

The Smarter Shopper

In August 1992, American consumerism reached its pinnacle with the opening of the Mall of America (MOA) in Bloomington, MN. At nearly 5 million square feet, covering almost 100 acres, the MOA's footprint can hold four Rose Bowls. Alongside over 500 shops and restaurants, the MOA also houses an indoor theme park featuring roller coasters, an aquarium, and a plaque marking the exact location of home plate at the old Metropolitan Stadium. With over 2 ½ million square feet committed to retail, the MOA has literally any and everything a shopper could imagine. The MOA was part of a nationwide building boom that saw hundreds of malls built during the 1980's and 90's, giving rise to hot growth companies like The Gap, Victoria's Secret, Ann Taylor, and Foot Locker. Mall saturation, however, ultimately coincided with the Great Recession of 2008-09, resulting in few mall openings during the past decade. With mall-based retailing having reached maturity, American consumerism is again at a crossroads as our attitudes about how we shop and what we consume are being transformed by technological and demographic changes. Consumers today are armed with more information than ever before and are demanding higher quality and uniqueness delivered with greater convenience, sort of the antithesis of the hundred acre mall.



Point, Click, Drive

For many consumers, the shopping experience now begins in their home or office or even on their mobile device and not in the mall parking lot. Aside from the obvious ways that the internet has transformed retailing, the internet's ability to deliver information has empowered consumers to research products, compare prices, and create customized shopping and recreational experiences.

Car buying is a great example of how the internet has improved the shopper's overall experience. For generations, the typical car buying experience included a visit to the local dealer, picking from inventory on the lot, haggling for the best price, and being upsold additional options and services, all in about four hours. For most of us, the experience was not pleasant and we likely wound up with not exactly what we wanted in the first place. At least we didn't have to go back for a few years. But, the balance of power has shifted in favor of the consumer.

Car buyers now have the ability to pick the exact car they want, shop multiple inventories to find it, or just order directly from the manufacturer. Several third-party websites provide historical pricing data for a local market giving customers who prefer to haggle with more leverage once they enter their local showroom. Membership-only clubs like the AAA and Costco, negotiate the best prices from dealers in their markets and provide upfront, no haggle pricing to customers who prefer not to deal with that part of the transaction. Finally, once a purchase decision has been made, much of the paperwork can now be completed from home, making for a much shorter visit to pick up your new car. The net result of this technology is a more efficient shopping experience. A 2014 study by McKinsey found that on average, car buyers now visit 1.6 dealers when buying a car, down from 5 dealers visited 10 years ago. The

empowerment of online information isn't only changing the transaction process, but is also giving consumers more choice and flexibility in the way we attend events and travel, enhancing experiential spending.

I Need Tickets

No you don't. All you need is online access, a credit card, and a printer or smartphone. The days of haggling over extra tickets in the parking lot are over. Led by online startups like StubHub, ticket brokering is now firmly entrenched in the digital age. Online marketplaces now connect events, venues, and ticket buyers in real time, allowing for dynamic pricing and purchase decisions up to the last few minutes before an event begins. Recent smartphone technologies have greatly enhanced online ticket buying by allowing iPhone and Android users to connect with ticket exchange apps, find and pay for tickets with digital wallets, and then simply present the mobile device for scanning at admission. These technologies extend to the Apple Watch, meaning event goers can now show up without a physical ticket or their smartphone and simply wave their wrist at the scanner. Additionally, for consumers who choose to, location-based technologies can be used by ticket brokers and venues to alert users when their favorite band or team is in their area. These technologies are clearly catching on as StubHub reported last year that approximately half of their transactions involved a mobile device and/or the StubHub app. Personalization and inventory transparency, now possible in event ticketing, also extends to many facets of travel.



Online travel traces its roots to the tech boom of the late 1990's when Microsoft launched expedia.com, offering online bookings for air, hotels, and car rentals. Around the same time, airline reservation giant, Sabre, introduced Travelocity, allowing the do it yourselfer access to its vast system previously available only to travel agents. Priceline introduced a different model altogether, enabling consumers to input what they were willing to pay for rooms or flights, allowing participating providers to clear excess inventories. Prices were cheaper, but consumers gave up control of their itinerary. With tech and travel giants, along with well-funded startups fully engaged, online travel planning saw incredible growth during the past twenty years.



