

THE EVOLUTION OF RETAIL ENVIRONMENTS, PART ONE



Photos by: Mark Steele Photography, Columbus, Ohio

Retail is Dead - Long Live Retail!

In collaboration with:

FCB/RED

Now is the time to decide what the future looks like for brick-and-mortar stores.

By Michael Applebaum

Not long ago, it would have been heretical to suggest that physical stores could go the way of the dinosaur. But over the last 18 months, an endless wave of negative news coverage of the so-called “retail apocalypse” has created the impression that any retail business that relies more on concrete than clicks for its sales is doomed to irrelevance, if not extinction. A *Business Insider* story late last year summed up the prevailing wisdom: “Brick-and-mortar retailers are caught on the wrong side of the digital shift in retail, with many stuck in a dangerous cycle of falling foot traffic, declining comparable-store sales and increasing store closures. Over 8,600 retail stores could close this year in the U.S. [an estimated 7,795 closed, per UBS], more than the previous two years combined.”

Such blanket statements, while true, paint an in-

complete picture of the state of the industry. Yes, this country has too many stores. There are 22 billion square feet of retail in the U.S., or about 68 square feet for every man, woman and child. (The next closest country is England, with three square feet per person.) But there’s another side to the story. First, let’s try to separate fact from fiction:

- The vast majority of retail sales – more than 90%, according to some estimates – still come from brick-and-mortar stores. Forrester predicts that online sales will account for 17% of all U.S. retail sales by 2022, up from approximately 13% in 2017.
- Research shows that consumers trust the experience of shopping at physical merchants more than on e-commerce sites, and that brick-and-mortar stores retain some inherent advantages. For instance, a 2017 research report by Frost and Sullivan found that a shopper’s ability to handle and evaluate a product with immediacy often outweighs a lower price found online.
- Success at retail is not about square footage, but what you do with it. Even in the most challenged sectors, there are emerging success stories. For example, a *Fortune* article last year profiled how premium malls in up-and-coming areas across the U.S. are renewing themselves with better restaurants, entertainment and activities, employing open-air formats and a mix

of upscale and traditional retailers to attract customers with more disposable income.

While the above points illustrate a simple truth – that the store still matters – retailers can take only so much solace from this reality. Today’s shoppers have too many options, and their expectations for a flawless experience across all purchase and distribution channels are only getting higher. Increasingly, consumers are being conditioned by the ease of online shopping to raise not only their standards and expectations but also their willingness to abort the shopping mission at any significant point of friction. Of course, such defections are not limited to brick-and-mortar stores. Typical online shopping cart abandonment rates of anywhere from 55% to 80% mean that e-commerce players are also leaving millions of dollars on the table.

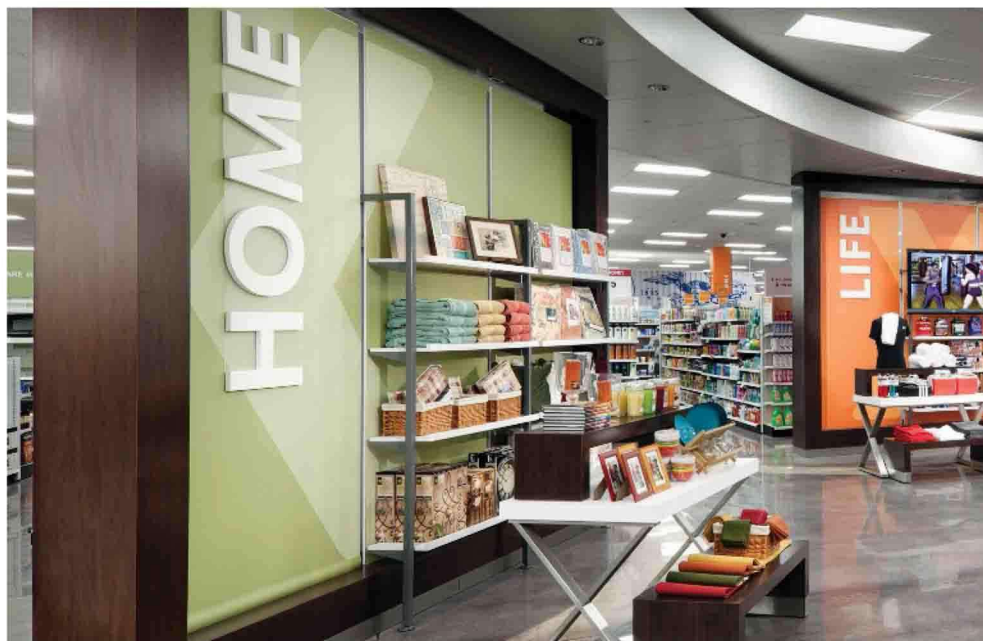
In light of these trends, industry experts are becoming increasingly vocal about the need to start rethinking the very definition of a store and all that it entails.

