

BEYOND THE BOX



Yes, retailers need to do a better job of bringing customers to their stores, but they should also bring their stores to their customers

These days, many apparel retailers are feeling hemmed in, squeezed on all sides by the rise of e-commerce and declining store traffic.

In response, most are investing heavily in developing their own e-commerce channels. But even the most robust e-commerce site can't deliver an advantage these retailers have always had—the ability to physically connect with customers to actively drive demand and loyalty.

If consumers aren't visiting the store to get this powerful experience, retailers must bring the store to them.



Retailers cannot forget the power of the physical experience.

Online Obsession

We all know that online shopping is big. But a Kurt Salmon survey of nearly 1,000 consumers shows just how big it is. The survey found that over a quarter of consumers across all age groups are shopping for clothing at least as much online as they are in-store. (See Exhibit 1.) This trend is even more powerful among younger consumers: Forty-seven percent of people 18 to 24 and 43% of those 25 to 34 shop for clothes online as much or more often than they do in physical stores.

This shift to e-commerce, in conjunction with consumer sentiment and economic pressure, has had a clear effect on in-store retailing: declining retail traffic, fewer trips and less browsing, less exposure to the brand and product portfolio, and, ultimately, reduced sales. Indeed, in 2013, retailers saw only about half as much holiday traffic as they did just three years earlier.ⁱ

And even when retailers get consumers into the store, those consumers spend less time browsing and, as a result, are less likely to make impulse purchases.

That's because online shopping is even influencing purchases that are made in stores by eliminating in-store browsing. Armed with online research, shoppers come

to a store or mall already knowing what they want, reducing the likelihood that they will stumble upon another must-have or experience a meaningful interaction with a sales associate. No wonder shoppers visit just three stores during today's average mall trip—down from five in 2007.ⁱⁱ

Retailers have responded to these trends by building compelling e-commerce and m-commerce platforms. And while these are absolutely critical to success in today's retail environment, in the process, retailers cannot forget the power of the physical experience.

While an undeniable part of today's retail landscape, online interactions limit consumers' opportunity to truly engage and develop a deep emotional connection with a brand and browse new styles and brands. That's because the online experience is inevitably missing many of the sensory elements present in the physical store—being able to touch and feel products, smell perfume or rich leather, hear music, and have personal interactions with store associates turned brand enthusiasts. Plus, e-commerce is inherently passive—it typically relies on the consumer to have familiarity with a brand and for the brand to be top of mind and, as a result, is less likely to spur new trial.

EXHIBIT 1: Online has taken over.

**CONSUMER SHOPPING METHODS—CLOTHING
(BY AGE GROUP)**



Q: How have you purchased the following goods in the past 12 months?
Source: Kurt Salmon consumer survey

Beyond the Box

Building a strong brand now requires leaving not only the four walls of your store, but also the screen of your consumers’ phone or tablet and actively bringing your brand to life where your consumers are generating initial demand for goods and services.

By intercepting the consumer in the real world with pop-ups, trucks and other innovative concepts, brands can generate

incremental awareness, trial and demand; play a larger role in the purchase decision process; deepen consumers’ emotional connection; and enhance brand equity. All of these benefits should ultimately help drive consumers to the brand’s stores or website.

A Kurt Salmon consumer survey shows that consumers are already comfortable with these temporary retail interactions and formats. In

fact, consumers of all ages are already shopping at farmers' markets, as shown in Exhibit 2, and food trucks are especially popular among younger consumers.

But these innovative formats aren't just for Brussels sprouts or burritos. Leading brands are using them as well, and we expect many more will follow.

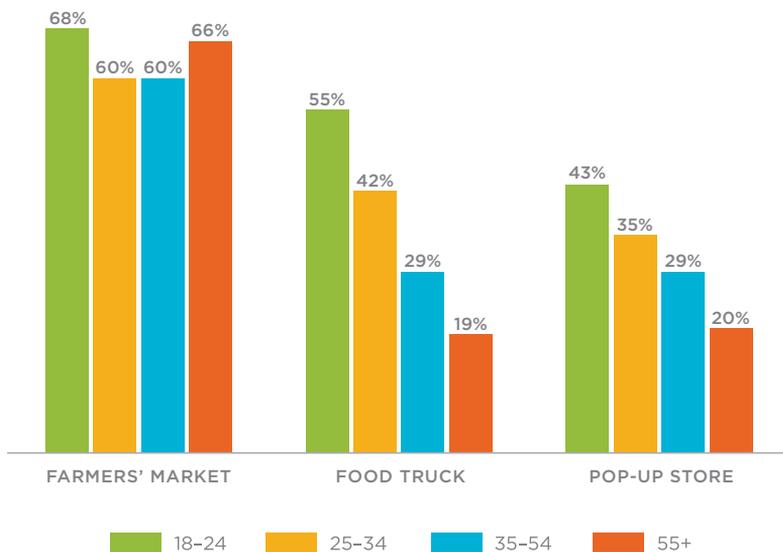
In fact, the short-term retail market has exploded over the past few years, growing at 16% annually since 2009 to a current high of \$8 billion,ⁱⁱⁱ giving brands premium real estate at a fraction of the typical cost.

