

RETAIL

Tesla detours ecommerce-centric plans back to physical retail

March 13, 2019



A Tesla showroom in Denver. Image credit: Associated Press

By SARAH RAMIREZ

As suddenly as U.S. automaker Tesla announced it was closing the majority of its stores to cut costs and focus on ecommerce sales, the electric vehicle manufacturer is now rerouting its plans back to bricks-and-mortar retail and raising prices instead.

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While Tesla's latest reversal may be indicative of continued upheaval within the company, it also hints at the continued and possibly under-appreciated value of physical retail. In recent weeks, Amazon and Sephora have also made headlines for changing their bricks-and-mortar retail strategies.

"I have always believed that brands have to go where their customers are," said Fred Reffsin, president of **Brandgrowth**, a New York-based brand strategy firm. "Tesla clearly underestimated the impact of the retail experience on the decision-making process."

Mr. Reffsin is not affiliated with Tesla, but agreed to comment as an industry expert.

Retail revelations

At the end of February, Tesla announced its plans to close the majority of its physical locations in the coming months. The automaker did plan on keeping select stores in high-traffic locations open as galleries, showcases and information centers.

Focusing on ecommerce sales had the potential to significantly reduce the company's overhead costs, as well as limiting its marketing and sales spend.

The expected ecommerce shift had raised questions on how the automaker would sell luxury electric vehicles sight-unseen. Changes to Tesla's return policy also drew scrutiny from industry experts ([see story](#)).



A Tesla supercharging station. Image credit: Tesla

"[Closing stores] struck me as a bad idea right out of the chute," said Paula Rosenblum, managing partner at [RSR Research](#), Miami. "A Tesla is not a common enough product to just try a friend's' and the test drive is a key aspect of the car buying experience."

Within two weeks, the carmaker reevaluated and is changing its sales strategy yet again.

In a [company blog post](#), Tesla revealed that while 20 percent of its retail locations are still at risk of closing in the coming months, significantly more physical spaces will remain open than originally planned.

Since the carmaker is only closing half as many stores as envisioned, Tesla is making up the difference by raising prices by 3 percent on its Model S and X, as well as on more expensive variations of the entry-level Model 3.

Touching on aspects of the retail experience that cannot be replicated online, Tesla's statement reiterated that its vehicles will remain available for test drives at a prospect's request and a limited inventory vehicles are in stock for buyers who do not want to wait for a custom order.

Tesla had also hit a roadblock in its plans to close stores once it became clear the automaker would still owe more than \$1.1 billion for leases and other real estate uses between now and 2023, according to [The Wall Street Journal](#).

In the meantime, ecommerce giant Amazon is also evolving its retail strategy.

As reported by [The Wall Street Journal](#), Amazon will close its nearly 90 U.S. pop-up stores by the end of April. Located in malls as well as Whole Food locations and Kohl's department stores across 21 states, the pop-ups primarily sold Amazon devices such as Kindles and Echos.

Amazon will not be eschewing bricks-and-mortar entirely, however.

Instead, Amazon will focus on expanding its bookshops and 4-star stores, both of which have a larger product offering than the pop-ups. The company, which acquired Whole Foods in 2017, also plans on opening grocery stores across the U.S.



Sephora is expanding its bricks-and-mortar portfolio. Image credit: Sephora

As other retailers shrink their physical footprints, LVMH's Sephora is also leaning into a heavier bricks-and-mortar presence with the addition of 35 new stores.

Showcasing the growth of the beauty sector and Sephora's prowess at experiential retail in physical spaces, the

cosmetic retailer is rolling out the new stores this year. The year of store openings will begin with its new Hudson Yards store in New York on March 13 ([see story](#)).

"Each retailer is at a different decision point," Ms. Rosenblum said.

"Some retailers do want and need to expand their store footprints," she said. "Others already have too many doors, so there really isn't a one size fits all answer."

Omnichannel opportunities

Balancing retail locations with engaging ecommerce experiences is vital for luxury brands.

"It's important for all retailers to focus on omnichannel strategies," RSR Research's Ms. Rosenblum said.

"Consumers' path to purchase is somewhat chaotic, and there is a distinct expectation that they can have what they want, in the manner that they want it.

"It turns out that luxury shoppers are more time starved, so once they know the styling and sizing of merchandise, it's easier for them to buy online," she said.

Affluents are increasingly drawn to online shopping because of convenience, but omnichannel shoppers spend more on luxury items than the average on- or offline consumer.

According to Forrester Analytics' Luxury Retail Forecast, nearly 60 percent of luxury sales growth will originate from ecommerce by 2023. U.S. and European consumers who buy luxury goods in both physical and digital stores spend up to four times more than consumers who shop exclusively on or offline ([see story](#)).

Retail group Nordstrom has been successful as it focuses on creating differentiated digital and physical experiences for customers, such as its Local concept and click-and-collect services. One-third of Nordstrom's total customer base in 2018, or 10 million customers, came to the retailer through multiple channels, a 6 percent growth from 2017 ([see story](#)).

"For brands to succeed they must give their customer choices as to how they want to manage the transaction," Brandgrowth's Mr. Reffsin said. "It's not an either/or decision.

"Brands may choose to only sell at retail and see the Web as a source of information. Customers may accept this," he said. "Others may prefer the convenience of buying online and may never set foot in a store.

"Most luxury brands have realized that success comes from all channels working together. The omnichannel debate has been settled."