

# Cabs, Corn and Cubes

What's Next in the Evolution of the Self Storage Industry?

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## Executive Summary

The early history of the self storage industry is characterized by growth without major technological changes. Owners and operators focused on the physical facility and came to think of self storage as a closed system where successful facility management and marketing happened at the property level. Recently, the Internet has given consumers instant access to information on the self storage supply in their area. This access to instant information has effectively changed consumer expectations and may have commoditized self storage. The storage industry's fragmented composition has left the vast majority of the industry, small independent owners, ill-equipped to thrive in this new, open environment.

Fragmentation, antiquated management philosophies, and historically high returns have made the self storage industry an attractive target for outside capital to fund real estate investment trusts (REITs) and tech companies. Such outside capital views the industry's distribution inefficiencies as an opportunity for disruption. With scale, outside capital can bridge the industry's technology gap and outperform traditional operators.

Owners and operators willing to adapt to today's environment can grow occupancy and increase profits through commodity marketing differentiators. If operators don't adapt, outside organizations will satisfy consumer expectations and reduce margins. Eventually, storage returns will equalize with other markets.

This paper examines possible commoditization in the storage industry's current environment, past phases that created today's environment, and strategies operators can use to adapt and differentiate their companies.

### Consider The Following

1. How long do you plan to own storage facilities?
2. What three online and in-store qualities/services differentiate your facility from the five nearest competitors?
3. Do you view technology as an expense or an investment?
4. Do innovative pricing models increase customer yield?
5. Is the storage industry experiencing disruption?
6. If you chose to identify the best possible prospective customers for your business, what resources would you use to analyze that information?
7. Do you believe scale provides best-in-class solutions to many of these questions?

## Six Decades of **Evolution**

The self storage industry has evolved through roughly four phases: land bank, asset class, retail, and digital marketing. It is the digital marketing phase that may be responsible for commoditization. The complexity involved in adapting to these shifts has increased during the last 15 years, outpacing operator reaction and creating an opportunity for external disruption.

## History of **Simplicity**

In its infancy, self storage was seen as little more than a land-banking tool, a way to generate modest returns from land while developers waited for residential and commercial development to spring up in the surrounding area. Land would then be redeveloped into more valuable real estate.

As demand and profitability grew, self storage became a recognized real estate asset class. The product became familiar to consumers and worthy of development in high-traffic areas normally reserved for commercial and residential property.

With increased consumer awareness came the need for greater customer service, changing the business model from real estate to retail. To improve business, owners and operators turned inward, focusing on the interactions between on-site managers and customers. Facility offices were improved and bathrooms updated. Marketing was primarily relegated to curb appeal, print, and basic sales training. Inventory distribution occurred at the counter or over the phone. In undersupplied markets, business was a closed circuit that required little involvement with the world outside the facility gates. Operators' disinterest in technology built a roadmap for supply chain disruption.

## Supply Chain Disruption

Supply chain disruption is magnified by the lack of integrated technology in the self storage industry. The supply chain of technology used to operate stores is as fragmented as real property ownership within the industry. Every technology vendor owns a small fragment of the customer lifecycle. Storage operators may use lead generation, CRM, call centers, kiosk, call tracking systems, outbound marketing applications, facility management systems, SMS tools, revenue management applications, analytic applications, competitive pricing data, SEO and SEM consultants, website providers, lien compliance applications, collection systems, and online auction solutions.

These applications lack industry standards, and integration is almost nonexistent. Without the ability to integrate systems, consumer expectations cannot be met, and efficient distribution is unattainable. Companies that currently achieve such integration do so with proprietary solutions that require large budgets out of reach for the vast majority of operators. Though these proprietary systems thrive in the short term, industry evolution moves faster than they can adapt. Either the industry or outside capital will create feasible solutions to these technology and integration problems.

### Vendors, Our Partners

Another consequence of the closed circuit mentality is that there is now a disparity between vendors' products and market demands. Vendors govern owners' options rather than responding to industry evolution.

