REVENUE RESCUE PLAYBOOK:
Embracing
NEXT-GEN STORE FORMATS

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It's been debated and confirmed: Brick-and-mortar stores are not disappearing from the retail landscape. In fact, an IHL Group study released in August 2017 revealed that U.S. retailers and restaurants opened **4,080** more stores in 2017 than they closed, with plans to open **5,500** more in 2018.

However, the **design**, **layout**, **technology**, and even the **basic purpose** of stores are changing — in some cases quite rapidly. With shopper journeys now consisting of multiple touch points and increasingly dominated by mobile devices, retailers realize that they need to reinvent their physical stores in order to stay relevant — and that there's no time to waste.

As retailers wrestle with redefining stores, this report outlines some of the key emerging trends:

- **Stronger links between online and offline shopper experiences**: With digital increasingly becoming the first stop on the shopper journey, retailers are seeking ways to tie together all parts of the customer experience. For example, the **IKEA** app allows customers to create a shopping list at home, and then get a guided route through the brick-and-mortar store for a more efficient shopping experience;

- **A range of store formats designed for different parts of the shopper journey**: Retailers might operate a flagship store designed for consumers to trial products and build their shopping lists. These large-footprint stores would be supplemented by smaller-footprint "grab-and-go" pickup locations, or locations using AR, VR and mixed reality to create immersive experiences;

- **More empowered store employees**: Associates will increasingly be equipped with mobile devices that simplify operational tasks, such as shelf stocking, along with clienteling capabilities that enhance customer engagement; and

- **The next generation of experiential retail**: Beyond creating a "wow" factor, retailers and the malls housing them will align with shoppers' identities, interests, passions and non-retail activities.

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COMBATTING THE OVERSTORED CHALLENGE IN AN INCREASINGLY DIGITAL LANDSCAPE

The need for a revamped store experience is highlighted by the growth of online commerce. While e-Commerce sales accounted for just **12%** of all retail sales in 2015, that figure will double to **24%** by 2026, and continue to rise to account for nearly one third (**32%**) of all retail sales by 2030, according to an A.T. Kearney analysis of U.S. Census data.

This digital growth is taking place in an overstored landscape, which can decrease revenue and profits. According to the International Council of Shopping Centers (ICSC), the U.S. leads the world with **23.5 square feet** of retail space per person. That's nearly **40%** more than the nearest competitor, Canada, which has **16.8 square feet** of retail space per person. Next highest is Australia, at **11.2**, followed by the UK (**4.6**); Japan (**4.4**); Netherlands (**4.1**); France (**3.8**); Switzerland (**3.6**); Spain (**3.4**); and China (**2.8**).

"The increase in space and subsequently rents pulls down the ability for retailers to capture profits," said Ananda Chakravarty, Senior Analyst at Forrester, in an interview with *Retail TouchPoints*.

To compete in the digitally empowered landscape, retailers need to start by assessing the benefits and challenges of the brick-and-mortar footprint. For example, "**Checkout is not a value-add function in the store**," said Chakravarty. "Customers don't come to a store to check out, they come to take products home with them."

Part of the challenge is that the ways consumers shop already have changed dramatically. Mall operators and their tenants "will face the most implacable competitor of them all — the new consumers themselves," wrote Michael Brown and Matt Lubelczyk in the February 2018 A.T. Kearney report, titled *The Future of Shopping Centers*. The rise of personal shopping technologies mean that while customers used to travel **to** stores, they themselves are **becoming** the store — wherever they happen to be at the moment. "These future shoppers will come armed with dozens of tools for disintermediating retailers, [such as] bot technologies, voice-activated ordering, and subscription-based purchasing systems," the authors wrote.

