

The rebirth of the store

As multichannel retailing continues to make rapid progress forwards, **Ben Cooper** asks if the digital age spells the end for traditional store formats?

First consider one fact. Research from Deloitte shows that if all the virtual selling 'space' that has been added by retailers building transactional websites over the last decade were translated to bricks and mortar, it would be an extra 56 million sq ft of physical property. Or to put it another way, another 35 Bluewaters in 10 years.

But UK consumers have only a finite amount of spending power, so with this amount of new 'space' coming onto the market, it's clear that things have got to change in the traditional property formula. As retailers are becoming etailers, and etailers are taking physical space, the whole concept of a store's role for a brand is being redefined, and even landlords are looking at ways to, in effect, become retailers themselves.

So where is all this leading us and what will the retail property of the future look like? The answers are far from obvious but what is clear is that unless a retailer is already getting close to finding those solutions, it could be bad news very soon.

Former Monsoon etail chief Kristine Kirby, who is now an ecommerce consultant, says: "Some retailers still treat ecommerce and multichannel as if it's a fly buzzing round their heads. There are so many things that need to happen and if they don't retailers will lose a large chunk of their market share because they're not ready."

"People say it's the future of retail. It's not, it's the present."

When you look at the figures already emerging from multichannel retail, this fact becomes more and more inescapable. Multichannel retail analyst firm IDC Retail has shown that the multichannel shopper spends between 15% and 30% more than the equivalent single channel user.

In the next month, two significant things are

happening. Firstly, next week N Brown, known as an online and catalogue retailer, is debuting one of its brands into the world of bricks and mortar with a store opening at Liverpool One.

Then in October – as revealed by *Retail Week* in August – House of Fraser, which has a typical footprint of well over 100,000 sq ft, will open a click-and-collect unit in Aberdeen no larger than the average convenience store.

Right here, right now

So what's happening? Firstly take the N Brown example. You might well question why an established, successful home delivery retailer needs to move one of its brands – in this case Simply Be – into the costly property market.

N Brown group development director Paul Kendrick explains: "Multichannel is the way people are going to shop in the future. High street retailers have already started to move into our world."

The concept is to build a store ready for the future, with "multichannel in its design from the beginning", Kendrick adds. And while N Brown is keeping details of the store close to its chest, Kendrick says it will be fully equipped to marry up etail and retail in a physical multichannel hub.

The advantages of moving from etail to retail, says Kendrick, are two-fold.

"Using the information from our existing database we could see that we have a high index of customers in the Liverpool area already," he adds. "When the store opens we'll be able to see how it's performed and whether we're getting more online behaviour as well."

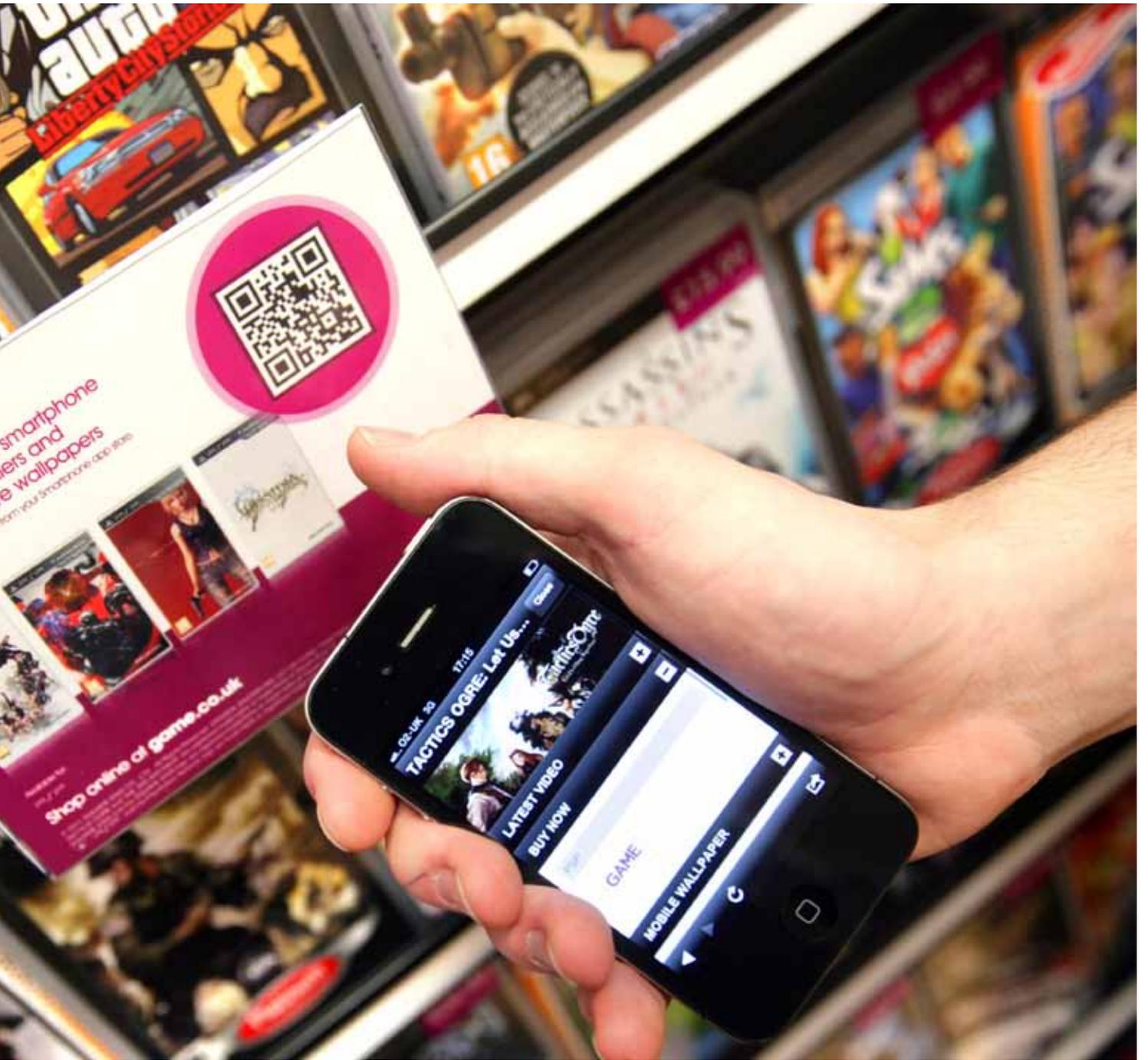
"A physical presence helps to give you brand awareness and a store helps advertise your website."

