

URBANISM NEXT RE-IMAGINING RETAIL

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RE-IMAGINING RETAIL

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EXECUTIVE SUMMARY

- The American retail industry has been continually re-shaped by the arrival of **new technologies**.
- Widespread use of the automobile shifted retail from local “mom-and-pop” stores to regional department stores, and by the late 20th century, the “**big box**” retailer had become the industry standard.

The invention of the internet introduced a new typology to the marketplace, the online retailer

- E-commerce has steadily grown and is quickly demanding more and more of the market share of retail sales. Estimates indicate that up to **20% of total U.S. sales** will be attributed to E-commerce by 2019

Omnichannel retail strategies - where a retailer operates through both physical locations and online sales - have become a necessity in today’s market

- Online retailers are looking to build brick-and-mortar “**guideshops**” to expand growth and stimulate online sales.
- “Guideshops” focus on crafting a **unique, memorable experience** in the store and then encouraging consumers to purchase online.



1: WHAT EXISTS NOW

THE WALMART ERA:

- **Since the start of the 20th century, the American retail industry has been continually re-shaped by the arrival of new technologies.** By the 1940s, the widespread availability of the automobile had completely shifted the industry model from local “mom-and-pop” retailers to regional department stores and mass merchandisers. The sudden population boom and rapid expansion of suburbia after World War II led to a further **consolidation of large-scale retailers.**
- **By the late-twentieth century the “big box” retailer had become the industry standard,** with branded chains such as Target and Walmart dominating the national marketplace. **Walmart** - the most dominant of these large-scale retailers - quickly became **the ubiquitous retailer in America.**
- **However, perhaps the most disruptive technological innovation of the past century arrived in 1990 with the advent of the internet.** Suddenly an entirely new arena of retail -**independent from physical store locations**- became a possibility.
- Since the turn of the 21st century, the realm of **E-commerce has steadily grown** and is quickly demanding more and more of the market share of retail sales. **Estimates indicate that up to 20% of total U.S. sales will be attributed to E-commerce by 2019.**

“During the period 2012 to 2019, E-commerce sales are projected to grow at an annual rate of 14.9%, over five times faster than traditional “brick and mortar” retail sales so that, by 2019, **E-commerce will account for almost one fifth of applicable retail sales.**” (MonarchFX, 2017)

- Since its inception as the first completely online retailer in 1995, **Amazon has quickly established itself as a pervasive global presence and the dominant force of the online market.** Estimates forecast Amazon to be responsible for nearly **60% of all E-commerce sales by 2019.**

“Brick-and-mortar shopping traffic (the number of times people went into stores) **declined by 12% between 2015 and 2016** holiday seasons (First Data Corp, The Wall Street Journal- - 2017)

- **“More workers in general merchandise stores have been laid off since October, about 89,000 Americans.** That is more than all of the people employed in the United States coal industry, which President Trump championed during the campaign as a prime example of the workers who have been left behind in the economic recovery.” (Michael Corkery, NY Times, 2017)

To this day, “Walmart is not only the largest global retailer, it is also the largest company of any kind in the world.”

- Farfan, 2016 -

Walmart 



of all Americans live within 15 miles of the nearest Walmart store



of all retail stores in the U.S. are located within 5 miles of a Walmart



of all retail workers in the U.S. are employed by Walmart

“As a retailer, [Amazon’s] market power now rivals or exceeds that of Walmart, and it stands only to grow...”

- LaVecchia & Mitchell, 2017 -

amazon 



of all online shopping searches start directly at Amazon.com



of all American households are subscribed to Amazon Prime



of the projected \$720 billion of online retail sales will be captured by Amazon by 2020

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THE OMNICHANNEL REVOLUTION:

A large part of Amazon's rapid growth and widespread success is due to the retailer's massive investment in local fulfillment infrastructure. Combined with the company's wide geographical reach, this allows Amazon to deliver products with a speed and cost efficiency virtually unmatched by any other retailer.

Despite Amazon's online successes, however, the majority of sales transactions still occur within traditional brick-and-mortar locations. With both traditional sales and E-commerce promising to remain relevant models within the industry, many retailers are working to develop "omnichannel" strategies that can cater to both markets. Since 2013, Nordstrom has lead the way as a successful omnichannel retailer, and even the online-giant Amazon has begun to embrace multi-channel strategies, opening its first physical store location in New York in February of 2015.

