its repeat appeal.

The growing appeal of adult-targeted OOH E&A is also being driven by a cultural change in parenting. Millennial parents have a different concept of "me time" than previous generations of parents. Research by *Open Mind Strategy* found that while 86% spend the majority of their free time with their kids, most parents still want to pursue their own passions, giving a new meaning to "family time." Sixty-percent do not only think about kid-specific activities, but also activities that appeal to them. Millennial parents want to enjoy new, interesting experiences to fulfill them personally while bringing their kids along for the ride. 40% of millennial dads have no problem bringing their kids to a bar. Places like *Dave & Buster's*, although they have no children's games, attract families, especially during weekend and holiday daytimes. Adult-oriented OOH E&A are taking on a family appeal so much so that some venues have to restrict children in the later evening to assure an adult atmosphere. And besides all that, what 8-year-old won't rather go to an adult venue that is also a perfect fit for their parents.

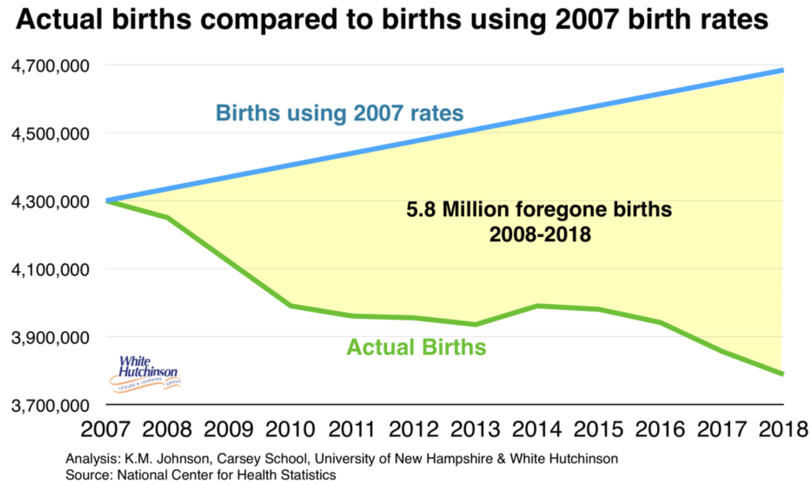
Over the years, the proportion of households that are families with children has declined and the proportion that are childless single- and couple-households has grown.



The proportion of households without children is projected to increase in the future due to the declining birthrate. In 2018 the fewest number of babies were born since 32-years ago in 1986. It's a continuation of a long-term decline in births that started at the beginning of the Great Recession in 2008 and hasn't stopped, despite the economic recovery. In 2018, there were 527,000 fewer children born than in 2007.

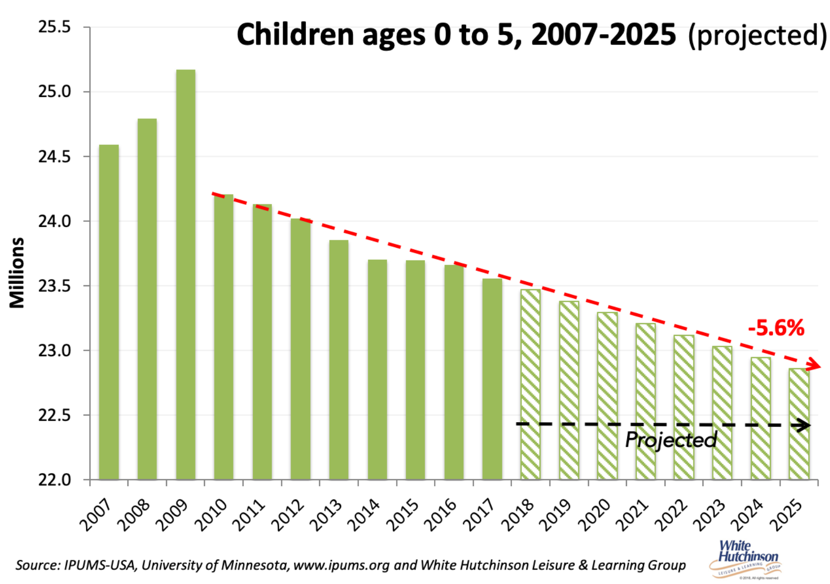


If the 2007 birth rate had continued, today we would have 5.8 million more children.



