

STRATEGY

State of in-store retail Luxury Memo special report

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What's in the cards for in-store retail? Photo by Bettina Rheims for Printemps

By SARAH JONES

The in-store experience has traditionally been central to the luxury shopping journey, but threats such as falling foot traffic and changing consumer behavior are eroding bricks-and-mortar retail's position.

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While luxury marketers were slow to adopt ecommerce, most brands now sell online, making the boutique environment a less necessary part of the luxury purchase path. With consumers migrating their purchases online and foot falls declining in-store, is physical retail a dying entity?

"Quite the contrary," said Pam Danziger, president of **Unity Marketing**, Stevens, PA. "Bricks-and-mortar stores have never been so important for luxury brands.

"In the new experiential economy, brands need to lead with experiences, not products," she said. "That in-store experience closes the sale that all the other marketing and online strategies lead to.

"Throughout retail, only about 10 percent or so of sales are made online, with the other 90 percent made in store. That means that luxury brands need to invest comparably on creating the best in-store shopping experiences for their customers. That is where brand loyalty is made."

Weighing the investment

A number of luxury brands and retailers including Michael Kors and Saks Fifth Avenue have tied challenging sales results to declining foot traffic in their stores. This is partly due to falling tourism in certain markets, such as parts of Europe and the United States.

Due to the difficult retail climate and the lowered ROI on boutiques, Michael Kors shared plans to close around 100-125 of its more than 800 stores earlier this year.

Boutiques in the prime locations where luxury brands desire to plant their flag come with a hefty price tag. For instance, New York's Fifth Avenue, the priciest retail thoroughfare, has rents at about \$3,000 per square foot, while Hong Kong's Causeway Bay comes in second with an average rent of \$2,878 per foot, according to statistics from

Cushman & Wakefield ([see story](#)).

"More than ever, many luxury brands are now looking to own the real estate to house their various brands," said Houman Mahboubi, senior vice president of retail at JLL, Beverly Hills, CA. "It makes more sense to own the real estate than to pay the high rents that landlords are asking for, even though they are justified in many of the prime locations.

"Hermès, Chanel, Cartier, LVMH and few others all own their own real estate on Rodeo Drive and real estate in most of the luxury retail markets around the world," he said. "Additionally, the fact that so many luxury brands are under one conglomerate is even more reason why these companies should own real estate because they can rotate brands based on the popularity of the brand.

"With rents being as high as they are and space being so scarce, it is probably strategically the best thing to do for these major retail brands, to own their own real estate."



The Cartier store on Rodeo Drive. Image credit: Cartier

While a retail store can be an investment in the brand, having too many boutiques in one particular market may be unwarranted in the current retail environment.

A Boston Consulting Group report from January noted that while luxury's growth was previously driven by store openings, it now has to rely more on organic growth. Rather than expansion, brands should be focused on efficiency, making the most of the square footage they have and potentially scaling back their store presence in over-saturated markets such as China.

However, according to BCG, some markets in the U.S. and Europe may still benefit from added doors. Brands may also want to consider moving to better locations or storefronts within a particular market to further optimize their retail footprint ([see story](#)).

Retailers have tried a number of techniques to combat declining foot traffic.

Some have turned the store into a destination that goes beyond the commercial. For instance, British retailer Selfridges has converted space within its Oxford Street, London flagship into a movie theater, conceptual home for crafting, live theater auditorium and, most recently, a music venue ([see story](#)).



The Ultralounge at Selfridges. Image courtesy of Selfridges

Another trend that has caught on in luxury retail is leaning into consumers' interest in wellness. Lane Crawford, Selfridges, Galeries Lafayette and Saks Fifth Avenue have all hosted fitness classes in their stores, looking to draw consumers in for yoga or cardio and have them stay for shopping.

Consumers are increasingly trading in purchases for experiences, desiring memories over things. While this threatens retailers whose success or failure by definition is tied to consumption, many have decided that instead of beating hospitality, they should instead join them.

Malls are renovating to add more dining, hospitality and entertainment options. While consumers may not travel to shop alone, they may go out to dinner or stay at a hotel, giving the retailers within the malls a built-in audience.

The United Arab Emirates' Dubai Mall, which saw more than 80 million visitors in 2014, has an Olympic-size ice skating rink, aquarium and an adjoining 5-star hotel.

Standalone retailers are also embracing the idea of hospitality. Barneys New York's New York flagship in the Chelsea neighborhood has an in-house barber, while Neiman Marcus added DreamDry blowout salons ([see story](#)).



