

# Mom-and-Pops Are Cool Again

Technology and consumer trends are conspiring to give local retailers another chance in the spotlight

Just like bell-bottoms and leg warmers, mom-and-pop retailers are back.

Not long ago, it seemed like they would be permanently relegated to some dusty attic space, a relic fighting for relevancy.

Big-box stores put them there. Between 1992 and 2014, the share of U.S. retail stores owned by companies with fewer than 500 employees fell 13%.<sup>i</sup>

And that's because big boxes promised lower prices and a wider assortment, points brought home by large mass market advertising campaigns.

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But in the past few years, consumers have begun to realize that mom-and-pops are actually pretty cool again. This isn't just some twee local movement that works only in Portland and Williamsburg; it's happening around the nation. In fact, this year, the number of retailers with fewer than 500 employees started to show meaningful growth for the first time in 25 years—with a 1.1% combined annual growth rate from 2011–14.

Indeed, consumers are once again converging on local retailers. According to a Kurt Salmon survey of over 900 consumers conducted in September 2014, 29% of consumers said they are shopping more at neighborhood stores now vs. three years ago. The survey also found that roughly half of consumers say local stores now account for at least 50% of their shopping trips, as illustrated in Exhibit 1.

There are two primary reasons why these local retailers got their groove back: an evolving consumer mindset that is reshaping their perception of value, and technology that is helping to revolutionize the retail landscape and level the playing field.

### **Evolving Consumer Mindset**

Coming out of the recession, the initial surge in local retailers' popularity was fueled by

consumers' desire to support local jobs and business owners.

But since then, three other sustainable consumer psychographic trends have joined that local economic sentiment: consumers' thirst for artisanal and locally produced products, exceptional customer service and greater authenticity. In short, consumers have had enough of the cold, concrete box. Together, these trends represent a shift in how some consumers define value—it's now much more than just low price.

Three different dynamics are driving this artisanal and locally produced product trend. First, consumers are increasingly interested in understanding a product's origins, based on the idea that if you can trace and break down a product into simple components, it's likely to be healthier or more humanely produced. Second, unique items help consumers feel like they are expressing their individuality. And last, but not least, artisanal and locally produced items are often perceived as higher quality.

Local retailers have also done a better job at providing top-notch customer service. While this starts with store associates who are in tune with the needs and wants of their target customers, it also requires deep product

## EXHIBIT 1: Roughly half of consumers shop locally frequently.



expertise and the ability to ask their customers the right set of questions to enable quality engagements. Unfortunately for big boxes, customer service was often the first to go in their quest to make products cheaper to compete with Amazon and other e-tailers.

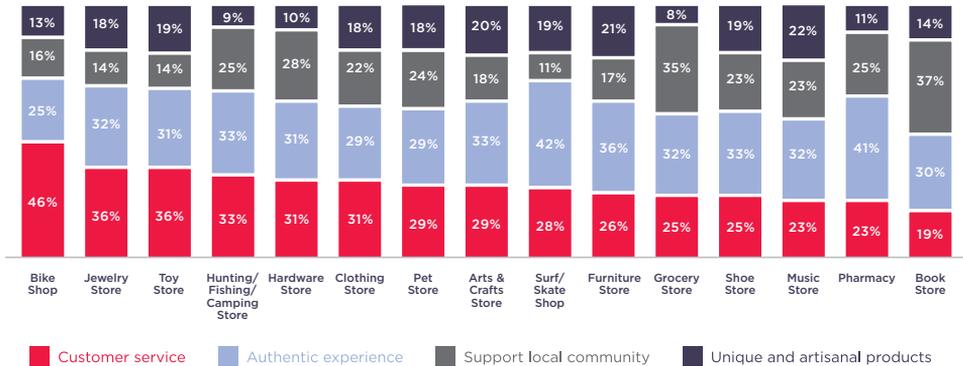
Consumers are also seeking more authentic experiences from retailers. These can come in the form of a unique store environment, employees who are subject matter enthusiasts—making customers feel like they’ve

found a new group of potential friends or people they aspire to be one day—classes, events or other elements that create a personal connection to the store above and beyond the product assortment.

When we asked over 900 consumers to explain their preference for local stores, price was not a key driver. These consumer trends have different levels of impact based on the type of product being sold, as illustrated in Exhibit 2.