The decline in births is attributable to what at least one researcher calls a "sex recession." People are having less sex. According to Kate Julian at *The Atlantic,* possible causes include the hookup culture, economic pressures, surging anxiety rates, psychological frailty, widespread antidepressant use, streaming television, environmental estrogens leaked by plastics, dropping testosterone levels, digital porn, the vibrator's golden age, dating apps, option paralysis, helicopter parents, careerism, smartphones, the news cycle, information overload generally, sleep deprivation and obesity. 82% of millennials are anxious about how climate change will affect their children's quality of life. Some women now report deciding to not have children due to their feelings of "eco-anxiety" and concerns about an apocalyptic future due to climate change.

The decline in births is working its way thru the total population of children. This graph has the actual decline for ages 0-5 thru 2017 and our projection if the birth rate continues to decline at its current rate.



Fewer children is rather ominous for any located-based entertainment or leisure venue that targets children and/or offers children's birthday parties.

What's the answer?

Considering all the trends impacting entertainment, what's the answer for malls and shopping centers? Is entertainment still a viable option to fill vacant space and drive footfall? The answer is nuanced depending on the center's market, socio-demographics, competition and whether landlords are willing to change their business practices. Here's a few key considerations.

Sweetheart leasing deals

We are seeing some landlords so desperate to fill vacant spaces with entertainment in hopes it will attract new customers that they are offering very appealing lease terms that include generous tenant improvement allowances and sometimes even financing all the equipment, furniture and fixtures, basically paying for the entertainment venue. However, that does not assure that the entertainment tenant will be a viable tenant generating long-term attendance.

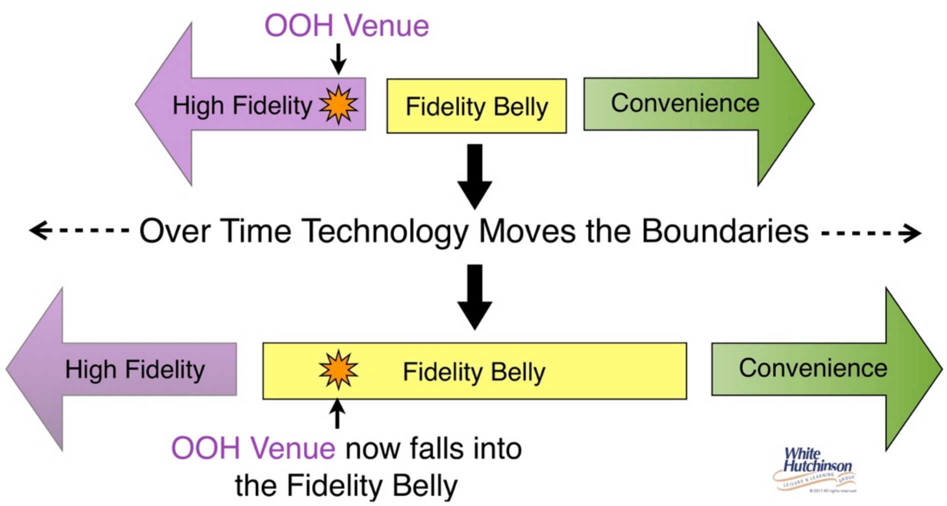
It's downright foolish to believe some new OOH entertainment venue will work based on the belief that demand for OOH entertainment is elastic. It's not, except in smaller markets that are significantly underserved. OOH leisure is a zero-sum game, a finite market for peoples' time. People only spend so much time at OOH leisure. Therefore, any new venue will not generate increased demand, but rather will need to take market share from the existing OOH E&A and other OOH leisure options.

When a new LBE opens in a market, large segments of the population will show up to check it out in the first six months or so. The big issue is whether that attendance is sustainable on a repeat and long-term basis. That depends on whether it is the right concept with the needed quality and if there is sufficient demand considering the market population's socio-demographics and the nature and quality of the competition. Any feasibility analysis and the LBE's concept development needs to take into consideration that there will be new future competition. That means the quality of the LBE can't be based on just being better than what is currently in the market. Consumer expectations are formed by everywhere they've been and everything they've experienced, just not what they find in their home market, and the expectations are rising every day.

