

RETAIL'S NEW MISSION:

# BRIDGE THE *'Experience Gap'* IN BRICK-AND- MORTAR STORES

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SPECIAL REPORT



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# RETAIL'S NEW MISSION: BRIDGE THE 'EXPERIENCE GAP' IN BRICK-AND-MORTAR STORES

As many as **86%** of shoppers are more likely to shop at stores that provide experiences tailored to fit their needs and interests, according to [research from InReality](#). But only **13%** of shoppers feel that stores actually offer the kind of experiences that they would like. This jarring disconnect is forcing retailers to redefine their approach to brick-and-mortar stores, because the overriding message is that “good enough” is no longer good enough.

Perhaps the biggest symbol of these changes has been the aggregate number of store openings and closings. As of Nov. 2, 2018, U.S. retailers announced **5,006** store closures and **2,846** store openings for the year, according to [Coresight Research](#). But these statistics hardly mean that the store as a concept is finished. Rather, it indicates that “bad” (read: boring, uninspiring) stores are dying out.

This special report will showcase the new role of the brick-and-mortar store, including the changes and modifications retailers already have made (and should continue making) to bridge this disconnect. Topics will include:

- The growing shopper desire for **experiential retail** in-store;
- What the **Sears** bankruptcy teaches retailers about building an identity for the in-store experience, and how technologies such as **interactive signage** and **touchscreens** advance the brand proposition;
- How retailers such as **Nordstrom** and **Lids** stand out via product customization;
- Why **less is more** when it comes to in-store inventory management, and
- The changing metrics used to measure physical store success, and how technologies such as **biometrics**, **RFID** and **computer vision** will play larger roles going ahead.

Capitalizing on the consumer's lifestyle is crucial to creating a store experience that connects with them.

## LET SEARS' UNFORTUNATE FATE BE A LESSON: STORES SHOULD REFLECT THE BRAND LIFESTYLE

Building a better experience will hinge on how well the retailer aligns its brand proposition with the type of consumer they want to attract. Capitalizing on the consumer's lifestyle is crucial to creating a store experience that connects with them. If anything, [the recent Sears bankruptcy](#) should teach a lesson to any retailer having difficulty resonating with the consumer. Once America's leading brand, with a combination of strong electronics, furniture, appliance and private label businesses, the retailer lost its footing as others caught up. The Sears brand flat-out [didn't have an identity or a compelling positioning based on the products and services it offered](#).

"The commonality is that retailers are trying to find a way to stay true to who they are, and they're trying to make their store experience reflect who their shopper is," said Chris Poluski, President at Monster XP, an agency that designs in-store experiential and digital activations.

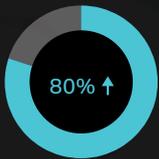
"We've had great experiences with retailers such as **Canada Goose** and **Vineyard Vines** — the latter is a great example that has certain lifestyle extensions of their brand, including partnerships with the America's Cup, the Boston Red Sox and the Kentucky Derby," Poluski said in an interview with *Retail TouchPoints*. "They'll host pop-up shops in locations where these partnerships are popular, and we'll help bring that same activation to their stores. They'll then have connected experiences that feel the same wherever their consumers are. Even if I'm not at the Kentucky Derby I'm still able to have that experience in Miami."

These experiences manifest themselves through well-trained associates, as well as various media and technologies designed to visually showcase what the brand can offer throughout the store, including:

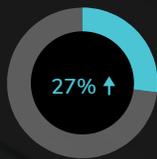
- Interactive signage and touchscreens;
- Expansive videography and photography;
- 3D printing; and
- AR/VR platforms.

# SHAKING UP THE STORE: BY THE NUMBERS

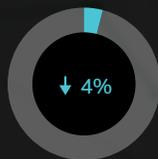
DESPITE E-COMMERCE GETTING ALL THE SHINE IN RECENT YEARS, THE STORE REMAINS THE TIDE THAT EITHER RAISES OR SINKS ALL RETAIL BOATS.



80% of store openings result in an increase in the retailer's share of web traffic.



Opening a physical store increases web traffic within an entire market by an average of 27%.



