From Clicks to Bricks – The Future of Physical Retailers

ARE WE ON THE EDGE OF A RETAIL APOCALYPSE?

The Retail Apocalypse is the term being used to describe the closing of a large number of brick-and-mortar retail stores, especially those of large chains, starting in 2010 and continuing through 2019.

In North America alone, over 12,000 physical stores have been closed during the last 2 years, but the impact hits much further than the USA with similar reductions being seen throughout Europe and Asia.

The cause? Factors such as over-expansion of malls, rising rents, bankruptcies of leveraged buyouts, low profits outside holiday binge spending, delayed effects of the recession, reduced consumer confidence and hence overall spending have all been reported.

Various influences have shifted consumer purchasing habits, from growing spending on experiences, casual fashion and relaxed dress code, as well as the rise of e-commerce, mostly in the form of competition from juggernaut companies such as Amazon.

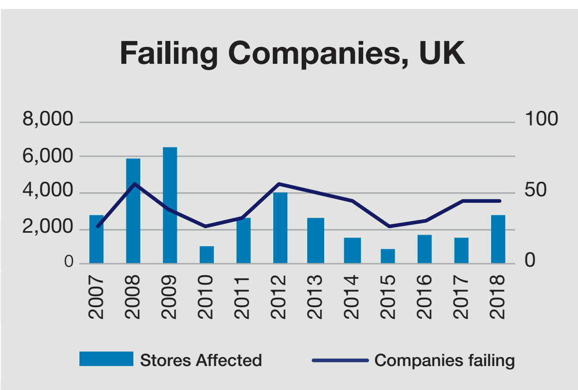
In recent years, major department stores including J.C. Penney, Macy's, and Sears have announced hundreds of store closures, and well-known clothing brands J. Crew and Ralph Lauren have reported losses. While there are 1,200 malls located across the US, **50% are expected to close by 2023**. More than 12,000 stores were closed in North America during the last two years. Some of the worst hit retailers, Toys'R'Us and The Bon-Ton, entered liquidation and closed all their stores. The same story continues into 2019, with J.C. Penney, Lowe's, Macy's and Target all amongst those planning even more closures this year.

In the UK similar things are happening. Electrical giant Maplins closed doors in 2018. In 2013 HMV was saved, but in December 2018, the much-loved store filed once again for administration (similar to bankruptcy), putting 2,200 jobs at risk and leaving a dent in some of the 125 high streets across the UK. House of Fraser, an historic chain of department stores, also entered administration in summer 2018. **It appears, no matter the product or target audience, the risk is real for retailers.**

ARE WE ON THE EDGE OF A RETAIL APOCALYPSE? [continued]

Despite the doom-laden headlines, things may not be quite what they seem. Recent research from IHL Group reveals that in 2018, the USA saw a **net increase** of more than 2,000 store openings. Furthermore, IHL discovered for every retailer closing stores, two were opening stores, and just **16 companies are responsible for two-thirds of all store closings**.

So, why are these stores **closing**?



Source Center for Retail Research (retailsearch.org)

RETHINKING
RETAIL

The retail apocalypse phenomenon is certainly among us and can be tied to the middle-class squeeze, where consumers have experienced stagnant wages while costs increase for education, healthcare and housing. Bloomberg stated that the cause of the retail apocalypse "isn't as simple as Amazon.com taking market share or twenty-somethings spending more on experiences than things". Its roots stem much deeper.

The retailers affected by the phenomenon fit into one of a few categories. Often, the root cause is debt overload – frequently from private equity led leveraged buyouts. But Forbes has said the media coverage is exaggerated, and the sector isn't dying: **it's evolving**.

"FROM 2011 TO 2017, THE TOP 250 GLOBAL RETAILERS GREW 3.3% CAGR IN REVENUE"

Source Deloitte (Global Powers of Retailing 2018)

WHO KILLED TOYS‘R’US?

Sadly, in most countries, Toys‘R’Us is no longer with us.