Too many landlords chasing after entertainment venues as their answer can easily create an entertainment venue bubble, resulting in the failure of all but the best capitalized and highest quality.

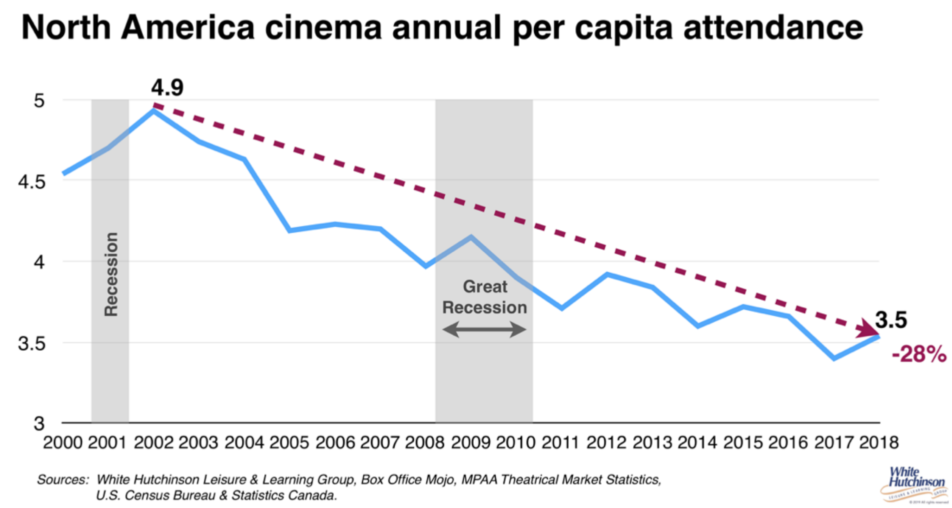
High Fidelity experiences

In our increasingly experiential economy, consumers make their leisure/entertainment choices in terms of two key dimensions - *experience* and *convenience*. It's a trade-off between *Fidelity*, the quality of the experience, and *Convenience* - the ease of access in time, effort and money. The more *Convenient* digital screen-based entertainment and socialization become at home, the higher the *Fidelity* of an OOH experience has to become to compete and attract people to leave their homes. And as digital entertainment and socialization improves in *Convenience*, which it is doing at an accelerating rate, what used to be a *High Fidelity experience* is no longer considered *High Fidelity* and falls into what is called the *Fidelity Belly*, basically mediocrity that no longer works, not a place any E&A venue wants to find itself.



A good example of this is movie viewing, something you can do at home or view in a movie theater. Not that many years ago, movie theaters had slightly slopping floors and used real film. Over time, the at-home movie viewing options increased in *Convenience*, so the old-style movie theaters started falling into the *Fidelity Belly*, losing business. Many became dollar cinemas, only competing on price, not the quality, the *Fidelity* of the experience. Others understood they needed to increase the *Fidelity* of the moviegoing experience, so they added stadium seats, surround sound, and digital projection. At-home options continued to improve in *Convenience*, eroding the appeal of the reinvented OOH movie experience. So, to compete with the *Convenience* of the lounge chair and large screen at home, cinemas remodeled by installing electric leather lounge chairs as well as restaurant-quality food and beverage. Those movie theaters lost two-thirds of their seating capacity, but as a result of improving the *Fidelity* of their moviegoing experience, were able to charge higher prices and are generating higher revenues with only one-third the seating capacity they previously had. They again raised the *Fidelity* of the moviegoing experience to better compete with the at-home options.

Nevertheless, even with that higher *Fidelity* moviegoing experience, visiting the cinema is still losing ground to at-home movie viewing and all the other entertainment options there are. It may be that when almost all cinemas convert to the lounge chair and food and drink format, the long-term decline in attendance will stop.



