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Brick-and-Mortar: The Omni Tango

The future of physical retail is intrinsically tied to how well retail brands can lead — and follow — their customers.

By Connie Gentry

Put on your dancing shoes — 2022 looks to be the year that retailers and consumers are finally in step to optimize the omni experience.

All the fancy footwork retailers implemented across the pandemic have produced an array of positive and aspirational outcomes for retail operations. It starts with a clear understanding that neither retailer nor consumer leads every move, neither digital nor brick-and-mortar stands alone. Instead, these are prodigiously choreographed partnerships.

“This idea that the consumer is always making a choice between two things is a false narrative,” said Ethan Chernofsky, VP of marketing at Placer AI. “Brick-and-mortar and online can live side by side — it’s not always either. Consumers want varied experiences: They will have Netflix and still go to movies. People can buy a Peloton and still want a gym membership.”

What’s ahead for brick-and-mortar retail, most experts agree, is a reinvention of all the consumer touchpoints and the physical space to drive engagement, produce efficiency and create flexibility.

Permanent Trends

Work from home (WFH) and “buy online, pickup in store” (BOPIS) — gained new momentum in 2020 and will continue to define brick-and-mortar spaces in 2022 and beyond.

Lee Peterson, executive VP, thought leadership and marketing at WD Partners, cited the firm’s recent research where half of the 2,700 consumers surveyed said they will continue to WFH at least 60% of the time in 2022. And 100% said they will not go back five days a week at any time.

WD Partners also asked consumers, “When you go to a store, where will it be?” The response was close to home: 37% said they want to shop in their local community. As for what kind of stores respondents want in their community, the No. 1 answer was retailers selling local, but a close No. 2 was big brands with smaller stores.

“Retailers are rethinking their real estate and one thing we’re going to see play out in 2022 is these 15-minute cities, where everything consumers want is in their local neighborhoods,” Peterson said. “Restaurants figured that out a long time ago, which is why there are quick-service restaurants on every corner. We’ll see more of that with big retail brands.”

Similarly, BOPIS is going to impact real estate reinvention and speed to service is key.

“Retailers are figuring out how to get product to their customer in the fastest way at the lowest cost,” said Alexa Driansky senior VP in the retail practice at AlixPartners. “As they leverage stores for fulfillment, expect a massive redesign of stores: back of house set up to fulfill orders; front of house redesigned

with different customer touchpoints for pickup and kiosks for returns.”

What it boils down to, she added, is agility, or the measure of a retailer’s ability to understand and respond to consumers’ changing needs. Experts agree, saying the key to retailer responsiveness is dancing the fine line between omni presence and market customization.

“The role of the store is extremely critical but there is not a one-sized plan for all,” said Rob Harrold, managing director at Deloitte Consulting. “Retailers must define the strategic purpose of each location — one store may have higher pickup, another can be more of an experiential destination. They should look at the store’s role in its market.”

The People Paradigm

Speculation around applications for artificial intelligence (AI) and enhanced user experiences (UX) abound. But just as online is here to augment not replace brick-and-mortar, technology will continue to elevate interactions but not eliminate human influences. Expect a new focus on employees.

“We know from our recent consumer research that employees have the most impact on the consumer’s brand experience, more than any other experience attribute,” said Emily Albright Miller, senior VP, Strategy, at Big Red Rooster, a JLL company. “But the labor shortage is causing devastating

effects on service and consumer brand perception. What we see in this current dynamic is a paradigm shift, with retailers empowering employees in new ways. We anticipate that, in 2022, brands will invest in ways to appeal to the employee.”

Milled added that the future design of stores will be more holistic and factor in the experiential needs of employees, not just customers.

The new era of retail starts with creating a more predictable and flexible operating model for employees.

“We haven’t rethought the operating model in some time, now it’s time,” says Rod Sides, vice chairman, Deloitte LLP, and U.S. retail, wholesale and distribution leader. “For the last decade, stores have operated on a 70:30 ratio of part-time to full-time. People have to be able to live and plan their lives, retailers need a more predictable model for scheduling employees.”