Capital that has poured into the online travel industry the past two decades has created a steady stream of disruptive technologies. For instance, as consumers tediously searched multiple websites comparing fares and rates, so-called aggregators were developed. Websites, such as Kayak, have the ability to simultaneously search dozens of hotel and airline sites, as well as, online travel agents, and then post the best deals. Consumers can choose to book directly through the hotel or airline website or book with the online travel agent. More recently, peer to peer marketplaces, such as Airbnb, have emerged, allowing homeowners into the online travel business by renting out unused space. Mobile apps have also emerged, facilitating itinerary changes on the fly. As with car buying, all of these advances have empowered travelers to take more control over their travel experience by offering more choice at better prices.

Better For You

Consumer empowerment enabled by digital information at their fingertips (or on their wrist) is not only changing the retail experience, but consumers are now making more informed decisions about what they eat and other healthy lifestyle choices. At the heart of the healthy lifestyle movement are organic foods. Consumers, today, not only know more about what's in their food but can now even track where it comes from and how it's raised. As a result, organic food sales now total nearly \$40 billion or approximately 5% of overall food sales in the U.S., up over threefold in the past 10 years. Websites targeted at organic



consumers detail the benefits of organically raised food, in addition to information about the supply chains of leading merchants. Important labeling information is also often included, as well as blogs commenting on healthy alternatives. In recent years, several retailers committed to organic foods have emerged, while larger traditional grocery chains have added increased retail space to the category. Wal-Mart, for instance, now boasts over 1,600 organic items on its shelves, ranging from produce to peanut butter.

Wearable electronic devices are also part of the healthy living movement. Devices like the Fitbit Tracker and the Apple Watch, along with products from sportswear makers, monitor personal data such as heart rate and quality of sleep, along with regular activities like walking and stair climbing. Information can be uploaded to a computer or mobile apps where baseline metrics can be established and performance goals can be monitored. Important health data on a wearable device has the promise to extend beyond counting steps. Researchers at Johns Hopkins University developed an app for the Apple Watch called EpiWatch. Patients with epilepsy can have data collected before, during, and after seizures. Data will track physiological changes so researchers can better understand recurrent seizures in epilepsy patients. Innovations like this will increase consumers' knowledge about their well-being, leading to more informed consumption decisions.

Investment Implications

The disruptive nature of the internet is not only transforming the way we buy goods and services, but its ultimate impact reaches across many economic sectors. Many companies in our investment portfolios are already reacting to these evolving trends. For example, many large retailers are implementing Omni-channel distribution models. Consumer purchases are being made from mobile devices for in-store pickup or same day delivery from a local store rather than a central distribution center. Packaged goods companies are addressing changing tastes with new ingredients and better messaging.

Transportation and logistics companies are adjusting resources as business to consumer (B2C) deliveries overtake business to business (B2B) deliveries in volume and frequency. Today, 95% of B2C transactions are delivered through the U.S. Postal Service, UPS, or FedEx networks. Network resources are being stretched as ecommerce has evolved from books and other small items to large bulky items like mattresses, swing sets, and barbecues. Delivery companies have had to respond with new pricing structures.

Even healthcare companies are adapting as many purchase decisions are being pushed down closer to the patient level. Patients will increasingly be incentivized to research and make smarter choices, as well as have more tools to monitor their own health condition. Many technology companies will again provide the picks and shovels to emerging disruptive technologies. Especially important, will be companies providing the infrastructure for emerging cloud-based networks. Tomorrow's winners and losers will be determined in no small part to their ability to meet the changing ways we conduct many of our most routine day to day activities. Our goal, remains finding the right ones. Finally, while malls may have lost some shopping luster, they are great places to exercise. At the Mall of America, it takes approximately 1,000 steps to cover the perimeter of each floor.

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