Success, fragmentation, and a lack of information have caused owners to resist, rather than embrace, adaptation to today's market conditions. This closed circuit management philosophy is incompatible with changing consumer expectations. Operators evaluating technology vendors purely as an expense have created disparity and fragmentation in the supply chain. The technology tools needed for storage to adapt are investments, not expenses.

## Today's Complexity: **Technology**

To advance in the current phase, owners should first consider how consumers perceive and interact with self storage. Until recently, when consumers realized a need for storage, they either called or drove to a local facility and dealt directly with the facility manager. Most initial customer interactions now take place online. Before directories such as SpareFoot and StorageFront, consumers price shopped by bouncing between multiple facilities' websites or made several calls. Today consumers can price shop with ease. However, for most small operators, the actual rental process is the same as it was three decades ago: passing stacks of paper over counters. Even the REITs have struggled to implement online service and rentals. The centralization and scale that have benefited the REITs are now evolutionary obstacles to the major adaptations that today's consumers demand.

### **Are Empty Cubes a Commodity?**

Let's assume for a moment that consumers think of self storage as a commodity. A commodity is generally thought of as an interchangeable good of essentially uniform quality across producers, such as corn. To most storage consumers, one facility's 10x10 is interchangeable with another facility's 10x10. Traditionally, the industry has taken pride in differentiating facilities with features such as document shredding or heightened security. Yet to the consumer, empty cubes look alike. Consumer perception is a critical issue for the industry, not whether or not self storage is a commodity. Corn farmers adapted long ago, realizing they were growing a commodity and needed to work collectively for sustainable profits. The collective model has been successful for hundreds of years, providing efficient tools to independent companies to compete for profit.

Additionally, venture capitalists are present and have already disrupted the storage industry. Third-party online directories meet the consumer need for location information and price comparison while providing facility operators with online sales leads. Consumers expect online transactions and service, requiring operators to look beyond store counters to smartphones and other devices to achieve efficient service and distribution.

### **Losing Customer Value**

Storage customers are evolving whether the industry wants them to or not. Failing to meet their expectations rings the dinner bell for further disruption. When a third-party steps in, owners can't interface directly with the customers, losing the opportunity to differentiate their product and reducing initial and lifetime customer value.

## Consumers and Disruption

During the technology phase, it's time for our industry to get out of the real estate mindset and start thinking of renters as consumers to understand how they perceive our product. To efficiently service customers and meet demand, a combination of scale and agility is required. Unfortunately, few options are available to supply these contradictory needs. Success in the storage industry now requires both online visibility and the ability for consumers to complete and service transactions online. Even the industry leader, Public Storage, has not been able to establish online rentals despite their 32 billion dollar valuation, showing that scale alone is insufficient for timely adaptation. However, expect and plan for REITs to rewrite the playbook on customer-facing technology and increase the gap between operators with scale and those without.

### Is Brand Overstated in Storage?

In most commoditized industries, brand has been a critical differentiator among interchangeable products. In the storage industry, however, the critical differentiator will be efficient distribution. The self storage industry is an event-driven business. Marriage, divorce, death, natural disasters, and college are all examples of events that lead to storage demand. The infrequency of such events, coupled with the low likelihood of tenants moving their business to a competitor, results in limited consumer engagement. The average self storage customer may need to rent a storage unit only once or twice in a lifetime, and the infrequent demand is paired with minimal service interaction. This limited engagement means the consumer does not form an emotional connection to any particular self storage brand. Future services might disrupt this current model, such as on-demand storage. Storage branding is an obtainable and worthy goal, but not a realistic or an affordable differentiator for most independent operators. Instead, branding should be employed by operators as a tool to reduce operational cost.

Technology is necessary to meet consumer expectations. Designing and architecting technology improvements are within reach of many operators with the necessary budget or in-house talent. On the other hand, implementation becomes more challenging with larger, centralized organizations, pointing to the need for agility. Compounding technology inadequacies is a lack of support for system integration among industry vendors. In short, products and services created for past needs must be retooled to meet today's consumer standards. Owners must invest, embrace change, retrain employees, and familiarize existing customers with updates.