It’s easy to say at first glance that e-retail was responsible for the downfall of Toys‘R’Us, but in truth it’s more complicated. Online commerce added pressure, but their problems predated the online shopping boom, and like many companies, their challenges stemmed from a mountain of debt. This led to spending on debt servicing over investment resulting in a lack of focus on the **Customer Experience**. With little investment in store experience over the decades, customer excitement was dwindling all while competitors were adapting and innovating.

Retail customers, rightly so, demand more and better. Wherever they choose to spend their money, they want to **feel good** about it. Customers ask themselves: “Is the retailer trying to stand out?”; “Do motivations and beliefs align with mine?”; “Do I feel appreciated and valued?”. Consumers are emotional beings, and an unfavorable experience is often more impactful than price.

Retailers can no longer rely on focusing on efficiencies. It’s about the whole environment: the lighting, carpets, ambience, and greeting. Does the store look run down and dated, or warm and inviting? Are staff open and engaging, or heads down counting your change? Is the overall experience memorable? Will customers be posting about it on Social Media – and for the right reasons? Businesses must create memorable events for their customers: this is the **Experience Economy**.

WE HAVE ENTERED
THE EXPERIENCE ECONOMY

The Experience Concept may be driven by millennials, but it's not as new as you think.

It was more than two decades ago that Joseph Pine and James Gilmore penned the stages of Economic Value, when terms such as "eatertainment", "shoppertainment" and "entertailing" seemed cool.

Big minds at big brands with deep pockets were beginning to experiment with new concept stores as a way to differentiate themselves from their competition, and Pine and Gilmore noted that we were beginning to see consumers drawn in by promotional events, lavish displays and fun activities. Crucially, they noted that the concept of selling experiences was spreading beyond theatres and theme parks like Disneyland, and now impacted all areas of retail.

Fast forward to today, and you realize that we are well past being theoretical about all of these ideas, that these experiences are now pervasive particularly with the rise of omnichannel and ubiquitous connectivity.

REAL LIFE OR JUST A DISNEY FAIRYTALE?

Sell an idea, not a toy. That's Disney's strategy at their 54,000 sq. foot Shanghai store. Upon entering, you are greeted by one of many favorite Disney characters. And despite being almost as large as a football field (64,000 sq. ft), there are no shopping carts in-store. The store's goal isn't really to sell you a toy, but rather the excitement of the Disney Universe. Obviously, Disney's 'product' stretches well beyond toys, monetizing a wealth of entertainment-related offers, but they succeed by putting one thing first: Customer Experience. By feeling good, you want to spend time immersed in the 'World of Disney', you will want to tell people about it, and you will want to spend money on products and entertainment.

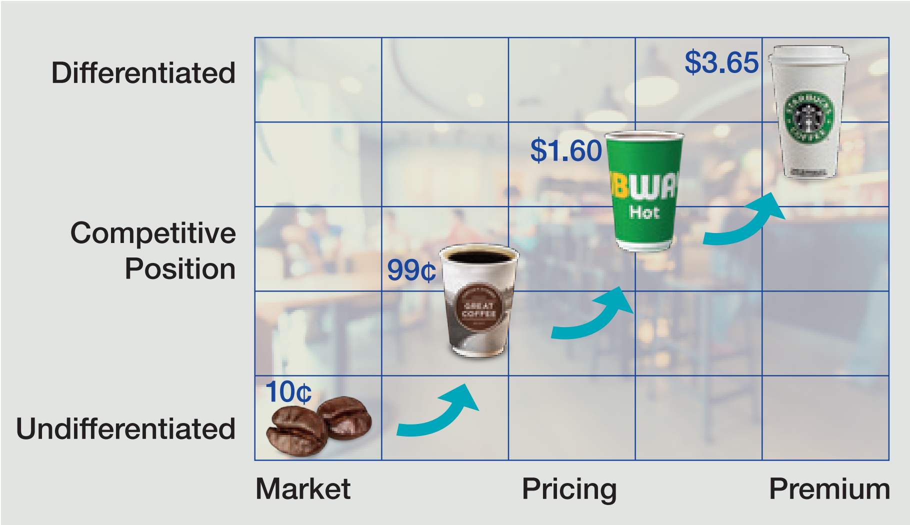
DOES STARBUCKS COFFEE GIVE YOU SUPERPOWERS?

