STORES

Retailers are under unprecedented pressure to make maximum use of their real-estate portfolios and, as **Ben Cooper** reports, the multi-brand store could be the answer they're looking for

Rise of the MULTI-BRAND

Days after sealing the deal to buy Home Retail Group, Sainsbury's made an announcement. Starting soon, concessions from the Home Retail Group chain Habitat, described by chief executive John Rogers as the "hidden gem" of the deal, would be opened in selected Sainsbury's stores. Add to this the even bigger news that Argos Digital stores would gradually be added and suddenly Sainsbury's stores are taking a whole new shape.

Bold it might be, but it's not unprecedented. Retail mergers and acquisitions are common, and are often done specifically to bring multiple brands under one roof.

For shoppers it's yet more convenience and, when done right, retailers can make big efficiencies and keep customers in store longer. But, with mergers almost always leading to store closures, what does it mean for the retail property economy and the future of the high street if the trend towards multi-fascia retailing continues?

You might think that the Digital Pioneer category at the Retail Week Awards would be sewn up by the etailers; the likes of Asos, Notonthehighstreet.com and Shop Direct, which all made it to the shortlist. In the end – the property world will have been reassured to find out – it went to a retailer. For a store initiative.

Dixon Carphone's 'three-in-one' strategy – merging Currys, PC World and Carphone Warehouse stores – has been making headlines ever since it was first rumoured, not least because, as it turned out, part of the plan was to close 134 stores.

It's been a big overhaul and a big investment, but with etailers grabbing a larger proportion of consumer spending each year, Dixons Carphone group property director Philip Bell-Brown says, retailers need to attract

Who's doing multi-brand well?

Sainsbury's adding Habitat and Argos concessions to its stores is one of the best examples of a parent company marrying up a number of its brands, but having different retail names under one roof isn't new. Since the first department stores, the concept of a "house of brands" has been popular with retailers and shoppers. We take a look at some of the most notable examples from recent years.

TESCO

With one of the largest store estates in the country, Tesco has had some big decisions to make about its real estate portfolio. The supermarket giant has brought in various brands to fill the void, with varying success, starting with its much-publicised purchase of the restaurant chain Giraffe back in 2013, right up to a deal with Holland & Barrett last year for the health foods retailer to open in-store concessions.

NEXT AND PAPERCHASE

Paperchase has been a long-standing fixture at department stores including House of Fraser, but last year, in a deal that chief executive Timothy Melgund said made "perfect sense for everyone", the retailer started a trial store-in-store tie-up with fashion chain Next.

DEBENHAMS

Department store retailers are the origin of the multi-brand concept, but Debenhams has taken it one step further with a string of deals for concession space. Shoppers at Debenhams can now visit Sports Direct and Mothercare concessions, book a Virgin Holiday, visit a Clarins Skin Spa or get their watch repaired at In-Time while they shop.

THE POST OFFICE

Facing its own battles, against a sharp decline in the use of mail and the ferociously competitive courier market, the Post Office has had to adapt. High street branches have closed in big numbers, but concessions have popped up within a number of big high street stores, including Waitrose and WHSmith.

Tesco purchased restaurant chain Giraffe in 2013

shoppers with things that "pure-play retailers simply can't do".

Cue a host of innovations: digital signage, 4K (ultra-high-definition) digital imaging walls, click-and-collect kiosks, smartwatches for staff members – all designed to rival the sheer convenience of the online experience.

Bell-Brown says: "The more brands you can get in to one store and the more demonstration models you can have to show people the better. We have got to do it all together in a proper way to get that compelling offer in front of the customers. We have a whole range of products in the store, from Apple to Nespresso to Samsung."

It's been an innovative strategy, but by no means an exclusive one. Across the board, retailers are tying up their operations – whether it's Debenhams hosting Virgin Holidays concessions or Tesco's store-in-store deal with Holland & Barrett, the multi-fascia store concept is now firmly established on the high street (see box, left).

As Sainsbury's director of commercial operations Matt Birch explains, when it's done right it can be a win-win. He says: "We've seen an incredibly positive response from customers following the introduction of Argos concessions into Sainsbury's stores.

"Six months into the acquisition of Home Retail Group, the 40 Argos Digital stores in Sainsbury's supermarkets were performing well, with double-digit like-for-like sales in the 10 trial concession stores. Food sales in supermarkets with an Argos concession have also seen a positive halo effect."

More than a sales tactic

From a sales point of view, it's not hard to see the benefits of bringing brands under one roof. But as John Witherell, senior director at real estate consultancy CBRE, explains, with bricks-and-mortar stores under pressure from etailing as never before, it's more than just a sales tactic.

