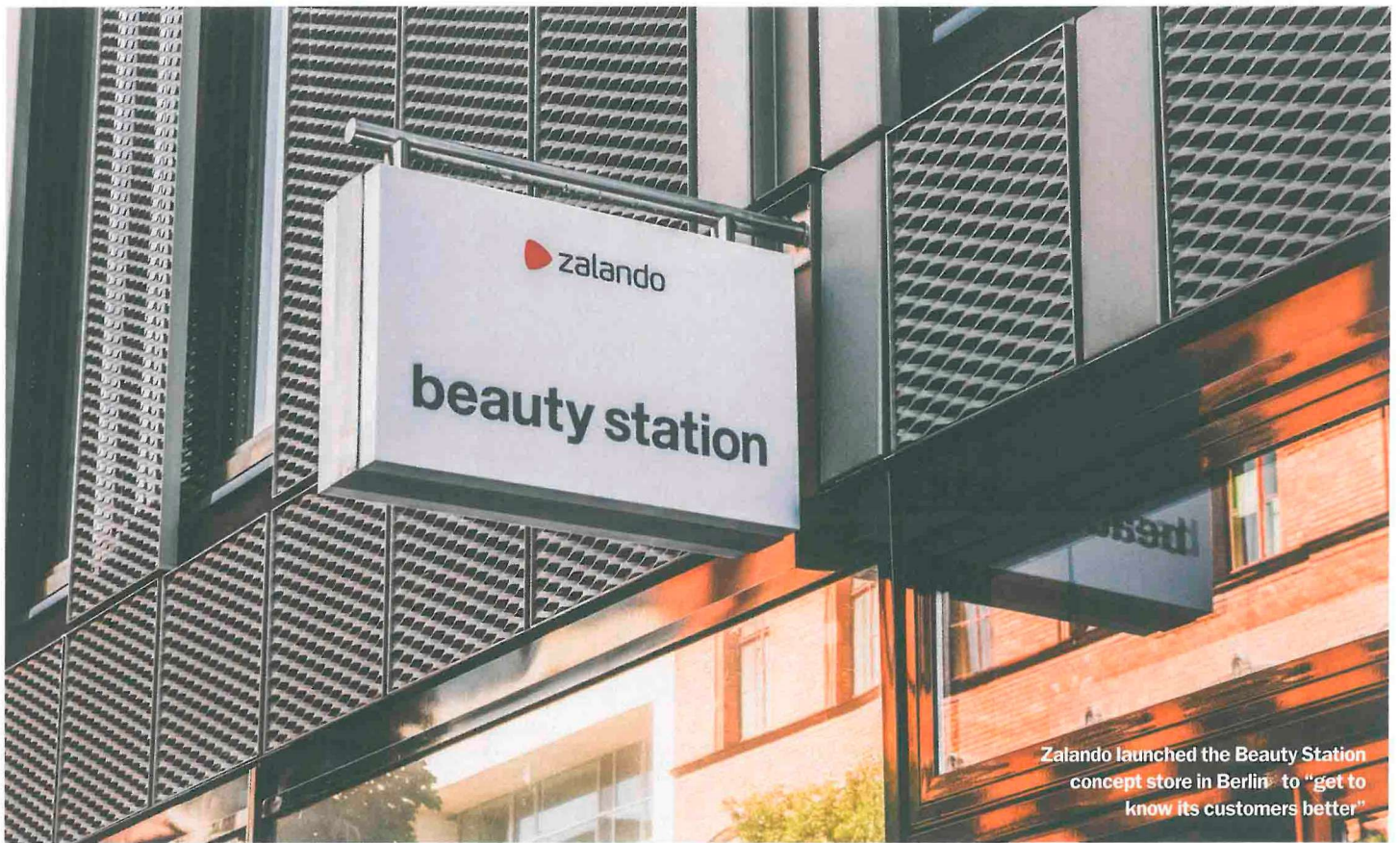


# ANALYSIS



Zalando launched the Beauty Station concept store in Berlin to "get to know its customers better"

## Why digital retailers are pursuing offline space

Digital leaders from Boden to Zalando are turning to bricks and mortar. **John Ryan** asks, why are they bothering?