What is the intangible value of a Starbucks coffee? Making a coffee at home sets the average consumer back around $0.25. Throw in some milk and you're looking at around $0.50. That same coffee, with the same beans and water in a coffee shop comes to $3.65. So, is Starbucks coffee really worth a 730% mark-up? On its own, probably not.

Few things typify the stages of economic value better than the humble cup of coffee. The more important observation is the price differentiation between the 99 cent coffee at Circle K, and more than $3.50 at the Starbucks downtown. Both companies use machines to make their coffee, but at Starbucks the consumer is willing to pay 3 times more for a cup of coffee: why? On top of the goods, consumers are receiving the high quality and consistent service from the Starbucks Partners, and an enjoyable experience.

The location and the facilities, on a convenient street corner, along the main street or an office block concession – it's somewhere where you can sit for an hour in a comfy sofa, or around a table with friends or family – it's your sitting room in the center of town. For business, it's your informal meeting room complete with WiFi.

We all do it: "Let's meet at Starbucks", or "Let's grab a coffee, the train leaves in an hour". And for that, a few dollars doesn't seem so bad.



PREMIUM COFFEE SHOPS OVERCAFFEINATED?

What about the Starbucks RESERVE stores – with a greater focus on experience and the coffee, they go a step beyond. If Willy Wonka had decided to specialize in coffee rather than chocolate, it would probably have been the Starbucks Reserve Roastery in Seattle.

Set in a huge, art deco building, at the back are the massive roasting ovens – but before you can even notice them, there's the ocean of people with selfie sticks & iPhones, attempting to capture their experience. No Superautomatics in here either – only the premium Victoria Arduino "Black Eagle" espresso machines, and plenty of theater.

And lines? You won't find them. The Starbucks Partners walk around the floor, talking passionately to customers about the process, the different coffees, and the building – engaging with the increasingly loyal customers, helping them choose the perfect cup of coffee. A short time later the coffee is brought over in a sophisticated, black coffee mug on a little slab of wood.

This is the ultimate coffee brand experience. It serves to remind customers that Starbucks has a rightful place at the top of the coffee shop league.

And that's why they charge up to $4 more than Circle K for a cup of coffee…

WHY DOES AMAZON HAVE PHYSICAL STORES?

Last year, Amazon announced bold plans to expand its physical store footprint, announcing plans to open over 3,000 Amazon Go stores across North America and in the UK. But why is a company, whose success has been built in the digital realm, joining the world of brick and mortar? They are first and foremost an online retailer, but that isn't what separates them from the rest. After all, there are millions of online retailers. What makes Amazon so successful isn't the online marketplace: it's Jeff Bezos' obsession with **how to improve the customer experience**.

Amazon has been in the brick and mortar space since 2015, starting with Amazon Books. Since then, the company bought the Whole Foods brand, and with more than 500 stores, a large retail footprint. More recently, they initiated Amazon Go, with the world's most advanced shopping technology, they are looking at accelerating store expansion over the next three years, and with the introduction of Amazon 4-Star stores it is clear that physical retailing is playing an important role in the company's strategy. It has been reported that Amazon has seen an increase in online sales in areas that have a physical brick-and-mortar presence; hosting an additional avenue in pushing customer awareness. Amazon's drive for innovation and disruption isn't for nothing.

Where is the best place to deliver a personal experience? Physical stores.

If consumers only want the best quality at the best price, the most efficient channel would be digital. But this is not 100% true. Consumers are willing to go to the store if they enjoy or, at a minimum, value the experience.