**EXHIBIT 2: Consumers shop locally for different reasons.**

**DRIVERS OF PREFERENCE FOR NEIGHBORHOOD STORE SHOPPING**



Source: Kurt Salmon research

**Technology Leveling the Playing Field**

In addition to changing consumer preferences, technology is also helping give mom-and-pops a new advantage. Over the past five years, the Internet has reshaped the retail landscape by both putting pricing pressure on big-box retailers and creating platforms that allow local retailers to more effectively compete.

**Creating a Retail Vacuum**

To some extent, big boxes are now finding themselves falling out of fashion because of the same reasons they initially shot to

success. They drew consumers away from local stores with lower prices and a wider assortment, but now Amazon and other e-tailers have taken these features to the next level. In other cases, the Internet fundamentally changed consumer preferences by digitizing products like videos, music and books, and it has, therefore, made the big-box approach in these categories more or less obsolete.

We're all familiar with some of the results of these two dynamics: Borders, Blockbuster, Tower Records, Circuit City, to name a few.

## *Not all local retailers will have their chance to become cool again.*

These store closings have left a brick-and-mortar vacuum for local stores to fill, and due to their smaller footprint, local retailers don't need to generate as much traffic or sales to turn in healthy margins.

### **Providing Scale and Reach**

The Internet helps democratize the retail landscape in multiple ways. First, it has provided smaller businesses access to online platforms and marketplaces—like eBay, Amazon and Etsy—that expand their capabilities and reach with minimal investment. Etsy is even taking this concept a step further by giving more than 100 online shop owners an opportunity to showcase their wares at the store's holiday pop-up shop in New York City.

The Internet has also helped small businesses gain far greater exposure and reach consumers around the world without expanding their retail footprint by leveraging the power of social media and targeted marketing. One 15-year tracking study of small businesses found that more than one-quarter of local stores are planning to spend money on digital marketing campaigns in the coming year and almost half currently buy online advertising.<sup>ii</sup>

### **Will the Future Keep Looking Like the Past?**

Thinking about what lies ahead, not all local retailers will have their chance to become cool again. In reality, the market is now at an inflection point at which the good local operators are winning, while the hobbyist local operators are continuing to get squeezed out.

The bicycle market helps illustrate the transformation and professionalization of local stores. For example, although independent bike shops account for only 17% of total U.S. bike sales, they make up 58% of all dollar sales, owing to their higher average price point.<sup>iii</sup> (See Exhibit 3.) And even though the number of specialty bicycle stores is currently at a modern-era low—down 16% since 2003—average sales per store are up 85% from 2003 and sales per square foot grew 61% in the same time period.

### **Learning from the Little Guys**

So which local stores will be coming back into style and which will be relegated to the clearance rack? The local stores that are set up for long-term growth are effectively leveraging a mix of artisanal products, great customer service, authentic experiences and

a sense of community as a recipe for success and differentiation.

### Boulder Cycle Sport

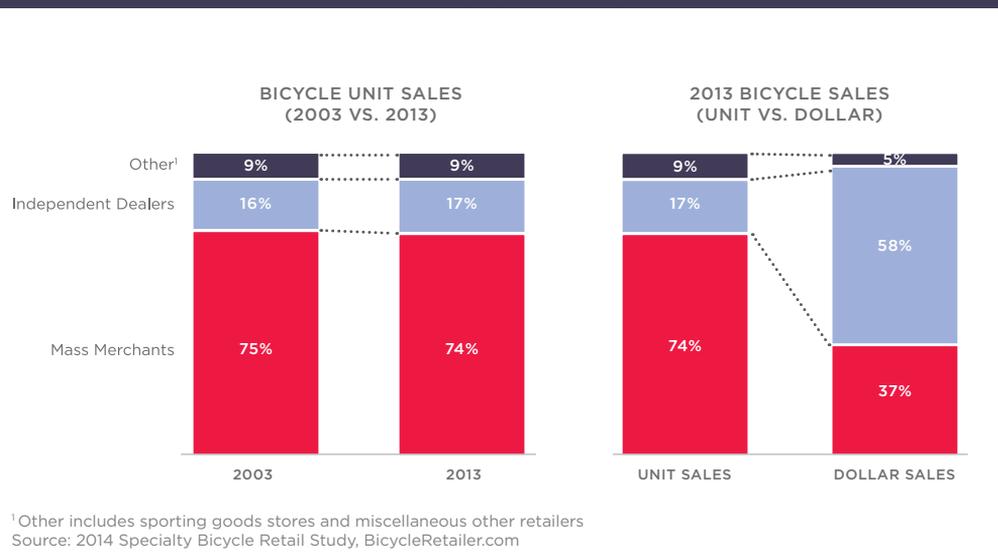
This three-store Colorado chain differentiates itself with a wide selection—including a specific “Made in the USA” section—and an authentic in-store experience, featuring multiple cycling teams that teach cyclers of all abilities with rides, skills clinics and training opportunities, as well as events with professional cyclists and cycling technologists. Its “#ridewithbcs” hashtag cultivates the same