Next Generation of Retail

Recognizing that old models are no longer working and aware of the promise that lies in the next generation of physical stores, FCB/RED and Chute Gerdeman (the design firm FCB/RED acquired last August) are calling for a wholesale change in the evolution of retail store environments. Namely, they are urging brands and retailers to rethink



Three examples of ways that stores will survive and thrive include offering shoppers seamless, connected interactions with products/services (like Verizon, above), giving customers more pleasurable experiences and reasons to stay in/visit the store (Whole Foods, right), and designing layouts in a way that's more welcoming and organized based on how their customers think, live and shop (Exchange, below).



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their strategies for how to maximize the physical store space and engage with shoppers in more sophisticated, relevant and exciting new ways.

"We are overdue for a change in physical retail, and everyone in the industry needs to be thinking about what that future looks like," says Tina Manikas, president of FCB/RED. "We all know that the old models of stores are holding us back. Just ask a Millennial. They still like physical retail in terms of touch but they do most of their searching, buying and information gathering somewhere else. New and compelling elements are needed to create successful environments now and into the future."

Manikas and her colleagues envision a time when marketers and customers alike view shopping in physical stores as complimentary to online shopping, not as competitive threats to one another or mutually exclusive activities. And they have some bold predictions about what stores will look like in the years to come. (See page 19).

"We believe that physical retail will become a robust extension of online delivery and subscription buying," says Curt Munk, senior vice president of strategy at FCB/RED. "Physical stores must tap into the empathetic technologies for shopping that we'll all be using in our lives and integrate them into one holistic experience. You can't abandon the things you do at home when you go into a

store. It must become part of that integrated system because the way we shop is becoming more and more a part of the way we live."

In the meantime, traditional retail environments increasingly seem static and unresponsive to demands for a more satisfying customer experience. That is why major retailers including Kroger, Starbucks, Walmart and Target are making big bets on new store formats and designs. Target, for example, is investing billions of dollars to overhaul more than half of its approximately 1,800 U.S. chain stores. Its prototype store in Houston has two distinct entrances (one with a Starbucks and an area with exclusive brands and seasonal items, and another leading to a food market) as well as a dedicated curbside grocery pickup area. Inside features include clearly delineated departments with individual flooring; curved walkways leading to featured displays at the middle of the store; lower shelves for easier access; and large windows to let in more natural light.

Target's dual entrance format – or a similar design that addresses different needs or motivations for shopping in any given circumstance – could be duplicated across many retail sectors, says Mindi Trank, vice president of strategy at Chute Gerdeman. Rather than cater to different demographic profiles or types of shoppers, Target's redesign addresses two distinct shopper

need states: speed and inspiration, Trank argues. "Some shoppers want to get in and out quickly; others would like to explore and discover," she says. "It's a smart way of keeping pace, faster or slower, with a more diverse set of consumer needs and behaviors."