The trap that so many LBE incumbents fall into is only making the OOH experience a little bit higher *Fidelity* than the at-home alternatives. To get people out of their homes it needs to be at least ten times better and the level of *Fidelity* needs to also factor in that the at-home options will continue to get more *Convenient* and appealing in the future.

OOH entertainment mix & experience

For any OOH entertainment venue to not only be successful when it opens, but also be future-proof, in addition to:

- having a sufficient size market with the needed socio-demographics
- focusing on a market niche
- appealing to the upper-middle+ and higher socioeconomic consumers, and

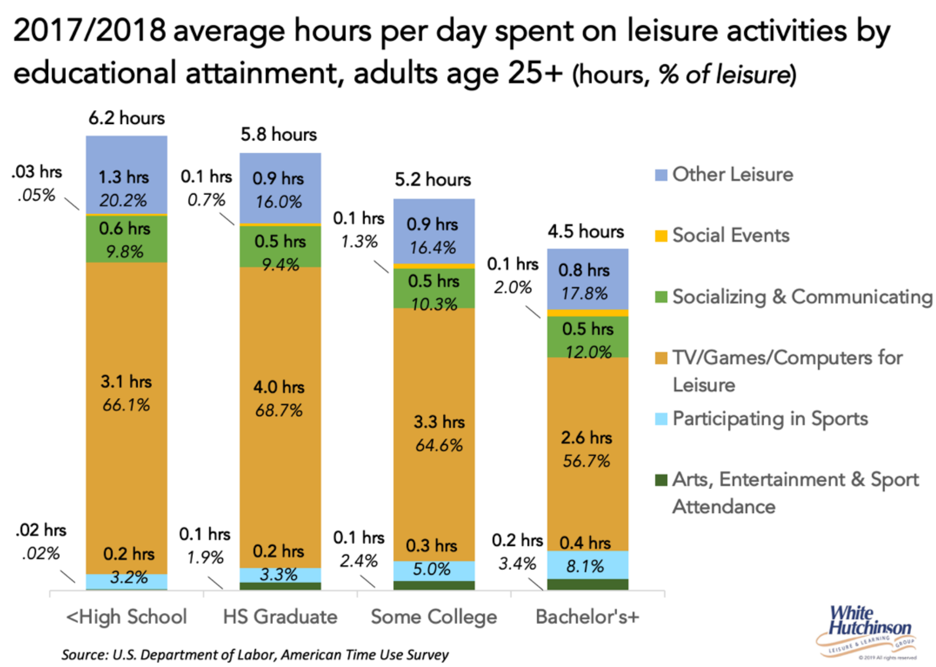
it needs to have the following characteristics and components in order to offer a *High Fidelity* experience to attract people out of their homes and to be win out over the competition:

Make it social

Research has consistently found that the primary reason people do go out, whether to a festival, a restaurant, a concert, a museum, an entertainment venue, sporting event or just about any other OOH leisure destinations, is to socialize.

We biologically evolved as a social species. We were able to survive as a species by being cooperative members of families, tribes and larger groups. Our need to connect with other humans is as fundamental as our need for food and water. As great as digital social media is, in real life (IRL) face-to-face socialization is still a higher *Fidelity* experience.

Although higher socio-economic, higher educated Americans, have far less leisure time, they spend less time with digital screens and a greater percentage and quantity of their leisure time with IRL activities, including socialization, participating in sports and OOH E&A than less educated adults. They spend an average of 7.2 minutes a day at OOH E&A, compared with only 4.8 minutes for high school graduates and 5.7 for adults with some college.



Conspicuous human contact is now becoming a status symbol. There's an emerging new reality that human contact is becoming a luxury experience for many of those higher socioeconomic Americans.

Participatory social games such as upscale casual bowling, shuffleboard, foosball, darts, etc., along with food and drink act as facilitators of socialization. Combined, they can offer a persuasive reason to leave home for IRL social contact. And in today's world, socialization, especially for the younger generations, not only means socializing face-to-face, but also sharing on social media. The OOH experience needs to be shareworthy.

