

RETAIL

Shape of post-COVID-19 retail

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Costing \$5 billion to build, the American Dream mall opened last fall in New Jersey's Meadowlands, only 10 miles from Manhattan. Image credit: American Dream

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American Dream is closed.

Six weeks ago, this **seemingly cursed** New Jersey megamall was gearing up to celebrate its latest addition, an indoor DreamWorks Water Park. The monster retail-entertainment complex featured attractions with names such as Lemur Leap, Mad Flush and Forbidden Waters Hot Tubs.

With 40 water slides and 15 attractions over 8.5 acres, it is the largest indoor water park in the Western Hemisphere.

Or, it aspired to be.

Aside from the fact that it is hard to imagine anything less attractive than marinating in a Forbidden Waters Hot Tub, this unfortunate waterpark is a perfect embodiment of the pre-pandemic trajectory of physical retail.

Obsessed with offering ever-more-grandiose experiences, physical retail lost sight of the basics: product curation, exceptional service and being part of a local community.

It is doubtful that Lemur Leap would have saved department stores in the American Dream mall. Only a thorough redesign of its operations, business strategy and purpose would.

But it is easier, albeit not cheaper, to use the world's tallest water slide to mask the real problems: inflexibility of the current wholesale model, antiquated merchandising, deep discounting, fixation of seasonal collections, ecommerce underinvestment, failure to recognize and adapt to changing consumer behavior, and lack of omnichannel integration.

We are at the fever pitch of physical retail's doomsday scenarios, spurred by an expected Neiman Marcus **bankruptcy**.

It is more productive to expand the analytical lens to include macro trends beyond retail.

Three macro trends, in particular, inspire more strategic scenario planning when it comes to future store formats and functions.

The Great Slowdown. **WoodWood** is a Danish fashion retailer that recently announced the re-opening of several of its stores.

Stores are open from noon to five in the afternoon, and adhere to a strict set of health guidelines, such as operating with a limited capacity and restricting the number of visitors to give each more space. This means lower transaction volumes and fewer customers per day.

In urban areas, consumers are used to rush-hour grocery shopping in crowded supermarkets, waiting in lines for drops and sales, and sitting uncomfortably close to their neighbors in restaurants.

In the name of efficiency, certain types of establishments allot their customers a finite amount of service time: hairdressers and dentists often double-book themselves, restaurants adopt assembly line schedules to squeeze in extra sittings, and stores do nearly anything see the Mad Flush ride above to increase their foot traffic.

Similar trends are developing throughout the world, where physical retail and services are opening gradually, with reduced operating hours and staff levels.

McKinsey's April 2020 **survey**, "How retailers are preparing for the post-coronavirus recovery," notes that most U.S.-based retail executives, across sectors, expect a recovery of store traffic to take months. At the same time, they expect their store traffic to eventually return to pre-crisis levels.

Regardless of the timeline, post-efficiency will require a major behavioral shift for both corporations and consumers.

P&Ls need to be adjusted for slower sell-throughs and occupancy rates. We need to get comfortable and not weirded out in spacious environments. The death of efficiency will also usher us faster into the **slowdown era**.

Localization. For some years now, there has been a shift towards shopping locally.

Nordstrom has already been experimenting with building neighborhood presence through its Nordstrom Local concept "stores" that do not sell anything but offer convenience in the form of returns, online order pick ups, style consulting, and alterations and tailoring services.

Further localization is powered by both the rise in nano warehousing and a decline in car ownership among young urbanites.

Nano or micro warehousing refers to small fulfillment centers dispersed throughout urban neighborhoods. It helps retailers route orders quickly through local facilities and provide the handy last mile solution that ensures speedy delivery and cheaper and faster fulfillment.

The grocery sector leads with nano warehousing at the moment, with grocers using it as an extension of their stores to help complete online orders.

In this scenario, a monthly Costco load-up seems less likely than a lot of small, frequent trips to a local grocery store complemented by online ordering.

The lockdown dialed up the "shop local" behavior, and will likely continue as we steer clear of public transportation and taxis.

With nearly everything being up for delivery, neighborhoods may turn inward even more.

The changing face of cities. The draw of big cities such as New York, London, Los Angeles or Tokyo is that they are made of a series of distinct, colorful neighborhoods, each with their own identity, vibe and demographic.

What makes them different are the small, local, mom-and-pop shops not the chains of identical mass retail stores.