Staying 'Alive'

For those on the front lines of the changing face of retail, today's marketplace includes many forward-thinking concepts and ideas. Chute Gerdeman is a proponent of creating a store environment that is fluid, responsive and "alive." It uses terms like "contextually relevant" to describe how some retailers – including the ever-changing Story outlet in New York City or the 2,500-square-foot pop-up store Debut in Minneapolis' Mall of America – constantly reshuffle their assortment, layout and interior design to suit the current ethos of their patrons. Elsewhere, apparel retailers like Urban Outfitters have successfully employed mixed-unit, multi-purpose spaces to create diversified offerings that encourage repeat visits.

For Jay Highland, chief creative officer at Chute Gerdeman, it all comes down to keeping shoppers interested and engaged. "We need to put the theater back into retail," he says.

One way to do that is to rethink the role of innovation and technology within a retail environ-

ment. Much of the current buzz is around adding store features that provide some new convenience or strike the shopper's fancy – things like using artificial intelligence tools including chatbots to improve communication between employees and customers, or virtual-reality enabled devices to create a more interactive and three-dimensional experience between customers and products. “These elements on their own do not make a store,” cautions Munk.

Instead, the agency advocates using technology to learn more about consumers and to build a platform from which to launch more meaningful and personalized “data-enhanced” experiences. “Technology will exist to enhance the shopper experience, but the best use of tech is about increased ease, inspiration and personalization,” says Munk. “It isn't really about the tech, but about the results of tech.” He argues that all operators can borrow cues from fashion retailers like Montreal-based menswear brand Frank & Oak and women's fashion brand Revolve, both of which are combining high-tech features with data analytics to engage with customers in potentially transformative ways.

Amazon too, of course, is now bringing its powerhouse data machine and vast analytics expertise into the brick-and-mortar space. At an Amazon-owned bookstore in the Wrigleyville neighborhood of Chicago, books are set on shelves with covers facing outward, not only for easier viewing but also so that customers can easily scan a bar code that delivers reviews and other information to their smartphones. Dedicated areas are given to books on displays arranged by star ratings, while the overall layout features generous open space, modern finishes and an Echo Dot station. Going forward, Amazon may well bring a similar kind of data-driven merchandising approach to its Whole Foods stores, where the activation to this point has concentrated mainly on promoting lower prices.

Marketers can also look to alternative channels for inspiration. At the new Delta terminal at New York's LaGuardia airport, large sections are devoted to high-quality QSR-style commissaries with self-checkout kiosks for faster service, while chic restaurants feature high-tech conveniences like individual iPad stations for general browsing, menu selection and ordering. “These kinds of innovations not only raise the bar of what consumers expect when they travel, but it bleeds over into their broader set of standards and expectations for all retail-related experiences,” observes Highland.

Getting Smaller, Going Local

From big-box retailers to supermarket chains, retailers are accelerating the trend of branching out into new store formats. Kroger's Fresh Eats MKT in Ohio and H-E-B's Central Markets in Texas are two noteworthy examples of the shift toward smaller, localized and/or specialty formats with personalized assortments and services built around individual community preferences. Many of these bodega-inspired stores are located in urban or exurban areas and offer a level of convenience and flexibility that cookie-cutter superstores cannot match. “The days of dropping a 150,000-square-foot box into a suburb are waning,” says Highland. “Retailers are reimagining their assortments based on smaller footprints and are asking themselves: How

do we show up where our shoppers are? They've begun to accept the idea that it is not necessary to make every item available under one roof.”


By no means are these simple solutions, however. Retailers face a variety of challenges in taking on new store formats. These include:

- **Assortment.** Generally speaking, less is more. Shoppers do better with fewer choices that are curated for them. They tend to buy more and are happier overall with the shopping experience.
- **Diversification.** In addition to determining the ideal size and format for a given location, a retailer must decide whether to offer some sort of a service, educational component or entertainment feature that helps drive traffic. Walgreens, for example, is piloting a new optical products and services section in its Chicago area stores in an attempt to expand the retailer's role in shoppers' lives.
- **Merchandising.** Creating a curated assortment in the context of a truly local experience requires an agile approach to merchandising – one that is informed by data and insights into customer preferences – to keep shelves properly stocked. Smaller and more curated stores have to be managed better because a single out-of-stock is a higher percentage of the total SKU assortment in smaller stores.

