

# It's Not Business as Usual for Retail



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## Full transcript

**Announcer:**

Welcome to Thrive, a Paychex Business Podcast where you'll hear timely insights to help you navigate marketplace dynamics and propel your business forward. Here's your host, Gene Marks.

**Gene Marks:**

Hey everybody, and welcome now. I am here with Tom McGee. He is the president and CEO of ICSC. Tom, first of all, thanks so much for joining me for this conversation.

**Tom McGee:**

It's a pleasure to be here, Gene. Thanks for having me.

**Gene Marks:**

Glad you're here. So first of all, we will talk about ICSC, but let's talk about you first. So I know before we started recording this, you were with Deloitte for, did you say 126 years, or was it just ...?

**Tom McGee:**

Well, I'm not that old. I'm old, and I feel old, and certainly the last couple of years have aged me more than I would like. But I was with Deloitte for 26 years and joined ICSC in 2015 as CEO and president.

**Gene Marks:**

That's great. So are you a CPA, like, accounting in your background?

**Tom McGee:**

I am. So I was a — I'm a CPA. I was an audit partner at Deloitte and also did M&A. And I joined Deloitte right out of college. I went to, grew up in L.A. I went to Loyola Marymount University — go Lions! for any Lion alumni, loyal alumni that are listening. And joined Deloitte out of the L.A. office, worked in L.A. or Orange County for close to 20 years. And then in 2007, moved to New York for the firm. And worked, continued working with Deloitte until 2015. And I got an opportunity at ICSC, a recruiter called me and presented an opportunity. And I said, "I really want to do this." And so I've been privileged to be at ICSC since then.

**Gene Marks:**

So why? Why did you really want to do it? First of all, tell us what ICSC is all about. It's Innovating Commerce Serving Communities. Is that correct?

**Tom McGee:**

I mean, that's our tagline, our brand positioning. ICSC, our historical name is the International Council of Shopping Centers. We dropped the full terminology of International Council of Shopping Centers and just go by the acronym ICSC. Our membership is comprised of owners, developers, retailers, service providers, financial institutions, insurance agencies, anyone that has anything to do with the development, historically, with the development of retail real estate. We have about 50,000 members in the U.S., and a couple thousand in Canada, and a number of members outside the U.S. and Canada as well, a couple thousand. We have historically provided a number of services for people in that industry. We're best known for our large deal-making conferences. We host a conference in Vegas every May that has, pre-pandemic, about 35,000 people that attend. And then we hold almost a hundred events annually, that range in size from — outside of the 35,000-person event — from a 10,000-person event down to a couple hundred people in local markets.

**Tom McGee:**

But the industry, as you know, is changing pretty dramatically, and obviously the pandemic accelerated a lot of changes. So you're seeing convergence in the retail real estate space in a number of different ways — convergence in real estate, where you're seeing retail and office and residential all come together in mixed-use kind of settings. And ICSC is an environment where a number of those folks that are in other forms of commercial real estate have become part of our membership. And then of course, in retail. And when I say retail, I don't mean just retail. I also mean restaurants and hospitality, anybody that occupies space within their historical retail center. And if you look at that industry, obviously it's changed quite a bit with the advent of so much technology, logistical capabilities, and backbones around the delivery of goods and services.

**Tom McGee:**

And all of those folks have become, increasingly, are members of ICSC as well. And so when we looked at our brand, International Council of Shopping Centers, we just didn't feel like it was reflective of our membership and the composition of our membership. And as I like to say, we're really where commerce meets physical, a physical community. And that's where the Innovating Commerce Serving Communities part is. And we have a large number of small businesses that are part of ICSC, or certainly are tenants within the properties that many ICSC members have. And so we're a very committed, small business community, which I know is a big part of your audience.

**Gene Marks:**

It is. So if I am a small retailer, just starting from there, you had mentioned that you do hundreds of events, you have big event that's in Vegas as well, and it's all about deal-making, you said. So what do you mean by that, exactly? Particularly if I'm a smaller merchant or a retailer.

**Tom McGee:**

Yeah. So if you're a one-person, one-location or two-location retailer or restaurant, you're probably not going to attend an ICSC event for the classic deal-making or networking that we do. And what that really means is we kind of provide the marketplace where prospective tenants, and landlords, and financial institutions come together to make deals.

**Gene Marks:**

Got it.