Surprisingly, Walmart's reluctance to invest in online infrastructure has left it struggling to adapt to this omnichannel model, with company shares slowly falling as it invests billions trying to fast-track its online presence and catch up with sleeker competitors like Amazon.

NORDSTROM

50%

Nordstrom's top line growth over the past 5 years

20%

of all Nordstrom's sales are now online

8%

increase of online sales compared to 5 years ago



"We believe Amazon fulfillment infrastructure represents a considerable hurdle to other eCommerce players and traditional retailers, as no retailer can match Amazon's fulfillment efficiency and geographical reach."

- Morningstar Investment Advisers, 2017 -



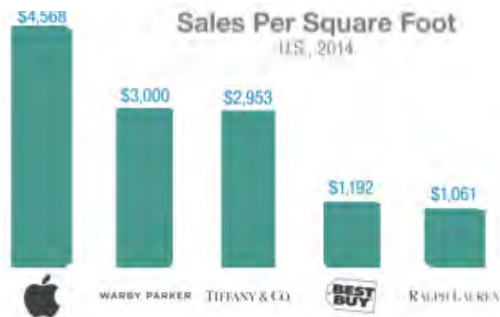
1: WHAT EXISTS NOW (CONTINUED)

THE GUIDESHOP EXPERIMENT:

- **Amazon is not the only online presence looking to get its feet on the ground.** Due to their rapidly growing popularity, successful e-tailers such as Warby Parker and Bonobos have begun to open **brick-and-mortar stores** around the country as the next step in company expansion.
- **However, these sleek new store locations aren't just another ordinary retail outfitter.** Bonobos, Warby Parker, and many other online retailers - such as the popular Canadian menswear e-tailer Frank & Oak - have focused on developing their new stores into **unique "guideshop" destination stores.**
- **The focus of the "guideshop" or "showroom" is to provide a unique, memorable retail experience for each and every customer.** In the guideshop model, each location functions as a concept store and **doesn't sell any product within the store.** Instead, an in-store "guide" will spend anywhere between a half hour to an hour personally assisting each client. At the end of the experience, any desired purchases are made online and shipped to the consumer's home for free, and the customer walks out of the store hands free.
- **The widespread success of Warby Parker's popular showroom stores can be attributed to the intentionality of its branding.** Founded in 2010, the now-ubiquitous online eyewear retailer has rapidly expanded its physical footprint, with more than **40 stores operating around the country**, and 2 more in Canada.

"Every store that we've opened has been highly successful any way that you measure it in terms of customer satisfaction, traffic that we're seeing, sales profitability" (Warby Parker co-founder Dave Gilboa)

Each showroom exhibits a clean, minimalistic aesthetic that is consistent with the overall branding of the company, and each store continues to record impressive sales figures. **Warby Parker showrooms log an average of \$3,000 per square foot**, on par with the iconic jeweler Tiffany's.



Source: The Wall Street Journal, 2014

"Stores cannot just be row after row of product rail anymore... To survive, they have to tell stories — rooted in a sense of community and entertainment — and have points of view that make the owner stand out."

- José Neves, Farfetch founder



63% of retailers empower associates to look up items online or in another store if the item is not available



61% of retailers offer buy in-store and ship anywhere policies



32% of retailers offer the ability to buy online and pick up in-store

Source: NRF-FFC Omnichannel Retail Index 2016

"Not everyone wants a high tech or overly complicated experience... they [female consumers] want an extensive and rich assortment of options, and they want a human connection. They want a dress that makes a memory, and that's what we aim to give them."