Food and drink

High quality food and drink has moved from a concession stand afterthought to becoming an essential part of the experience mix at entertainment venues. In fact, in most cases, it has become more important than the traditional entertainment activities, since as noted previously, many consumers now consider dining out as entertainment. Today, at the newer-model entertainment venues, food and drink makes up the majority of the revenues. Destination-worthy, culinary-quality food and drink, including beer, wine, cocktails and craft non-alcoholic drinks, with the foodie-worthy qualities of adventure, discovery, uniqueness, memorability and Instagrammability, combined with participatory social games creates a compelling IRL social destination, what we call "social participatory eatertainment."

The attractiveness of social participatory eatertainment is confirmed by research by *PSFK* that found that 69% of consumers say they are more likely to visit a restaurant that creates a space that encourages them to hang out and socialize. The social participatory games facilitate the hanging out, as to socialize, people generally need to be eating or drinking something together or participating in a social game. Think about bowling, golf, billiards, mini golf, bocce – they have all stood the test of time as they facilitate a social experience.

One- and limited-time events

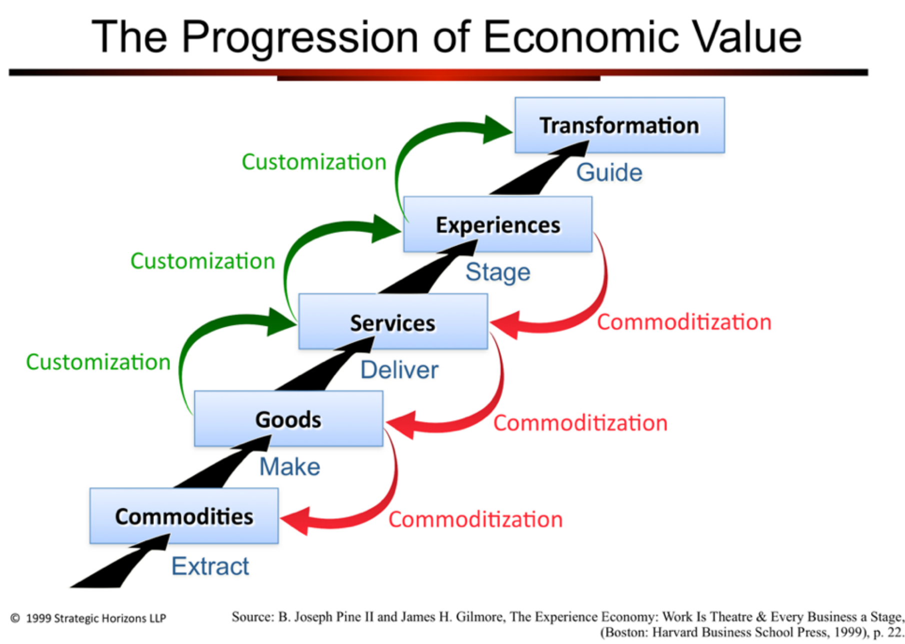
Social participatory eatertainment by itself is not a sustainable business model with repeat appeal unless it also incorporates a large number of unique one and limited-time events (O&LTEs) in order to complete with all the many OOH O&LTEs and other options consumers have to choose from today. This can include limited time offerings (LTOs) around food, wine, beer and liquor as well as non-alcoholic drinks. However, any restaurant can offer LTOs. An eatertainment venue's O&LTEs need to include events such live music and performances, wine and beer tastings, tournaments, demonstrations and other participatory unique events.

Groups

One thing you will never be able to do on the internet is hold IRL group events. Any entertainment venue needs to be designed to accommodate and attract group and celebratory events that can range from birthday parties (not just for children), corporate groups, team building, award ceremonies, even weddings. Today, to be financially successful, an entertainment venue should generate 30% or more of its revenues from group business. Research by *Technomic* found that 70% of consumers prefer to visit eatertainment venues rather than typical casual dining restaurants for group occasions. When you attract groups to an entertainment venue at a shopping center or mall, it is a significant form of marketing as it introduces new people to the center or mall or ones that haven't been there since it was reinvented.

