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Virtual Round Table Discussion

The Future of Physical Retailing

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Participants:

Ian McGarrigle (Moderator)	Chairman, World Retail Congress; Partner Candezent Advisory
Gwen Morrison	US-based senior advisor; ex-CEO The Store; Partner Candezent Advisory
Andrew Leaver	CEO, BlueSquare Group, The UK's leading Retail Marketing Agency
Jonathan Reynolds	Deputy Dean, Said Business School, University of Oxford; Partner Candezent Advisory
Alan Treadgold	Global Retail Industry Advisor, Founding Partner Candezent Advisory

How much more fallout in physical retail should we expect to see?

JR: It's been a torrid few months for physical store-based retailers and unfortunately has further to run but impacts will be felt differently in different geographies and retail sectors. We will see a bounce back as lockdowns ease and discretionary retail reopens. A lot of zombie firms that hadn't invested in new channels have gone and there are more still to go. Even firms with deep pockets have taken substantial hits. The good news is that this is creating opportunities as the cost of physical space falls.

GM: The US has been over-stored for many years. Many current malls and the spaces in them are just too large. Online shopping has accelerated across all age groups and retail categories. Much more replenishment is now taking place in the home and subscription models have emerged rapidly. The question now is what's the role of the store? There's an intersection of media and retail and branded content coming into the home. The issue is that the capabilities that retailers have don't align well with the future of retail – they know how to build stores; but they have to move beyond those capabilities to be able to operate effectively in these much changed environments.

AT: The effects of lockdowns are very unevenly spread across retail. For department stores in the UK and many other countries life looks very problematic for many and there's already been a lot of high profile casualties. Large store grocery and hypermarkets are also challenged as shopper behaviours have moved away from the big, regular shopping trip. But the flipside is more growth in smaller, more locationally convenient stores. Amazon Fresh's first store opening in the UK last week seems very relevant and its frictionless technology seems very timely. But the real battleground between physical and digital is in specialty retail – clothing, consumer electronics and so on. Many retailers are also saying that the stores which they have left are themselves probably over-spaced and hybrid models of stores that are part open to the shopper and part functioning as min-warehouses seem likely to have a lot more impetus to grow further.

What blending is taking place between retailers' physical and virtual worlds?

AL: Aim has to be to make these two worlds as connected as possible and as smooth and as seamless for the customer as it needs to be. Social media and content is a much bigger part of the mix. There's a much greater mix of touchpoints now that all need to be combined. Brand owners need to be agile in how they evolve their retail store offerings to meet very different consumer needs. In consumer electronics, one of the loops to be closed is helping customers to set up devices in home.

TG: We've gone through a period where a lot of retail has become fairly sterile and functional. Now the conversation is that e-commerce is starting to become proper retail in that caring for the customer across their online journeys and explaining products to them is coming to the fore. So what's happening in virtual shopping worlds is in a sense replicating what physical retailing used to be. Retailers need to be more innovative in their stores against the online competition or they will just disappear. In particular, they must be more creative in the use of their space, because it's difficult to exit space quickly. Bricks and mortar has to learn and go back what it used to do well, because it's the e-commerce retailers who are now doing this well.

What are the key agenda items for retail leadership teams?

TG: Get back to making physical retail fun again. Give shoppers a reason to want to be somewhere. If you don't they're just going to stay online.

Gwen: Look to the East and China especially for really creative and effective uses of live streaming, shopping events, social platforms, group shopping. It's happening in homes, in stores, in events venues to giving shoppers 'exhilarating' experiences and a sense of shared discovery. It amazes me that there aren't more platforms enabling us to shop in shared ways together from our homes. This has been a pressing need during this pandemic. People are cooking together during lockdowns but, certainly in the US, there hasn't been a growth in group shopping. We do need to look at the human needs which are met through shopping. It really is back to the future but also using all the tools we now have to persuade people that it's exciting for them to come back into stores.

JR: Retailers certainly need to keep customers stimulated with new and interesting offers. We're often being told that retail needs theatre and it does, but that mustn't mean that the shopper is simply seeing the same play many times over. Also be aware that constantly refreshing the customer experience can be expensive so it's important that retailers have a firm grasp on the returns they're looking for and the criteria for success.

AT: It sounds so obvious, but a really good place to start is with the customer – how have their lives been changed, how they want to engage and, therefore, how do I need to reimagine and change my business to align with the ways that they want to engage. Some parts of their spend are simply better conducted online – the functional spend areas in particular; but other parts of their spend should be more social, immersive and participative in nature. The retailers who have failed during the pandemic and lockdowns, failed because they couldn't or didn't change enough quickly enough. We've got to hope that one of the consequences of the current era is that there will be a realisation that more change, more quickly is what is needed.

AL: Customers want more speed. I can see speed of fulfilment becoming a much more important metric of performance.

GM: Stores have to offer sensory experiences. This can be more important than just getting it fast. Small 'Situational need states' create opportunities for physical retailers. It's not just about shopping modes and missions.

How much room for manoeuvre do retailers have to change their physical store portfolios?

JR: It's quite constrained in a lot of countries by the role of government. Retailers seem often to be asking for online sales taxes 'but be careful what you wish for', because while there's a perception that online retailers aren't paying enough, of course the imposition of such taxes will affect store based retailers trying to grow their online businesses. And this isn't just an economic issue, it's a geo-political issue given that many of the biggest e-commerce businesses are US and Chinese in origin.

GM: In the US landlords are now buying retailers. But the question is are they just wanting to support an old model so badly that they're prepared to sink even more money into a ship that has already sunk? There's a lot of moving parts to this. What we're also seeing in the US now is that totally different types of businesses are coming into malls like medical centres that are creating mixed use spaces and integrating residential too.

ADT: It's now compellingly obvious that the retailer – landlord relationship needs to change to leasing models that better reflect the realities of where sales are made and the role of the physical store. When retailers gather together at events like the World Retail Congress one thing you can be sure of is that they will criticise leasing models and landlord relationships. But it's clear now that these really do have to change to better align with current realities.

Are you optimistic or pessimistic for the outlook for physical retail and what would you urge physical retailers to think about most in looking at the future of physical space in their portfolios?

TG: I'm eternally optimistic, but then I'm a retailer. A lot of local shops, certainly in the UK, are doing well and they're being helped for example by parking restrictions being changed. This is going to be helped by more shoppers working from home.

AL: I'm very optimistic. For me it's all about responding quickly to change to realise opportunities. If you don't you're going to very quickly left behind.

JR: I'm also an optimist. I'm also a geographer so I'm a great believe in place being important. It's not one size fits all. Each town and city has its own character and retail will play a different role in each of them. Reinventing places involving retail isn't just about the store alone, it's about the setting. So I feel it will be much more a bottom up activity in the future with extensive community engagement, rather than a top down command and control approach that retailers have been so good at for so long. The future is going to be about more customised and localised strategies.

GM: My glass is always half full. Unified commerce and thinking about shopping that meets the needs of the moment is what the future will be. We have to look across all of the engagement points for shoppers, including the role of media in retail. This gets very interesting where brands will work more closely with retailers to define and realise those opportunities. New engagement models are emerging at pace and that's exciting.

ADT: It might have been nice to be a dissenting voice but I'm afraid I can't be because I'm also optimistic. Let's stop talking about channels and instead about the idea of brands and retailers engaging with shoppers across a multitude of touchpoints. Physical stores still have an important role to play for a lot of shoppers in a lot of categories. There's plenty of evidence out there that a lot of shoppers in a lot of countries really do want to return to physical retail shops when they're able to as lockdowns start to ease.