- Liz Rodbell, President of Hudson's Bay department stores

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2: PERTINENT PARAMETERS

DEMAND FOR CONVENIENCE:

While brick-and-mortar locations will remain a foundational element of the retail landscape due to the desire for connectivity and experience, **the convenience of e-commerce will only continue to become more and more relevant.**

- According to the NY Times, the most sought-after retail real estate in New York is not in SoHo, but 5 miles away in Red Hook. Here, retailers are looking to lease space in massive warehouses - one as large as 11 acres - that can allow them to **deliver goods the same day they are ordered online.**
- As Dwight Hotchkiss, National Director of Colliers' Brokerage Services, indicates: "We have an expectation in this digital age of more instantaneous delivery... A lot more people today are shopping this way. **It takes away from the brick-and-mortar storefront and makes more demands on the warehouse space.**"

Showroom Total denim inventory = 220 items				Retail store Total denim inventory = 3,640 items			
Style	Washes	Sizes	Average #/SKU	Style	Washes	Sizes	Average #/SKU
A	x1	x44	x1	A	x5	x52	x2
B	x1	x44	x1	B	x5	x52	x2
C	x1	x44	x1	C	x5	x52	x2
D	x1	x44	x1	D	x5	x52	x2
E	x1	x44	x1	E	x5	x52	x2
				F	x5	x52	x2
				G	x5	x52	x2

Source: Bloomberg Strategy & Analysis, 2016

“Timely delivery of product remains the top of all criteria for luxury consumers... They want storytelling and theater of course, but they also want their chosen item, in the right color, size and in their hands as quickly as possible.”

- José Neves, Farfetch founder -

Figure 4: Depending on the country, price and convenience rule

Q: What has been your main influencer for buying online in the last 12 months?



Source: PwC, Total Retail Survey, 2016



2: PERTINENT PARAMETERS (CONTINUED)

DEMAND FOR DATA:

- **Arguably the most important output of active online retail platforms is the data it produces.** Savvy online retailers looking to expand their physical footprint can use the wealth of data collected by their websites to determine where the best locations to establish a brick-and-mortar presence might be. Everything from **postal-code data to user demographics** can be utilized to cater to consumers and establish profitable store locations.
- **The other side of the technological coin is the crucial need for streamlined online infrastructure.** As the industry shifts toward omnichannel strategies, young online retailers hold an inherent advantage over their older rivals entrenched in clunky legacy systems.

"I think our advantage over older retailers is that we don't have legacy systems. As a startup you have no systems, but you can create them and embrace modern technology. **We start from cloud computing and we build our infrastructure from the ground up.**"

(Eric Alper, Frank & Oak Senior Vice President of Marketing)

DEMAND FOR RETAIL EXPERIENCE:

- **As the industry shifts more and more toward online sales, retailers will continually have to look for ways to adapt their stores to meet the demand for a unique retail experience.** Many retailers are beginning to use showrooms to connect to their consumers, offering a custom-tailored experience that makes customers feel valued and **a part of something bigger than themselves.**

"Every place I visited this year that has anything to do with tapping into people's desires to break from the routine and live a little 'bigger' had a much-better-than-usual holiday season. REI? On Fire. Patagonia? Set a single day sales records back in November with its pledge to donate 100% of Black Friday sales to earth-friendly causes. How big, you ask? \$10 million in one day."

- Steve Rowan, RSR Managing Partner -

"Ultimately the use of data to transform stores will separate those who make it to the next step and those who won't."

- José Neves, Farfetch founder -



Source: Yardeni Research, Commerce Department

"The holy grail now for retailers is creating digital empathy. No one can really guess what the future will look like. But those who are using technology and data to create bespoke shopping experiences that recognize every person is different, and with different needs, are more likely to come out on top."

- José Neves, Farfetch founder -



Source: Bloomberg Strategy & Analysis, 2016

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AUTONOMOUS DELIVERY & MOBILE ACCESS:

- The effect autonomous vehicles have on the retail industry will be multi-faceted, but the two most crucial impacts will likely be seen in **increased delivery efficiencies and increased mobile access**.
- Because autonomous trucks are able to operate more efficiently and for longer distances than traditional trucks, **autonomous freight will dramatically reduce both delivery times and delivery costs**. This increased efficiency will also increase the **one-day or same-day shipping radiuses** of both local and large-scale distribution centers.
- The other critical component will be the increased opportunity AVs provide for alternative activities other than driving. **Each driver taken out from behind the steering wheel is potentially placed in front of a mobile device**. Instead of driving, consumers will be able to work, sleep, or browse the internet during their commutes, and that means an increase in time spent shopping on mobile devices. It also means less money spent on fuel and vehicle maintenance and **more money spent on shopping while in transit**.
- Lastly, AVs will deliver incredibly valuable data collection on consumer trends, automatically gathering data on **who customers are, where they are going, and what they are doing while riding**.

