

ONLINE

A new wave of online-to-physical retail operators has emerged, allowing customers to experience products via permanent stores or pop-up showrooms. **Mark Faithfull** asks whether they are likely to grow beyond a scattering of outlets

Should online keep it pure and SIMPLE?



It's no surprise there is excitement surrounding the pureplayers that have decided to bring their brands and offers into the physical space. Often their arrival is greeted with great fanfare as in the case of Missguided, or with their every move watched anxiously, as with each unexpected decision Amazon takes.

At a time when legacy retailers are generally retracting from less appealing shopping centres and high streets, those with a vested interest in new space requirements have been encouraged by internet operators embracing the advantages of having a physical presence.

The question remains whether any will go beyond one or two high-profile flagships and if so whether the realities of managing a multi-store portfolio will change their approach.

The potential appeal of stores is clear. On

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the face of it online retail has maintained its exuberant performance, with sales increasing by an average of 11.4% per annum over the past five years, far exceeding the paltry 1.5% growth in total UK retail sales.

However, GlobalData estimates online sales growth is slowing, down to 8% in 2017 and just 4.8% by 2022. As a result, online's share of total retail sales is starting to level off, forecast to reach 18.4% by 2022, up only 2.7% from 2017.

Crossing channels

Consequently, online retailers have become a small but noticeable force in crossing channels. According to advisor Savills, in the UK five pureplay brands made the transition to stores last year, with three of these making the leap via department store concessions. Two opened their own stores, notably Missguided, which debuted at Westfield Stratford. In 2015, six brands opened their first stores, while prior to this just one or two brands transitioned each year.

Savills says that fashion retailers (29.6%) have been the most active, although these retailers are becoming more selective and measured in the size and location of their store network. For example, the average store count of the fashion brands that have transitioned from pureplay is eight, with the

focus very much on destination centres and London.

Some of those that have grown their portfolio more significantly are rethinking their decision. Despite achieving a sales halo effect around its stores, online fashion retailer N Brown will close five of its 15 shops, including its London flagship. Chief executive Angela Spindler said the decision was driven by “ongoing weak footfall in some locations, and with a clear focus on driving financial returns across all areas of our business”.

In a trading update on the last three months to the start of June, N Brown said it would shutter the Simply Be and Jacamo joint stores, which accounted for the group’s entire £2m operating loss from its store estate in 2017. N Brown now generates more than 70% of its revenue from online sales, up 4% from last year.

But Savills believes average shop counts may increase as store strategies mature.

It is not just portfolio sizes that are different, for some of these retailers the store also offers the opportunity to showcase and promote the brand. For a number of pureplay furniture retailers, such as Made.com and Sofa.com, the focus has been on urban locations that allow them to showcase products to the largest possible catchment.

Last year Made.com took the concept further with an all-encompassing Paris showroom. Annabel Kilner, commercial director at Made.com, says that the showrooms are “not a hard sell, but a soft sell”, and that she sees the showrooms as a “conversion tool, not an acquisition tool”.

However, “in order to stay lean”, the company has sought to develop showrooms in alternative buildings rather than stores, as well as at pop-ups and concessions. The Paris store has a wall of information plus roomsets, all framed within an environment that feels more art space than retail space.

Stephen Springham, partner and head of retail research at Knight Frank, points out that the unresolved quandary is how to reconcile the need for a sustainable financial model with the brand advantages of taking physical space. “Right now there is enough available space for online retailers to open up a number of brand spaces,” he says.

“However, the issue for online operators

“Birchbox encourages play and no pressure in a fussy sector”

Laura Lutz, Dalziel & Pow



Casper has run pop-up stores in New York, LA and London (pictured)

is that so far none seem to have adhered to a normal P&L approach to their stores, because they have been part of their marketing efforts. To open a larger chain starts to require the sales and operational costs to be recorded. So the question is whether it’s really in their interests to go beyond some key, experiential stores.”

Stateside showroaming

In the US there are a number of pureplayers that are bringing showroaming and experience retailing together, such as Bonobos and MM.LaFleur. Their stores are true showrooms in that customers cannot walk out of the store with their purchases.

Rather, the showroom ensures customers have the ability to try on every item in their size, advised by personal in-house stylists. However, the purchase takes place online (either in store or at home) and is then delivered. Savills believes that the showroom concept could mean much smaller stores but in more locations.

“The most successful international online brands launching stores are valuing a full immersive retail experience above all else,” says Laura Lutz, senior creative strategist at Dalziel & Pow. “For instance [at its Covent Garden pop-up] US retailer Casper offered its ‘guests’ the chance to try one of the ultra-comfy mattresses, pillows and bed sheets in ‘snooze sessions’ that take place in private rooms – the ultimate way to unwind from the busy London surroundings.”

Philip Krim, Casper’s chief executive, says: “We don’t see ourselves as an online or offline company. Wherever our shoppers are we want to be.”

Casper has previously opened temporary pop-up stores in LA, New York and Covent Garden, London, and has said it will look at

how it might reinvent the retail space before considering opening its own permanent stores. In the meantime it has started selling through Target stores in the US.

Lutz also cites footwear brand Everlane, which has used pop-up spaces in an interesting way. The company’s debut showroom, created by Early Work (formerly Brook&Lyn), includes a rack system, flat shelving, mirrors and seating, in materials and colours to complement Everlane’s existing palette, and smoked glass screens that stress its price transparency.

“Guests are asked to take their shoes off and wander around the calm showroom with just a few products laid out minimally – a really interesting use of space,” she says. “They also stock other brands that are non-competitive to them, like Glossier, but appealing to the customer.

“Birchbox is another New York store that follows an online subscription model that is physically represented in similar categories with ‘pick ‘n’ mix’ beauty samplers and slower in-house experiences like massages, spa and salon. It’s the process that’s delightful, the product isn’t overly unique but they encourage play and no pressure in what can be a serious or overly fussy sector.”

The store design has been based on the company’s own website rather than taking rival beauty stores as the template. There are visual and signage references to the site and an overt emphasis on trying things out and play.

“We are seeing a rise in online retailers opening physical stores but it’s likely most will only open a handful in very high footfall locations,” adds CBRE head of EMEA retail research Andrew Phipps.

“But will they be brand showcases to reach the customer, traditional retail outlets or mini distribution centres?”