The flip side of the coin is summed up by the move that House of Fraser is making



at Hammerson's Union Square in Aberdeen. When the new branch opens it will represent a revolutionary step in retail thinking. A purely click-and-collect unit, it will mark a whole new way of interacting with customers, especially for a department store that has traditionally depended on the largest of spaces to encourage browsing.

House of Fraser executive director for multichannel and international Robin Terrell knows as much about multichannel retail as



Almost every element of traditional retail thinking has changed

Robin Terrell, House of Fraser

anyone, having been managing director at Amazon and then two years at the helm of John Lewis' online operations.

He says: "Almost every element of traditional retail thinking has changed. You don't just think about a location as the sales that are going through its tills. It's about having a customer-focused perspective not a channel-focused perspective."

The new House of Fraser store will be a product of a new type of technology that

has led to a whole new culture of shopping. Having a retailer's entire offer available online instantly transforms the concept of a shop and what the customer needs to do to get that offer. And with stores like this set to be a new wave, the whole nature of retail property is being questioned.

"Joining up the multichannel offer with the physical space and the ability to order in-store makes every single store a flagship," says Terrell. "A 25,000 sq ft store has our full offer. It's ↘

fundamentally changing how you sell and the space you need to sell.

“Technology allows us the ability to do everything on a smaller scale.”

Of course, this concept isn't entirely new. Argos has perfected the art of using its space to maximum efficiency – not so much as sales space but as a clever way for customers to gain access to products.

The idea of ‘dark stores,’ which comprise mostly – if not all – storage space and are purely designed at getting products to customers, is one of the most crucial new concepts in retail according to Tony Bryant, head of business development at multichannel retail consultancy K3.

He says: “If you're taking away store estate you've got to be clear about what you're doing with what you've got. Dark stores will increasingly be used to fulfil online orders. They will be in strategic locations with very little stock presented up front. Most of the unit will be simply used as a stock room.”

End to the space race

So where does all this leave the landlords? Brian Hume, managing director of multichannel retail consultancy Martec International, believes that “cannibalisation” from online sales – which could claim up to 9% of a retailer's portfolio – spells bad news for retail property growth.

He says: “Over the next five years, I wouldn't be surprised to see another 15% of stores close. We'll need significantly fewer shops and the ones we do need will be smaller.

But many argue that it's not a simple trade-off between online sales and physical space.



More stores are featuring kiosks, giving customers the chance to see a retailer's entire selection of stock



There is some slowing in the appetite of retailers, but physical players have caught up with eetail very quickly

Lawrence Hutchings, Hammerson

Hammerson managing director of UK Retail Lawrence Hutchings explains: “There is some slowing in the appetite of retailers, but physical players have caught up with eetail very quickly.