The inverse also remains true; closing stores causes an average web traffic decline of 4%.

*The Halo Effect: How Bricks Impact Clicks – by the International Council of Shopping Centers (ICSC), 2018*

THE GREATER PROPORTION OF STORES CLOSED IN A MARKET, THE GREATER THE DECLINE IN SHARE OF WEB TRAFFIC:



Apparel: -9.5% web traffic decline



Department stores: -7.9% web traffic decline



Home: -16.4% web traffic decline

DIGITALLY INFLUENCED IN-STORE SALES CONTINUE TO INCREASE, SHOWING THAT OFFLINE AND ONLINE RELY ON EACH OTHER MORE THAN EVER.

Digitally impacted retail will account for **55%** of in-store sales (**\$1.6 trillion**) by 2020, up from **49%** (**\$1.3 trillion**) in 2016.

*Forrester's Digital-Influenced Retail Sales Forecast, 2017*

## WHICH TECH IS MOST STORE-READY?

HighStreet Collective assigns a numerical value of **zero to 10** based on how shopper-ready the technology is, combining data on recent retail installations, shopper statistics and opinions on potential impact. Top technologies by readiness for the in-store environment are:



Data tracking (5.3 out of 10)

Mobile interfaces (4.8)

Frictionless payment (4.7)

Wayfinding (4.5)

Beacon notifications (3.1)

Touch-and-gesture (3.0)

*Retail Innovation Radar Quarterly Report, HighStreet Collective, 2018*

Nordstrom shoppers can test and design customized suits and formalwear from menswear designer Samuelson using a digital touchscreen.

## **NORDSTROM, LIDS BRING PRODUCT CUSTOMIZATION TO LIFE**

Stores, particularly those selling apparel and fashion, still have an obvious advantage over their e-Commerce counterparts: consumers can touch and feel a product before buying. But more retailers are leveraging an even bigger in-store advantage — customization.

**Nordstrom** has made customization a standout feature in its [Men's store in New York City, its first brick-and-mortar location specifically for men](#). The store includes a denim tailoring shop in partnership with **Levi's**, where customers can shop for Levi's apparel; design custom embroidery on any denim item; heat press a shirt; or get an express hem or other alteration within the store. Shoppers can mock up their own design to embroider onto their jeans or jackets, or select from dozens of designs within the shop.

Additionally, shoppers can test and design customized suits and formalwear from menswear designer Samuelsohn using a digital touchscreen. As shoppers sift through and select pocket, vent, button and lapel styles, the changes automatically appear on the screen to display what they would look like in real life.

**Lids** has [rolled out a "Custom Zone" destination](#) in select stores for shoppers seeking to embroider professional athletes' autographs on headwear. Shoppers also can request the embroidery of names, numbers, quotes, phrases and images to make the product something that feels like their own.

"If you had asked me the top three trends in retail, customization is up there, maybe even number one or two," said Joseph Scaretta, Co-CEO and Founder of CS Hudson, a developer and designer of physical retail experiences. "There's customization focused more on experience and customization based on cost-effectiveness and value. You want that customization, but value is still important too. One of our client companies is rolling out a custom suit fixture, which has driven significant value and growth for them, where you can customize a suit and have it available for \$200 to \$300 within two to three weeks."



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# SHAKING UP THE STORE: THE FOUR PILLARS OF RETAIL TO IMPROVE CUSTOMER ACQUISITION AND RETENTION

By Moses Carrasco, CS Hudson

Brick-and-mortar stores are constantly looking to acquire new customers while retaining existing ones. The competition is fierce, not only between each other, but also with online retail options. As more and more shoppers go digital instead of physical retail, brick-and-mortar retailers need to offer better customer experiences if they're to have a future. The physical stores that will be most competitive in the digital age will be those that are able to offer something online stores can't.

## Understanding The Customer Base

Retailers should aim for frictionless shopping — a seamless, customer-centric experience. It starts by understanding individual consumers' needs, expectations and preferences and then applies that knowledge to every interaction and removes anything that does not contribute to a positive experience. [Nordstrom's first menswear-only store is decked out with high-tech digital ordering and returns systems and in-house services such as tailoring.](#) Since the store only serves one kind of customer, everything can be tailored to them: the layout, sales associates' expertise and services.

