From Bricks to Clicks
Navigating the middle ground
Technology and the internet are now woven into the fabric of everyday life, dramatically changing the way we shop and challenging the traditional retail model. In the past, the retailer has governed how and when their customers shop; presenting products inside their stores and setting the times that they were open for business. Now the consumer dictates what they buy, where they buy it from and chooses when and how they receive their goods. This has led to a fundamental shift in power; from the retailer, to the customer.

This shift provided a great opportunity for internet pureplay retailers such as ASOS and Amazon, but the emergence of omni-channel retailing, coupled with evolving shopper habits has left many traditional retailers struggling to keep up, their bricks and mortar business models and mind-sets creaking under the pressure of a rapidly changing retail environment.

As e-commerce and mobile commerce continue to grow at a pace, in-store retailing will remain important (not least because it still drives the majority of retail sales) but it will have to change. Consumers are now using physical stores in different ways and for different reasons, which is having a huge impact on retailers who operate in both online and offline formats. Not only is there great pressure to invest in ‘digital’ – to fuel growth and ensure innovation is kept in line with customer expectations, but there is also pressure on retailers to reimagine their physical stores, making them more apt for today’s customer.

In our experience working closely with retailers across many sectors, businesses are now required to balance and integrate e-commerce and physical stores – providing an increasingly demanding customer with a seamless shopping experience across all platforms. How are these pressures being managed and what issues are faced as companies decide how to balance their time, focus and resources?

Quality not quantity

For years, many retailers followed a traditional formula for growth – open more stores. The assumption being that this approach would lead to more customers and therefore more sales. Digital disruption of physical retail means that this formula can no longer be applied with the same confidence. Now, more than half of consumers research their purchases online and purchases made purely in-store (without any interaction with a digital platform) are lessening.

To be considered nationwide, a retailer today might need just half the number of shops (and an ecommerce site) than they would have needed in the past – online shopping is an undeniable contributing factor, and has prompted many retailers to restructure their store portfolios. Data shows that in the first half of 2016, retailers opened the fewest number of new stores since 2011 (and closure figures were high) – with fashion businesses seeing the steepest net decline in stores (Local Data Company research). Across sectors, it appears the need for so many physical stores is reducing – resulting in retail businesses sitting on unproductive square footage.

Where better to look for confirmation of this trend than the grocery sector where, after a land-grab lasting decades, increasing the retail footprint is no longer on the agenda. Grocers have curbed future expansion plans and are seeking ways to offload sites they have acquired but no longer need. Research compiled for the Telegraph showed that the big four supermarkets have reduced new store expansion - cancelling two thirds of plans to build new stores since 2014 (Barbour ABI research). After such aggressive expansion, scaling things back will take time. The value of property owned by major supermarkets exceeds £37.8 billion, despite

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some recent reductions. “The value of property owned by big supermarkets has fallen by 17% over the past two years, as they sell off surplus sites” – looking to reverse a “long-term strategy of land-banking” (Saving Stream, March 2017).

However, whilst they consider reducing the number of ‘big-box’ outlets, these grocers have not stopped opening stores altogether, but are choosing to expand their convenience store portfolios. The convenience store sector has seen considerable growth recently – it’s suggested that this growth has been driven by the rise of the online grocery shopper. Consumers are using convenience stores/smaller format stores to ‘top-up’ in between online orders, rather than visiting larger supermarkets, which brings us to our next observation...

Size isn’t everything

With the majority of browsing now taking place online and convenience valued highly by the modern shopper, it’s common for retailers to find themselves not only with too many shops, but also with shops that are too big or simply in the wrong format for their new, modern-day purpose; often a strange hybrid of shop, collection point, testing centre and showroom. Retailers need to understand the new role their bricks and mortar stores play in a multichannel world, acknowledging that a different store format and experience is now required to meet the need of their customers.

As supermarkets find themselves with over-sized stores, their focus has switched to transforming existing space to better accommodate the evolving customer. Reactions have included linking up with other retailers to launch concessions, offering leisure facilities and adding click and collect stations to service online orders.

In a bid to make better use of its larger stores, Tesco has partnered with Holland & Barratt to launch a shop-in-shop concept. This move capitalised on the healthy living trend and bolstered an area of weakness for Tesco, who recently shut their NutriCentre health and wellbeing business, and acted as acknowledgement that supermarkets now need to work harder to motivate customers to visit stores.

The arrival of click and collect stations provides further evidence that supermarkets are adapting to a multichannel approach and utilising unproductive space. From a retailer’s perspective, introducing these services shouldn’t be viewed as a threat to physical sales – in fact, recent research carried out by Cybertill found that 65% of consumers make additional purchases when picking up click-and-collect items in-store – an example of how embracing change and a multichannel strategy can help increase overall sales.

Ikea is a great example of a retailer who has recognised a need for change and rethought their strategy. Rather than open more of its traditional superstores, it has recognised changing consumer habits and launched smaller format Ikea stores in city-centre locations. This increases accessibility – enabling Ikea to bring their brand closer to customers who are not located near a full-size store. Although these order and collection point stores do not stock the full Ikea range, they offer the customer a chance to see/trial a number of products and speak to Ikea staff. Having boosted consumer confidence, in-store technology then allows shoppers to place an online order for home delivery or store collection – creating a store that integrates and makes the most of both online and offline channels.

Take a holistic view of the business

As the retail landscape changes, the Ikea example lends proof to the fact that viewing online and offline channels as complementary, rather than cannibalistic, will be key to delivering customer satisfaction and retail performance. However, integrating clicks and bricks can be complex, many retailers are continuing to treat their online and offline operations as separate entities – which can lead to several problems. When a retailer manages their online and offline operations separately there is always a risk that one area will receive more focus, time and resource than the other. Especially when the two parts are so different – the mature and dependable offline business with low-growth and high operating costs alongside the young, digital upstart, growing quickly, far more nimble, on trend and demanding attention.