Think of how the SoHo neighborhood of New York transformed over the past couple of decades.

Once legitimately seedy, it is now home to any number of direct-to-consumer brands with the exact same aesthetic, paired with retail chains.

To top the misery off, a self-described "shabby-chic neighborhood bistro" on Grand Street, the venerable Lucky Strike, permanently closed.

Beyond the misplaced nostalgia last time I was in Lucky Strike was probably in 2008, but still, it was comforting having it around these one-of-the-kind establishments make the cultural fabric of cities more diverse, creative and

exciting.

Now they are endangered species. Once they go extinct, the entire ecosystem of a neighborhood will collapse.

Social and cultural poverty is tightly linked to economic poverty.

The U.S. Small Business Administration estimates that smaller retailers drive **44 percent of the economy**. Allowing them to fail, **writes** Retail Dive, "would be a blow to the country's general welfare."

The big, mass and vertically integrated retailers are undoubtedly hurting. They struggle to pay their rent. But they will survive. It is the independent stores, labels and tradesmen that will not, and that will make a lasting dent in our economy and society.

Based on these three macro scenarios, I identified four strategic directions for retailers. They nod to the benefits of physical retail in terms of customer acquisition, conversion and regenerating neighborhoods. But they also reflect the core change in the physical retail's role, and view it in relation to the overall brand and business strategy and in terms of "jobs to be done" for a retailer's audience.

Contactless retail. Anything retailers can do to minimize direct, person-to-person interaction will be helpful in restoring consumer confidence, especially in the period immediately following reopening.

Look for retailers to use public health as a lever to accelerate the saturation of self-checkouts in their stores a trend that has already been gaining momentum in Big Box chains over the past few years and to develop smoother processes for curbside pick-ups.

Ecommerce laggards will be forced to pick up the pace across the board, and the more of these types of adjustments retailers can make before they re-open, the better positioned they will be to recapture lost sales.

Refocusing around contactless does not just mean embracing new tech, either. Sometimes old-school tactics will be the most immediately effective, especially for small, independent operators who are unhindered by corporate bureaucracy and therefore able to move quickly.

Independent convenience stores always petri dishes of resourcefulness are **already adapting** with no-tech strategies that one could imagine scaled-up to larger retailers.

Many in the latter class already allow shoppers to check inventory by location online, but it is rarely as easy or intuitive as it should be, and shoppers considering an IRL visit will want to make their trips as efficient as possible..

Vending machines are an intriguing example of a 20th-century technology that might have a role to play in this new paradigm.

Largely overlooked in the West they are much more prevalent in nations such as Japan, where you can scarcely walk 50 meters without passing a machine that will sell you a hot can of coffee the vending machine satisfies the needs of a society suddenly inclined towards autonomous modes of delivery.

In dense urban environs, retailers could look to mimic the Japanese model of placing vending machines in the lobbies of residential buildings, providing safe, round-the-clock access to staples.

Over the past few years, the likes of Nike and Snap have experimented with vending machines as marketing plays remember Spectacles? and there is room for this type of ingenuity, as well.

We must remember, too, that no transaction involving a physical good is truly contactless. Eventually, it reaches the consumer's hands, and if this is the first point of IRL contact, the packaging in which the order arrives is of paramount importance. This was already true see Glossier's **pink bubble pouches**, "so popular we sell it separately" and is now even more so.

White glove retail. There is no end to what we can do to make shopping safer and more efficient, but we must remember that it is largely a recreational activity. How will retailers cater to the part of us used to shopping as leisure?

The physical locations that survive this extended pause will likely reopen with a focus on high-touch clienteling and luxury service, where shop visits are appointment-only or tightly controlled and restricted, and oriented around consumer experience rather than pure sales. Does this sound familiar?

It is essentially what was promised but rarely delivered by the past decade's fixation on "experiential" retail, which

tended to confuse spectacle with a genuinely enjoyable, unique experience.

A visit to a high-end retailer in let us indulge in optimism for a moment September 2020 will likely involve a lot more attention from shop staff, personalized product recommendations, and food and drink service.

It could even become the norm to charge for a shop visit. Imagine an afternoon at Chanel where a stylist walks you through the entire fall/winter collection having already prepared a selection of garments for you to try based on an intake call the week prior, all bookended by coffee and croissants to start and a glass of Champagne as your purchases are being wrapped.

If nothing you tried on suited your fancy, you still leave with a low-cost item specific to that location would a silk mask be too loose on the nose? covered by the fee you paid in advance.