75% of shipping costs are related to labor

30% of transportation costs are incurred during the last mile

\$5.5 BILLION per year (estimated) for every additional *minute* people spend on the Internet while in a car

*“By utilizing autonomous ridesharing and public transit options, passengers could spare their wallets from the expense of fuel and car maintenance and instead use more of their earnings shopping online. Global digital-media revenues could increase **\$5.5 billion per year** for every additional minute people spend on the mobile Internet while in a car.”*

- McKinsey & Company, 2016 -



3: OUTCOME SCENARIOS

THE REIGN OF THE OMNICHANNEL RETAILER:

- **Due to the increased relevance of online sales and the desire for memorable shopping experiences in-store, the retail industry will be driven by innovative omnichannel strategies.** The key to success in the omnichannel market is **streamlined infrastructure and cloud computing**. Department stores and legacy stores will quickly become obsolete due to their clunky inventory systems and outmoded point-of-sale strategies. Those that cannot reinvent themselves will be replaced with more intimate, small-scale showrooms located in the urban core and large-scale distribution centers located in the suburbs that can rapidly deliver goods ordered online.

THE REIGN OF DOORSTEP DELIVERY:

- **Due to the convenience and affordability of online shopping and doorstep delivery, the majority of physical retail locations may largely disappear, with only the most inventive and engaging retail spaces remaining.** The success of any brick-and-mortar stores will become entirely dependent on the **entertainment value of the experience**. Only locations with a large collection of stores closely linked together will survive, likely paired with entertainment venues such as recreation, fine dining, and cinema.

4: LOGISTICS

EXAMPLE 1: RECIPE FOR OMNICHANNEL SUCCESS

- **Diversify:** Retailers that can diversify their platform to cater to both in-store and online markets will quickly rise to the forefront of the industry, while less nimble retailers become increasingly obsolete.
- **Streamline:** New startup companies that can establish a reliable consumer base have an inherent advantage in streamlining their omnichannel systems over older retailers that are hindered by their outdated legacy systems. By establishing a firm footing around their proprietary technology, young startups can tailor their technological strategies and logistics to best facilitate successful omnichannel marketing.
- **Showrooming:** As online retailers become established, they will begin developing carefully crafted flagship stores that can deliver a unique retail experience, solidify their brand image, and stimulate online sales.
- **Brand Recognition:** Retailers who can establish a clear vision and brand for their company early on will be better equipped to distinguish themselves from competitors. The brand must transcend mere aesthetics and serve to identify both the digital and physical retail environments that best communicate the company's underlying mission. Active social media presence can be a key tool in promoting the brand's image and message.

"Right now at least, people want to spend, they want to feel important, and they really, really want to feel like they are living a life less ordinary."

- Steve Rowan, RSR Managing Partner



According to some analysts, 33% of U.S. malls will be closed within a few years



Macy's has closed 90 department stores over the last 5 years



Sears has closed over 200 department stores since 2014

Source: Supply Chain 24/7, 2016

"The line between brands and retailers continues to blur as more and more brands open their own retail stores and e-commerce offerings."

- Bryan Nella, 2017 -



Bonobos guideshops in the U.S. as of 2016, with plans to open another 20 by the end of 2017



Warby Parker showrooms in the U.S. and Canada as of 2016



Retailers that invest in mobile and social media have seen a 30% average increase in sales