## Need For Customization

As consumers evolve the retail guest experience must also evolve, because customers are seeking out opportunities for customization. To address the growing demand for quick and convenient personalization in men's tailored goods, [Tailored Brands](#) expanded its services to deliver a personalized shopping experience in two ways: By narrowing the delivery timeframe for its Made-in-America custom suit program from four weeks to three weeks; and by launching a new omnichannel service, LIVE!, which allows customers to access live guidance from in-store wardrobe consultants with shoppable content such as imagery, chat and live video to offer suggestions and answer questions. From hundreds of fabric choices and a vast selection of authentic details like lining and thread color to the enhanced experience provided to its clients, it is a strong indication of the shift in modernized retail shopping experiences.

Others like [Nike](#), are moving toward customization of the product itself, with colors or patterns on shoes being completely selected by the shopper. Nike has tested out a new experience in select locations that



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As co-CEO and founder of CS Hudson, Moses Carrasco transitions between internal operational structure, client education, training and development to ensure excellence for clients and for the organization. He facilitates project execution through practical methodologies and by employing the best partners for successful, timely project completion.

allows guests to come into the space and work collaboratively with the team to leave with a special product in less time than ever before. Creating that personal brand experience allows customers to immerse themselves in the brand and still create something special “just for them.”

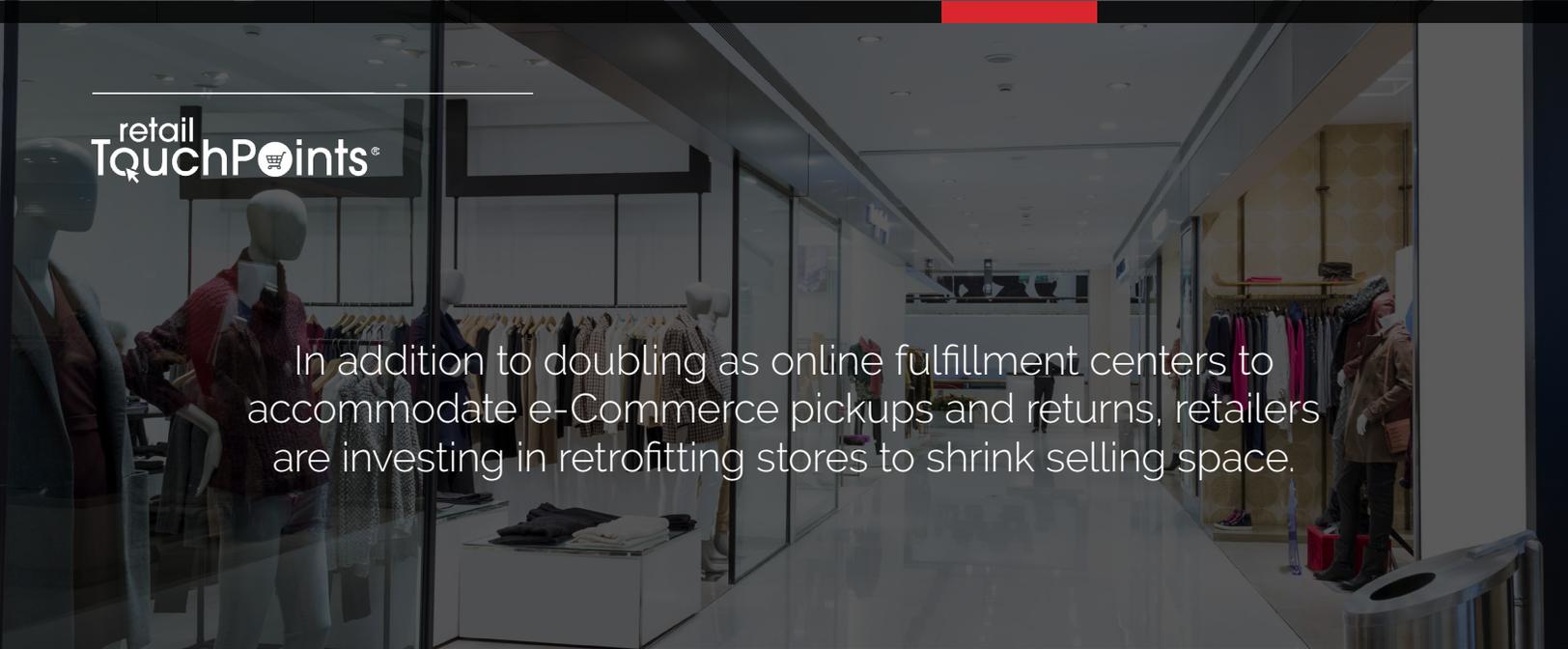
### Gain Experience

With so many shoppers turning to online purchases, brick-and-mortar stores must give customers a reason to join the in-store merriment. One of the best ways to do that is to tap into the customers' desire for added value with experiential retail. Today's shoppers are looking for a memorable experience that allows them to explore more of a brand's offerings while receiving knowledgeable and personalized help. [Winky Lux's](#) Experience Store was designed to fully immerse consumers into the products and services they offer. Opening a visually appealing and interactive experience allowed the brand to leverage the virality of people's social media accounts. Creating customized sections where shoppers can interact with and learn about products elevates the shopping experience and could provide the sales boost retailers seek.