Neiman Marcus' in-store beauty salon. Photo by Elizabeth Lippman, courtesy of DreamDry

In dining, Burberry's London flagship added a caf in 2015, while Ralph Lauren and Armani both have a chain of restaurants around the world, many connected to their boutiques.

Another tactic taken to boost in-store visits is limiting exclusive merchandise to physical stores.

For instance, in 2014 Hublot launched a series of timepieces that are exclusively carried in its direct-operated boutiques.

The "Limited-Edition Hublot Boutique Exclusive" is the first collection of this type created by the watchmaker. Each year, Hublot releases an updated version of the Big Bang Unico All Black for the Boutique Exclusive series ([see story](#)).

Exclusives are a common tactic to drive traffic to a newly opened store. Moynat, for example, allowed shoppers to get their hands on two exclusive bespoke styles in London when it opened its boutique in the market ([see story](#)).

Personalization services can also be a draw for shoppers. Dolce & Gabbana marked the opening of a dedicated sneaker boutique by bringing artists and its seamstresses in-store for a customization event. Using the sneaker as a blank canvas, consumers could have patches added or painted details applied to their footwear ([see story](#)).

#DGSneakers personalized by our expert seamstress

While falling foot traffic appears to be a dark cloud forming over retail, it does not always have to correlate to declining sales.

Burberry noted in its first quarter 2017 results that while its number of in-store customers was down, conversions were actually up, showing that those who did decide to visit were more apt to make a purchase ([see story](#)).

For luxury brands, this shows the importance of driving traffic of those who have an inclination to buy. For Burberry, its conversions were led by an increased outreach to its existing clientele.

Going online

Another threat to the traditional retail store is ecommerce.

While the luxury industry long thought it would be impossible to get consumers to convert on haute timepieces or high-fashion online, consumer behavior is proving these assumptions wrong.

In the luxury business, ecommerce is growing faster than total sales. Online sales are expected to rise at a compound annual growth rate of 7 percent through 2021, according to figures from Euromonitor ([see story](#)).

While ecommerce currently only accounts for 9 percent of total luxury sales, its share of spending is projected to grow as more consumers gain Internet access.



Online shopping is becoming more prevalent than ever. Image credit: Saks Fifth Avenue

That said, even with ecommerce's growth outpacing the industry, by 2020 BCG projects that only 12 percent of luxury sales will be made online ([see story](#)).

An IBM report found that about half of shoppers identify browsing and shopping online as the most convenient shopping method. The same respondents said that buying an item at the store and leaving with it immediately is still considered the most convenient fulfillment method, but buying online and having an order delivered is gaining in popularity ([see story](#)).

A Future Laboratory report similarly found that while "Luxurians" still most frequently shop in bricks-and-mortar environments, with 46 percent of the population, online is catching up with 39 percent ([see story](#)).

Knowing that consumers are increasingly turning to online channels to shop, retailers should adopt omnichannel capabilities to reach them anywhere they choose to connect.

For the in-store environment, this means instituting digital touch points to make the most of the bricks-and-mortar retail store.

Through either consumer-facing or sales associate interfaces, retailers can offer customers a greater selection and inventory than can be housed in a physical store. If a particular color or size is sold out or is only available at another location, merchandise can be shipped to the customer, rather than having them leave empty handed and frustrated.

Click-and-collect services, which allow online shoppers to pick up purchases in-store, can also get consumers in the door. While at the store getting their order, they may make additional purchases, aided by serendipity, up-sell or cross-sell.

With consumers becoming more used to transacting online, elements that bring a familiar interaction in-store can help to bridge the channels.

Neiman Marcus' recently opened Fort Worth, TX store includes digital mirrors in the beauty, apparel and sunglass departments as well as digital directories pointing consumers to promotions and events ([see story](#)).



Neiman Marcus' Memory Mirrors have been installed in a number of the retailer's departments. Image credit: Neiman Marcus

Bloomingdale's similarly catered to the tech-savvy clientele in Silicon Valley's Palo Alto, CA with its store design. Opened in 2014, the store features smart dressing rooms, mobile checkout, consumer-facing tablets and sales associates armed with connected devices ([see story](#)).

A number of retailers, including Ralph Lauren, have installed smart features in their fitting rooms. Not only do these devices provide a service to customers, allowing them to view themselves in different lighting or request another size, but they also deliver data to retailers.

The CEO of Oak Labs, the maker of the technology employed by Ralph Lauren, explained at Forrester Research's CXNYC 2016 conference in New York that the use of technology in the fitting rooms can help brands determine the fit of certain items as well as the merchandise that is and is not being tried on by customers ([see story](#)).

