



LOCATION LOVES BRAND

Physical connectedness – aka vicinity – as success factor for off- and online Fashion & Lifestyle players

White paper by our geomarketing experts

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Online or offline? This is a polarized debate among today's retailers, fueled by a desire to capitalize on new trends on one hand and a fear of being overwhelmed by them on the other. In the absence of facts, retailers and investors are often guided by emotions. This has resulted in a lack of investment in locations, stores and personnel, which makes it no surprise that success remains elusive.

We believe it is a mistake for Fashion & Lifestyle retailers to overlook the importance of the physical point of sale (POS). And this is especially true in the age of the "connected" consumer. Our 2015 study on young shoppers demonstrates that young consumers still highly appreciate many aspects of the POS. But they expect a shopping and brand experience that seamlessly integrates all channels. People are fundamentally relational beings. For this reason, real-world retail spaces will remain **the** most important pillar of the brand experience and driver of trends and innovation. Stationary retail is about having a hands-on experience. This is the hallmark of the emergent "experience economy", in which interfacing with consumers' experiences and personal values is just as important as supplying them with products.

1 Fashion & Lifestyle market as barometer of retail

Scouting for trends at home

In July 2015, we investigated the state of online retail in Germany and calculated a prognosis for the coming decade. One finding was that normality will return after a phase of dynamic growth. Along these lines, online retail growth is projected to decline significantly beginning in 2020. This means that in just ten years, online retail will no longer be the dominant driver of retail growth. By that point, online and offline will have entered a truce and settled into a state of equilibrium. The same can be said for all saturated Western retail markets.

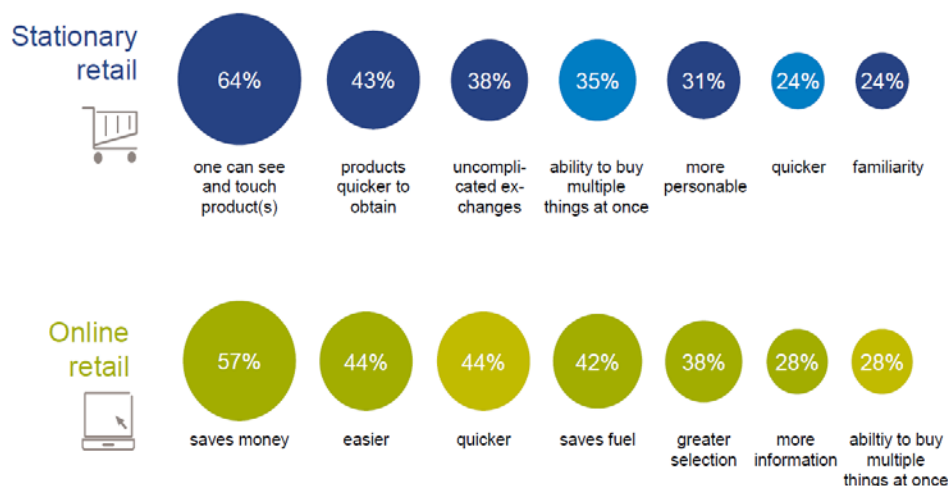
It is wise to view the retail industry as a whole. A narrow focus on the battle between retail channels distracts from the more important challenge of competing with other industries for consumers' attention and loyalty. The bigger picture reveals a more fundamental threat: Turnover in clothing retail has been declining for years now. In the past half-decade, the average expenditure on clothing in Germany (per person, per year) has dropped from €550 to €450. And the retail share of private consumption continues to fall, despite online growth. The bedrock concern is therefore not the fate of online versus offline formats, but rather the long-term relevance of retail as an economic sector. "Omni-channeling" – the maximum integration of all sales channels – is the modern slogan for meeting consumers where they already are. A thorough and honest self-evaluation of retail is the first step towards realizing this maxim.

Changes in retail are first apparent at the highest end of the market. What begins as an elite trend only apparent to attentive observers eventually makes its way into the mainstream. The speed with which this happens depends on the investment hurdles, regulations and emotional reactions encountered along the way. **The Fashion & Lifestyle market is a barometer of these kinds of changes. Almost no other industry is as affected by globalization and digitization. Consumer trends and innovations in Fashion & Lifestyle are consequently growth drivers for other areas of retail.**

Interdependency of store retail and urban development

The GfK Global Youth Retail Survey 2015 revealed that 16 to 21 year-olds – the so-called "digital natives" – believe that the physical POS will under certain conditions become even more important to their purchase decisions in the future. Additional studies confirm that the emotion and confidence-evoking abilities of retail stores bolster a company's image and brand.