Instead of expecting fewer employees to perform more work, retailers may outsource more of their store-level fulfillment. Sides anticipates that real estate operators will use excess real estate to staff a central receiving and shipping area that serves multiple tenants.

“This allows retailers to operate stores with smaller teams,” he said. “We haven’t taken tasks out of the store in the last 20 years. If anything, we’ve added tasks. The time has come to rethink the dynamics of who does what.”

Goodbye Sacred Cow

As retailers rethink their operating models and strive to squeeze higher profits from shrinking margins, it’s also time to reinvent how brick-and-mortar success is evaluated. Sales per square foot, the industry’s sacrosanct barometer for physical stores, has become an “antiquated measure of productivity,” according to AlixPartners’ Driansky.

“The KPIs we should look at are the costs and benefits that lead to omni economic value,” she said. “Retailers need to understand and quantify all of the incremental metrics impacting the store performance.”

Some of the incremental metrics that need to be quantified and counted include sales from expedient omni fulfillment, which speaks to efficiency as well as engenders customer loyalty; net sales that occur when customers return a digital purchase to the store and make an additional purchase; and the gross margin impact of store-level returns from online purchases, including the cost of markdowns and labor to process.

The Achilles heel of the omni business model is enterprise wide visibility choreographed with store-level accuracy.

“The trick with BOPIS is having the technology in place so the processes line up with the store staffing,” said Keith Jelinek, managing director in the retail performance improvement practice at Berkeley Research Group. “It’s bad to sell online and then keep the customer waiting when they come, but the worst thing is to transact something Echoing similar advice from other experts, he suggested that the solution is a more flexible supply chain with retailers utilizing micro fulfillment centers that position product closer to demand, whether they use a dark store, leased space or outsource.

“When retailers ship to stores once a week, inventory bleeds out,” he said. “What the stores want is to flow inventory to stores in smaller increments that is more responsive. It’s an opportunity to improve full-price selling and reduce markdowns, even if there are higher transportation costs because of more frequent shipments, they make it up in full-price selling.”

— **Connie Gentry** is a business writer based in Raleigh-Durham, N.C.

Five Essential Moves for 2022

► Own the Calendar

Placer.ai’s Ethan Chernofsky predicts 2022 will bring more random holidays as retailers take charge of dates and destiny.

“Retailers find tremendous success in owned holidays, and it puts them less at the mercy of seasonality,” he said. “Starbucks is one of the smartest companies in any context, but they’re really good at owning the calendar — like their free red cup day.”

Similarly, Target has owned random dates with its promotional Deal Days on a Monday and Tuesday in October.

► Celebrate Community

A brick-and-mortar store has to reflect the demographics of the community it serves. It starts with store associates who reflect the diversity of the market and should also include visual aids and signage.

► Discover Vintage

The potential for brick-and-mortar stores to leverage resale merchandise is huge.

“Vintage works better in a physical store than online,” said WD Partners’ Lee Peterson, who said that resale stands to increase store traffic. The re-use component also speaks to environmentally conscious consumers and plays particularly well with Gen Z shoppers.

► Share Your Story

Retailers need to create a compelling display and a story that clearly articulates “why this product and why now,” said Helen Herrick, studio director at MBH Architects.

“It’s all about the story behind the store and the product,” she said. “Gen Z is especially aware of the entire impact of everything. The display platform, the light fixtures, the bag — it all has to look amazing. But there has to be a balance of aesthetic and story.”

► Provide Premium Experiences

From curbside pickup to dressing rooms, every customer interaction needs to be purposeful and personal. That’s the advice from Nelson Worldwide’s Meredith Seeds, design director, and Emily Hamilton, VP, brand strategy and marketing.

If BOPIS or curbside is the only interaction with the consumer, Seeds suggested taking a concierge approach. “Make it feel like a premium experience, make it special,” she said.

The fitting rooms at apparel specialty retailer Reformation is their pick for a retail experience done right. Music, lighting, temperature — all the sensory elements are tailored to the shopper’s personal preferences.

“Reformation has a minimalistic design and puts the shopper in control,” Hamilton said. “The experience is all about well-being, providing a calming environment, and having the associates do the legwork for the customer.”