**Tom McGee:**

And so I have a space within a shopping center or a retail center, or I'm looking to add on an apartment complex or an office complex. We bring all the participants together in one setting, and they do deals, or they talk about the advancement of deals. And so the efficiency of having everybody in one place at one time as the value proposition of our events. And this industry is very relationship-oriented. But if you're a one- or two-location or three-location, generally locally-based retailer, you may go to our events. You may go to some of our local events where we talk a lot about industry trends and what's happening in industry trends. We talk about the relationships between landlords and tenants and how you can improve those relationships. So you really, you would use ICSC more as a source of information and best practices, and not potentially for, quote "deal-making," because you're not necessarily looking to expand your footprint in a regional or national way.

**Gene Marks:**

Got it. So Tom, ICSC puts out, every month, what you called an industry benchmark report. Every time you read in the media, you know, where I participate in, and the narrative is: "Brick and mortar is dead, shopping centers are dead, retail communities — forget about it." Now I realized that the nature of these communities have changed. They're not dead. I think if you're in a shopping center, I remember the shopping center near me in Philly when I was growing up, where once upon a time it had shoe stores and dress stores and all that kind of stuff, I realize a lot of stuff has gone online. And now it's being replaced with service-oriented things or experience-oriented retail. So, I guess, my question to you is that if I am a small retailer and I'm looking for brick and mortar opportunities, is that where you're seeing the trends going — towards a more experience-related retail? Has e-commerce really had an impact on the actual products and goods that are being sold by merchants?

**Tom McGee:**

Well, I think if you look at it in the aggregate level, the industry as a whole, certainly the amount of square footage, gross leasable area in retail centers across the U.S. has clearly shifted over the last decade away from traditional retail and more into services, and restaurants, and things of that nature. You really seen almost a 10% change in GLA over about an eight to 10-year time period, away from traditional retail and traditional products, particularly apparel.

**Gene Marks:**

Shoes, dresses, clothes, things like that.

**Tom McGee:**

Yeah. Towards things like restaurants, and gyms, and movie theaters, and services, and all host of things. So for sure, in the aggregate that's happened, there's absolutely no doubt. And actually pre-pandemic, the media had focused so much around traditional retail, they had kind of missed the bigger trend that was taking place with just this transition of this property into really a more of a community center, whatever that that community needs. And that's really what a retail center is about, right? A shopping center should be about, which is what are the needs of that community? And you should curate it to the needs of that community. And so not every center should have the same thing, right? Because every community is different.

**Tom McGee:**

And that's what I would say to a small entrepreneurial business owner that's looking to start a restaurant, or start a restaurant or a retailer, or some other types of service provider, is really match it up to whatever that community is. You may have a great idea that may work in one community, but may not work so well in another community. And you really have to think about, "Okay, what are the demographics of the community? What are the buying habits? How many — what percentage of people have kids in school versus retirees?" All those types of things to make sure you're matching that up. In all the studies that we've done, that really increases the likelihood of success, the location that you picked. It's just like buying a home.

**Gene Marks:**

Sure.

**Tom McGee:**

Location, location, location. Right? The same kind of concept. The health of the industry right now is really dependent upon the course of the pandemic. And so, the last — clearly in 2021, with the introduction of the vaccines and all of the confidence that that created in kind of the consumer public, you saw retail doing exceptionally well.

**Gene Marks:**

Right.

**Tom McGee:**

During the course of the 2020, essential retail did really well. And then you saw a lot of entrepreneurs do very well in leveraging technology to have click and collect, and other types of things that are happening within retail centers. In 2021, there was so much pent-up demand for people just to get out. Right?

**Gene Marks:**

Yeah.

**Tom McGee:**

I mean, so all forms of retail began to do very, very well. Now with the Delta variant, I think there is, depending upon where you're at, and what the case count is, and what's happening in your community, you're clearly seeing some moderation over the course of the last month or so. But I think the industry, as a whole, is really in remarkably healthy shape, given what it's gone through over the course of the last 20 months.

**Gene Marks:**

Yeah. It amazes me. I mean, I walk down main streets, I've been to a couple of shopping centers in my area, and there are few, very few vacant stores. And I think to myself, "My God, we just came out of a pandemic, an economic recession. And we haven't seen this since the bubonic plague, and you kind of wouldn't know it when you're walking around." There was though, an enormous increase in e-commerce sales over this past year.

**Tom McGee:**

Yeah.

**Gene Marks:**

And a lot of people woke up that they can buy a lot of stuff online. When your members and people in your community see that, does it strike fear in their hearts? Does it concern them that that is going to be a long-term impact on their businesses?

**Tom McGee:**

Well, I think there's an acceptance that e-commerce is going to have a very significant percentage of retail sales in the country. But I think what has really happened, and you see this happen, and it happened during the pandemic, is really the way people use physical space has changed a lot. And so traditionally, stores were there for people to walk into a store, and browse, and buy things off the shelves, and walk through a checkout counter, and leave, right?