### Invaluable Insight

Brands can leverage real-time analytics to continually analyze customer data and behavior patterns to generate context-sensitive, actionable insights and enrich the end-to-end customer experience. French cosmetics giant [L'Oréal](#) developed sophisticated and integrated omnichannel programs to entice and maintain customer relationships by tracking purchases and web surfing history. The analyzed data helps personalize campaigns to foster individual customer relationships. Because marketing is a form of communication with the hope of selling consumers a product or service, it's important that companies speak the language and understand current trends and promotions.

Retailers must find inventive ways to leverage their retail space to create that unique experience inside the store itself. These added values will draw in more customers, help retain current customers, attract online shoppers and create innovation, pushing the brand forward in the eyes of the customer.

A photograph of a modern retail store interior, showing clothing racks, mannequins, and a clean, bright environment.

In addition to doubling as online fulfillment centers to accommodate e-Commerce pickups and returns, retailers are investing in retrofitting stores to shrink selling space.

## OFFER MULTIPLE FULFILLMENT OPTIONS, BUT MINIMIZE IN-STORE INVENTORY

While retailers might seek to delight the consumer with a personalized product experience, shoring up the store's omnichannel fulfillment capabilities and inventory management should continue to be a major priority.

As many as **76%** of retailers use store inventory to fill online orders, while **86%** plan to implement buy online/pick up in-store by 2019, according to a [survey from Zebra](#). The BOPIS part of the equation is vital — as many as **59%** of shoppers will purchase additional items after picking up a product in-store, according to [OrderDynamics](#).

**Walmart** and **Kroger**, two of the industry's biggest traditional retailers, have taken significant strides to bolster their pickup capabilities. Walmart, which enabled pickup at **600** stores in 2017, [has plans to expand the functionality to 2,200 stores by the end of 2018](#). While Kroger had **640** pickup-enabled stores last year, that number has since climbed to **more than 1,000**.

In addition to doubling as online fulfillment centers to accommodate e-Commerce pickups and returns, retailers are investing in retrofitting stores to shrink selling space.

"The old adage in retail was 'You had to maximize cost per square foot,'" said Scaretta. "How much retail profit per square foot? What's my sales per square foot? Where the market's going is retailers saying 'I care less about my space being stuffed with inventory.' Today, I'm more considering having less products on the floor and more experiential-type opportunities that will bring Gen Y/Gen Z consumers into your space and keep them there, and they'll buy something by virtue of spending time there. It makes it feel very boutique. In the presentation, less is more. Minimalistic looks are huge right now."

“Retailers must start to explore the cost to serve a customer transaction.”

