

## Retail Risk Index 2021

### Landslide in the retail landscape?

In the last few years, we saw the odds of a retail outlet closing increase steadily. At the beginning of 2020, the Retail Risk Index reached its highest score in 10 years. What awaits us when retail outlets are allowed to open again? Will it be a battlefield, or will we witness a resilient recovery?

#### Background

The Retail Risk Index shows risk profiles of retail outlets in shopping areas. For over 140,000 outlets in the Netherlands and over 120,000 shops in Belgium, the probability of an outlet surviving the coming year is calculated: the 'retail survival rate'. All this is based on data collected continuously by Locatus' field staff.

The Retail Risk Index (RRI) for 2021 was calculated based on:

1. Hard data on all shop premises changes over the last 10 years;
2. Additionally factoring in the expected impact of COVID-19.

The last component, the Covid-19 Impact & Recovery Index, ranks all 4,340 shopping areas in the Netherlands and Belgium on the impact of corona and the economic consequences one can expect.

## Angles to risk analysis

In this article, Mattijn Bezemer (The Big Data Company) looks at the results of the Retail Risk Index 2021 from five different angles:



1. How does the Netherlands compare to Belgium?
2. What are the provincial differences within a country?
3. What developments do we see for the various types of shopping areas?
4. How vigorous or vulnerable are the various sectors?
5. What are the characteristics of the survivors?

## 1. The Netherlands vs. Belgium

The RRI 2021 shows that 18% of all retail outlets in the Netherlands are currently in the *danger zone*. In Belgium this percentage is slightly higher, at over 20%.

To compare: in recent years the average percentage of actual closures was 10%.



Does that mean that 18-20% of the retailers will disappear in 2021? **No!**

First of all, not all shops in the danger zone will actually close down. Imagine that 15% will stop in 2021. In the past, despite the 10% closures, the number of occupied retail properties "only" decreased by 0.5 to 1% per year. This is because the majority of retail premises were soon occupied again by other retailers.

**The question is whether enough entrepreneurs will dare to enter the market in the course of 2021?** If that willingness seriously declines, it is possible that there will suddenly be 5% fewer retail outlets in 2021. And in some shopping areas, that percentage could rise to over 10%, which would result in an enormous lack of occupancy: disastrous for the experience and viability of a shopping area.

### What is the current distribution per risk profile?

The RRI is expressed on a scale of 50 (very low risk profile) to 150 (very high risk profile). A retail outlet with an RRI > 120 is categorized as an *elevated risk profile*, which stands for a high probability of discontinuation in the coming year. The graph shows the situation in the Netherlands and Belgium in early 2021.



## 2. Provincial differences

Over the past decade, we have seen a migration of people towards the Randstad in the Netherlands. As a result, provincial areas scored significantly lower on the Retail Risk Index. In Belgium, we see a similar development.

In the run-up to 2020, we saw that the Dutch provinces of Limburg (NL), Drenthe, Groningen and Zeeland, and the Belgian provinces of Limburg (BE), Hainaut, Liège and Luxembourg increasingly lagged behind in terms of healthy shopping areas.

### Is there now a reverse movement?

The need to live close to work is declining. In the Netherlands, we are witnessing a sharp rise in house prices outside the Randstad region. What does this mean for the Retail Risk Index? Are shopping areas in the province already getting stronger?

No, not at the moment. The trend has only started recently and is gradual. Many shopping areas in areas of increasing ageing and depopulation were already in bad shape. The impact of Covid-19 could be the final blow to retailers in these areas. Compared to the national average (Belgium 20.6%, the Netherlands 18.1%), the following provinces have an above-average risk profile.

### Top 3 Provinces with the highest risk profile (RRI > 120)

Belgium		The Netherlands	
1. Limburg	26,2%	1. Limburg	29,3%
2. Luxembourg	25,6%	2. Drenthe	23,6%
3. Hainaut	25,4%	3. Groningen	23,0%

## 3. Differences per type of shopping area

Shopping areas come in all shapes and sizes. From a large town center to a small district center. Until recently, it was the town centers in particular that held great attraction for people in the region. This resulted in busy shopping streets, and a wide range of goods on offer.

However, a change seems to be taking place: shopping close by and online doesn't seem like such a bad thing. With the chance of ever new mutations of the coronavirus, our way of shopping may change forever.

The hard figures cannot yet show the impact of Covid-19, simply because the shops are not (yet) fully open. By adding the Covid-19 Impact & Recovery Index, the picture is shifts.

For 2021, the Retail Risk Index expects the larger shopping areas to be under growing pressure.

Inner cities (400+ retail outlets), Main Shopping Area Large (200-400 outlets) and to a somewhat lesser extent Main Shopping Area Small (100-200 outlets), Inner city shopping street (50+) and District Centre (50+) will lose strength. Smaller shopping areas that provide the necessary daily needs are expected to be only marginally affected by COVID-19, or even to improve.