## Build Lifeboats **Now**

Occupancies and revenues are at flood stages. Legacy obstacles are present for REITs, independent operators, and third-party management alike. A nimble product and service environment can promote change relatively easily. The challenge is access to successful tools and remodeling of industry management philosophy. Until recently, the industry has failed to provide both scale and agility.

Storage companies have started to band together or consolidate to achieve economies of scale. This trend likely began out of necessity, mirroring the development of more mature industries. A cooperative approach allows talent and funds to be pooled while owners retain their independence. This approach avoids the obstacles that large, centralized organizations face. By cooperating with other companies, owners and operators can achieve economies of scale while remaining agile.

With economies of scale and agility, independent operators can meet consumer demands and build barriers to external disruption. By meeting consumer demand for online transactions and service, storage companies will improve distribution and operational efficiency, leading to increased margins. The benefits of the scale-agility combination extend beyond mitigating outside disruption and increasing profits. Operators can be positioned at the vanguard of future industry transformations.

## Is it Time to Pick a **Team**?

The industry has responded to the need for scale in a variety of ways. Some owners have decided to maintain the status quo, believing storage is unique from other real estate asset classes. In limited circumstances where companies dominate their markets, such as Manhattan Mini Storage, Atlantic Self Storage, or Derrell's Mini Storage, this is a viable option.

Other owners have decided to sell their facilities at record pricing, usually to REITs or large, growing chains such as LifeStorage. Third-party management by a REIT such as Extra Space Storage is another option. This approach provides a maximum distribution scale but sacrifices agile responsiveness.

Lastly, owners can join forces with other storage companies to collectively tackle industry issues. Two such organizations currently exist: storelocal, a national self storage cooperative, and National Storage Affiliates (NSA), a newly formed public REIT. The two options are significantly different.



"Unlike the bigger players — which have centralized operations and use traditional buyouts to expand — NSA has a complicated way of operating and growing its business," said Investor's Business Daily writer [Vance Cariaga](#). "...According to the NSA website, Participating Regional Operators (PROs) 'contribute their portfolio of properties into NSA through a tax-efficient UPREIT (umbrella partnership real estate investment trust) structure.' In return, the PROs 'receive NSA equity with the advantage of a tax-deferred transaction. NSA provides capital to replace existing debt and any JV equity that is not contributing into NSA.' Simply put, this means NSA acquires part of a PRO's business but still gives the PRO an opportunity to continue in a management role and receive returns. Investors who purchase NSA shares are also sharing ownership with PRO units."\*

It appears that the NSA decided to build its advantage on a complex financial model to attain capital competitive with established storage REITs. The NSA appears to be betting that capital for acquisition will trump centralization of operations and distribution.

According to storelocal's [website](#), "storelocal is a cooperative working to provide business solutions for its storage industry member-operators. By leveraging the collective value, knowledge, and commitment of its members, storelocal works to reduce our owners' operational costs, increase their profits, and provide their customers with the highest standard of service."\* The co-op option gives the storage operator a two-way street approach to sharing information for common success, moving operators quickly up the learning curve.

"storelocal is to storage operators what Ace Hardware is to Bob's Hardware fighting against Home Depot," said [Dirk Wakeham](#).\*

storelocal is not focused on the capital stack or ownership of members' property. The cooperative does not require real property transfer to participate, but instead focuses on closing the public-private scale gap with management, operational, and distributional tools. Many storelocal products are designed to enhance the consumer experience when interacting with co-op member stores.

The results from NSA, storelocal, and future alternatives will produce strong viable options for smaller operators to succeed.

