

# SPOT LIGHT

Retail Revolutions  
**From Digital to Physical**



### Penetration of online slowing...

Online retail has generated a structural shift in retailing. For increasingly time poor consumers, the convenience offered by online retailers has become all the more attractive, apparent in its rapid growth. Online retail sales have increased by an average of 11.4% per annum over the last five years, far exceeding the 1.5% growth reported in total UK retail sales.

This rate of growth however, is slowing. GlobalData estimates that online retail sales will expand 8.0% in 2017, slowing to 4.8% by 2022. As a result, online retailing's penetration rate (share of total retail sales) will start to level out, forecast to reach 18.4% by 2022, only 2.7 percentage points higher than its 2017 estimate. While still a significant figure, it does mean the majority of UK retail sales (81.6%) will continue to take place in stores (offline) by 2022.

### ...but, penetration rate differs significantly by sector

The penetration rate of online does differ significantly across sectors and even geographies. At least, or close to, 50% of books, electronics and music & video sales are expected to take place online by 2022 according to GlobalData. Yet, other parts of the retail market will remain relatively immune. For example, only 11.5% of health & beauty sales are forecast to be online by 2022.

Fashion retailing (clothing & footwear), from which some of the largest and fastest growing online retailers have emerged, is forecast to see almost 33.5% of sales take place online by 2022. Yet, this relatively high penetration rate masks the fact that, for this sector, it is not just about online vs offline but rather how the two platforms work together to provide the best 'total' retail experience to consumers.

### Consumer preferences highlighting the role of the store

The biggest driver of 'total' retailing has, and continues to be, consumer preferences. In particular, the preference to 'touch and feel' a product before purchase is reinforcing the role of the physical store and its ability to drive sales, both off and online.

In a national survey carried out by GlobalData, nearly 75% of respondents stated a preference to try on clothes before buying, increasing to 80% for those aged between 16 and 24 years. In this respect, the physical store can play an important role.

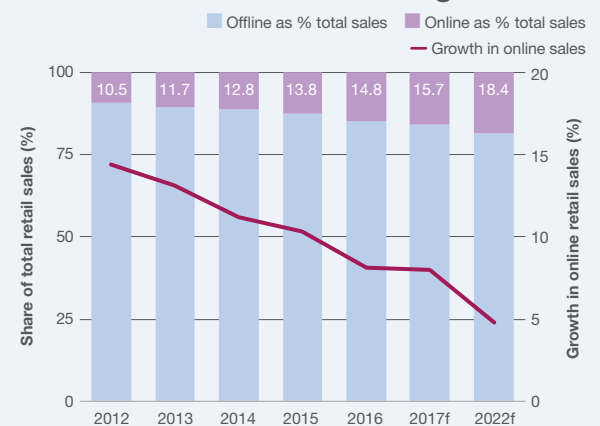
The store can also deliver convenience, a key attraction of shopping online. This has largely focused on click & collect services as it offers customers increased flexibility. It also has the added benefit to retailers in that it provides the opportunity to upsell to customers coming into the store to collect items.

Consumer preferences mean the store will continue to play a key role in the 'total' retail experience. The next stage in the evolution of the store will be aligning the in-store experience with that of online. In order to achieve this a true 'digitisation' of the physical store will be required.

To date, this digitisation has been largely focused on hardware, such as in-store iPads to search for products online, and in some cases has been relatively gimmicky. Now the focus is on integrated software that can deliver the same personalised shopper experience the consumer has become accustomed to online. We explore some of these developments in the box on the following page.

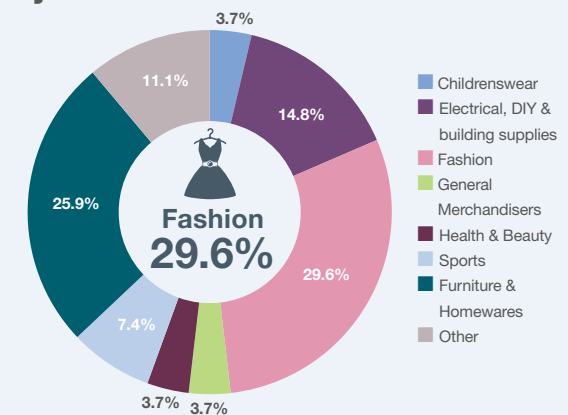
The next step in the evolution of the physical store will be digitising the in-store experience so to align it with online. But, what does this mean for retail property?