In China for example, the online giant **Alibaba** is significantly ahead of Amazon with its Hema supermarket, having already opened over 100 stores. But the list of online retailers going physical is vast. Retailers including Warby Parker, Bonobos and Sofa.com are also following suit, because they know that the best place to deliver customer experience is the physical space. This is where face-to-face human interaction can build trust, promote brand values and achieve the customer loyalty that is the lifeblood of successful retail.

IT'S JEFF BEZOS' OBSESSION WITH HOW TO IMPROVE THE CUSTOMER EXPERIENCE THAT MAKES AMAZON SO SUCCESSFUL

WINNING IN THE EXPERIENCE ECONOMY

What does it take to win in the Experience Economy?

In the past we have discussed the importance of service, convenience and price – and all of these things are just as vital as ever. But we have now reached a point where in order to stand out, it is necessary to think about how it makes consumers **feel**.

And this runs across every channel – physical and online. In fact, it is also about how these different channels work together, tightly integrated to deliver the ultimate experience – better than they could if used in isolation.

Much has been written about how customers are now loyal to experiences, not brands. If this is true, then it stands that to drive brand loyalty, you now need to get the **Experience** right. Getting it right also means engaging consumers across all channels, which ultimately will lead to **profitable customers**.

Loyalty to the Brand | **Engaged Community** | **Profitable Customers**

PHYSICAL & DIGITAL: COLLABORATORS, NOT ENEMIES

One of the growing concerns is that creating great physical experiences can also lead to what has been called **"Showrooming"**. What can retailers do to counter this trend? IKEA is trying 2 things: opening smaller stores in downtown, where the store also serves what is in some ways opposite side of Showrooming: **Webrooming**. Customers can look at products at home, online or on their smartphones, and before committing to buy, can go in to the store and touch, feel, and examine it. IKEA call this store format a "Planning Studio".

Physical and Digital technologies are not enemies. They are **collaborators**.

The emergence of digital often scares those in the physical space, because many legacy companies crumbled and disappeared. It's easy to pin Blockbuster's downfall on Netflix, but ultimately it was the company's failure to innovate; it failed to boost the customer experience. Whilst the company did not believe streaming was the future, they didn't offer anything beyond their product and service: renting a film. They could have integrated entertainment nights, developed "movie rooms" for customers to watch their favorite films with the latest technology. But they didn't rethink their value proposition – until it was too late.

Disruptors and innovators like Amazon or Alibaba on the other hand realized that there was more to retail than one channel. In Amazon's case, Amazon Go uses digital technology to offer a seamless, quick and frictionless physical retail experience. There are no lines, no fumbling for change or your card, and no stacking receipts. The omnichannel approach allows you to use online and mobile technology to review your purchases, and amend any (rare) discrepancies. Their product allows us as consumers to seamlessly grab & go. Digital and physical channels should not be looked at as competitors, but rather as a team trying to help the customer have the best experience.

As we move forward, not just in retail, but in consumer and business environments, **omnichannel strategies** are making lives easier and tasks simpler.

THE RISE OF ARTISAN SHOPS

Back to Basics

Another important trend is small, artisan and craft shops. Philippe Rispoli, owner of PB Boulangerie (pictured right) explains that people wait outside before the store even opens.

Customers come for the experience, and the staff are there to drive interaction and relationship – and share their passion for the artisanal bakery.

Big brands have noticed that consumers are drawn to this level of service and experience, and even some fast food companies are now trying to take different approaches to their service, promoting that their employees serve the food to the customer's table. Not because they are idle, but there is an increased focus on delivering excellent customer service.

Things are changing

In all of this choreography, the payment transaction is – and should be – incidental, but certainly no less important. And in focusing on the customer experience, better cash management follows. PB Boulangerie transforms the customer journey by investing in cash recyclers to enable and improve a seamless experience in their exquisite, high volume bakery.

WITH ALL THIS NOISE, RETAILERS ASK: WHERE SHOULD I INVEST?