“We're speaking to retailers about all sorts of different formats. Some of it may work and some may not, but the view we take is that we all need to experiment and work with retailers.”

And this means changing every aspect of the relationship, says Hutchings, including the way leases are drawn up.

He adds: “In the shopping centres of the future, the space will have to be more flexible. 25-year leases are history; a lot's going to change in 25 years. Retailers are taking a flexible approach and we need to as well.”

Many will welcome the idea of landlords putting themselves in retailers' shoes. A little more controversial, however, might be the one step further that many landlords are already entertaining – becoming retailers themselves.

CBRE head of cross border retail EMEA Peter Gold explains: “You could take the fact that consumers already visit, for example, the Meadowhall website and turn that into a transactional website. Selfridges is arguably a shop of shops.

“It's certainly going to be something the industry is going to be thinking about.”

The store of the future

The best ideas may yet be to come, but some of the most exciting ones already being trialled have the potential to change the way a store is run for good:

- **Client telling technology** Sensors recognise a customer when they walk through the door by detecting a chip in a piece of mobile technology. This triggers a display giving advice based on your previous shopping history
- **Display-only items** Increasingly the store could become little more than a showroom, or a vehicle for ordering online via in-store kiosks. Even clothing retailers could only carry enough stock for trying on, with the actual purchase being delivered later
- **Pick-up boxes** Instead of going through the inconvenience of having to be at home to take a delivery, retailers are already starting to use external companies like ByBox to leave purchases in secure lockers in locations such as train stations. Customers can then pick them up at their own convenience
- **Internet kiosks** Already being experimented with, many predict that for some sectors such as electricals, an internet kiosk where shoppers can visit the retailer's website while they are in-store – with the guidance of expert staff – will become the norm

The concept might not appeal to retailers but landlords are thinking about ways they can bring more consumers to their centres including shared click-and-collect service points – outside stores or even outside the centre.

There may be many threats to the property industry as a whole, but for retailers the physical store will always be vital. In fact in many cases, the store will become even more important as a result of multichannel.

Game for change

One retailer that has been forced to ask itself many difficult questions is computer games retailer Game. Sitting in an extremely tough marketplace where purely online competitors have proved to be particularly formidable opponents, there are even more challenges for a retailer like Game to overcome if multichannel is going to work.

Game group strategy director Mark Axon admits that the property portfolio has been hit by online competition – the retailer is currently in a process of reducing its store numbers to 550 down from some 680 by December 2013 – but that getting the property right is actually a way of supporting its web presence.

He says: “Multichannel is the very element of our strategy to take this business onto the ground that it needs to be on from being simply a retailer to a proper multichannel specialist.

“Clearly our web offer needs to be as strong as our store offer. We’re looking to dramatically increase our market share online and we recognise that the best way to do this is to use our stores.”

As paradoxical as this may sound, the idea is to make property the hub of the overall operation. Stores, says Axon, are not just about selling any more but about how the brand is brought to the customer. A good store experience and the same customer is more likely to become a loyal multichannel shopper.

A new concept for Game is to allow customers to pay for digital products in-store for download at home. A shopper buys a physical token or card that has a code giving them access to the product they’ve bought when they log onto the Game website. Once the download is done the transaction is complete.

The store experience

So why not just stay at home in the first place? This is where what Axon believes will be the main role of the physical store lies.



Game is re-evaluating its store portfolio with multichannel at its core

“In-store we can offer display and advice to our customers. You get the full range and you get to talk to the experts.

“You need to make it so the customer never needs to go elsewhere; it all goes hand in hand.”

The only way a retailer like Game can do this is by getting the technology absolutely right. It wasn’t that long ago that IT was about getting the lights on and the tills working – now it is an intrinsic part of a retailer’s strategy.

Research conducted jointly by Martec International and BT shows that the top 100 UK retailers are planning to invest 23% of their

overall 2011/12 IT budget into bolstering their e-commerce and m-commerce operations, more than any other area of IT. This is a jump even from the previous year, when it accounted for 17% of IT spend.

Statistics like these show that retail is headed in the right direction. Multichannel is about as complex a problem as a retailer can expect; there are no straightforward answers and there are big investments to be made.

The key for the future of the industry is to think differently from now on. A store won’t survive without a website and the right technology to get every channel flowing, and a website won’t flourish if your stores and staff let you down.

This will be seen in future as a formative period for retail and it’s certainly not clear how things will look even in five years. But as much as experimentation might be galling, the industry is fast facing the point of no return.

Terrell says: “This is not a well-trodden path, we just have to trial lots of things. But you can’t be afraid of failure.” ■



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Mark Axon, Game