**O**perating shops is an expensive business. From rent and rates to staff overheads, running stores comes with many additional costs. Why then are successful online retailers choosing to cross the digital divide and open physical outposts?

For one answer, it is worth looking at a relatively new bricks-and-clicks debutante Zalando. Based in Berlin, Zalando is Europe's biggest online-only fashion retailer.

Yet during the summer it chose to open a standalone beauty store, dubbed the Zalando Beauty Station, in its home city.

The reason for doing so is straightforward, according to Zalando spokeswoman Kirsten Siegler: "We want to know our beauty customers a little bit better. We simply believe in the relevance of offline.

"We are an online platform, but we believe

you can have both. This is a great way to interact with our shoppers."

### A useful experiment

Zalando is not alone in heading to the high street. Fashion retailers Boden and Missguided both now have a clutch of stores.

Boden, which has operated a small store in Hanger Lane since 2004, has opened two new stores over the past year, on the King's Road and in Westfield London.

Meanwhile, Missguided, which opened its first high street store in Westfield Stratford to great fanfare – not to mention huge queues – less than two years ago, is rumoured to be looking to downsize the two-floor store to a single level and is having similar discussions about its other store in the Bluewater shopping centre.

Design consultancy Dalziel + Pow worked with both outfits to create their physical presence.

Creative director and founder David Dalziel says that online retailers are cautious about moving into the real world. "And they should be. It's not easy opening shops.

"Online brands will find traditional retail difficult; it's hard work," he says. "If an item doesn't work online, you re-shoot it, change the price and go again. If a store is left with items that don't sell they hang around like a bad smell."

However, Dalziel adds that "the benefits for online retailers looking to go physical may be expensive, but you do get customers to see you in the flesh."

He concludes that for retailers such as Boden, Missguided and Joe Browns – which opened its

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## Zalando off and online

Zalando's decision to open Zalando Beauty Station is a canny one as far as location and partnership is concerned.

The 1,700 sq ft space is in modish Mitte, an area of central Berlin that has probably seen the most change over the past decade, as the biggest international brands have moved in to rub shoulders with local indies, and where money has been spent hand over fist by shoppers and retailers seeking to accommodate them.

Zalando has opted to open its beauty store with beauty giant Estee Lauder, meaning that it has substantial representation from the many brands it owns such as Mac, Origins and Clinique.

This is, in many ways, more showroom than sales floor, with Siegler referring to it as a "playground" for shoppers.

When it opened, in July, customers could get their nails and make-up done for free, as an introduction to the brand and a way to get potential Zalando beauty customers through the door.

Now it's a matter of seeing what works. "You can test stuff, of course. Everything in the shop [there are 53 brands on display] can be tried, but there is also stuff for sale," says Siegler.

It's a flexible format with the rear of the shop devoted to beauty treatments stations, while the front of the shop has an area that can be used by a single brand and for product launches.

Zalando may be an online player but the



experience is strictly analogue and it perhaps shows that there is still a dividing line between on and offline and that when it is crossed a different world, with different rules, is entered into.

It also illustrates that online retailers have much to learn from the physical world.

Siegler says the online giant is looking at whether to roll this beauty store out to further locations.

It is also worth noting that Zalando currently operates something that it calls 'connected retail

stores'. These are "offline stores that are connected to our online offer", as Siegler puts it.

There are 30 of these across Germany at the moment, with Adidas and Tommy Hilfiger among the retailers that have stores with stock integrated to Zalando's online offer.

Zalando passes on orders made at its online shop to its partners that sell the product.

When it launched with its first partner, Adidas, Zalando co-founder and chief executive David Schneider said: "Today's customers are online, however, most of the fashion items are still located in local stores.

