



NEW WAYS OF REACHING CONSUMERS

The Decline of Main Street, the Rise of Multichannel Retail

By JOSÉ L. NUENO

More than a sales outlet, Zara's flagship store on New York's Fifth Avenue is a statement. With more than 32,000 square feet of selling space, its main value is as a standard bearer for the brand. But showcasing its brand on one of the world's most exciting shopping streets is not Zara's sole ambition: It also maintains regular stores in more than 1,750 locations, sells online and through mobile apps, and has its own official pages on Pinterest and other social media networks.

Zara is significantly more dogmatic regarding its sales formats than the Barcelona-based retailer Desigual, which has more than 6,000

points of sale in 12 channels: flagship store, main street/high street store, mall store, outlet store, store catalog, kiosk/sales stand, store-within-a-store, pop-up store, online store (both monobrand and multibrand), travel retail shop and traditional department store. The CEO of Desigual recently hinted that they were even piloting two new formats, which they expect to launch soon.

When it comes to the proliferation of formats, the world's best retailers are pragmatic, pursuing a strategy of taking the store to consumers, wherever they show the greatest willingness to buy. After six years of economic crisis – the longest recession cycle since the 1930s

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But is this elusiveness a temporary effect of the crisis or has the way we shop changed forever?

Over the past few years, I have led various studies on what the consumers of the future will be like, and the retail strategies that companies should adopt in order to stay relevant.

Based on this research, I have classified the different marketing channels according to their prospects for the years to come.

The New Consumer

Certain demographic trends that we already knew about have become more firmly established. Population aging in developed economies is one of them.

As we noted in the article “Teens Today, Young Adults in 2020” in Issue 8 of *IESE Insight* magazine, 9 out of 10 adolescents live in developing countries. This means that, by 2035, the proportion of young adults of working age will have increased dramatically, as will the number of households and these young people’s socioeconomic status.

EXECUTIVE SUMMARY

Six years into the economic crisis, companies have learned that they must go wherever consumers congregate and engage them there: in a flagship store on a prime shopping street; in a pop-up store calculated to surprise passers-by in an unexpected location; on the Internet; on their smartphones; in social media networks; or combining the online experience with a click-and-collect service, where goods purchased online can be picked up from a local

collection point.

Any channel is good, so long as it allows companies to connect with increasingly elusive consumers. But there are other reasons for the proliferation of retail formats, beyond the economic situation.

This article reviews the factors that influence the way we shop today, and how these factors affect retail formats. It also looks at how different formats can be integrated into a multichannel strategy.

In less than 25 years’ time, we will see the emergence of a converging global middle class of more than two billion people. Most of these potential buyers are children or adolescents today, and live in emerging countries such as Brazil, Russia, India, China, South Africa, Mexico, Turkey and Bangladesh. They make up a huge market that most brands neither understand nor address.

In developed countries, meanwhile, the trend is the reverse: Several hundred million middle-class consumers are slipping down the ladder to join a global lower middle class.

The purchasing power of this middle class has been eroded by the economic crisis. Unemployment is up, salaries are sharply down and pensioners are living longer.

On top of all this is heavy household debt, a legacy of the boom years. As a result, consumers’ purchasing behavior has become more rational. Shoppers who a decade ago consumed compulsively are now keen to avoid unnecessary spending, and try to avoid temptation.

At the same time, with the spread of mobile Internet access and, in particular, the explosion of social media networks, technology has sparked a radical change in consumer habits. People no longer need to go to a shopping mall to socialize or check out new products. They also get much better prices online, whether in vertical communities or through sharing via collaborative platforms.

Basic triggers – such as the desire for ownership, the preference for exclusive goods, and impulse buying driven by a perception of scarcity – can no longer be relied upon to work with consumers.

Goal: To Be a Brand That Matters

Brands are steadily losing relevance. According to Havas Media’s Meaningful Brands study carried out between 2011 and 2013, most consumers would not care if two-thirds of existing global brands disappeared tomorrow.

To survive in this harsh new environment, companies need to understand and use certain levers that – in combination with other,

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longer-term developments such as demographic change and digitization – influence the way that people consume.