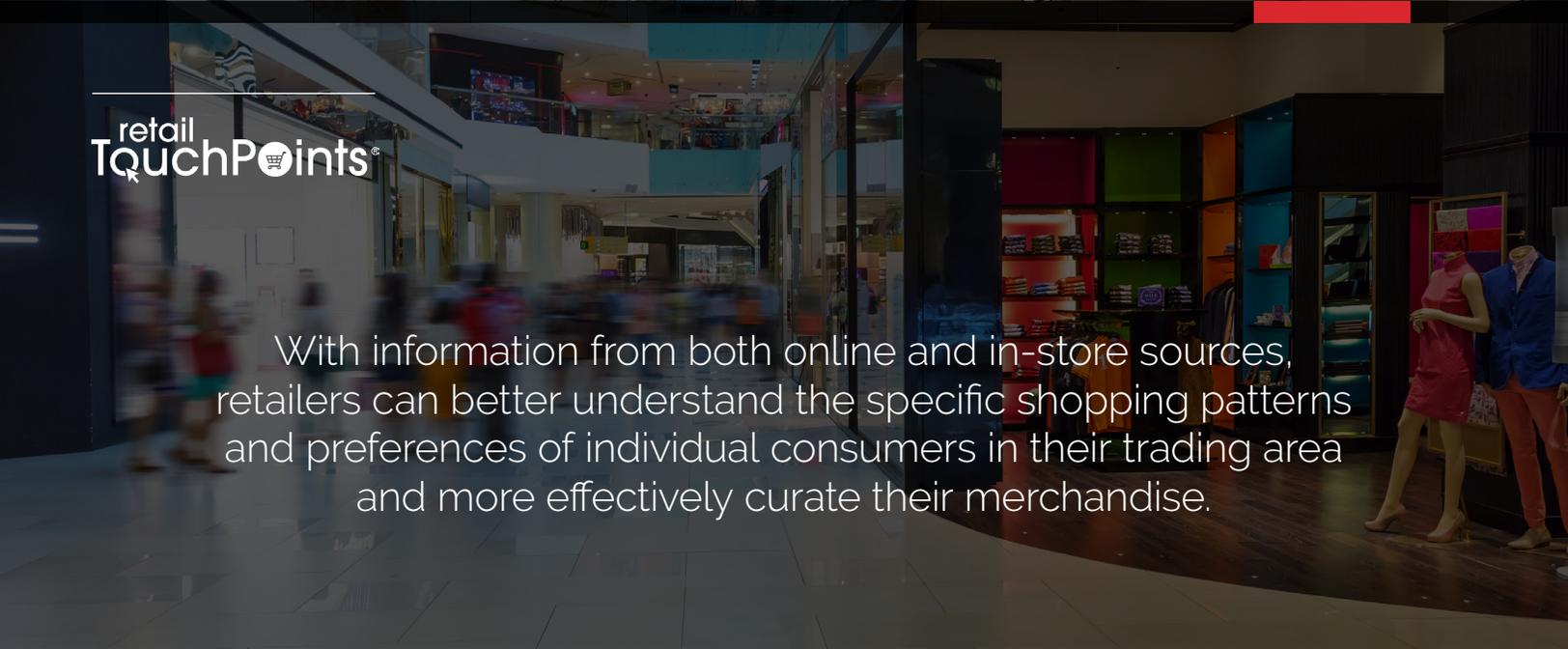
- MICHAEL BROWN, A.T. KEARNEY

While the operating costs of minimizing inventory are high, and retailers may be reluctant to do so for fear of not having SKUs in-stock that a customer wants, they can embrace a slimmer stock profile by providing all store employees with improved inventory visibility:

- Embed **relevant, real-time, locally trending data** in clienteling and store associate reports;
- Enable managers to make better merchandising decisions based on real-time data on a **store-by-store basis**; and
- Enable associates to help **mitigate inventory liability** and sell based on local product.