**Gene Marks:**

Right.

**Tom McGee:**

And certainly stores still offer that, but stores have become a lot more, right? I mean, they've really become, in many respects, the way to solve for the last mile of e-commerce. So, the-click-and-collect, the curbside pickup, the delivery to the store itself, as opposed to somebody's house, and consolidate. I think those things are enormous opportunities. Really, I do think retailers, and developers, by the way, who realize they need to support their retailers, are really leaning into it, at least those that are going to be much more successful. And they're really — quite frankly, there had not been — if you really think about the past decade pre-pandemic, there was so much investment in the e-commerce channel. And there had been minimal investments in the physical distribution channel, the store network.

**Tom McGee:**

And then if you look at what's happened, really over the course of the last year-and-a-half, you've seen a heck of a lot of investment in the physical store network or physical distribution of goods. I know it seems like it's such a simple concept, but it completely changed the way stores are laid out. If you're going to really have a large percentage of your sales be click-and-collect or curbside pickup, that's going to change the way the store is laid out pretty significantly. How much of the store is devoted towards the shelf space. How much of it is devoted towards back office and storage capabilities. How much of it are you going to allow for people to have goods set up, so you could literally just walk in and grab your stuff and walk out.

**Tom McGee:**

And then the integration of that with technology and smartphones. You know, I don't know about you, but I mean, I go out to eat all the time because we're empty-nesters, basically. But I mean, I don't know that I go out to eat — I order out all the time. And then I order out on my phone and I go and pick it up. Right?

**Gene Marks:**

Yeah.

**Tom McGee:**

I mean, just think about that concept where every, not just the major restaurant chains, but almost every small restaurant has some type of, either they are partnering with some technology provider, or they built their own interface. For you to go online, to curate what you want, and 15 minutes later, it's there for you, or you have DoorDash or Postmates or somebody delivered it to you.

**Gene Marks:**

Sure.

**Tom McGee:**

So it was — it's amazing the amount of change that's happened over such a short period of time. And I think that all has an impact upon the physical composition of what's in retail.

**Gene Marks:**

Yeah. And that the physical composition is, obviously, would be the biggest impact, I would think. I mean, you give the example of going out and picking up food. We do the same thing all the time, particularly during COVID, and we had food delivered. I think a lot of restaurants, a lot of retailers realize that they can be just as profitable, if not more profitable with that model combined with some type of brick and mortar presence. That's got to put pressure, though, on leasing space. I would think that right now, a lot of retailers and even restaurateurs would need less space. Are you seeing that? Do you agree with that?

**Tom McGee:**

Well, or they need more, right? Because don't you need to be closer to your customer to deliver that?

**Gene Marks:**

True.

**Tom McGee:**

I mean, you need to actually get that — to deliver those goods, just in time, you need to have a location that's close to where your customers are. So, actually, leasing demand right now, began not — I think a lot of people were completely surprised by this — but leasing demand, again, in late 2020 and into 2021, has been exceptionally strong, the strongest leasing demand we've seen in the last five to seven years.

**Gene Marks:**

Isn't that amazing? And that was exactly the opposite of what was predicted in the midst of the pandemic. And you're right. When I think about it closely, I mean, look, look at Amazon, are building warehouses everywhere. I mean, between where I am in Philly and New York, industrial warehouse space is being snapped up. And it's not just them, it's Amazon, Target, Walmart, because they want to be close to their customers. Like you said, the example of your, your members as well. Who's leasing, when you say that leasing demand is up?

**Tom McGee:**

All, all those folks that you've mentioned and a lot of other major retailers, but also a lot of small businesses too. I mean, sadly — the pandemic disproportionately hit the small business community. I mean, disproportionately hit the small business community. And while the government did do a number of positive things, we've always believed they needed to do more. We've been a big proponent of the Small Business Comeback Act to really help a number of small businesses that really that did not get, that didn't participate in the Payroll Protection Program, or it just didn't cascade. The net wasn't wide enough.

**Gene Marks:**

Yeah. The Restaurant Revitalization Fund, for example which was —

**Tom McGee:**

— which was oversubscribed from the day that it got introduced. So I think small businesses, and there's been a lot of small business disruption — I mean, there's a lot of small businesses that have obviously failed, tragically, through this. But then with the nature of capitalism, right, and entrepreneurship, where one business failed, something else emerges in that space. And so you're seeing a lot of new, innovative, small business concepts happen, particularly in kind of specialty retail services, restaurants and hospitality, for sure.