Progression of Economic Value

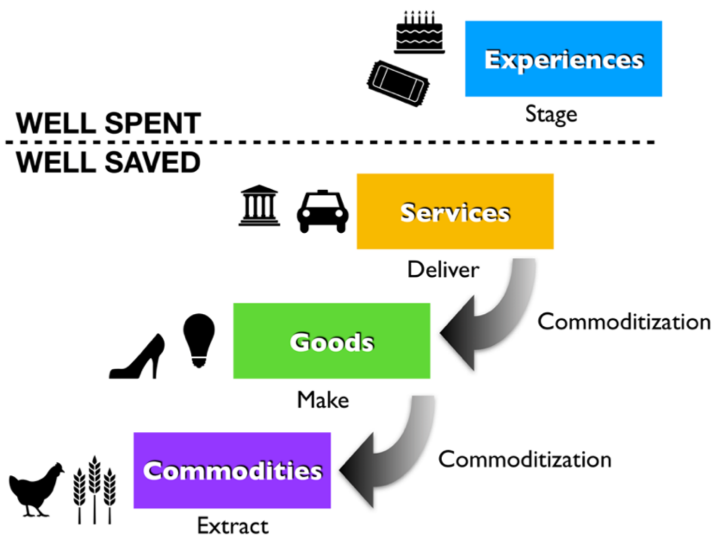
Joe Pine and James Gilmore described the concept of the Experience Economy in 1998 by outlining *The Progression of Economic Val*ue, how the values by which consumers base their purchases have evolved, or progressed, over the last century and how consumers have been shifting from one type economy to the next and how each type eventually becomes commoditized.



According to Pine, the *Experience Economy* (and ultimately the *Transformation Economy* described later) is comprised of three currencies: money, attention, and time. With only 24 hours a day and seven days a week, with 40+ hours a week for work and a (healthy) eight hours a day for sleep, time is an *immensely* limited currency. All types of OOH and at-home activities no longer just compete with one another. Instead, they are competing with a near-endless wave of variety of time-taking opportunities

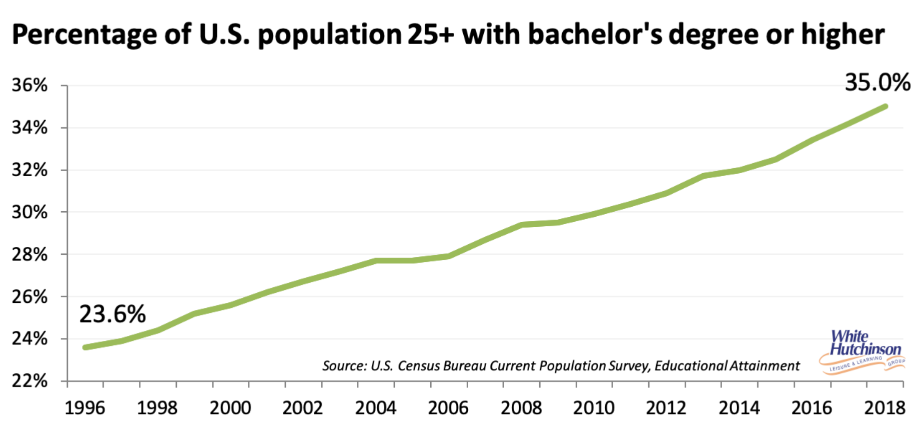
Time saved vs time well spent

Pine says that time is the key distinction between services and experiences. Services are about *time well saved*, thus the appeal of e-commerce. Experiences are about *time well spent*. Pine advises, "To stage a true distinctive experience, you have to get customers to value the time they spend with you."



Transformation Economy

We are currently in the *Experience Economy* where customers seek enjoyable experiences over products and services and are transitioning into the *Transformation Economy* where experiences are elevated from mere enjoyment to enrichment and personal transformation. Society is becoming more educated. More than one-third of adults age 25 and over now have a bachelor's or higher degree (35%) and 13% now have a master's, professional or doctoral degree.



Higher levels of education changes people's values and increases their desire to satisfy the highest tier of Maslow's hierarchy of needs: self-actualization. We are also seeing a generational shift to self-actualization with millennials and Gen Z. These people are seeking transformational experiences, ones that improve them in some way, from knowledge and discovery to health and fitness. Truly transformative experiences empower people to make meaningful and lasting changes in their life. We are seeing large segments of the population shifting priorities from "what you can do" to "who you can be," from "being" to "becoming."