community feeling outside of the store and has already been used in over 200 photos.

### Mother’s Market & Kitchen

Capitalizing on trends toward healthy eating and local and organic food, this chain with seven stores throughout Southern California offers a wide selection of food and supplements for specialized diets, including organic, non-GMO, vegan, gluten-free and low-glycemic options. Its stores also have vegan-friendly dine-in restaurants and host free in-store seminars on diets and treat-

**EXHIBIT 3: Local retailers are small but mighty in the bicycle space.**



ments for special health conditions. Outside the store, the experience continues with a weekly radio show and online recipes.

### **Marine Layer**

This California-lifestyle boutique that sells private-label clothing made with its specialized, “absurdly soft” fabric has nine stores on the West Coast and Chicago and two more coming soon to New York and Austin. Its clothing is made from recycled, sustainable materials in California in small batches—providing a sense of uniqueness and reinforcing its local cred.

### **Moosejaw**

This quirky outdoor retailer engages customers through fun and unique shopping experiences. Private equity–owned Moosejaw has 11 stores in Michigan, Illinois, Missouri, Massachusetts and Colorado and a healthy online business.

Moosejaw’s quiriness permeates the in-store experience, which is designed to boost customer engagement and personal interactions. Stores have hangout spots, disco-themed dressing rooms, ping-pong tables and, occasionally, host impromptu games of hide-and-seek. Employees generally have a sense of humor, enthusiasm and knowledge of outdoor apparel and equipment.

Since PE investment, Moosejaw has created a state-of-the-art e- and mobile commerce site and point-of-sale system, upgraded its call center and distribution center, and tripled the size of its private-label apparel line.

### **Woof Gang Bakery**

Woof Gang Bakery may be relatively large—with 52 stores and growing fast (the company claims sales are up nearly 50% from 2012)—but it still maintains a community feel. Employees often learn customers’ names (and their pets’ names!), stores host regular pet parties and “yappy hours,” decorations change with the seasons, and employees pen thank you cards to loyal customers. Woof Gang also offers curbside pickup and local delivery options to make it very easy for customers to do business with them.

### **Amoeba Music**

After opening its doors in 1990 in Berkeley, Amoeba has expanded to San Francisco and Los Angeles. This success is due in part to its passionate, knowledgeable employees. Experts in each genre are in charge of buying and making decisions for their own section, and many staff members are musicians or writers. This deep knowledge also helped Amoeba benefit from a renewed interest in vinyl records—sales of vinyl at independent

stores grew at a combined annual growth rate of 25% from 2009 to 2013.<sup>iv</sup>

Amoeba also delivers a great customer experience. Live, in-store performances from both celebrity and smaller acts drive traffic and foster community. And the experience continues online with the “What’s in My Bag?” video series, in which customers, artists and staff display interesting finds from the store.

### **Sports Basement**

This six-store sporting goods retailer out of Northern California focuses on providing unique services and a stellar in-store experience. It views its stores as community centers or hangout hubs; local athletes and groups often use the space for club meetings, potlucks and starting points for group runs. Plus, its store associates are local coaches, instructors and outdoor enthusiasts. Sports Basement also gives back to the community, hosting philanthropic events and organizing fundraisers for customers’ nonprofits or charities of choice.

As these success stories show, local retailers are operating more effectively and efficiently than ever and have strong tailwinds at their disposal—favorable consumer trends and a relative power vacuum in the brick-and-

mortar space—to help turn back the clock and reestablish themselves as the hippest option on the block. ❖

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- i U.S. Bureau of Labor Statistics
- ii BIA/Kelsey’s Local Commerce Monitor
- iii 2014 Specialty Bicycle Retail Study, BicycleRetailer.com
- iv Nielsen SoundScan