What is keeping retailers awake at night? Retailers, big and small, may be nervous about the future. With so many changes, from customer power, to shifting habits, lower pricing from competitors and emerging innovative technologies, it is understandably a challenge on deciding where to focus their strategy – and wallet – to securing their future.

Tight budgets and an overwhelming number of choices make it hard to even consider where to start. Insights from RSM identified the top concerns for retailers as: labor, real estate, regulation, evolving buying behaviors, brand image, and access to capital. With all of these growing issues, it makes beating competition even more critical. Naturally, when every competitor is on the same path, **the only sustainable competitive advantage a retailer can choose is delivering excellent Customer Experience**. With this in mind, it is clearer for retailers on where to place technology investment bets by seeking the right solutions that help them grow their customer experience the way they want to.

How can retailers afford to embrace the Experience Economy?
Finding the capital to invest in developing Customer Experience can be a challenge, but it needs to be focused on two business objectives:

- Optimizing processes to save on resources
- Generating new revenue

Cash automation helps retailers create efficiencies – this is technology already bringing savings at the back-office of the stores by reducing time for float preparation, eliminating errors, improving store reconciliation time and with efficient recycling solutions allows for fewer CiT visits, as well as enabling provisional or same day credit for faster access to working capital. More recently, retailers are implementing **cash automation in their shops to optimize their front-office processes, transforming their Customer Experience** at the same time, taking the stress of the transaction away from the cashier and assuring both parties receive the correct amount, quickly and smoothly, giving more time for consumer interaction. Cash automation is also helping them generate more revenue through heightened focus on the customer experience.

This transformation journey has already been successful with banks – in the past, bank branches were very much focused on the transaction. Today, branch transformation has delivered a shift in what customers visit the branch for. Thanks to automation, branches now act as a bank information hub – the branch is the cornerstone to enabling customer loyalty. Someone may be there to greet you as you enter, answer any questions you may have, and direct you to the relevant part of the branch to get the help you need. In the UK, banks such as Nationwide have fully embraced this shift; their branches are brighter, open plan and segmented into different zones. The changes empower the customer, making them feel valued and welcomed. Overall, the experience is better, and a wealth of new technologies sits behind that.

IT'S ALL ABOUT
EXPERIENCE

Without question, we are now living in the Experience Economy and it is clear that customer behavior and attitudes have and will continue to evolve. Technology is no longer just for the geeks or the savvy few, but for everyone.

We no longer isolate online and offline lifestyles. We just have lifestyles.

For retailers, this means investments in the Customer Experience need to be balanced between physical and digital, and an obsession with only online or offline channels is not an option. Despite the popular perception, e-commerce is not the real threat to retailers. **The biggest threat to retailers, of any size and shape, is failing to deliver a great and memorable customer experience.** People no longer just buy products, they buy experiences. Sometimes of course the price could be the driver, but what keeps them coming back is the experience.

But no amount of experience can replace an awkward transaction. Cash automation is not only about cost reduction, it is also about equipping staff with tools to deliver the best Customer Experience – every time. One of the greatest advantages that cash automation brings to the shop is that ungraceful paying will be a thing of the past – and empowering customers with the choice of payment method, the technology takes responsibility, not the human, and all payment methods, from cash to mobile, will become frictionless.

The experience should be considered throughout the entire process, up to and including the payment transaction. The art of making people feel good while paying lies in a smooth, pleasant and fast transaction.

Customer Experience is now receiving a lot more attention from retailers, with huge investments in developing sophisticated and enticing in-store experiences. The customer's memory should be about everything up to the point where they have to pay, because no amount of experience will ever make up for an awkward payment transaction.

"PEOPLE WILL FORGET WHAT YOU SAID, PEOPLE WILL FORGET WHAT YOU DID, BUT PEOPLE WILL NEVER FORGET HOW YOU MADE THEM FEEL"

Maya Angelou, American Poet and Singer

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