“Retailers must start to explore the **cost to serve a customer transaction**,” said Michael Brown, a partner in the retail practice of A.T. Kearney and author of the report [The Future of Shopping Centers](#) in an interview with *Retail TouchPoints*. “That cost is based on what it costs me to own the product, hold it, ship it or transact it in a store. It includes the cost of the store network. It’s not just about optimizing the inventory, it’s about optimizing the cost to serve a consumer for a designated area.”

Even if retailers don’t have the resources to create memorable retail experiences, implement store technologies, offer customization or slim down their inventories, they can make points with shoppers by refocusing on the basics. One way to do this is by eliminating areas of friction, like long checkout lines. Retailers also can do more to empower store associates with relevant product and customer knowledge.

A blurred photograph of a modern retail store interior, showing shelves, displays, and people moving through the aisles.

With information from both online and in-store sources, retailers can better understand the specific shopping patterns and preferences of individual consumers in their trading area and more effectively curate their merchandise.

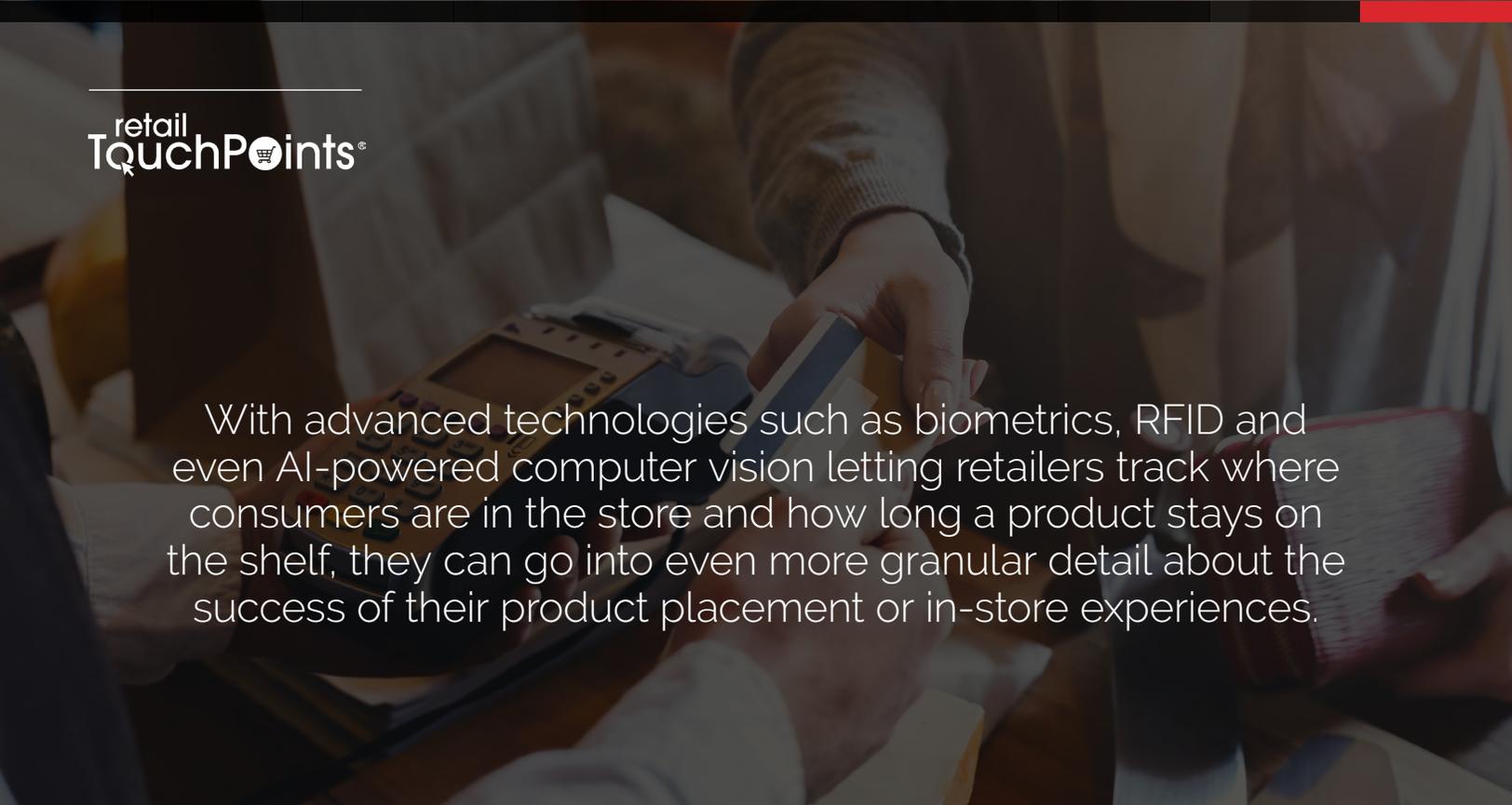
## NEW RULES AND TOOLS FOR MEASURING STORE EFFECTIVENESS

Ensuring the success of any new store concept requires retailers to invest in in-store consumer analytics that are integrated with localized analytics of online shopping habits. Tracking both online and offline data is critical because stores affect digital sales, and vice versa. For example, opening a physical store increases web traffic within an entire market by an average of **27%**, according to the International Council of Shopping Centers (ICSC). And Forrester forecasts that digitally-impacted retail will account for **55%** of in-store sales, **\$1.6 trillion**, by 2020, up from **49% (\$1.3 trillion)** in 2016.

With information from both online and in-store sources, retailers can better understand the specific shopping patterns and preferences of individual consumers in their trading area and more effectively curate their merchandise.

“Historically, the trouble has been connecting data from different channels, devices and departments. When customer data are fragmented, so, too, are customer profiles,” said Deborah Weinswig, Founder and CEO of Coresight Research in an interview with *Retail TouchPoints*. With that in mind, the measuring stick for analysis is changing, particularly as consumers increasingly shop online and with their mobile phones.