As we transition from the *Experience Economy* to the *Transformation Economy* and OOH entertainment options continue to expand, typical OOH entertainment experiences lose some of their appeal and can become commoditized.

Joe Pine advises, "Today we are in an *Experience Economy* with a *Transformation Economy* hot on its heels. You can stay in the elusory safety of past practices and keep on doing the same things you've always been doing – in which case, mark my words, *you too* will be commoditized."

What this means is that typical social and fun entertainment experiences combined with destination food and drink and plenty of O&LTEs together will not alone future-proof any OOH experience venue. Part of the mix also needs to include transformational experiences that include elements of entertainment, what is often referred to as *edutainment*. Edutainment raises the *Fidelity* and appeal of the experience, especially for higher educated consumers. This can range anywhere from wine, cheese or other tastings to cooking classes and demonstrations to interviews with authors and famous people, painting or plant and wine parties, welding and beer parties, events that can be social, fun and enriching at the same time. We are even starting to see edutainment combinations of art and entertainment with what is being referred to as artainment. Most edutainment events mostly fall under the category of O&LTEs

Landlords as experience producers

For shopping centers and malls to remain relevant to consumers as attractive destinations, mall and shopping center developers and landlords need to make a paradigm shift and change their business model of only developing and renting store boxes and maintaining the common areas. They need to also become producers of entertainment and transformation/edutainment O&LTEs experiences to assure adequate footfall to sustain non-leisure destination tenants. This was pointed out in the previously cited *WD Partners* survey by the high visit appeal of green common areas with playground and events like outdoor movie nights, concerts and yoga classes, where you could play a volleyball match or attend a makeup seminar – common areas that would be a community hangout and create social opportunities (not necessarily only outdoors). Shopping centers and malls need these type spaces and events where the landlord doesn't depend only on tenants to provide all the experiences, but where the landlord is responsible for producing them as well. Such community common areas have contributed to the success of many newer lifestyle and town centers.

Can entertainment save malls and shopping centers?

So, it's back to the original question. The answer is that entertainment alone can't save them, but it can certainly contribute in the right circumstances. First off, of course, is that the mall or shopping center needs to be located in a market with a sufficient population with good socio-demographics that will not only support the remaining retail, but the entertainment as well.

The selection of entertainment tenants needs to skew heavily to participatory social eatertainment for adults, ones that offer a highly social experience that includes great food and drink combined with interactive social entertainment, ones that can attract group events and offer overall *High Fidelity* experiences. Those tenants need to not only rely on their fixed attractions and games, but they also need to heavily program one- and limited-time events. Some of the experiences, especially the O&LTEs, need to be elevated as transformational edutainment. The mall or shopping center also needs to have outdoor and indoor community gathering spaces where the landlord produces heavy programing of all types of O&LTE entertainment, transformational and edutainment events. And uniqueness and shareworthiness of everything is essential.

For malls, lifestyle and power centers and strip shopping centers, entertainment, eatertainment and edutainment can be a good fit especially for "A," and maybe even "B" locations. But for the other struggling and lower quality centers in marginal markets, it will not solve their problems.

> *The best way to generate demand for any offering . . . is with an experience so engaging that people can't help but spend their time with you and give you their attention and then spend their money as a result.*
>
> Joe Pine

The White Hutchinson Leisure & Learning Group is a 30-year-old, Kansas City-based, multi-disciplinary firm that specializes in feasibility, concept and brand development, design, production and consulting for leisure, entertainment, eatertainment and edutainment venues. Over the past 30 years the company has worked for over 550 clients in 36 countries and won 17 first-place design awards. Randy White, CEO, was previously a mall/shopping center developer, owner and manager with hands-on experience with over 3.0 million square feet of both suburban retail and urban redevelopment centers. The company is currently working with a number of shopping centers to assist them with developing entertainment projects. The company publishes an occasional Leisure eNewsletter and Tweets and Randy blogs and posts on LinkedIn. Randy can be reached at 816.931-1040, ext. 100, or at randy@whitehutchinson.com.

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