The Oak Mirror

Just as retailers can bring touches of the online in-store, the bricks-and-mortar store can have a place online.

Brands' Web sites can serve as a gateway to the in-store purchase. The majority of luxury sales are influenced by digital channels, but most transactions still take place offline.

This opens up an opportunity for brands to create a bricks-and-mortar purchase path for browsers.

For instance, brands can let consumers know of inventory availability in-store or invite them to schedule an appointment with a representative to see an item of interest in-person. This is a particularly popular tactic for big-ticket items such as high-jewelry collections that are exclusive to boutiques.

Salesfloor, which has clients including Stuart Weitzman and Bloomingdale's, gives retailers' sales associates or individual stores their own version of the brand's ecommerce site. From here, the retailer's sales staff can make product suggestions to clients or connect with consumers via live services such as chat.

In a controlled experiment, the technology company found a correlation between personalized ecommerce engagement and in-store sales ([see story](#)).

Representative of the continued relevance of the in-store experience for luxury shopping, pure-play ecommerce startups including Moda Operandi, The RealReal and Rent the Runway have all opened bricks-and-mortar boutiques.

Moda Operandi's Madison Avenue store in New York is a by-appointment showroom, while Rent the Runway has opened stores to provide in-person styling help and allow consumers to browse merchandise or trade in rentals.



Moda Operandi Madison Avenue. Image credit: Moda Operandi

"When it comes to luxury retail, nothing will replace the ability to walk into a store and touch and feel the handmade craftsmanship that goes into a product," JLL's Mr. Mahboubi said. "While ecommerce provides ease and convenience, the luxury shopper tends to enjoy the overall experience of in person purchase and truly being in touch with their five senses.

"There is nothing like physically feeling something and that experience in itself gives a person a sense of joy and happiness," he said. "To be a luxury brand in the retail world, you must first have bricks-and-mortar presence before anything else."

Elevated experience

Changing consumer expectations are also putting pressure on retailers.

Customers now come to the store armed with information. Whether they researched a purchase or brand ahead of time or they consult a phone while in-store, sales associates need to work harder to be more knowledgeable than their clients.

A Forrester report from 2013 found that only 24 percent of consumers consider sales associates the best source of information. The ability to quickly check a price or fact check what a salesperson says is also diminishing the trust that had previously been placed on these representatives.

One way to ensure that frontline staff members have the information they need is by arming them with technology ([see story](#)).



Boss on Demand provides access to personal stylists in-store. Image credit: Hugo Boss

Even with the rise of digital channels and consumers' feelings toward salespeople, frontline sales staff are far from obsolete, according to results of a survey conducted by InMoment.

The report found that while shoppers spend about twice as much in-store when they navigate to a brand's Web site while shopping, their expenditures grow to four times more if they interact with both an associate and the brand's Web site while in-store. Additionally, brands need to look beyond their own channels, as those who consulted a competitor's Web site and engaged with a sales associate spent on average six times more than those who only spoke to an associate ([see story](#)).

Sales associates have a great impact on a retail store's success, but one issue plaguing retail today is talent, as

brands struggle to find and keep the right people. According to BCG research from 2014, 34 percent of respondents said it was difficult or impossible to find personnel to work in their own retail stores in Asia. For Europe and North America, this figure was 28 percent and 21 percent respectively ([see story](#)).

While finding talent is a challenge, keeping them is also of the utmost importance.

Milton Pedraza, CEO of the Luxury Institute, spoke during Luxury Interactive in October 2016 about the importance of sales associate retention. According to the consultant, brands should be more concerned with keeping their top frontline personnel in place than with keeping their roster of clients, since the customers' loyalty often hinges on the relationship built with a particular sales person ([see story](#)).

Bricks-and-mortar retail is still generally operating in an out-of-date fashion, creating obstacles for sales staff, according to a Luxury Institute study. The store managers surveyed for the report mentioned a number of changes they would like to see, from being given more power to hire and fire personnel, increased staff sizes and more realistic rewards for performance, all of which managers say would boost their store's results ([see story](#)).



Sales staff need to go beyond what the client came in for. Image credit: Westfield London

"Luxury brands should redesign the rules of a retail that is still anchored to processes and dynamics of the 90s," said Renato Mosca, CEO/founder of [Training Luxury](#), Barcelona.

"Should all the sales associates be selling in the store? Probably not," he said. "Selling is a serious and difficult business and a big portion of the sales associates doesn't have the skills to go beyond what the customer had originally thought to buy. You cannot imagine how many times the sales associate drives the customer off the purchase, by confusing him or speaking without the necessary confidence.

