

COVER STORY: THE YEAR AHEAD



The Year Ahead

The coming year promises more disruption and change as retailing continues to adjust to the challenges and opportunities of the digital landscape. In this special section, a look at what 2018 holds in store for brick-and-mortar stores, retail technology, the economy and real estate.

Experience Matters

Physical stores are evolving, not dying

By **Mark Hamstra**

Analysts have a mostly positive outlook for brick-and-mortar retailing in 2019, although some expect downsizing to continue, along with the ongoing evolution of the physical store experience.

Retailers are adjusting to technology's increasingly important role in the shopping journey by capitalizing on the advantages that the physical store has to offer and focusing on creating seamless online and offline experiences.

"I think stores are going to continue to be incredibly relevant for retailers, even though sometimes it looks as if momentum has completely shifted to digital," said Vish Ganapathy, managing director of retail at Accenture.

Retailers need to evolve their mind-set so that they no longer consider physical stores and various digital shopping options as separate channels, but instead think of them as consumer touchpoints, he added,

"The customer is really the only channel," explained Ganapathy. "If you think of it that way, and more importantly, organize your business that way, where the store is part of the brand experience, it doesn't matter whether the customer buys it in the store or online. The objective is to support the customers' deconstructed discovery and buying journey."

Naveen Jaggi, president of retail advisory services at JLL, cited retailers such as Best Buy, The Home Depot and Target that are succeeding in the brick-and-mortar space by focusing on the consumer and providing the kinds of in-store experiences their customers are seeking.

"Customers still need engagement with retailers," he said. "Retailers offer customers an opportunity to be not just entertained, but to be informed on the purchase that they're making."

Jaggi estimated that this year's fourth-quarter retail sales will outperform the 5.5% gains of the fourth quarter of 2017, and projected an increase of 5%-plus for 2019.

More downsizing: A significant question looming over brick-and-mortar retail in 2019 is the issue of store closures. Retailers announced more than 3,800 store closures during the first half of 2018, according to BDO's "Retail in the Red" report. That represents a slowdown in closures compared with 2017, but is still a "heavy dose," the report noted.

Natalie Kotlyar, a partner and retail and consumer products practice leader at BDO, said fleet optimization "is still a big concern for many retailers."

"There's absolutely a need for brick and mortar in the retail space today," she said. "The question really is: How many

stores is the right number of stores for a particular retailer?"

Michael Brown, a partner in the retail practice of A.T. Kearney, said significant opportunities for additional reductions in square footage remain — both through store closures and the downsizing of existing locations.

"There are many legacy retailers that need to reduce their store footprint upwards of 50 percent to be able to do business they way need to do it in the future," he said. "Best-in-class retailers are really going to be creating experiential, engaging stores that enable the consumers to visit, have a positive experience that transcends that single visit in the store and continues down their journey online and in the store in the future."

He said retailers need to look at optimizing the total cost of serving each particular market through a combination of brick-and-mortar stores, click-and-collect offerings and delivery, and tailor their presence accordingly.

In-Store Investments: As part of an overall effort to improve the in-store experience and capture more sales, retailers will step up efforts around having the right people, armed with the knowledge and tools they need, analysts said.

For that reason, Tim Lefkowicz, managing director of consulting firm AArete, said he expects more store-level workers to carry mobile devices that enable them to help customers take advantage of special offers and deals, for example, or help them find alternative



The new RH flagship in Manhattan offers an immersive destination, complete with a rooftop restaurant and wine terrace.

solutions when items are unavailable in the store.

“The likelihood of shoppers actually buying what they came for, before leaving the store, is going to be increased if retailers have the ability to deliver it to your home if it’s out of stock,” he said, citing AArete research showing that 70% of shoppers leave a store without buying the items they came for.

Such technology could also help employees offer other solutions for out-of-stocks, such as awarding a discount to purchase an item at a later date, for example, or helping shoppers select a substitute item.

Ganapathy said opportunities also exist for retailers to use data-driven technology to optimize store-level staffing, not only with the right number of workers at the right time, but to have the best-performing workers on the floor at the times when that is most needed.

“There is quite a bit of correlation between customer behavior in the store and employee behavior and performance,” he added.

Jaggi of JLL said he also expects a wave of investment in store-modernization efforts in the coming years as retailers seek to freshen up their

appearance to help optimize the guest experience.

In addition, in-store technologies such as mirrors that allow shoppers to try on clothes or sample makeup virtually will help create a more engaging brick-and-mortar experience, particularly for younger consumers, said Kotlyar of BDO.

Creating more unified and personalized experiences across channels will also be increasingly important for retailers, she said. In brick-and-mortar stores, this could include leveraging data to suggest items or offer rewards at the checkout based on past purchase history, for example.

Beyond technology, retailers also need to consider the convenience of the store layout for the local customer base — providing aisles that are wide enough for strollers in stores that offer infant clothing, for example, said Kotlyar.

“The customer is looking for convenience, pricing and selection, and if you can offer those three things, then you are a winner,” she said. “Whether you do that through technology, customer service, or personalization through loyalty programs, that is really the key to success for retailers today.”

CAFES, TREASURE HUNTS AND POP-UPS

Analysts are forecasting several merchandising trends for brick-and-mortar retailing in 2019 as retailers seek to amp up the in-store experience for their customers.

→ TREASURE HUNTS

Tim Lefkowitz, managing director at consulting firm AArete, said he expects retailers to increasingly seek to leverage the concept of in-store treasure hunting, although it may take years for retailers to implement this concept to its full potential, he noted.

“One of the joys of consumer behavior is finding something unexpected when they are shopping,” Lefkowitz said. “That happens much more viscerally and is reported with higher levels of satisfaction when it happens in a brick and mortar environment than online.”

→ CURATED SETS

He also expects to see more emphasis on curated sets in retail merchandising, so that shoppers can quickly find related items that might accompany their main purchase.

→ IN-STORE FOODSERVICE

In-store cafes and restaurants are also likely to continue to gain traction in the year ahead, said Lefkowitz, citing the success of such efforts at Restoration Hardware and others.

“I think that’s a model that we’re going to see a lot more of,” he said.

→ POP-UP STORES

Several analysts said they expect to see temporary pop-up retail venues continue to, well ... pop up in 2019.

Pop-up stores and short-term leases provide a vehicle for retailers to test a particular mall or geographic area, said Natalie Kotlyar, a partner and retail and consumer products practice leader at BDO. In addition, pop-up venues allow retailers to generate excitement and attract customers, while testing concepts that could eventually be incorporated into brick-and-mortar locations, she said.

Competitive pop-up stores can also pose a threat to existing brick-and-mortar retailers, noted Lefkowitz of AArete.

“It’s easier now, more than ever, for anyone to set up their own store,” he said. “It’s going to pull [shopping] minutes away from traditional brick and mortar, and I think that’s a trend that is going to catch most brick and mortar retailers off guard.”