Within existing formats, retailers are competing harder for younger customers by prioritizing different parts of the store. For example, recognizing that Millennials tend to shop the perimeter of grocery stores, many retailers are placing greater emphasis on sections like fresh foods, seasonal products and beer and wine. “This creates a vacuum in the center-store and an opportunity to call out key CPG categories like beauty, baby and pet food in which to create more impactful branded experiences,” notes Trank. For instance, it is common now for large chain retailers to feature enhanced beauty/personal care sections with dedicated customer service personnel and more prominent marketing and promotional campaigns by individual brands.

These kinds of advancements are table stakes in an industry where unprecedented levels of competition and channel blurring are allowing only the strongest retailers to survive. With now even 7-Eleven offering “restaurant quality” meals, there's no limit to how far any given retailer can encroach into another's territory. “What we're seeing now all over the retail sphere is the blurring of lines between selling and experiencing,” says Munk. “The old brands don't have a lock on consumers, and the new brands are fighting for both perceptual and habitual space wherever they can get it. It is going to continue to be terrifying for the brands and retailers that resist change, and very exciting to be a consumer and shopper, in the years to come.”

Against the drumbeat of negative news coverage, Munk and his colleagues remain optimistic about the future of brick-and-mortar retail. “Physical retailers are still very important to completing the customer experience,” says Manikas. “Stores provide a level of service and offer a sense of community, exploration and discovery that – at least to this point – cannot be replicated online.”

Editor's note: Part two of this series will discuss the resurgence of brands at retail. It will be published in the July issue of *Shopper Marketing*. 

FIVE RETAIL PREDICTIONS

Brands without experiences will fade. Research shows that the vast majority of consumers will pay more for a better physical retail experience and that products and services are no longer enough to create a meaningful differentiation. Staging experiences that create sharable moments and spaces is the only way to establish premium offering.

Stores will find new ways to become more tangible. The urge to touch and feel a product before making a purchase will keep shoppers heading to stores – even as the online experience gets better. Whether it's in food, fashion or home repair, stores that successfully execute tactile-driven strategies through trial, demos, classes and videos will have the edge.

“Phygital” will dominate. Technology will grow, but largely invisibly – through increased use of personal digital assistants, for example. In two years, half of all searches will be conducted by a voice-enabled device, per comScore, and voice commerce in the U.S. will explode over 200% in the next five years to become a \$40 billion industry. By 2027, 92% of front-line sales people can be replaced by a machine, per an Oxford University study.

Risks will be rewarded. Retailers have to live up to the “guest” promise: Make the shopper feel *happy* to be in the store. Think less about conversion and more about creating brand converts. Use innovative merchandising solutions to tell a story, create heroes and rethink category norms. In this way the idea of physical retail will begin to morph into a more liberal definition of what a store is, and what it can do in our lives.

Stores will become media. Call it Showrooming 2.0. Retail will ultimately become a marketing function, not a sales function, predicts author Doug Stephens. The power of a physical experience to create a lasting brand impression has almost no peer in traditional media, and that experience is valuable to brands. In addition, Amazon and possibly other tech giants will continue to expand into brick-and-mortar retail, creating robust extensions of their online delivery/subscription services and forcing traditional retailers to come up with more impactful ways of using the physical store space.

About the Sponsor

FCB/RED is an award-winning, top-ranked retail agency specializing in shopper marketing, brand engagement, environmental design and digital to physical commerce. The agency exists to improve the lives of shoppers. From innovation to implementation, FCB/RED provides strategic perspective and 360° tactical breadth to ignite the shopper experience. In 2017, FCB/RED acquired top-ranked environmental design firm Chute Gerdeman. Together they offer world-class, seamless solutions that holistically address the needs and desires of today's in-control, omnichannel shopper in 80+ markets. Visit them at fcbred.com and chutegerdeman.com.