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> **- INTERNATIONAL COUNCIL OF SHOPPING CENTERS**

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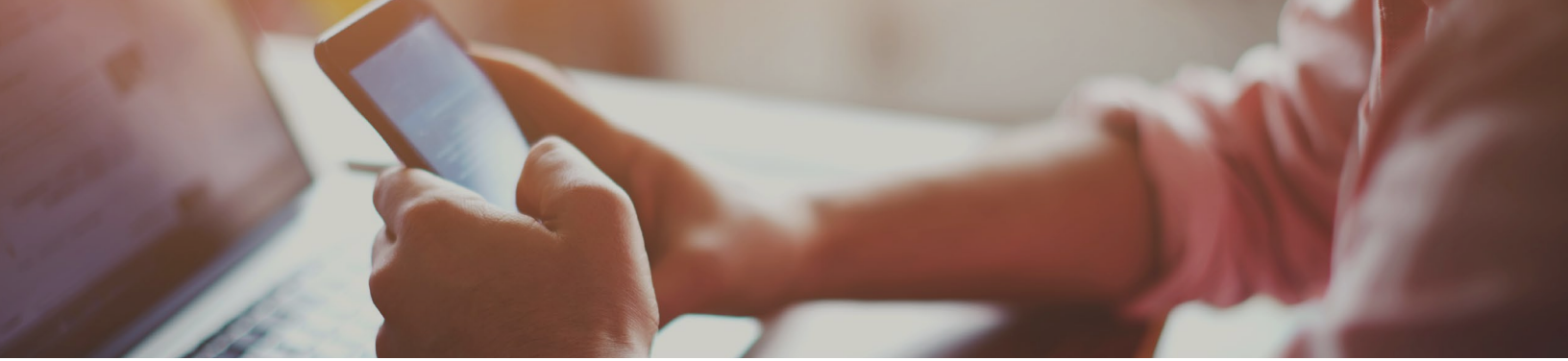
4 RETAIL LEADERS ERASING THE LINES BETWEEN ONLINE AND OFFLINE

Forward-thinking retailers have been trying to bring elements of the online CX into the store for several years now, and these trends will accelerate as digital commerce, particularly mobile commerce, continues to expand. Some industry leaders are making headway:

- **Nike**: At its flagship store in New York City's Soho, **Nike uses personalization** to entice customers to use its Nike+ mobile app for an enriched shopping experience. Shoppers use Nike apps to find the perfect shoes, customize products, and even track their fitness on treadmills, turf fields and basketball courts in the store. When signing up for the Nike+ app, customers answer a series of questions to identify their sports, skill level and category interests to create personalized app content, recommendations and experiences.[1]

- **IKEA**: The IKEA app "allows you to build your shopping list at home, then get **guided navigation** in the warehouse to pick your items in the most efficient way possible," said Michael Brown, a partner in the retail practice of global strategy and management consultant A.T. Kearney in an interview with *Retail TouchPoints*. "It's a great way for the app to not just track everything a customer browses, but then to send them on an efficient journey to accumulate those items in the store."

- **Sephora**: The beauty retailer gives customers a reason to fork over their contact information. Customers can scan product tags in-store and use Sephora's Tap and Try and Color IQ apps to virtually try on lipstick or eyelashes, or to discover the best products for their skin type. After taking the Skincare IQ test, customers also can access **personalized makeup training** and facials at the store. Even more, Sephora's Fragrance Studio uses sensory technology InstaScent so that customers can test out different scents in-store.[2]

- **Guess**: The retailer helps draw online shoppers into its brick-and-mortar stores with a **Shop Local strategy**. Working with solution provider Radius8, Guess takes the store locator to the next level by allowing consumers to shop the local inventory of stores online.

1 Masters Of The top Four Retail Tech Trends by Brendan Witcher and Claudia Tajima, <u>Forrester</u>, Jan. 2018
2 Masters Of The top Four Retail Tech Trends by Brendan Witcher and Claudia Tajima, <u>Forrester</u>, Jan. 2018

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> **- MICHAEL BROWN, A.T. KEARNEY**

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CONVERTING STORES TO SHOWROOMS AND DCs

One of the toughest challenges for omnichannel retailers is adapting their fixed assets — the physical stores themselves — to meet the different requirements of today's shopper journey. However difficult (or expensive) the effort, retailers may find they have no choice if they want to survive.

"Our retail tenants are moving away from looking at the 'format' of a unit towards its 'function': not as a High Street shop or retail warehouse, but will it act as a **click-and-collect** store, a **distribution hub** or a **showroom**?" said Eleanor Jukes, Property Strategist at Legal & General Investment Management Real Assets.