## Operator Strategies to Differentiate

The management, service, and technology strategies below are the result of four years of study, including surveys and interviews focusing on scale differentiation, vendor supply chain management, and consumer outlook. The strategies are neither exhaustive nor prioritized. Furthermore, storage operators may have limited time to adapt before opportunity expires. According to a survey conducted by storelocal, ninety-eight percent of self storage customers believe that if their online experience with a company is good, their experience at the store will be equally good.\*

The advice below is organized into categories: management, service, and technology. However, readers may debate the placement of each topic, which highlights challenges with traditional storage management models in place today. The time to embrace change and build a lifeboat is now! The storage industry has never been stronger. As the evolutionary business cycles compress, the self storage industry needs to consider changing the way it operates business to the clock, not the calendar. It is time for the industry to apply due diligence efforts, equal to those used in developing facilities or evaluating new financial products, when considering and choosing digital applications that touch customers.

## Management

**Management structure** may need to be evaluated. The last 15 years have blurred the lines among property management, asset management, and owners in the self storage industry. It may be time to evaluate where decisions are made and how such decisions may affect integrated operations. We need to question if decisions about selecting operational applications for business inversely affect short-term profitability for owners and managers. Additionally, companies are creating new staff positions and titles for the first time. Owners should evaluate the new positions and select the best entity to serve their business model.

**Brand** recognition is often top-of-mind when thinking about commodity distribution, but it may be misrepresented in its strength as an obtainable differentiator in the self storage industry. The current storage model does not engage our customers enough to establish a strong brand position in their minds. So why has Public Storage outperformed the market in customer acquisition cost? First-to-market position and advertising budgets never matched in the industry have allowed Public Storage to brand self storage. Consumers have adopted "public storage," making it the Kleenex of the storage industry, just as U-Haul occupies consumer minds for truck rentals. Although brand position is extremely powerful, it isn't strong enough to compel a consumer to drive miles past another known storage solution. The brand strength Public Storage captured in the industry is most likely unrepeatable by another self storage operator. Therefore, storage branding for private operators should be evaluated as a tool to reduce operational cost.

However, significant risk regarding brand is possible from outside the industry. Brand transference can occur when successful brands enter new markets and immediately compete with an established base of loyal customers. Amazon (online book marketplace to cloud technology) and Virgin (record store to airline and others) are examples of companies that have successfully transferred their brand to new services or products. Leveraging other brands or rebranding is effective, but operators might want to study the consequences of getting back their identity if they choose to rebrand.

**Price** is a feared and technology-reliant differentiator and a tough combination for most storage companies to unlock. A detailed price competition strategy is a stand-alone document, but self storage operators considering competing on price may need innovative pricing models or attractive move-in pricing made possible by lowering customer acquisition and operational costs. Price is one of the more complex differentiators to adjust and still maintain profit. Operators may want to attack other strategies before price.

**Scale** is more visible within our industry, with record consolidation of real property and property management companies aiming to reduce capital, operational and distribution costs. Similarly, online market share consolidation is in full scale within the fragmented technology space. As mentioned earlier, new REITs and the first national co-op recently emerged in the industry, targeting scale. Scale will be the biggest hurdle for the small operator to tackle and the biggest driver of smaller operators hiring large property management firms. Four of the five public companies offer management services and branding options for the smaller operator. Extra Space Storage may be the best example of public companies leveraging private owners to deliver scale. For operators, reciprocity may be the only solution to acquire performance tools that scale delivers. Scale in our industry becomes attractive at 1,000 stores. Recently, a marketing expense study revealed that 1,300 institutional-quality independent storage facilities outspent Public Storage's 2,300+ stores by \$1,000,000.\* Additionally, the independent operator spent three times as much to acquire a customer.

**SSA:** Our industry should strive to support our national and state associations with membership and contributions. Significant industry efficiencies are hampered by legacy legislation that is made obsolete by today's technology, such as public noticing for auctions in newspapers and certified snail mail lien notices.

Collectively, smaller operators have a much more powerful voice on Capitol Hill than the giant public companies. By getting involved to make a difference, we can help our associations move toward initiatives such as standardizing terminology within the storage industry and educating members about today's market conditions.\*

**Ask:** Operators should interview vendors regarding the openness of their technology platforms and the free choice to integrate with other vendors. This will help ensure that access to our data is not restricted. If our vendor has an API, it should be open to applications we select to operate our companies.

