

THE BIG STORY



Retail's new players

Why are more big brands opening their own stores, and how will this affect retailers' relationships with them? **Gemma Goldfingle** and **Luke Tugby** report

Dyson, Adidas, Nike, Apple, Estée Lauder, Lego, Samsung, New Balance, Smeg, London's West End is now awash with shops dedicated to the world's biggest brands.

Microsoft is the latest to join the ranks. Retail Week revealed late last month that the tech giant is taking the store currently occupied by Benetton at Oxford Circus.

But these stores represent more than just a brand showcase. They are part of a wider push by brands to cut out the retail middleman and sell directly to the consumer.

"There's going to be miles more of it," says analyst Richard Hyman, founder of Richard Talks Retail. "It's going to be progressively challenging to sell other people's products."

Nike, one of the world's biggest brands, has made selling direct-to-consumer a core part of its strategy. The sportswear giant plans to grow its direct-to-consumer sales from \$6.6bn in 2015 to \$16bn in 2020. This comes at the expense of its wholesale channel, which investment bank UBS predicts will have reduced from 69% of sales in 2013 to 37% this year.

"The future of sport will be decided by the company that obsesses [over] the needs of the evolving consumer," Nike chairman, president and chief executive Mark Parker says. "Through the Consumer Direct Offense, we're getting even more aggressive in the digital marketplace."

Hyman believes online has been the catalyst to this trend and has given brands an easy route to selling direct to shoppers.

Anthony Fletcher, chief executive of snack food brand Graze, says: "If you've got a great product or marketing angle, direct to consumer (DTC) is suddenly letting you get it to market, experiment, iterate and build a following in completely new ways.

"Larger companies are thinking 'how can we use this to win?'. They want to build their brand in new ways, to have loyal followings that are engaged, and insight into their customers."

Creating a branded experience

For many brands, stores are the inevitable next step in helping to push their online channels.

Richard Pennycook, chairman of retailers including Fenwick and The Hut Group and chairman-elect of the British Retail Consortium, says: "Brands are increasingly seeing stores as an opportunity to present their brand in exactly the way they want it to be seen by the consumer."

Hyman believes this trend has been driven by a longstanding tension over how brands want retailers to showcase their products.

"Brands have always thought that retailers don't do their products justice," he asserts.

"Nike much prefers its own store environment to sell in and thinks it's better than Sports Direct – and I'm sure most of its customers would agree."

Harper Dennis Hobbs head of retail consultancy Jonathan De Mello suggests that brands lose control when they wholesale to retailers, particularly when it comes to promotional activity. "Brands like Thomtons have found that out to their cost," he says.

"They had physical stores and the stores were nice-looking, but what they did from a wholesale perspective – selling through Tesco and value retailers – was completely at odds with what they were trying to convey in stores."

The jump from brand to seller is far from straightforward, warns Hyman. However, it is notable that the UK's best-performing retailer in terms of sales density is a brand – Apple.

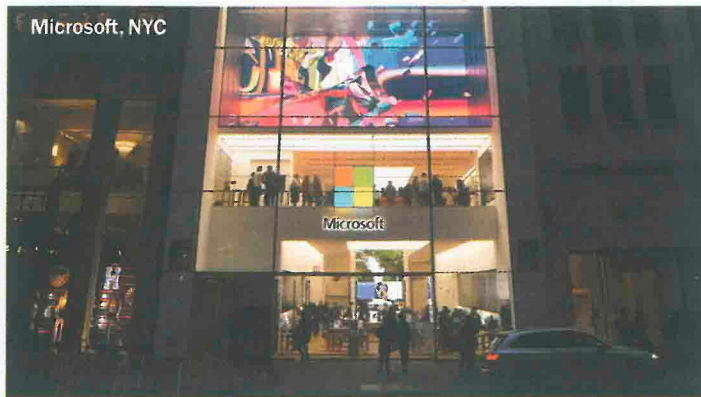
Apple makes £3,250 of sales per square foot, according to research from Retail Week Prospect, which means it is the best-performing UK retailer by some stretch. Burberry, in second place, makes £2,300 per square foot.

However, De Mello says brands do not look at store profitability in the same way as retailers, and view shops in prime locations as brand-building tools.