**Tom McGee:**

But then you're seeing a lot of large retailers. I mean, there's those essential retailers that did really well during the pandemic have learned something. People still went to the stores in the middle of the

pandemic, right? Which tells you something pretty important about the social nature of people. And they also learned — remember that we've kind of all grown up with this concept that we think there's a constitutional right to free shipping, and it's really not, it's really not free. Right?

**Gene Marks:**

Right.

**Tom McGee:**

Somebody's paying for it. And so if that retailer can do something to entice you to come to the store to pick up those goods and services, they've saved that margin of shipping. And margin in shipping is quite expensive. Right? Depending upon what you ordered. So if I can get you to come to the store, I've saved an awful lot of profit. And so yes, when you see these retailers, it's like their margins ... Right? Their margins on in-store sales and in-store pickup are dramatically, dramatically better than e-commerce.

**Tom McGee:**

And so, just like any smart businessperson — and the pandemic really made that glaringly obvious — I want to get as many people into my store as possible. And so I'm going to do whatever I can. Because a customer then absorbs the distribution costs, right? Whether they walk into the store or they pick it up curbside, I didn't have to ship it to their house. So whatever I can do to make it easier for that customer to pick up those goods, I've just, by definition, I've increased my profit margin. And so I would say even to small retailers and small restaurants: invest in technology, that front-end technology. You can compete with the Amazons of the world. But the way you compete is to get them to come to your store. You can save that margin.

**Gene Marks:**

At the very least, having options for your customers as well. There are going to be percentage of people that just will never come to your store and they prefer to get it delivered.

**Tom McGee:**

Yep.

**Gene Marks:**

And you need to make sure you've got yourself a model where you can do that. But then you're going to have a percentage that's just like ... Listen, I still read the paper every day. I know the few and the proud. I look at the sports section of the Inquirer. You have people that will want to come to the store because that is —

**Tom McGee:**

You still read the box scores? You still do that?

**Gene Marks:**

Yeah, I read the box ... Honest to God, I read the columns. I don't know why, I've just been doing it since I was a kid. And maybe these things will just change as my generation dies out. But the bottom line is that, for the foreseeable future, you just have to continue to offer those different options to your customers. Because it's a — different people want different things. Tom, where do you see this going? For starters, are more malls and shopping centers and retail complexes being built? It seems to me, you know what I mean

...

**Tom McGee:**

Not malls, for sure. The number of malls in the U.S. has been, give or take, around a thousand for the last decade or so. And obviously the mall and the mall segment was particularly hard hit through the pandemic. So there's no avoiding that. But there are a lot of very strong malls in the U.S. that are thriving and will continue to thrive. And so you'll continue to see disruption in the mall segment, for sure, but that's not the demise of malls generally. I mean, there's going to be hundreds of malls that are going to do very well. And I'm sure you probably know a few in your area, in Philadelphia that do well.

**Gene Marks:**

King of Prussia is our big one.

**Tom McGee:**

King of Prussia is a great example. And there might be others that don't do quite as well. And so that's about the mix, what's in that mall, how well it caters, how much investment's been put in that property over a period of time. Obviously the tenant mix is exceptionally important. I think in the open airspace, kind of your traditional neighborhood shopping center, grocery-anchored neighborhood shopping center or retail center, I think you're going to continue to see some consolidation in that space because I think there's the benefits of scale are clearly there, but I think there's still growth in that space. And I think the pandemic proved the importance of kind of that grocery-anchored space being close to your customer, your consumer, and ability to serve that last mile. So I think the composition will continue to evolve.

**Tom McGee:**

I mean, look at what's happening in healthcare and the growth of kind of pharmacies, and healthcare retailers, and the integration of that with healthcare itself. You go to a CVS or Rite Aid or a Walgreens, you can see the doctor, you can do a whole host of things while you also buy some goods. And so, I think you're going to see a bunch of that kind of stuff continue to take place. So I think they're not — when people talk about physical retail, it's a big industry and the different sectors and different markets, by the way are very different. We're in the midst of a lot of demographic change in our country in regards to where population is growing. And where population's growing, generally retail grows too, because people buy stuff. And also the rise of the millennials, they're getting into their prime consumption years. And generally when they start having kids and buy homes, retail does very well in that environment.

**Gene Marks:**

Right. So based on that, you're talking about the rise in different places of the country and the rise of the millennials. If I'm a young retailer, if I'm interested in starting up a retail business, I mean, you've been in this world for a while. Where do you see the opportunities?