FIGURE 1 UK online retail sales slowing



Source: ONS; GlobalData Retail

FIGURE 2 Pureplay transition to omnichannel by sector



Source: Savills Research

#### DIGITAL TO PHYSICAL IN NUMBERS

**4.8%**

year-on-year online sales growth forecast by 2022, almost half the rate of growth in 2016.



**81.6%**

The share of retail sales to take place in stores by 2022.



**29.6%**

of pureplay retailers who have opened stores that are fashion retailers.



### Transitioning from pure-play to 'total' retailing

Just as the evolution of consumer preferences has driven the growth in online, it is now shaping the evolution of the online retailers themselves. This has been most apparent in the transition by some pureplay e-tailers into omnichannel 'total' retailers.

Five pureplay brands made the transition in 2016. Three of these made the leap to physical retailing via department store concessions. Two opened their own stores, the most high profile of which was Missguided who opened their first store in Westfield Stratford. In 2015 six brands opened their first stores. Prior to this, just one or two brands transitioned each year.

In line with consumer preferences to try before they buy, it has been fashion e-tailers (29.6%) that have been the most active in transitioning (see Figure 2).

While this transition into physical retailing is positive news for the retail property sector, these retailers are becoming more selective and measured in the size and location of their store network. For example, the average store count of the fashion brands that have transitioned from pureplay is eight stores, with the focus very much on 'destination' centres with London being the top location when opening their first physical store. However, we may see average store counts increase as store strategies mature.

It is not just store portfolio sizes that are different, for some of these retailers the store plays an additional role other than just a place to sell product. It also offers the opportunity to showcase and promote the brand. This may not just be via store design but also through experiential retailing, such as hosting in-store events and services, such as cafes for example. This is a trend we are also seeing across the wider retail market.

The brand enhancement potential of the store is perhaps most apparent

in the types of locations these transitioning retailers have selected. For a number of pureplay furniture retailers, such as Made.com and Sofa.com, the focus has been on urban locations that allow them to showcase products to the largest possible catchment. These retailers also benefit from a good understanding of their customers aided by starting off online. As a result they have a good understanding of the types of retailer catchments that would work for them.

But, it is not just the ability for customers to 'try before they buy' and showcasing opportunities that is driving this transition. There are also some operational advantages.

The slowing growth in online penetration is one factor supporting the transition. A store is also believed to help a brand reach more customers, apparent in the anecdotal halo effect a new store can have on local online sales.

Having a physical presence may also help minimise returns, which can have significant cost implications, as customers can try items in store before purchase, therefore reducing the need to return at a later date. Dealing with returns has become a prevalent issue for womenswear fashion where KPMG suggest that as much as 35% of online orders are 'intentional returns' (when customer deliberately over order knowing that they can return the items for free or cheaply).

While these drivers are more apparent for retailers transitioning from pureplay to omnichannel, they are trends seen across the wider retail market. ■



**35%**

The share of online fashion purchases that are 'intentional returns'

.....  
 "The 'store' will continue. What they look like and the activities that take place in them, however, is changing."  
 .....

## DIGITISING THE IN-STORE EXPERIENCE

### Aligning offline with online

The personalisation of the online retail experience, plus its speed and ease of payment has, to date, been difficult to replicate in-store. This is set to change as a number of retailers are looking to utilise software and technology innovations in-store.

Carrefour, for example, worked with Philips Lighting to develop an indoor positioning system that would allow customers to find products on promotion in-store through the use of a smartphone app. Essentially it allows customers to build a shopping list linking to current promotions, as you might find when shopping online, while also indicating where these items are located in the store.

More recently FarFetch, the online luxury retailer, launched their Store of the Future concept. The concept centres on the development of a core operating system, envisaged as a platform for third parties to add to, that will allow brands to bring the personalisation their customers are familiar with online into the store. Some of the key applications FarFetch demonstrated included a universal login that recognises a customer as they check into the store; an RFID-enabled clothing rack that detects which products are being browsed and then auto-populates the customers online wishlist; a digital mirror that allows the customer to view their wishlist and summon items in different sizes and colours; and a mobile payment experience similar to what exists in Apple stores.

