

RETAIL

Why DTC brands are rethinking retail

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Pop-ups like Nordstrom Local offer retailers more flexibility. Image credit: The Lionesque Group

By SARAH RAMIREZ

As the retail industry in the United States looks to recover from the COVID-19 pandemic, direct-to-consumer brands that originated online are flocking to bricks-and-mortar.

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During a webinar on April 22 hosted by analytics platform [Placer.ai](#), retail experts discussed why it is in the best interest for brands to move into more own, offline locations. As foot traffic picks up again at shopping centers, digitally-native brands are leveraging physical spaces to offer experiences that cannot be replicated as effectively online.

"We're always asking the question upfront: what can we bring to physical that you cannot solve for online?" said Melissa Gonzalez, CEO at retail strategist firm The Lionesque Group, New York. "There is also the aspect of community building around a brand, in a way that you can't do online."

"It just really immerses consumers in a deeper way around the lifestyle of your brand, the value proposition of the brand goes beyond the products and services that they sell," she said.

Service offerings

Customer acquisition and return on investment are among the main priorities for DTC brands that are considering experimenting with physical retail, according to Web Smith, founder of ecommerce strategy firm 2PM.

"A lot of brands are going omnichannel because it's a bit less expensive," Mr. Smith said. "Microfulfillment has also presented its opportunities in certain hotspots."

Occupancy rates below 90 percent at shopping centers is also encouraging brands to go offline, though brands such as Warby Parker or Allbirds are unlikely to have hundreds of stores like the specialty brands of yesteryear.

To be successful in these physical spaces whether it is a pop-up or a more permanent outpost brands should focus on integrating technology to combine content and commerce in an effective and engaging way.

Flexible fulfillment is also growing in importance, as stores start to function as both points of fulfillment and points of discovery, according to Ms. Gonzalez.

As Ethan Chernofsky, vice president of marketing at Placer.ai, explained, services such as buy-online-pickup-in-store (BOPIS) have drawbacks for retailers despite booming popularity amid the COVID-19 pandemic. BOPIS has higher costs, higher return rates and fewer opportunities for upselling than in-store shopping.

Meanwhile, some legacy brands downsizing or consolidating their physical footprints and focusing on their best, most heavily trafficked locations "the South Coast Plazas of the world," as Brett Robinson, partner at RetailUnion, put it. Those are the same locations where DTC brands want to jump into as well.

"COVID has really cleared out a lot of the underbrush and you're seeing a lot of legacy retailers struggling, but I think you're going to see a bit of a land grab," Mr. Robinson said. "A lot of these [DTC] brands are going to go out and start to open stores and, over time, some of them are going to do it better than others."

Diversifying retail

Reflecting migration patterns spurred by COVID-19 and changing demographics, some panelists also expect more brands to establish locations some of which may be standalone stores away from shopping malls in more suburban, downtown areas. Some markets that may emerge in the coming years in Raleigh-Durham in North Carolina and central Ohio.

As consumers leave cities for suburban communities, some retailers may also move away from the flagship model.

This may give large, suburban malls another opportunity to pivot and attract new tenants and shoppers. Some thoughtful adaptations may include adding fitness centers, new restaurant concepts, coworking spaces or even art exhibits to recreate urban environments in suburban settings ([see story](#)).

Beyond diversifying locations, brands and retailers should become comfortable with trying different formats to better serve each market, from flagship destinations, more curated experiences or even off-price when applicable. For instance, U.S. department store chain Nordstrom has its full-line flagships, Nordstrom Rack and Nordstrom Local.

"It's about creating that whole matrix and the network effect of all of those locations and how they support each other," Ms. Gonzalez said.

While Mr. Smith cautioned against DTC brands partnering with department stores as a way to experiment with physical retail, he did cite a collaboration between Nordstrom and smart home gym Tonal as promising.

Through the partnership, which launched this spring, Tonal will bring its strength training system to 40 Nordstrom locations across 20 U.S. states. This will be done through a 50 square foot concept, located in the women's active department, where shoppers can experience a full Tonal demo and try a workout firsthand ([see story](#)).

"On the retailer side, I think it depends on being really purposeful in who you're partnering with," Ms. Gonzalez said. "It's got to make sense for the customer that you're trying to cross with and the contextualization of your product in that environment."

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