E-Commerce Brands Leading the Way

Pure-play e-commerce brands are driving some of this growth in short-term retail

EXHIBIT 2: Consumers are comfortable with changing formats.

TYPES OF TEMPORARY STORES VISITED
(PERCENTAGE OF CONSUMERS SHOPPING LAST 12 MONTHS, BY AGE)



Source: Kurt Salmon consumer research

because they recognize the value of a physical retail presence.

Warby Parker is one of the first and most innovative movers in this space. The eyewear brand takes its showroom on the road in a converted school bus that has been touring the country since 2012. The brand also designs custom pop-ups. For a partnership with The Standard Hotel, Warby Parker designed a vintage newsstand called The Readery, where hotel guests can buy Warby Parker sunglasses. The company even designed a limited-edition frame, sold exclusively at The Standard.

While not yet using non-traditional physical locations, Bonobos is one such brand that shows the value of a real-world presence. The brand raised \$55 million through a funding round in 2014, primarily aimed at opening 30 new stores—or guideshops, as Bonobos calls them—to add to its current 10. The investment makes tremendous sense because the shops help generate awareness and drive new trial: Bonobos says sales on its e-commerce site are roughly two-thirds repeat customers, while sales generated from its guideshops are 70% new business.^{iv}

Or consider craft website Etsy, which has opened a steady stream of pop-up shops

across the United States, from featured spaces in West Elm to encouraging individual Etsy sellers to strike up partnerships with their favorite local businesses, helping Etsy capitalize on its homespun feel.

Last, but not least, Ministry of Supply, a high-tech menswear startup, opened a temporary retail store in Los Angeles that has paid dividends. The startup's founders said they see a much higher conversion rate when customers try on clothes in person vs. viewing them online.

Traditional Retailers Following Fast

As Ministry of Supply and many other cases show, these e-commerce brands helped make the case for an out-of-the-box retail experience for traditional retailers. Just like traditional retailers followed e-commerce brands' lead when it came to creating a compelling online experience, they should now pay close attention to their attempts to expand the boundaries of the traditional retailing world.

Nordstrom is one of the most proactive traditional retailers extending its physical reach outside its four walls. In 2013, it took to the streets in a bright-pink VW bus and gave out store discounts and swag while selling exclusive merchandise. It also packed a truck

Out-of-the-box retail formats can help a brand connect and start building a relationship with hard-to-reach but high-potential customers.

full of prom dresses and sent it to six cities to help teen girls get ready for the big day. Nordstrom blogged about both to help strengthen linkages between the online and real-world environments.

Not to forget the guys, Nordstrom filled a converted ice-cream truck with free merchandise from its new Topman collaboration and road-tripped from Miami to Austin. Plus, Nordstrom's recent acquisition of Trunk Club, an online personal stylist service for men that ships products directly to men's homes to try on and decide if they want to purchase, further demonstrates Nordstrom's commitment to thinking outside the box in their quest to deepen the physical connection with their customers beyond their stores. Trunk Club, which Nordstrom snagged for \$350 million, is projected to pull in roughly \$100 million in revenue in 2014—double its 2013 revenue—and has more than 30,000 members.^v

Pop-ups and trucks can also help increase awareness of specific products. For example, Target, a brand that needs little help increasing its general awareness, set up a pop-up dollhouse in New York's Grand Central Terminal—a landmark visited by 500,000 commuters and shoppers every day.

The dollhouse was designed to showcase Target's Threshold household collection—and all 3,500 products in it—and was highly interactive.^{vi} It featured a photo station for passersby to snap pictures—which would then be displayed in digital photo frames inside the house. The house also played host to a design scavenger hunt and makeovers in its bathrooms.

Plus, out-of-the-box retail formats can help a brand connect and start building a relationship with hard-to-reach but high-potential customers. Case in point: college campuses. Traditionally off limits, getting a little creative can give brands access to a fast-growing (18.3 million students—up 26% from 10 years ago^{vii}) and big-spending (\$53 billion in discretionary spending, 29% more than 2005^{viii}) student population.

Brands like Victoria's Secret PINK and Kiehl's have used pop-ups to crack college campuses for several years. The strategy has paid off. In fact, one PINK pop-up at Penn State University rang up \$20,000 in sales in a single day. And Kiehl's says its college pop-ups match its traditional boxes in sales per square foot—but without the costly rent.^{ix}

The latest brand trying to go back to school is Starbucks, which is piloting coffee trucks on

three campuses. It makes sense, given that there are roughly 11,500 Starbucks locations in the United States, only 3% of which are on college campuses. Despite this, one survey found that Starbucks was the most preferred coffee brand among U.S. college students.^x The advantage with trucks, especially on large campuses, is that they can follow students during different parts of the day—for instance, parking near the dorms in the morning, the quad at lunch time and the library late at night. Starbucks recognizes there is significant brand value in being present wherever consumers are generating their initial demand.

Starbucks also recently announced that it will be testing a delivery service in select cities—applying the “go to the customer” strategy to all consumers, not just those on campuses.

As these brands and retailers demonstrate, retailers should not only try to replicate their online competitors’ environments, they should also take advantage of a secret weapon they’ve had all along—the benefits of the physical experience. By thinking outside the box, brands and retailers alike can bring this unmatched physical experience to their customers wherever they are. ❖

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