**Tom McGee:**

Well, I think there's opportunities in every market. Right? I mean, back to, you just have to be smart about kind of doing your research and making sure you match up what you're offering with whatever the needs of that community are. So I do think there's growth everywhere for a particular retailer, depending upon what they have to offer. But the faster growing markets are obviously Florida, Texas, where there's population growth, the South, the Southwest in the U.S.

**Gene Marks:**

Arizona.

**Tom McGee:**

Certainly Arizona. But you know, still ... look, California is an enormous state. Tri-State's enormous. I mean, there's plenty of opportunities in those parts of the country as well. So I don't think you can walk away from that and say, "Oh, well, I can't be successful in Greater New York or Greater Philadelphia or Greater Los Angeles." Of course, you can. But just population trends would suggest the faster growing parts of the country are the South, Southwest, the Southern part of the U.S.

**Gene Marks:**

You know what interests me is that you left your job at Deloitte in 2015, and you went and joined an organization that, at the time, again, the narrative is "Retail is dead, malls are shutting, and it's whatever." Clearly you saw something different, right? And what you saw is playing out. Why did you decide to head into this? You could have gone, I'm sure, many different places. What was it that you saw in this that you want to share with the rest of us?

**Tom McGee:**

Sure. Well, I mean, I saw from a personal standpoint, it was a challenge. It was a new and different challenge. And so that was certainly part of it. And that's part of my DNA, I like challenges.

**Gene Marks:**

A big one.

**Tom McGee:**

That's not necessarily a good or a bad thing. It just is what it is. But I also saw this enormous industry. I mean, it's an enormous industry, right? I mean, think about every community across the world. This is the glue that holds communities together. It brings life to communities. The retail, the restaurant, the service, all these folks that are in these neighborhood centers, malls, so that's what brings life to the community. It's not the office buildings, it's not the houses that just sit there. It's where people congregate and come together.

**Tom McGee:**

And I just did the research, and the recent data is pretty undeniable. That, first of all, the narrative around the growth of e-commerce, which was significant, the rate of e-commerce growth — but as a percentage of total retail sales and consumer spend, it was still pretty small. And quite frankly, it's still relatively small. I mean, as a percentage, it's about 15%. Okay. We just went through a global pandemic where people couldn't leave their houses and still, it's only 15%. Now what's happened is those lines — and I really do think, and this is what I kind of, I'm not saying that I saw this as clearly as I do now — but I believe that there would always be this enormously important role for retail. It's where, it's the lifeblood of communities.

**Tom McGee:**

But what is really taking place is that there's so much of the narrative is either/or. It's either e-commerce, or it's buying in a store. And it's not anymore. I mean, people do both, and they expect to be able to be both. There's a very small number of retailers that are only e-commerce only. And generally those, other than Amazon, are not very profitable. Amazon has enormous scale and they have scale beyond anything that anybody else can even come close to. And by the way, they are also moving into physical retail. Right?

**Gene Marks:**

They are.

**Tom McGee:**

And there's very few large retail chains that are only physical. Most of them have moved into e-commerce as well. So you've seen this blurring of lines and the most successful retailers are those that are going to serve their customers wherever they want to be served. The only channel that matters is the consumer's. And I actually think the next 10 years or so in this industry, because it's where people, when we talk about commerce and the economy and all that kind of stuff... I mean, there's obviously so many remarkable things happening in the technology space, the biomed space, and the financial services industry, and so forth.

**Tom McGee:**

But the everyday Americans, this is commerce, right? And we buy stuff, and we utilize stuff. And it's all of these trends are converging in this one ... even the investment in the tech, the innovation that's taking in the financial services industry, think of all the new intermediaries there. Whether it's the Venmos of the world or just the ability, all these, the ability to exchange current — cryptocurrency is going to have an impact, right? All those things are going to have an impact on this space. And it's not going to be an esoteric thing that happens in some computer system somewhere. It's going to be how people actually buy and pay for stuff in their day-to-day life. So that, I got excited about that. I kind of saw that this was a place that was really at the cutting edge of commercial innovation. And I wanted to be part of that.

**Gene Marks:**

Tom McGee is the president and CEO at ICSC. Tom, thank you so much for sharing your insights. I know it's just really valuable for our listeners, particularly those in the retail space and development space as well. So thank you for coming on board.

**Tom McGee:**

Thanks Gene.

**Gene Marks:**

If you'd like more information, help, advice in running your business, by all means, please join us at [paychex.com/worx](https://www.paychex.com/worx). That's W-O-R-X. My name is Gene Marks. Thanks for joining us for this episode. And I'm sure we will see you again in the future. Take care.

**Announcer:**

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