Online retail appeals to rational needs;
offline retail appeals to emotional needs



source: GfK Futurebuy
note: Those surveyed were asked to select their top five reasons.

Taking into account these and other market drivers and threats, our prognoses for the next decade indicate that store retail in saturated Western markets can maintain its absolute turnover share and even slightly increase sales area.

The success of store retail disproportionately hinges on concrete location factors – in other words, the neighborhoods, streets and buildings in question. The structure and quality of the real estate object and its surroundings thus profoundly affect the prospects of store retail. But consumer demands are evolving, so it's crucial that retail secures spaces and locations that can be adapted to consumers' expectations. The shopping experience is a fluid phenomenon, which means the retail spaces of today won't necessarily be the retail spaces of tomorrow.

The cutting edge of the market features locations and concepts that have little in common with the conventional look and function of retail. Below we present consumer behaviors, urban planning conditions, location qualities and store concepts that exemplify the latest developments in stationary retail and reinforce its role as an integrated aspect of consumers' lives.

Experience shopping and economy

Many aspects of the experience and recreation-oriented shopping segment represent the pinnacle of innovation in the industry. Rather than focusing on consumers' conventional shopping routines, this segment seeks to motivate and inspire consumers' direct engagement. Retail traditionally revolved around meeting consumers' concrete goals, such as their desire for a specific product or the lowest price. By contrast, so-called "experience shopping" expands this focus to include satisfying consumers' desires for a variety of intangible qualities. Examples include **consumers' wish for retail venues to function as meeting points, create opportunities to express social, political and cultural interests through the act of visiting certain locations or purchasing certain**

products, and promote inspiration and well-being. Understood in this way, shopping is an expression and extension of consumers' lifestyles. **As the leaders of the retail scene, Fashion & Lifestyle retailers are especially impacted by these emerging consumer expectations.**



Burton label store, Tokyo - Aoyama, image source: GfK

Staging

A hallmark of experience shopping is a concentration on individual products and its celebration. Products displayed in undifferentiated, self-service shelving embody the opposite of the atmosphere promoted by experience shopping. By contrast, retailers embracing the new paradigm carefully present and showcase products so they can maintain control of the purchase process, which has been increasingly ceded to consumers in these times of limitless availability. A successful product setting makes it possible to more effectively integrate sales and support personnel. This greater depth and amount of time per item translates to a higher conversion rate. **These kinds of steps transform a store from a warehouse to a stage.**

Home staging is a practice of optimally arranging a retail space in a way that promotes consumer purchases. Based on examples in the US, **retailers can boost prices for comparable products by 10-15 percent if they successfully utilize this strategy.**



Isetan department store, Tokyo - Shinjuku, image source: GfK

Concept stores and department stores

While well-conceived websites can also exhibit principles of experience shopping, a physical store is absolutely necessary to create a consumer touchpoint that continually inspires trust in the brand. Stores usually offer products across multiple product lines to create integrated displays aligned with consumers' lifestyles. Context is therefore never left to accident. In addition to the products themselves, experience shopping also includes the atmosphere created by sales personnel as well as the style in which products are presented. Offerings that employ this approach typically consist of individual and often high-value brand-name products. Shop operators function as curators whose role includes advising customers.

Offerings are usually very focused on a certain theme, such as luxury, design, sports or handicrafts. This guides consumers toward lifestyle-consistent product selections. This kind of orientation is increasingly hard to find in the other spheres in which consumers move.

Store sizes range from small spaces under 100 m² to large spaces that can span thousands of square meters. A concept store is best suited to smaller retail spaces, while a department store is more appropriate for larger ones. The advantage of these retail concepts is that they are independent of single brands. A strong department store concept with transregional draw can potentially attract many additional customers through an online shop. This is because in these cases, the concept is the brand. Concept and department stores can also be successful in areas beyond the prime locations and shopping centers, sometimes even creating a new "location" through their presence.

Concept stores never define themselves through price, which distinguishes them from many other retail spheres. If seasonal or special sales are necessary, they are implemented within the context of experience shopping (e.g., through a special exhibition or event) in order to preserve the usual price structure. A key principle is to limit product comparability and availability for the sake of inspiring spontaneous purchases.