Showroom-style retailers such as **Bonobos** may point the way for big-box retailers that already have strongly established brands. "I could imagine a large retailer with 50,000-square-foot flagship-style stores maintaining some of them, but also opening 6,000-square-foot stores stocked with fast-turn, 'grab-and-go' items," said A.T. Kearney's Brown. To provide visitors to these smaller stores with access to the retailer's full inventory, retailers could "use in-store technology, such as VR, AR and high-resolution displays, that could access a deep database of products, allowing customers to compare and contrast them as if they were right in front of them in a store aisle," he added.

As retail becomes more experiential and entertaining, visits to the larger stores could become an event — but one that is closely tied to the entire shopper journey. "You might go to the flagship store once every two months, to trial products and build your shopping list of products that you might want to buy at some time in the future," said Brown. "It's becoming a matter of identifying when we as retailers invite customers into our store, but also making it appropriate and convenient [for shoppers] to then buy things from their own homes."

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> **- ELEANOR JUKES, LEGAL & GENERAL INVESTMENT MANAGEMENT REAL ASSETS**

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THANKS FOR VISITING: HOW EXPERIENTIAL RETAIL IS THE NEXT STEP IN CUSTOMER ACQUISITION AND RETENTION

By Joseph Scaretta,
Co-CEO and Founder, CS Hudson

Brick-and-mortar stores are constantly looking to acquire new customers and retain existing ones, but the competition is fierce — not only between each other but also with online retail options. Today's customers expect more. It's not enough to be able to pick up a product — shoppers are looking for an experience. Experiential retail allows shoppers to explore more of a brand's offerings while getting a personalized experience.

More than just a friendly and knowledgeable sales associate, experiential shopping goes further. It's interactive and implores the consumer to stay in the store and be entertained through retail experiences. Also called "retailtainment," the offerings vary based on the products and target market. It might be as simple as a customized digital display to show off a new outfit without having to try it on, a VR experience to try a product in action, or it could be more interactive by offering special customer engagement events that include celebrities, sports stars or brand ambassadors. Whatever it may be, the offering needs to be one that entices the customer and motivates them to visit the retailer's physical location.

FASHION TAKING NOTICE

One of the biggest names in retail has embraced the experiential retail model to give its customers a one-of-a-kind shopping experience. As described by CNBC, Macy's is expanding on the idea of traditional pop-ups and is taking on a new marketplace concept called "The Market @ Macy's." Macy's has built sections on its ground floor to promote and sell products by a variety of brands and companies. This new concept is aimed at giving Macy's customers more variety to their shopping, and it takes the heavy lifting from the retailers.

Saks has launched "the Wellery," a section of its second floor that is dedicated to wellness classes and services. Customers are growing increasingly interested in healthy lifestyles and spending money for these experiences, so the high-end department store is focused on providing services to its customers that resonate with their daily interests. To take customer experience one step further, Amazon unveiled its first brick-and-mortar convenience store, Amazon Go. The store of the future will add even more ease to the convenience store model with unique technology that allows a seamless shopping and checkout experience.

THE NEXT STEP

Even though the trend is still new, experiential retail must already be evolving. Agile and flexible store formats will be the next step. This could mean offering new and exclusive products from a pop-up store to test the market and gain customer feedback without having to make a long-term investment. Or, retailers may consider utilizing modular designs to make it easier to adapt their stores to the fast changes in consumer trends as well as the demands of new product categories. Modular designs would make it easy to rearrange, replace and reimagine retail displays, providing the desired refresh while ultimately saving time and money. This would enable retailers to frequently reinvent the in-store experience, giving customers a reason to come back time and again.

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EXPANDING ASSOCIATES' ABILITIES WITH TECHNOLOGY

A large part of reimagining the retail store involves rethinking the store associate's role. "The first question a retailer needs to ask is, what is different about a physical store versus a web site — something that only the physical store can provide," said Jared Blank, SVP of Data Analysis and Insights for Bluecore. "The answer is employee empowerment. There are opportunities around training, essentially using data to get your store staff as smart as possible. This is partly about product data but also customer data, so that associates are not starting from 'ground zero' every time someone comes into the store."

