CHAPTER ONE

THE PAST 12 MONTHS: THE RETAILER'S PERSPECTIVE

Urban Outfitters, Herald Square, New York

- Changing shopping habits is retailers' biggest store design consideration
- Apple, John Lewis, Next and Waitrose singled out by retailers for strong store design
- Store design salaries are increasing, but budgets remain the same
- Retailers believe shopper expectations about store interiors continue to rise
- Store design is an increasingly important part of retailers' commercial armoury

The way a retail brand is portrayed in the bricks-and-mortar environment has, arguably, never been more significant. In today's multichannel world, the look and feel of a retailer's tangible trading channel is critical. The ongoing drive to create the all-important seamless customer experience across all channels requires creativity and ingenuity when it comes to the store. And in a retailing era in which consumers are given the option of shopping with ease from the comfort of their home, or with the convenience of a mobile device, if they are to visit a store, the environment has to deliver not only in terms of aesthetics and brand uniformity, but at the same time be customer centic and excite and inspire as well. The challenges store design experts face, and their opinion of shopper expectations, are outlined in the following chapter.

THE STORE DESIGN CHALLENGES

In last year's report, the greatest challenge store design experts felt they faced was shrinking budgets – cited by 25% of respondents. This year, 21% still say that budget constraints are their most significant challenge, but the greatest number – 38% – now say that changing shopper habits is their greatest consideration (see chart 1.1). As one retailer says: "Store environments need to be engaging for all ages and spending levels. The store experience needs to be tailored to the need, convenience, or destination." And he adds that shoppers now want to touch and feel products far more than in previous years. "We're having to take this into consideration in our approach to store design."

Most of those surveyed and interviewed for this report regard refurbishment as part of keeping up with shoppers' expectations. The head of store design for a fashion group says: "The best store environments of 10–20 years ago still stand up as good environments. But today people are almost blasé about good design." At the same time, when asked about their demands in terms of a store's look and design compared with five years ago, more than 50% of consumers surveyed for this report say they demand either slightly more or far more. The majority of retailers surveyed – 84% – also believe that shopper expectations about store design are continuing to rise (see chart 1.2). One retailer notes: "Customers expect to be entertained and leave with an experience."

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>
> **Head of store design for a fashion group**

> **84%** of respondents say that consumer expectations about store design are continuing to rise

There is also the matter that refurbishment, particularly when undertaken without ceasing trading, carries with it the risk of "scaring away shoppers", as one retailer puts it. Another observes: "The hardest part of my job is to overcome the resentment that comes from a refurbishment." This comment comes from a supermarket head of design who says that it can be more than six months "before shoppers forgive a retailer for a new layout in a supermarket. Customers are creatures of habit."

Yet customers will also applaud innovation and retailers such as Waitrose, Primark and John Lewis have all, in their different market segments, innovated in store during the past 12 months and the results have been positive (see chapter 2 for consumer perceptions of their favoured store designs).

STAYING ONE STEP AHEAD

A common theme to emerge from the retailer interviews for this report is that of keeping ahead of what customers expect when they go shopping (see chapter 4). "I would like to think that innovation is the most important thing. My job is to innovate in the context of the budgets and the broader restraints. When budgets are tight, you should achieve a lot. When budgets are plentiful, you should damn well achieve a lot," as one respondent commented.

Yet how those customer expectations are set is a contentious issue. "I think customer expectations are always set by the benchmarks we give them," says a food store designer, adding: "I think the customer has a straightforward expectation of what they will get and we have to make sure that when we innovate, we don't throw the baby out with the bathwater."

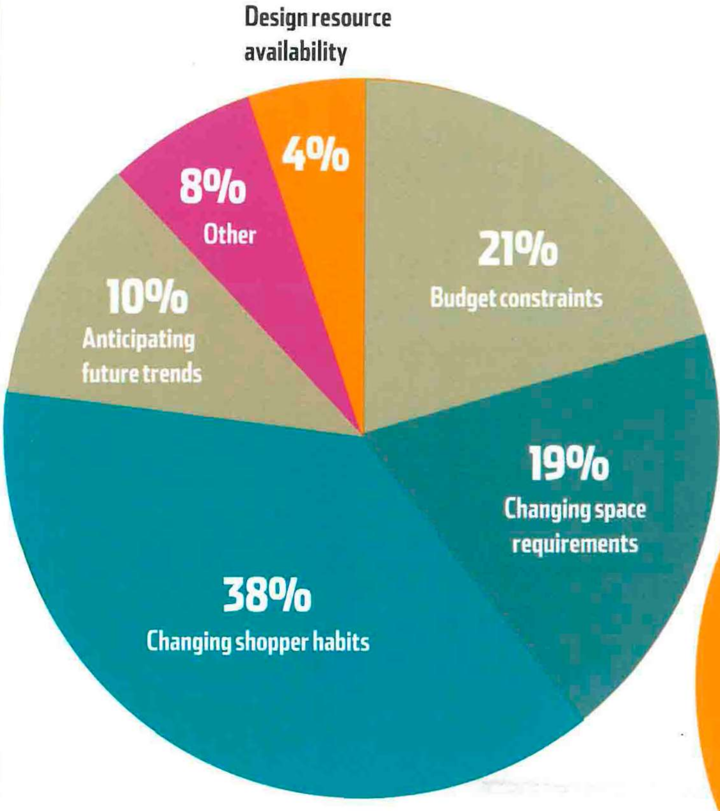
A design director for a fashion group notes: "The [new store creation and refurbishment] industry has been flat for a number of years, but it's gone absolutely crazy in the past 12 months."