"I think about a retail with more defined roles, from the host/hostesses to the engager, to sales specialists to customer complaints specialists. This will make the hiring process easier, with clearer expectations towards the candidates. It would also make the sales associate job, [which is] very difficult and often underestimated, more appealing also in terms of reputation."

Mr. Mosca also pointed out that the staff at many retailers do not get the kind of oversight or training needed because managers are splitting their time between 10 locations. Employees who are not getting feedback on a consistent basis are harder to retain.

"Retail is like a baby: you need to care and be present," he said.

Beyond altering the interactions between sales associates and customers, changing consumer behavior is also having an impact on how retail stores are designed.

Last year, Montblanc unveiled a newly developed global retail concept that emphasizes the importance of a multi-sensory in-store experience.



Montblanc boutique in South Korea. Image courtesy of Mood Media

Montblanc partnered with Mood Media to enhance its in-store customer experience through the integration of interactive mobile marketing, visual, auditory and sensory solutions. As consumer behavior and in-store expectations have evolved, brands have found it necessary to respond accordingly for fear of being seen as outdated and irrelevant in the modern marketplace ([see story](#)).

Brand building

Beyond a point of sale, a store acts as a branding tool for luxury retailers.

Faith Hope Consolo, chairman of Douglas Elliman's Retail Group, noted in a lecture at New York University's Stern School of Business that just having a storefront in a key market such as New York acts as an awareness driver ([see story](#)).

Another industry expert shared similar views.

"Retail stores, particularly those located in major destination, gateway and traffic locations, are highly effective in being provocative and intriguing to the curious and the interested," said Ken Nisch, chairman of JGA, Southfield, MI. "Luxury brands need to bring in customers who, either through social demographic status or position, feel resistance or disconnected to the luxury business.

"The retailers need to make it so that these customers find themselves attracted or intrigued by a store's windows, displays or even architecture," he said. "This curious or interested customer may be drawn in on an impulse basis, their defenses down and open to engaging with the brand in a way that is more likely in the physical environment than it is in the digital one."

Taking this idea in-store, a number of brands have leveraged storytelling and museum-style displays to further the boutique's benefit as a marketing opportunity.



The Curious World of Smythson exhibit. Image credit: Smythson

For instance, to celebrate the opening of its Madison Avenue store, Smythson hosted an in-store exhibit that gave familiar and prospective consumers a glimpse at the brand's then 128-year history ([see story](#)).

Burberry similarly gave consumers a close-up view of artisan skills with a month-long series of bespoke experiences at its global flagship.



Burberry's showcase included an artisan making a trench coat. Image credit: Burberry

Exclusively at the store on London's Regent Street, consumers could have items personalized with hand embossing or take in installations based on Burberry's latest collection. Taking the retail environment beyond a mere point of sale is a way to convince consumers to make a trip to a physical store ([see story](#)).

Using its retail stores for a cause, Jaeger-LeCoultre partnered with the Ovarian Cancer National Alliance on a series of in-store events featuring one photographer's work capturing survivors of the cancer ([see story](#)).

"Many luxury brands have built a palace or a church, not a stage," JGA's Mr. Nisch said. "In doing so, they have become ubiquitous in many cases around the world with little differentiation. Whether the shops are in Paris, Shanghai or Moscow, these luxury brands have created environments that, by virtue of their Big Brother investment and their approach to environments, are static, permanent and stagnant.

"By thinking of their stores more as stages than churches they can dramatically reinvent and re-conceptualize," he said. "They need to do so at a pace that's appropriate to today's customer's attention span and interest. They need to think of themselves more like permanent temporary' stores rather than the previous cycle of five- or ten-year flow of renewability.

"There needs to be less investment in marvel' and much more investment in ideas and creativity."

Store of the future

With the identity and purpose of the retail store evolving, a number of retailers and researchers are trying to anticipate where retail will be in the future.

With omnichannel retail, brands can do more with less. This may mean a more streamlined store presence or the repurposing of stores.

In a report, CBRE Research sees the store strategy of the future as having a main flagship in a market centered on brand experience, while secondary stores will function as spaces to support ecommerce activities, such as pickup ([see story](#)).

Graduate students from the Fashion Institute of Technology's class of 2015 see the flagship store as a "center of creation."

Based on research about consumer behavior, students proposed a changed product assortment that includes 80

percent brand-created merchandise and 20 percent items that are from like-minded brands, building out a larger lifestyle. They also suggested an open-kitchen style craftsmanship area, allowing luxury shoppers to see artisans at work ([see story](#)).