Best Buy, for example, "has done an amazing job in their turnaround in terms of empowering employees with information about their products," said Blank. "They have trained and invested in their employees, so that when a customer walks in the door, there are people who can answer detailed questions around electronics, which is a challenging set of products to make decisions about. Best Buy has thought about the end-to-end experience, and with their Geek Squad, they have made sure it doesn't end in the store — it continues into the customer's home."

Employee empowerment via technology goes beyond direct customer-facing applications. In fact, operational solutions can produce impressive benefits. "The real empowerment value is simplifying other tasks, from store resets to restocking shelves, that frees up associate time to provide customers better engagement and experiences," said Chakravarty. "The data required for such operational impact is more complete than customer-facing data, which is not as readily shared, can be unreliable or false, and is usually constrained to loyalty program information by the retailer. This limits the ability to truly provide clienteling and sales assist functions to a smaller subset of your customers," he added.

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>
> **- ANANDA CHAKRAVARTY, FORRESTER**

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THE NEXT-GEN MALL: EXPERIENCES, ENTERTAINMENT, LOCAL TIE-INS

Much has been written about the death of the mall, and as noted the U.S. is heavily overstored relative to other markets. But malls could certainly make a comeback, particularly if both real estate executives and retailers can find ways to leverage Millennials' and Gen Z shoppers' thirst for experiential retail.

In the A.T. Kearney *The Future Of Shopping Centers* report, Brown and co-author Matt Lubelczyk, Business Development Manager, identify four models for successful Customer Engagement Spaces (CES):

- **Destination centers**: Large regional centers, anchored by popular attractions, which draw from broad local, national and some international audiences. Examples of specialty anchor stores include **Bass Pro Shop**, **Lowe's** or **REI**, where discovery, education and experience are key components of the brand experience.

- **Values centers**: Hyper-curated centers specializing in related retail businesses and services, reflecting the values and preferences of the surrounding community. They would be anchored by an idea rather than a retail nameplate, and could be organized around a values statement such as animal rights, an idea such as peace or serenity, or even an ethnic or community identity. **Eataly** and **The Market Hall** in Portland are examples.

- **Innovation centers**: Every "store" (and the center itself) is a smart, active retail environment featuring the latest in high technology. A subset of these centers would be pure tech plays where every store features the latest in high technology, some available for sale and some being tested. By monitoring shoppers, the retailers, operators and consumer goods manufacturers would gain access to tools for rapid testing and development of new products, formats and services.

- **'Retaildential' space**: Mixed-use, multiformat centers located where consumers live, work and travel.

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> **- A.T. KEARNEY**

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"Emerging retail models and changing consumer preferences will transform our current ideas about successful tenant mix," wrote Brown and Lubelczyk in the report. "Local and artisan brands will co-mingle with national retailers. Product portfolios will shift to goods and services less susceptible to disintermediation and auto-replenishment. Subscription, sharing and re-commerce platforms will expand their physical footprints. Non-retail tenants such as fitness, dining, and entertainment will account for a larger percentage of the total tenant mix."

Technology will continue to play new roles, the authors note: "Autonomous mobility technologies will be another important connectivity tool. Autonomous transport services in the form of cars, buses, and trains will deliver customers to and from the CES while other autonomous agents such as robots help operate stores and interact with shoppers or their networks. Still other related technologies from delivery robots and drones to autonomous trucks will get products from the CES to wherever shoppers want them to go."

"Technology can also help manage [shopping] centers more efficiently," said Legal & General's Jukes. "It can be used for tracking data to identify hot/not spots in shopping center layouts, refining tenant mix to match consumer feedback and monitoring car parks and traffic levels for ease of use."

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CONCLUSION

The paradox of retail today is that stores are undeniably here to stay — but they also are due for some potentially drastic changes. Where the old mantra was "location, location, location," the new mantra is likely to be "relevance, relevance, relevance." Stores will need to become seamlessly integrated into shopper journeys that continue to fragment and veer off in new directions.

Additionally, retailers will need to invest in a variety of store formats that meet customers' needs in the moment, while still leveraging technology that exposes the full range of their inventory and services to consumers. Retailers must equip store associates (and stores themselves) with up-to-the-minute technology that provides immediate access to deep product and customer data. And the very idea and purpose behind different retail spaces could be due for a major makeover, aligning with customers' values, interests and passions rather than being organized around no-longer-relevant anchor stores.

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