## Service

**Our goal should be to solve problems** that solve our customers' problems. Our renters ultimately make the decisions that make our companies successful. The industry needs to embrace the idea that business models have changed - and we need to choose how we respond. "Thanks to reinventing, repackaging, rebranding, and repositioning, Presto! A new and profitable product."\*

Our products and services are best positioned within the framework customers expect: honest, easy, simple, and clear. As millennials rotate into our tenant roster, this framework is mandatory. We should ask ourselves if we have removed sources of friction from our customers' decision-making and service process. If we frustrate the consumer, we invite unwanted competition.

**Human Touch:** Great customer service must happen not only at digital touch points, but also at the counter, on the phone, and in online chats. The entire customer lifecycle should be evaluated and enhanced to meet and exceed customer expectations.

**User Interface (UI):** We can think of UI as the tack used to ride a horse. The stirrups, reins, and saddle are all tools necessary for the rider to mount and control the horse. UI differentiators are the most obvious source of today's external industry disruption. SpareFoot and StorageFront are well-known directories distributing our product and serving our customers. They are the result of technology companies recognizing an unsophisticated, fragmented industry failing to provide consumers with a solution to locate and choose a company to fit their storage needs (the tack). Quality UI is essential for efficient distribution within the self storage industry. Better yet, a great UI may outperform a brand when a prospect is looking for storage.

Coordination of multiple customer access points is the next UI challenge facing the self storage industry. Unfortunately, storage operators have limited opportunities to deliver vacant units to emerging markets, thus limiting UI. Examples of new markets include social channels and collections of prospects who have an above average need for a storage unit. Yelp and Bellhops are examples of distribution channels lacking a storage industry UI. Placing a product where the customer is located is a product differentiator. The global distribution system discussed in the next section is required to meet the product placement UI challenge.

**User Experience (UX):** UX can be thought of as the way a horse rider uses the stirrups, reins, and saddle and how they fit. If the stirrups are too long or the reins too short, the horse can still be ridden, but it may be so difficult or uncomfortable that the friction causes the rider to

choose a different horse. Recent radical shifts in other industries have been a result of improved consumer experience. Uber is a perfect example. The UI of a traditional cab and an Uber car are similar, but the UX is radically different. This example demonstrates that providing the customer with tools that are easy to use reduces friction during transactions and increases success. Uber now offers its service through an API to outside company applications needing transportation. This is an example of improved distribution efficiency, resulting from improved UI/UX.

Significant friction points in the decision-making process can be caused by poor UX, leading to poor conversions from shopper to renter. The most critical task of excellent UX is to reduce these friction points. The storage industry has a tremendous opportunity to improve and differentiate one operator from another. Great UX design is within reach of most of the top 100 operators. However, due to insufficient scale, implementation may be limited to only a few companies.

## Technology

**Global Distribution System (GDS):** Most industries requiring reservations have a GDS or a reservation system. Airlines, hotels, and rental car agencies are a few examples of industries that have embraced GDS. A GDS provides inventory for organizations that have access to storage customers. Examples of GDS users include moving applications and our own facility websites. Our existing customer base could move effortlessly within a system that allows renters who are relocating to find and rent storage at their final destination. Companies like [OpenTech Alliance](#) are leading the way by allowing customers to rent units after hours via [INSOMNIAC Online](#), or in the absence of a manager through the use of a kiosk.\* Both of these applications use data pulled from a GDS. These efficient distribution systems will reduce customer acquisition costs for operators.

As consumers desire more convenient uses of storage, a GDS with logistics will make distributing our inventory more efficient for the customer. Storage logistical examples include Public Storage's failed pickup and delivery service and the emergence of "on-demand" or "valet" storage. The difference between success and failure with these examples is the application of logistics. Additionally, logistics will create more uses for our idle inventory and, if managed properly, will increase the self storage market share. The net to our industry is not yet clear, but logistics have improved distribution in many other industries.