2 Location and store strategies of manufacturers

Manufacturers and private label companies have both embraced experience shopping by providing an individualized offering and subtly evoking consumer desires. It's important to remember that store concepts are not sharply differentiated. But one common component is a certain uniqueness with respect to offering, image and presentation. Examples of these concepts include single label stores, flagship stores and custom creations such as epicenter stores. At present, almost all international chains in top shopping cities have especially intricate or elaborate shops. **Drivers of innovation in this segment are often the large sporting goods manufacturers**, who structure stores entirely according to their prevailing marketing strategies. For the sake of growing their brands, these manufacturers **choose trendsetting locations beyond the established main shopping roads, such as city regions with higher creative potential**, frequently in the world's largest and most prominent cities. These concepts often feature only selected products that are unavailable from other chain sites or online. In some cases, these retail locations don't reveal their identities at first glance due to modified or fully altered store designations.

Noteworthy examples are the label stores of Adidas, which feature the names No. 74 (Berlin, Torstraße 74), No. 6 (London, Newburgh Street 6) and No. 42 (Paris, 42 Rue de Sévigné), and the equivalent from NikeLab.



NikeLab, Paris - Le Marais, image source: GfK

Demand for mixed-use urban spaces

Manufacturers and retailers wishing to awaken consumer interest through individualizing and customizing their offering can no longer fully achieve these ends in the usual shopping streets and shopping centers. As in the home and office segments, the demand for innovative retail concepts increasingly focuses on mixed, concentrated and highly frequented surroundings where retail can profit from a large variety of other location uses and meanings. The combination of these location characteristics offers consumers added value that goes beyond the conventional shopping outing. In this "experience economy", retail transcends a merely material focus and attempts to evoke and

respond to consumers' feelings, lifestyle orientations and experiences. Stores that embrace this trend bring together material and non-material qualities, and retailers re-envision stores' urban surroundings as a staging area where they can connect the shopping experience with consumers' daily lives.

Given this trend, future-oriented retail concepts require new locations that go beyond the traditional categories (A vs. B locations, city center vs. greenfield area, etc.). These new locations more effectively respond to consumers' desire to connect the shopping experience with art, culture and entertainment options.

Synergizing retail and urban development

Offering these kinds of integrated locations will grow in importance, because much of the additional demand has hitherto been absorbed by city center shopping centers.

Our experience with international client projects shows that this demand for mixed, usage-flexible and highly concentrated areas for retail (including sites outside of city centers) is still in the beginning phases. We urge those involved with retail and real estate as well as public authorities to consider these new retail demands when planning neighborhoods, streets and buildings. Well-conceived usage concepts and development plans are necessary to meet the demand for future-oriented retail spaces while also avoiding vacancy risks.

Connectivity in the offline world

Similar to the Internet, the built environment must also exhibit a high degree of connectivity in order to inspire commerce and consumer engagement. For optimal impact, retail spaces should therefore adopt the following traits:

- usage **mix** to offer a greater variety of experiences and provide added value for residents and visitors
- usage **density** to achieve the necessary critical mass for promoting footfall and synergies between the various uses
- usage **flexibility** to ensure an ongoing adaptation of the area to evolving social and economic conditions

3 Outlook

Turnover shifts in retail cannot be solely attributed to the movement from offline to online. Moreover, assessing the future of retail within the framework of its conventional real estate types – city centers, greenfield areas, commercial sites and shopping centers – is not enough. Retail will continue to experience changes of all sorts. Turnover shifts will happen between product groups, channels and consumption segments. The greatest risk faced by retail is the further diminishment of retail expenditures as a share of private consumption. This raises the question of whether retail can maintain its drawing power with respect to other consumption-related segments such as travel and leisure.

Changes in consumer behavior pose a risk only if no new opportunities are generated from these changes. Our experience as international consultants for retail real estate investments and expansion endeavors suggests that there is **a new and growing push toward new retail concepts and locations**. Consumer and retailer demand for mixed environments, interconnected usages and greater flexibility requires new or in the very least re-imagined real estate objects, shops and location profiles. Far from a mere passing trend, these emerging retail requirements represent an enduring shift in consumer expectations regarding their lifestyles, daily routines and recreational activities.

We regard the Fashion & Lifestyle segment as a trendsetter for this new paradigm. But embracing this role requires a deep understanding of local target groups and individual location characteristics as well as a smart utilization of the respective retail context of the respective shop and brand.