## Top 5 shopping areas

**Biggest increase in properties with RRI > 120  
2021 versus 2020**

Belgium (RRI> 120)	% increase	The Netherlands (RRI > 120)	% increase
1. Inner cities	15,3%	1. Inner cities	13,9%
2. Main Shopping Area L	9,8%	2. Main Shopping Area <i>large</i>	13,0%
3. <i>Special</i> shopping area	7,6%	3. Main Shopping Area <i>small</i>	4,7%
4. Main shopping Area S	6,2%	4. District Centre	4,0%
5. Inner city shopping str	5,7%	5. Inner city shopping street	1,0%

## 4. Vulnerable / vigorous sectors

It is important to distinguish between what we actually see happening in shopping areas, and to what extent the impact of Covid-19 makes itself felt after reopening. For the Netherlands and Belgium, we see the same industries in the head and tail of the ranking.



A leading group of retail activities will hardly be affected by the aftermath of Covid-19 or will perhaps even benefit from it. These are the essential retail activities, those with enough meat on their bones, or those who are experiencing little to no competition online.

A selection from this group of industries with the percentage of stores with **RRI > 120 below 5%**:

- Supermarket, Delicatessen, Minisuper, Fish, Cheese, Drugstore, Night shop
- Hearing aid, Optician, Pharmacy
- Garden items, Kitchens/Bathrooms, Bedroom/Beds
- Hairdresser, Beauty salon

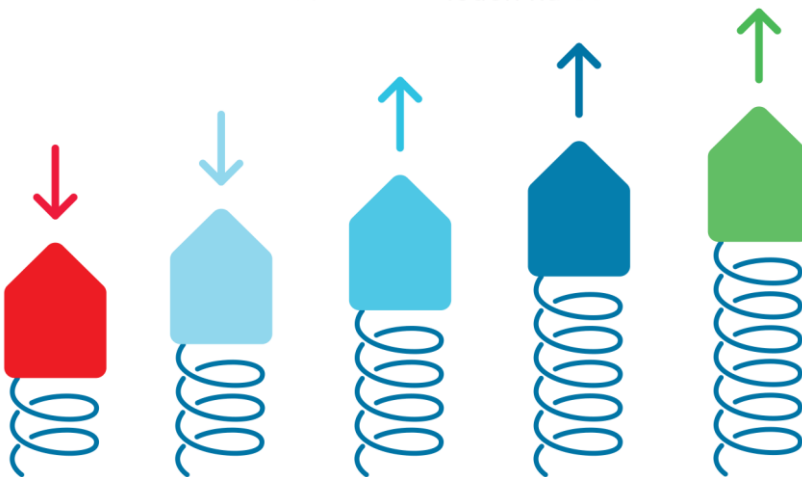
In the tail we find retail activities that involve comparative shopping, are concentrated in the major shopping areas, rely on the presence of work locations, are driven by tourism, or outlets that have received permanent heavy competition from online providers.

A sample of this group of industries with the percentage of stores with **RRI > 120 above 20%**:

- Children's fashion, Women's fashion, Fashion accessories, Shoes, Men's fashion, Women & men's Fashion
- Lunchroom, Coffee bar, Cafe-restaurant,
- Sports stores, Home decoration, Gift articles

## 5. Characteristics of survivors

It seems to be certain that there will be a serious shift in the retail landscape. It will have to adapt to the "new normal". It seems inevitable that the number of retail outlets that will be forced to close will be higher than ever before.



**An interesting question is how resilient shopping areas will be in their totality.** Retailers who anticipate this new reality well can seize opportunities. Not everything is convenient or fun online, and only working from home and staying at home doesn't make anyone happy.

Close to where people live (and work), new retail and services can emerge. Presumably on a smaller scale and with different rental rates than we know from the busy shopping streets.

## Survivors' success factors

Retailers that survive are able to adapt to new circumstances faster than others. In many successful retailers, we see one or more of the following characteristics.

### 1. Distinctive proposition

An interesting example of this is the rise of retail companies in Europe, such as Action. These companies are growing so fast, and against the stream of declining retail sales. Other examples are the trendy discount drugstore Normal or a lifestyle brand like BALR.

### 2. Personal bonding

A store like Shoeby succeeds, even in relatively small shopping areas, in establishing a strong formula with extremely high customer satisfaction figures. Other examples are Pearle or Hans Anders.

### 3. Integrate online and offline

A strong combination of offline and online is worth its weight in gold. Think of Rituals, Coolblue or fietswinkel.nl.

### 4. Innovative services

Think of the strong growth of e.g., fitness centers, beauty salons and more recently the escape rooms.

## Do you want to learn more?

The Retail Risk Index is calculated annually for more than 250,000 stores in the Netherlands and Belgium. The strength of the index lies in the combination of indicators and the depth of the analysis.

The results speak for themselves: in the group of high-risk stores, 60% of the stores stopped operating within 3 years. By comparison, in the group of low-risk stores this was less than 10%.

**Locatus**<sup>®</sup> Please do not hesitate to call or e-mail with any further questions. We are always happy to help.