“Past competition was measured in terms of metrics such as **market share, sales per square foot, margin elasticity** and **traffic count**,” said Brown of A.T. Kearney. “In the future competitive effectiveness will be judged by a whole new set of criteria, including access to — and completeness of — consumer information, the effectiveness of **ongoing data collection** and **algorithm development**, and the real-time ability to translate social media memes into ‘smart’ **inventory management** and **merchandising strategies**.”

A background image showing a close-up of a person's hands holding a blue and white card over a payment terminal. The scene is dimly lit, focusing on the interaction between the card and the terminal.

With advanced technologies such as biometrics, RFID and even AI-powered computer vision letting retailers track where consumers are in the store and how long a product stays on the shelf, they can go into even more granular detail about the success of their product placement or in-store experiences.

With advanced technologies such as biometrics, RFID and even AI-powered computer vision letting retailers track where consumers are in the store and how long a product stays on the shelf, they can go into even more granular detail about the success of their product placement or in-store experiences, and make quicker decisions.

“I see a retailer like a **Target** or even **CVS** investing money in that type of data collection at the store level,” Scaretta said. “You look at someone like Ron Johnson back at **JCPenney** — everyone looked at his time as a disaster then — but I think he was five or six years ahead of his time. If you look at what Johnson did back then, such as shop-in-shops, creating experiential environments when it wasn’t about cost per square foot and more around experience per square foot — he started collecting data through RFID and was one of the first to do that. Now you see **Macy’s** or other retailers doing shop-in-shops, and everybody now wants to collect data that way. Had Ron Johnson implemented those ideas a few years later, I think he would have been a glaring success. I think his biggest mistake was alienating his existing core customer without signing up a new client base.”

Making these changes, even in 2018, is no easy task for retailers, especially given the costs involved, but it’s still imperative to overhaul the store experience in order to be relevant to the consumer at all times. At a time when stores are still closing at a rapid pace and [retailers continue to file for bankruptcy](#), many players remain in sink-or-swim mode. Sears and **Toys ‘R’ Us** are object lessons in the dangers of underinvestment in the store experience. Those retailers that are willing to commit the resources needed to upgrade the store experience will increase their chances for not just survival, but success.

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Glenn Taylor is a retail journalist covering all aspects of the industry with interests tilted toward AI-driven personalization, conversational commerce and financial/business related news.

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