**Standardization:** New technologies are changing the way we engage in transactions and operate our business. Incompatible data standards are inhibiting the integration process and limiting access to opportunity. Developing one set of industry standards enables our industry to exchange information more efficiently. [Standards](#) are a critical building block for operators to improve functionality and distribute the product profitably.\*

Technology integration is inevitable for storage operators. It will be more costly for firms to make changes as long as data standards remain fragmented and systems cannot communicate with one another. Standards will allow the storage industry to compete for customers on an individual company, product, or service level. A lack of standards creates customer friction, which results in market confusion.

## Cabs, Corn and Cubes

The storage industry has shifted through phases from its simplistic beginning to venture capital and Wall Street disruption. Now, the industry is at its most volatile point, with rapid consumer behavior change and an unexplored technological roadmap to support owners and meet consumer expectations. These issues are pressuring owners to adjust their expectations, management models, or to exit. One changing management model is storage companies banding together or consolidating to achieve economies of scale and agility. There are no villains keeping operators from the tools to succeed, but the lack of attention to today's differentiators has kicked open the door to outside disruption.

Is self storage now a commodity? Robert Kiyosaki believes, "If you are not a brand, you are a commodity." What do our customers think at an intersection with a 10x10 at each corner? Does the consumer think the empty cube on one side of the street is interchangeable for the empty cube on the other side of the street? We have an opportunity today as private operators to move more quickly than others. If we choose to change our way of thinking, we can avoid a price war and exceed customer expectations. We have a short timeframe to adapt, increase profitability, and keep customers. If we choose to do nothing, we are betting that others won't satisfy our future renters and that development won't bring new choices in the market.

We have explored perceptions and reality in the self storage industry. Interestingly, the storage industry technology gap has been created by a lack of focus, not inaccessible solutions. Most storage operators have budgets to invest, but still consider the tech tools needed to compete today as expense line items, not investments. The groups who have scale invest substantially to develop brands and systems to lower operational and distribution costs. If cab companies had realized a minor investment in technology could have limited Uber's success, they may not have become an industry in turmoil. Now they spend their resources trying to hold off progress with lobbying and lawsuits -- playing defense when they once controlled the whole market. Corn farmers would lose profit without cooperatives providing the scale to compete and operate. The key question is: how can smaller storage operators obtain a better understanding of what is creating consumer demand, and how to meet the demand in order to adapt and thrive in today's environment?



## About storelocal

storelocal is a cooperative of self storage owners and operators coming together to increase their competitive advantage in the marketplace. Together our members leverage new and existing resources to lower their operational costs and increase their profit. We provide access to best-in-class products and services through in-house development and vendor partnerships. We believe providing access to the best business tools will reduce your operational cost and increase your profit.

### Market Opportunity

Customers demand technology as part of their interaction with businesses. The fragmented storage industry has not kept pace with customer expectations. The cooperative's goal is to have 5,000 storage facilities working together to provide marketing tools and enhanced business services that will meet consumer demand, raise occupancy, and lower cost. We are ideally positioned to become the largest force in the storage industry, worldwide.

### Founders

storelocal is the creation of several operators concerned about market consolidation and disruption from other industries. The team is led by Lance Watkins, a successful entrepreneur who has founded and executed several innovative enterprises in the self storage industry. Watkins pioneered containerized storage facilities on power line right-of-ways, developed the leading storage auction website StorageTreasures.com, and co-founded Charity Storage, the industry's first nationwide charity to raise money through storage auctions.

Many of the brightest minds in the industry have joined storelocal as co-op founders. Collectively, they represent the fourth largest storage group in the United States with more than 400 years of storage experience. This dynamic group of leaders is bringing innovation to the storage industry.

## Contact



Questions? Comments? Let's have a conversation about the storage industry!

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Interested in our cooperative of self storage operators? Let's chat!

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