In many cases, online sales will be fuelling the majority of sales growth, with physical retail still accounting for the majority of overall revenue. This makes it difficult for retailers to decide how best to spread investment across the business. If either area is neglected, costs and product ranges can quickly spiral out of control.

Commercially, even if both physical and digital are carefully managed, the skills required to control costs, manage range, the supply chain and deal with suppliers can be very different. For example, the challenge within the mature physical business may be in mitigating price increases and maintaining margins, as volumes stagnate or decline. Conversely within digital, the challenge may be very different. If growth rates are high, supplier deals will need to future-proof the business to ensure that as volumes grow, this is reflected in pricing and that agreements are developed with future capacity requirements in mind.

“viewing online and offline channels as complementary, rather than cannibalistic, will be key to delivering customer satisfaction and retail performance.”
Time to get physical

With online sales still accounting for a relatively small percentage of revenue for many retailers, it would be a mistake to ignore the important role that bricks and mortar still has, and will continue to have, in the retail world. Even pureplay retailers and brands are seeking to establish themselves in an offline format – appreciating that through physical stores they can gain a better understanding of their customer, acquire new customers (attracting those who enjoy or favour the in-store shopping experience) and broaden the reach and appeal of their brand.

Dyson has opened their first physical ‘demo’ store – identifying a real benefit to having a Dyson controlled environment where they can bring their products to life and offer customers a chance to interact with and trial their items, to increase the chance of purchase.

Similarly, in August last year, Ocado opened their second bricks and mortar store in the form of ‘Fabled’, a joint beauty retail project between the etailer and the publication Marie Claire. Although the Fabled website is considered the brand’s flagship, the physical store aims to complement their online platform and act as a physical showroom for their products. The store’s design doesn’t prioritise selling, but rather offers customers an interactive experience. The space boasts an area for customers to test and experiment with beauty products, a fragrance room, a mezzanine level full of skincare products and advanced in-store technology. Digital touch screens allow customers to learn about brands and specific products, which link directly through to the brand’s website – creating a shopping experience where online and offline intersect, meeting the need of the modern shopper for a seamless shopping experience across all platforms.

Another example of a pure online retailer venturing offline was the online gifting brand, Notonthehighstreet.com (NOTHS), running an immersive three-day pop-up shop in London’s Old Spitalfields Market. The event featured popular independent brands and sellers from the website, and offered experiential games and workshops – bringing their stories to life. NOTHS Chief Executive Simon Belsham acknowledged the valuable inspiration from our website and apps, but they also want the opportunity to touch, feel and interact with the products as well as hear the stories of our partners in person.”

These examples highlight the enduring need for physical retail space and while the specific role of stores may be changing, retailers and brands clearly still feel the need for bricks and mortar shops. Therefore, the challenge today is how to navigate the middle-ground, optimising both the physical and the digital in a way that will serve the evolving needs of modern customers.

What can retailers do?

Given the challenges detailed above and our observations from working with retail businesses struggling in this area, we feel there are a series of pragmatic steps any company could take to better navigate the middle ground. Taken together, these steps will help to ensure retailers are well equipped to deal with requirements today and into the future.

- **Understand your customer**
  - As we have discussed, customer habits are quickly evolving and these days they call the shots. It is no longer acceptable to fall back on anecdotal observations and assumptions from the past. Today’s retail consumer is versatile, shapeshifting, difficult to pin down and demands a coherent offer across all platforms whether in the store, on the tablet or on the phone.
  - Through the integration of different data sources, it is now possible to build a composite picture of store, product and customer behaviour. Crucially, to build a holistic view of the business this analysis needs to span both physical and digital.

- **Understand your stores**
  - How many? How big? What format? Getting your store portfolio right is key to maximising profitability – however, success will not simply come as a result of closing underperforming stores. Retailers must shift to a multi-channel mind-set and assess how physical stores are being used by consumers in conjunction with digital platforms in the purchasing decision.
  - Comparative store profiling that includes analysis of different channels such as click and collect, in-store customer ordering and incorporates the use of loyalty card data (where available) will help retailers to understand how customers are interacting with stores and allow them to adapt accordingly.
  - Once the interaction between customers and stores in better understood, it is then important to consider whether the traditional methods of evaluating store performance are still valid. In a world where the primary role of a store may be to act as a showroom, or an online order collection point, how important is the profit per square foot achieved from its selling space? As the role of physical stores continues to evolve, building a more nuanced (and ultimately accurate) view of store performance will be crucial.
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Ivo works with business leaders with major change to achieve, bringing the commercial, pragmatic, data-driven insight that provides answers to difficult questions.

We identify significant, new sources of margin improvement and revenue growth for our clients. We do this by taking a whole business view of opportunity and risk, with the commercial drive and passion of a business owner, curiosity and deep analytical skills.

If you're responsible for a big revenue or margin challenge this year, we'd like to meet you.

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The Ivo effect

The need for bricks and mortar stores isn't diminishing, it's just changing. Achieving the correct balance of focus, resources, talent and investment across both physical and digital may well separate the future winners and losers within retail.

Ivo has an impressive track record of helping retail businesses to understand their customers, understand their spend, control costs, manage categories and find commercial opportunities hidden in the data. We understand the need to navigate the middle ground and optimise both digital and physical business.

If you would like to discuss ways we could help your business to better understand customers, understand stores and understand costs please get in touch.

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**About the Author**

Laura Trusty is an Analyst at Ivo and joined the company in early 2016. Laura previously worked across a range of product, marketing and brand development roles in the Beauty industry, helping to build effective relationships with key retailers and e-tailers.

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