The future of in-store retail will also be centered on integrated technology.

Farfetch's Store of the Future, unveiled earlier this year and currently in beta, links together the online and offline worlds through data touch points that enhance and personalize the retail experience for consumers while presenting sales associates with chances to become in-store influencers ([see story](#)).

Yoox Net-A-Porter is similarly working with Valentino on a seamless omnichannel framework.

At the store level, mobile touch points will allow visitors to have as much or as little contact with sales staff as they prefer. Mobile checkout eliminates the need for associates to ring up purchases, while mobile platforms can also assist shoppers in finding merchandise.

These mobile devices can also make a connection between frontline staff and customers for those looking for a more personal touch ([see story](#)).

"The shift to ecommerce, a decade-plus of over-building and failure of many retailers to respond to shifting consumer preferences is putting pressure on bricks-and-mortar stores to both right-size their store fleets and individual store foot prints," said Steven Dennis, president of [SageBerry Consulting](#), Dallas, TX. "Broadly speaking, we will continue to see a fair amount of store closings, consolidations and re-working of store formats.

"Luxury is not likely to be hit quite as hard as the store experience is more central to purchase decisions and there has not been as much overbuilding," he said. "But luxury is generally behind in creating what I call a harmonized retail experience across channels.

"Brands need to create a one-brand, many-channels customer experience. Too many brands have organizational and data silos that make this difficult and have underinvested in digital."

Best-practice tips for luxury in-store retail:

- Pam Danziger, Unity Marketing:
 - "Shopping experiences are about making a memory in the customers' mind. The Beekman 1802 company, founded by the Beekman Boys Brent Ridge and Josh Kilmer-Purcell, evaluate all new marketing and branding opportunities according to the 'NMO' rule Neighbor Memory Opportunity neighbor being what the company calls its customers. They push each new idea on the table to define a specific Memory Opportunity that it will deliver to the neighbor/customer. It is a new way of defining retailing goals away from sales and profits, which are company focused, to the customer experience, which is the source of those sales and profits."
 - "Create a signature trademark look that is distinctive and memorable. I am a fan of retail staff uniforms so that the customer clearly knows who is there to help. But that uniform does not have to be dull, it should be memorable and distinctive, by way of making the store memorable to the customer. I use Iris Apfel as an example of someone who uses her look to make a memory. When she wakes up in the morning, she is just another little, old lady. But once she dons her signature glasses, her jewelry and her clothes, she becomes someone you cannot forget and you really want to know. That can be the power of a signature look for retailers who are not afraid to claim a signature look for their staff."
- Steven Dennis, SageBerry Consulting:
 - "Deeply understand the customer journey by key segments and focus efforts on eliminating friction points and find ways to be remarkable that are ownable."
 - "Adopt a culture of experimentation and operational agility."
- Renato Mosca, Training Luxury:
 - "Empower the teams in the front line. Luxury customers want to feel different and special. Today, the organizations have stopped the proactive behavior of the sales associates with a lot of procedures and bureaucracy. Luxury customers want to feel different and special. If the sales associate owns the relationship and is the true ambassador of the brand, she should be empowered to take decisions in

autonomous ways, including customer return of merchandise."

- "Follow up on the sales associates and store managers' progress. Several initiatives in retail fail because there is not a proper follow-up. The selling ceremony is a typical example. Most of the sales associates are trained on how to deliver an excellent customer experience in-store. At the same time, if the training is not properly followed up, the sales associate would start assuming, according to his own criteria, which part of the process to follow and which part to skip. In less than a month, there would no consistency among the service given by different sales associates or different stores."

- Houman Mahboubi, JLL:

- "Treat the customer as you if you were the customer yourself, and never try to sell a product to a client who is not looking to be sold on it. Shoppers prefer to have their opinions heard and have an organic experience."
- "Always create a sense of newness and fresh new looks in the store where the customer would return on a regular basis to make purchases, whether it is changing the window displays, the look and design on the table displays with constantly new products and shipments of goods. Also, interior arrangements of how the inside of the store looks with new floral arrangements, lighting, merchandise displays and various activities."

- Ken Nisch, JGA:

- Excite the customer about what is coming versus what's already been done, such as living into the future, renewable reinvention, surprise and delight, et cetera, which are less about impressing where the brand has been and work harder on where the brand is going."
- "Begin to make the online presence more in line with this permanent-temporary approach that retail stores are heading [toward]. In other words, create micro-sites for individual, local stores that tie into social experience, events, what's happening that day, at that moment, et cetera, for that customer in the store, as an invitation to the store but also as a thank-you for having visited the store."