Independents who are able to quickly tailor their offering to the needs of their best customers are in a good position to build a durable client base.

For upmarket and accessible retailers alike, the sky is the limit when it comes to ingenious clienteling.

A neighborhood grocer could develop hyper-local membership and subscription programs, where customers are able to build a bi-weekly order full of fresh produce that they can pay for in advance and pick up without needing to browse and handle produce that has already been pawed through by other shoppers.

When it comes to ecommerce, it is time for experience to come online.

Retailers need to find ways to provide exemplary service without the full, sensory experience of an IRL boutique. Better two-way, digital communication is a start, whether through video calls or otherwise.

For instance, Sweden's Tres Bien, a 15-year-old menswear boutique with locations in Malm and London, has been operating a virtual shop via Zoom for the past month, allowing any customer to log on and chat through their potential purchases with a staff member.

Delivery is another area businesses could be retooling to provide the type of above-and-beyond service that creates loyal customers.

Rather than relying on platforms such as UberEats, restaurants could differentiate by deploying their own small fleet of couriers to deliver meals, while reworking menus to better match the conditions in which their dishes will be eaten farewell, for now, to fancy plating.

By taking charge of the whole customer journey and harmonizing each phase with company values, businesses will build the deep connections with patrons that they will need to weather future crises.

Focus on the Last Mile. According to Nielsen and Rakuten, online sales of consumer packaged goods jumped almost 60 percent year-over-year for the weeks ending April 11 and April 18. No surprise there.

Confined to our homes and now trained to view every physical interaction as a potential vector of infection, the balance between URL and IRL shopping has tilted decisively towards URL.

The eventual reopening of non-essential retail is unlikely to do much to reverse this trend in the short-term and long-term. It is reasonable to expect at least a tranche of the consumers suddenly forced into, say, buying groceries online, to grow accustomed to the process and permanently change their shopping patterns.

This means that the last-mile portion of a delivery the one that gets it to your door will become an even more crucial touch point between brand and consumer.

When we talk about last-mile, it is usually to spotlight obstacles to efficiency, to effectiveness and, more recently, to ethically sound operations.

For instance, **much has been written** about the brutal labor conditions suffered by employees of third-party services contracted by Amazon, who endanger themselves and others to keep up with inhuman delivery quotas.

As our reliance on ecommerce logistics grows, so too will scrutiny of the businesses behind them. Challenges and opportunities abound.

We may see specialized last-mile firms adopt the kind of values-based messaging and thoughtful identity design they need to become brands all their own.

The space may stratify, with companies that deliver consistently exceptional handling and fair conditions for their

employees becoming the preferred last-mile carriers of aspirational, upmarket retailers.

These shifts will undoubtedly force the established firms such as FedEx, UPS, DHL and government-owned postal services to adapt.

Once the specialized last-mile firms become ubiquitous, they will also very likely accelerate the development of autonomous modes of delivery.

Data-driven local retail. By now, we have all seen empty grocery shelves where cleaning supplies or chickpea cans or tortillas used to be.

Panic buying exposed the **fragility** of just-in-time systems on which most grocery businesses operate. There was still plenty of whatever we were panic buying, but volumes stocked at warehouses reflect the usual demand and could not be replenished quickly enough.

When an unusual spike in demand happens, it throws the entire just-in-time system out of whack. Artificial intelligence (AI) can help, and proponents of fashion sustainability have been suggesting its use to better calibrate supply and demand.

Fine tuning of supply and demand, plus scenario planning that takes extreme situations into account, will fast-forward retailers' operating model. In fashion, the current amount of unsold merchandise spurred a near-existential crisis.

Oversupply, undersupply and wrong-kind-of-supply are solvable. They occur not because of the lack of data, but due to an oft-missing link between collecting data and using it to inform better business and brand decisions.

Menswear brand Bonobos, a notable early exception, localized physical supply based on its online demand. Bonobos' first showrooms were opened in locations with the highest volume of its online sales. A precious few have followed Bonobos' lead since.

In the months of March and April, ecommerce across retail categories has grown as much as **75 percent**.

Thanks to this spike in online sales, a lot of retailers now have data points from a massive number of geographically distributed customers significantly more than usual.

This two-months-plus bank of data can be deployed to build a more localized merchandising strategy, better store stock volumes and selections, and a superior calibrated delivery infrastructure.



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