He says: "For retailers that are exposed to large real estate costs, their base model has changed. Businesses like Tesco and Arcadia have all realised that they have lower footfall, but they've got these massive stores and they've got to realign them. Any of the retailers that are exposed to large store portfolios are having to look at shared space."

Indeed, Bell-Brown is frank that the multi-brand strategy is driven by the need to adapt retail property to the modern era. "It's our three-in-one solution," he says. "There's an element of defensive play in terms of

"Businesses like Tesco and Arcadia have realised they have lower footfall but massive stores"

improving efficiency. We can deliver the same sales from one space as we could from three stores. It also improves footfall. High street footfall figures are a concern and anything you can do to drive them is a good thing."

For any retailer of any size, delivering three stores' worth of sales from one has got to be inviting. Overblown though the rumours of the demise of the high street may be, there's no doubt that geographically some parts of the country have recovered from the downturn better than others and, for the retailers with hundreds of stores nationwide, this has put immense pressure on margins.

A report published by PwC and the Local Data Company in October revealed that, overall, 15 shops close every day in the UK. Even H&M, in the words of chief executive Karl-Johan Persson in January this year, is looking to "review its existing portfolio", with the threat from online and local economic fluctuations putting the futures of most national retail chains into doubt.

Knight Frank head of retail Alex Munro says this makes the rise of the multi-fascia store all the more likely. He says: "Bringing multiple brands into one store is very often a marriage of convenience.

"A number of retailers have developed estates with units that are now bigger than they need. Nevertheless, they can still be profitable enterprises, with concessions being a very commercial way of mitigating property costs and underpinning profitable sites.

"Retailer parent companies can now see that there are a number of ways in which costs can be mitigated or value added, while also identifying innovative ways of using surplus space."

Blessing or curse?

So, with the Dixons Carphone merger being preceded by the closure of 134 stores, could the rise of the multi-fascia brand be a mixed-blessing for the high street and landlords?

Lara Marrero, senior associate at international architecture and design consultancy Gensler, says that, while sweeping closures on big numbers might not be on the cards, the old model of retail property is under threat.

She adds: "Unless retail evolves, the closures are going to happen – that's the natural cycle of retail for those who don't innovate.

"But if you look to consumer behaviour, you'll see that all generations want more than products in their retail these days – they want experiences – and the best brands out there are evolving their business models to live this."

When you're talking property, for retail brands to evolve, their landlords need to move with them. It's an expense that some would rather not make, particularly if it means relocations, or reworking existing space. But Bell-Brown says that, despite the costs, there is every incentive for a landlord to adapt for the extra footfall a multi-brand store might bring in.

He says: "The correlation between investment and growth is quite clear. It's an opportunity to do some positive asset management. Sometimes that one box we want isn't big enough, so in that scenario we'd put a mezzanine floor in there. Sometimes there is some resistance from landlords, when we are exiting one store and putting a mezzanine in another. But the more enlightened landlords see the opportunity."

And, Munro says, faced with the alternative of losing that tenant altogether, even before lease expiry, landlords are generally willing to go the distance. "Ultimately, an empty unit where you are still collecting rent is worth less than an occupied one. Landlords have, over time, relaxed alienation clauses to enable retailers to sub-divide and agree concessions. Where alienation clauses are tight, the pragmatic landlord will work with the retailer to agree a compromise," he adds.

Predicting and executing the next big retail merger or tie-up isn't easy – partly because, in the era of modern retailing, anything is possible and worth considering. Landlords certainly wouldn't choose a retail trend that means the closure of some stores and the costly reworking of others, but just like retailers they're having to adapt. The modern era is here and the multi-fascia store, it seems, is set to stay.

"If you look to consumer behaviour, all generations want more than products in their retail"

Retailers like Dixons Carphone are activating spaces for better engagement

Demand for mixed-use experiences mounts

There was a time when having multiple brands together under anything but a department store's roof would have been innovative to say the least. In 2017, this type of convenience crossover – including between retailers and non-retailers – is becoming standard practice.

Lara Marrero, senior associate at Gensler, believes that an unprecedented level of collaboration needs to lead to a totally new mode of thinking across the retail property board.

She says: "Landlords need to collaborate with the councils to look at ways to make the change of use and licensing processes easier. For example, if a sports brand wanted to have a retail space on the ground floor and a fitness studio on the first floor, can you change the use to fitness in an expeditious fashion?

"How can you help a menswear brand have retail on the ground and first floor and a fully fledged music venue and bar in the basement?

"These demands for mixed-use experiences are only going to increase as retailers try to activate spaces to create better engagement."