He adds that the outcome of this has been that "resource is a big thing. Good designers are incredibly hard to come by." And because the new store openings industry has been relatively quiescent for more than half a decade, some feel there is a generation of designers who have not acquired the skills required either by external design consultancies or in-house retail design teams. All of the retail interviewees for this report say that this has meant upward pressure on salaries and that the best designers are in demand in a manner that they have not been for many years.

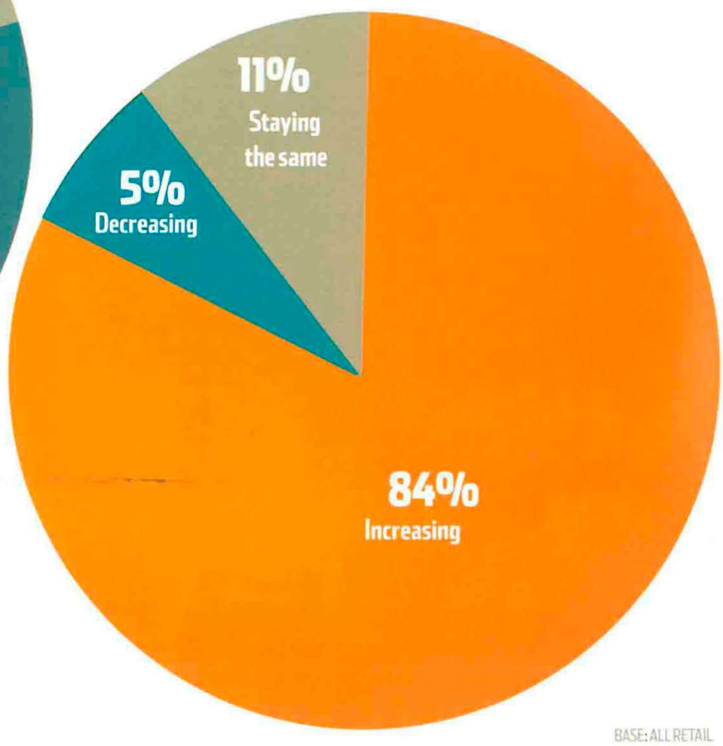
Salaries may be rising, but not everyone's budgets are. Budget is noted by 21% as being the primary concern when looking at creating new stores and store environments.

Furthermore, the cost of refurbishment, with associated technology advances and new materials is also rising. "You'll always want more [new store budget]. But budget is always seen in the context of the market as a whole and for many this is still declining. If you're taking less money week in, week out, it's difficult to catch up. So for me, budget is always first," says the head of store design for a large supermarket chain. Another retailer notes: "It's about delivering to budget at scale and at pace. We've looked for a few years at the pace of change and projects that used to be on the pad for

1.1 THE MOST SIGNIFICANT CHALLENGE IMPACTING ON RETAIL INTERIOR STRATEGIES IN THE PAST 12 MONTHS



1.2 ARE CONSUMER EXPECTATIONS ABOUT INTERIORS CONTINUING TO RISE?



BASE: ALL RETAIL RESPONDENTS

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> **Head of store design for a large supermarket chain**

a year are now on the pad for five months. But does quicker mean better? I'm not sure."

All retailers agree that the matrix of components that results in a new store or a new store format is "incredibly complex and more so than it has been in a long time", as one retailer observes (see box 1.5).

EXECUTION: CHOOSING STORE DESIGNERS AND SHOPFITTERS

Underpinning any new store project or the refurbishment of an existing one is the selection of an appropriate design team and a shopfitter that will get the interior built on time and on budget. A number of large retailers have recruited some of the best talent from design agencies on the basis that even allowing for the large salaries that will be required, this may still be a more cost-effective way of creating design solutions than using design consultancies.

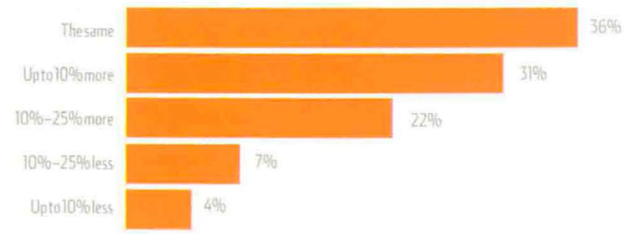
That said, even those retailers that are committed to in-house store design teams still have recourse to using specialist design providers, ranging from lighting consultancies to illustrators. This means that selecting a design solution provider is a core part of any retailer's store design function and there are a number of ways in which this is carried out.