"We want to give customers the access to any fashion item anywhere and enable local stores to engage with digital customers in a new way"

This is one way in which an online merchant can gain traction in the physical world, without recourse to the expense of a major store opening programme.



first store in Meadowhall last year – launching stores is more "a useful experiment, but they still haven't decided whether it's the future".

### Serving a wider market

Caution for some then, but not all. Online sofas and beds retailer Loaf has been opening physical stores at pace for some time and now has several units, principally in London and the Southeast, although it has a single northern store in Wilmslow.

Founder Charlie Marshall puts the case for offline stores clearly: "There are two reasons why it makes sense to open a limited number of stores in strategic locations.

"First, because around half of customers in our sector of the market want to see, touch and try furniture before actually buying. And secondly, from a brand perspective, it allows

**It allows customers to immerse themselves in our brand and have a real experience of our laidback world**  
**Charlie Marshall, Loaf**

customers to immerse themselves in our brand and have a real experience of our laid-back world. And for us having a strong brand is very much front of mind."

Marshall observes that one of the advantages of opening stores is that online retailers have substantial data relating to where their most

affluent shoppers are located and what they spend their money on.

This means that pinpointing locations in which to open stores is a matter of highly informed judgement and is more likely to yield positive results.

Yet there is still the matter of cost. Marshall believes the investment in stores is worthwhile as it opens the door to a larger servable market.

He argues that most store-based retailers operate websites so pureplays need to level the playing field.

"We need to use our financial firepower to open stores. The ultimate aim of this is to enjoy improved conversion rates and achieve a larger market share."

There is a sense of 'horses for courses' about comparing, say, Loaf with Boden or Zalando. The rules of the game in fashion are somewhat

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Loaf says data from its online operation pinpoints the locations that are most likely to host successful stores, serving the needs of customers who want to see and touch before they buy



different from furniture, and expectations about product availability are also poles apart.

Near-instant fulfilment is demanded in fashion while substantial lead times and products made to order are still the norm when buying a sofa.

Online retailers opening physical stores need to be up to speed with their physical competition and how they operate if they are to enjoy success.

And it can be cheaper. "If you get it right as a physical retailer, there's a cost saving because you don't have delivery and return costs to

contend with," Dalziel highlights.

Combined on and offline operations also need to be considered.

One could argue that Next is an online retailer with shops, given that stores will contribute to less than half of its sales this year and only 30% of profits.

Dalziel comments that for Next, which is also a Dalziel + Pow client, the majority of what is sold online is picked up in stores.

Next could be viewed as an outfit that sells via the web and its fulfilment arm is the chain of stores that it operates from in the real world.



For online retailers there are several reasons why they might want to dip a toe in the physical pond:

- A store is a chance to get up close and personal with your customers in a way that can't be realised online. This is about seeing and learning, as not everything can be understood solely on the basis of a pureplay transaction.
- Online retailers have the benefit of accurate data, meaning that they are in a position to pinpoint where they are most likely to be successful. Store size, shape and format are, however, just as likely to be problematic as for any physical retailer.
- The focus on online by physical retailers means that the virtual retail market is ever more crowded and opening physical stores is a method of maintaining growth, particularly now, when retail property is more readily available than it has been for some years.
- If a physical store is successful it can act as a delivery pick-up point, mitigating some delivery and returns costs.
- Stores can be focal points for online retailers and may be an effective piece of marketing in their own right.

There are reasons for retailers to become physical retailers, but circumspection and an ability to learn are key. Operating just a few stores, to which shoppers will travel, is probably a good thing and in terms of brand exposure it can be a positive. But for the most part, a website remains a more cost-effective way of getting stock out of the door than any bricks-and-mortar alternative and looks set to continue while punitive business rates are the order of the day.

The message for online retailers looking to jump the digital divide is 'proceed with caution', if you must. **RW**