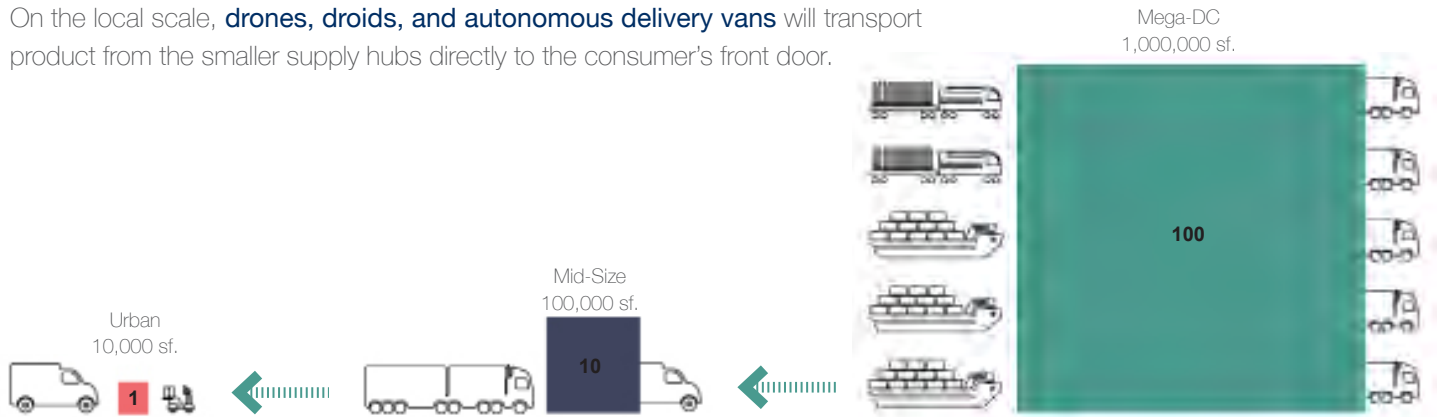
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EXAMPLE 2: RECIPE FOR RAPID FULFILLMENT

- Seamless Fulfillment Infrastructure:** The key to Amazon's success is the wide geographical reach of their fulfillment infrastructure. The increasing demands of rapid delivery turnarounds will force other retailers to implement similar multi-method delivery systems. **Large-scale "mega-distribution centers"** located in suburban and exurban areas will facilitate large amounts of product and inventory storage, which will be distributed to **smaller local supply points** in the urban cores for same-day delivery.
- Tech-driven Transport:** New advances in freight and delivery technologies will be necessary to accommodate rapid delivery demands. The increased efficiency and speed of **autonomous trucks** will expand the catchment area of mega-distribution centers, allowing these mega-DCs to service several metropolitan areas at once. On the local scale, **drones, droids, and autonomous delivery vans** will transport product from the smaller supply hubs directly to the consumer's front door.

"It is not enough to carry an item; a vendor has to be able to deliver it quickly, too...anyone wishing to do retail business online must be capable of same-day order fulfillment, which means that multiple sort points have to be built into facility design."

- Victor Coronado, Director of Supply Chain and Operations at The Onyx Company, 2015



Source: Colliers International



5: TRANSITION PERIOD CONSIDERATIONS

OLD-TIMER SURVIVAL GUIDE:

- In order for older, more established retailers to keep pace with the rapidly changing market, they will need to identify what the **key components for staying relevant** might be.
 - What did Nordstrom do to **stay ahead of the curve** while both Sears and Macy's dissolved overnight?
 - How can older retailers maximize the assets they already have - such as **brand recognition and a loyal consumer base** - to gain an advantage over younger startup companies?

RED TAPE & REGULATIONS:

- As e-commerce becomes more prevalent, **new policies will have to be implemented to regulate delivery strategies and retail typologies.**
 - How long will it take for government regulations on **freight policies** to change in order to fully maximize AV technology?
 - What sort of policies will have to be put in place or removed in order to facilitate **widespread drone delivery**? Where will "droneports" be located in cities, based on a typical drone's delivery radius of 15 to 20 miles?
 - Will the streetscape change to **accommodate droid delivery**? Dedicated "droid" lanes on sidewalks?

6: RELATED ISSUES & EXTERNALITIES:

- **Food Supply:** How will **food and grocery distribution** change as E-commerce becomes more relevant? Will AmazonFresh become as popular as other online staples like clothing and tech? What issues might encourage or discourage online food sourcing?
- **City Vitality:** What will happen to the **street life of cities** if all the shoppers are removed? Will streets seem empty?
- **Equity:** How will cities ensure ease of **transportation and access** to both physical and online retail amenities? Will food deserts disappear if autonomous vehicles can provide easy access to anywhere in the city?
- **Economic Impacts:** What will happen to our retail jobs? What are the **property tax ramifications** of online and showroom retail models for Municipal Budgets?

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