FarFetch's Store of the Future is still in development but will launch this autumn in London's luxury boutique Browns, which was acquired by FarFetch in 2015. US luxury brand Thom Browne will also be deploying the technology in its New York flagship later this year.

Much of this in-store technology is still in its infancy but does highlight the growing trend amongst retailers to align offline and online platforms, in order to enhance the in-store experience of their customers.



## SUMMARY

### What does this mean for retail property?

There is increasing recognition of the role the physical store can play in raising brand awareness and revenues that is luring pureplay retailers into physical space. However, this is unlikely to lead to a flurry of national requirements.

We will continue to see pureplay retailers transition, particularly those in the fashion and furniture sectors where the need to 'see and touch' the product is more important to consumers. On the whole, however, we believe these retailers will be more strategic. As a result they will be more selective in their store rollout, focusing openings on major retail centres. This is something we are also seeing amongst traditional non-convenience retailers.

It is the digitisation of the in-store experience, across all parts of retailing, and the new ways retailers are using their stores, that will perhaps have the most significant impact on retail property going forward.

Mobile payment, customer recognition technology, live inventory tracking and the ability to track how shoppers engage with products in-store, will rely on software and technology advancements. But WiFi connectivity will be a key part in ensuring these features actually work. It is in this respect that landlords can play a role by supporting the delivery of high speed broadband to their buildings, and in turn their tenants. Shopping centre landlords have already recognised the importance of WiFi connectivity in terms of shopper

satisfaction and attraction. It has also provided landlords with 'data' to better understand and engage with centre visitors.

Ensuring space 'flexibility' is also likely to move up the agenda as retailers look to use their stores in new ways, which may present some planning and servicing challenges. For example, some retailers are no longer seeing the 'store' as just a place to sell products, albeit this is more prevalent for fashion retailing in destination locations. Rather, the store offers brands the opportunity to better engage with customers in order to drive online sales.

Experiential retailing is one way this engagement is being fostered. Pioneers in this have been Apple with the incorporation of event space in some stores and hosting of Q&A sessions with notable public figures. Uniqlo have also incorporated an event space into their new London flagship on Oxford Street.

In the US there are a number of pureplay e-tailers that are bringing showrooming and experience retailing together, such as Bonobos and MM.LaFleur. Their stores are true showrooms in that customers cannot walk out of the store with their purchases. Rather, the 'showroom' ensures customers have the ability to try on every item in their size, advised by personal in-house stylists. However, the purchase takes place online (either in-store or at home), which is then delivered to their selected address. Other forms of 'experiential' retailing include

providing in-store services and amenities such as cafes and beauty services.

The move towards 'experiential' retailing is likely to generate different space requirements. The desire to host in-store events and add on amenities could see store size requirements increase, albeit the number of stores required may be fewer. On the flip side, the 'showroom' concept could mean we see much smaller stores but in more locations.

The real challenge for landlords, and retailers, going forward will be assessing the value of a store. What is becoming increasingly apparent is that the traditional approach of charging a fixed rent, subject to rent reviews, is at odds with the growing symbiotic nature of retailers online/offline platforms in delivering a transaction.

Part of the issue lies with the lack of data surrounding the transaction journey across both online and offline. Therefore it is impossible to truly understand the role a given store might play in a transaction. However, in-store software and technology developments may help this. At this point it is difficult to hypothesise how a value may be assigned to a store but it is in the interest of both parties to test new and imaginative approaches that deliver vibrant and attractive retail environments.

What is apparent is that the 'store' will continue. What they look like and the activities that take place in them, however, is changing.

## SAVILLS TEAM

Please contact us for further information



**Sean Gillies**  
Head of UK Retail  
+44 (0) 20 7409 8159  
sgillies@savills.com



**Larry Brennan**  
Head of European Retail  
Agency  
+353 (0) 1 618 1302  
larry.brennan@savills.ie



**Marie Hickey**  
Research  
+44 (0) 20 3320 8288  
mlhickey@savills.com

Savills is a global real estate services provider listed on the London Stock Exchange. Savills operates from over 700 owned and associate offices, employing more than 30,000 people in over 60 countries throughout the Americas, the UK, Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.