"Brands aren't necessarily thinking they are going to make money from it," he argues. "Some will say 'we're going to make a loss, but we don't care because it's going to create a halo effect to our other divisions like wholesale and online'.

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Do stores build brands?

A key part of a brand's rationale for opening stores is to increase awareness of the business on the high street and drive a positive halo effect in online sales – but is the trend towards building a bricks-and-mortar presence having the desired effect?

According to research conducted exclusively for Retail Week by digital insights company Toluna, 57% of shoppers said they were more likely to visit a brand's website if they had either seen or visited a branded store.

More than half (53%) of the 2,000 consumers surveyed said they were more likely to purchase goods from a general retailer such as John Lewis, House of Fraser or Debenhams for branded products, rather than with the branded store.

And 54% of shoppers said that when shopping for brands online, they were more likely to search via the websites of department stores or Amazon, rather than going direct to the brand's ecommerce platform.

Although the presence of more branded stores on the high street could have the potential to change those consumer habits, only 45% of shoppers said branded shops like those launched by Dyson, New Balance and Microsoft made them feel more loyal to those businesses.

"Having a physical store is a way of cutting through the noise on the internet and on super-market shelves and letting the consumer know that the brand is there to stay."

De Mello believes the number of brand stores on key high streets such as Oxford Street and Regent Street could double in the next five years and that competition for the best spaces will heat up – creating a further challenge for retailers looking for prime units.

"You've got the likes of Microsoft, who can outbid any retailer," De Mello explains. "You will see retailers with legacy portfolios moving more and more to peripheral locations and the high street become dominated by brands that want these showrooms."

Where does a retailer add value?

With brands increasingly going it alone, what can retailers do to avoid being cut out of the buying process?

Hyman says retailers will need to question what value they really add to the shopping journey. "What does Argos bring to the party, for example?" he asks. "Argos would argue price and convenience, but lots of other people sell things cheaper than Argos and are more convenient. Where does that leave them?"

To remain relevant, Hyman thinks retailers have to create a more appealing environment for shoppers, citing Selfridges as an example to follow. "Selfridges doesn't have any own brand, but it doesn't need to," he says.

"Words like curate are thrown around like confetti and don't mean anything, but in

Selfridges' case, how it optimises brand adjacencies and adds constant innovation and newness, it does [mean something]. It keeps giving customers reasons to come in."

A changing relationship

The growth of direct-to-consumer is changing the relationship that retailers have with the brands that they sell, says Hyman. "Until now, retailers have held most of the cards. This could redress the balance," he warns.

Pennycook says for retailers to be "trusted" to represent brands, they have to be respectful of their wishes and deliver service and experience in "the right way".

"You see cases where brand owners have allowed distribution through some retailers that don't do any favours to their brand," Pennycook explains. "The best brand owners are very disciplined about who they wholesale to."

Pennycook suggests doing so forges closer relationships between retailers and the brands they work with.

"Brand owners have to take care in making sure the shopping experience is consistent. If consumers get one experience shopping for a brand in-store and a different experience online, the brand has a problem," he says.

"Retailers and brand owners are therefore aligned and work very closely together to deliver the right experience."

So does the growth of branded stores mean the end for general retailers? Not according to Pennycook, who insists that for wide distribution, brands need to be stocked in retailers.

"With the best will in the world, people like Lego are never going to have a shop on every high street, so there will always be a blend of having their own channels and distributing through retailers," he says.

Fletcher agrees and says that having a presence in certain retailers' stores can also boost a brand's reputation.

"Some of these large retailers are incredibly well-trusted and being in them reflects in a positive but different way to new and existing consumers," he says.

De Mello, meanwhile, points out that brands make more money from their products through wholesaling and could not afford to rely solely on selling DTC. "It's more profitable for brands to wholesale, so they need to be careful where they open stores and how many they look to open," he says.

However, Hyman believes DTC will highlight the need for reinvention from some general retailers if they are to keep attracting the best brands.

Department stores in particular will need to have a "more focused, defined role", Hyman suggests.

"Being a 'me too' department store is not going to be good enough any more," he says. "These retailers no longer have a monopoly over reaching customers."

With shoppers served with a plethora of ways to buy the products they covet, retailers will need to give them more compelling reasons than ever to purchase through their stores. **rw**