In many instances, this used to be a matter of conducting a 'beauty parade' in which design consultancies were asked to carry out credentials presentations where they showed their work. Only 2% of respondents report this as the way in which they select their design consultancy.

Instead, 53% say that close scrutiny of a design consultancy's output is the starting point for selecting a partner to work on an interiors project – almost entirely different from a 'beauty parade' as it can be carried out in isolation from a consultancy and a more objective stance can be taken.

Price is shown to be less of an issue than might be assumed, with just 7% of respondents saying that this is a critical factor when selecting. The ability to offer a turnkey solution in which design

1.3 HAS YOUR SPEND ON INTERIORS INCREASED, DECREASED OR STAYED THE SAME OVER THE PERIOD?



BASE: ALL RETAIL RESPONDENTS

and build would be taken care of by a consultancy is said by 19% of respondents to be central to the final choice. Other reasons stated include the ability to combine commercial reality with aesthetic design, an appropriate fit with a retailer's culture and selection being made on the basis that particular consultancy was considered the best in its field.

Things are much less clear cut when it comes to selecting a shopfitter, however. A good shopfitter must be considered a central part of the successful realisation of a project and, as with selecting a design consultancy, past performance is key. Practically this means that 63% of those surveyed feel this to be important. Yet, 47% say that relationships with clients within a retailer's sector was a contributory factor when choosing a shopfitter and a third said that price mattered, in sharp contrast to the replies given about selecting a design consultancy.

Perhaps more than with design consultancies, relationships seem to be at the heart of choosing a shopfitter. The chief executive of a retailer with a strong hands-on approach to the matter of choosing shopfitters, comments: "We tested going away from our core shopfitter and it was an absolute disaster. The benefit of a strong relationship with your shopfitter outweighs the possible benefit of saving on price. Change can cost you more than the amount you're saving." The same individual says that the cost of shopfitting in a shopping centre is considerably higher than fitting out a shop on a high street currently: "You have to meet so many regulations [in a shopping centre] and this does add to the costs."

Another retailer sums it up succinctly: "When it comes to shopfitting, it's a question of reputation, recommendations and then price. There are enough good firms out there not to take risks.

STORE DESIGN'S IMPORTANCE GROWS

Close to 80% of the survey's respondents say that store design is increasing in importance as part of a retailer's commercial armoury. The head of design for a large grocer says: "[Store design] is becoming more important. There are still those who are blind to what's being done in ecommerce and it's fair to say that most retailers don't have the skills in-house to handle it, so this will continue." Another head of design for a retailer puts the case more strongly: "Retail design is more important than it has ever been. Anywhere where you've got people and they are trying to open stores in the same town at the same time, it's one way that you are able to compete."

The complexity of store design and its place in retailing was put firmly by one design director, however: "I actually don't think it's more or less important. I do think it's very important, but today you have an increased list of choices to make. It's actually quite similar to the fragmentation that's taken place in advertising and the media a few years back."

For retailers, store design and everything associated with it have taken a central, strategic position from a point in the past where it was a necessary but frequently peripheral activity. It's a trend that looks only likely to continue.

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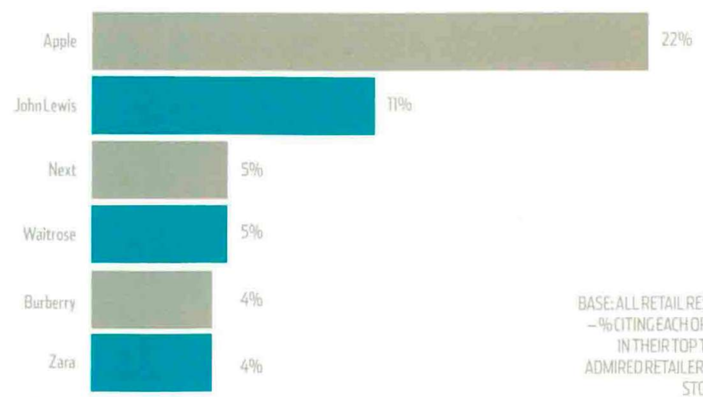
> **Chief executive of a retailer**

1.4 WHICH RETAILER'S STORE DESIGNS DO YOU ADMIRE?



BASE: ALL RETAIL RESPONDENTS – % CITING EACH OF THE ABOVE IN THEIR TOP THREE MOST ADMIRED RETAILERS FOR THEIR STORE DESIGNS

1.5 RETAILERS' PRIMARY CHALLENGES FOR NEW STORE DESIGNS

- Budgets and the constraints upon them
- Time and scale – can budgets be stretched to accommodate?
- The incorporation of new technologies into store builds
- Rising design costs and the scarcity of talent
- Rising shopper expectations
- The need to be 'ahead of the curve' and to provide a real in-store experience
- Appropriate location availability