Here I review nine trends that will define the way that companies approach consumers over the next several years.

1. TIMING IS EVERYTHING. Consumers in mature economies are reluctant to spend except during sales seasons, when traveling or on special occasions.

One way to exploit these exceptions is through special or limited-time offers by physical retailers or online sellers. Companies should adopt a multichannel strategy to reach out to consumers at just the right moment.

2. ALWAYS ON THE MOVE. Today’s consumer is always on the way somewhere, whether locally or across continents. The smartest answer to mobility is m-commerce, using mobile devices as a consumer touch point.

Tourism presents another great opportunity for consumption. Retailers can benefit from having a presence at every stage of the journey – from the airport to the busiest shopping streets.

There is even scope for retail strategies based on attracting foreign shoppers. Michael Goldenberg, CEO of Value Retail, which operates outlet malls, now defines his company as a “shopping tourism operator.” The company’s 200 agents recruit shoppers at source in Malaysia, Turkey, Brazil, Russia and the Gulf countries for the malls of La Roca, Barcelona, and Las Rozas, Madrid.

3. NEED TO SOCIALIZE. Shopping has always been a way of socializing and still is, but two contradictory trends are apparent.

On the one hand, shopping with friends is losing its appeal. It can even be insulting if people have very different standards of wealth.

At the opposite extreme, vertical communities have become a channel for group purchasing and recommendations that inform individual purchase decisions. Wishbuuk, a Facebook

application for sharing wish lists with friends, and Pinterest, the content-sharing service, are two examples of transaction-oriented social networks.

4. ALWAYS CONNECTED. One of the biggest constraints on consumption in the countries most affected by the economic crisis is when consumers stay home so as not to be tempted by window displays.

Even so, most of them stay connected 24/7 to their smartphones, tablets or PCs. If they do ever go to physical stores, it is for “showrooming” – that is, trying stuff on, maybe photographing it, before later buying it online.

This is another reason why retailers need to be present in as many channels as possible. Every opportunity counts to make an impact on consumers and to recapture lost in-store sales by presenting offers or suggestions online.

5. SHARING VERSUS OWNING. Whether by choice or necessity, the need to own has given way to the idea of sharing. For many young people, leaving home has become impracticable unless they share an apartment with friends, while for many elderly people, staying in their own home is not an option unless they share costs with a lodger.

Collaborative consumption platforms such as Zipcar, for car sharing, and Airbnb, for accommodation, help make such sharing possible. Often, no contract is signed, and no money changes hands.

This is a consumption channel that is with us to stay, so companies would do well to pay attention to it and try to use it profitably.

6. FREE LUNCH. Some categories of consumption are especially prone to this tendency. Music is a classic case. In some countries, like Spain, pirated music dominates paid-for music by a ratio of 2:1. The same goes for movies, TV series and newspapers. Experience tells us that once people get used to these cost-free pleasures, they are very unlikely to be convinced to start paying.

One of the first concerns when adopting a multichannel strategy is the possibility of cannibalization. Under certain conditions, however, the evidence shows that the effect is one of synergy.

7. NEW WAYS OF WORKING. Over the next few years, the industrialized economies will experience the macroeconomic reality of growth with unemployment. What makes this possible is the appearance of a new type of precarious, intermittent employment, often in the form of freelance teleworking.

Home working creates a new demand for existing services to the home, such as home-delivered meals and cleaners, as well as services to replace the facilities typically available in corporate environments, such as virtual receptionists and cloud data management.

8. CODEPENDENCY. Whereas 50 years ago people might have expected to be cared for by their adult children during their golden years, today many retirees have to support their adult offspring. This role reversal is a reflection of the new social insecurity. The trend is spreading, so companies should bear it in mind.

9. SOMETHING SPECIAL. Austerity is not always the rule in consumer spending. Certain products are so different, so exclusive, that they become irresistible. The attraction of premium brands, such as Apple or Nespresso, can be so strong that consumers are willing to travel long distances to shop in branded stores and pay premium prices.

Multichannel Strategy

The upshot of all these trends is that customers no longer visit stores on a regular basis. Instead, companies need to go out and grab their attention through every available channel.

This demands a multichannel strategy that integrates e-commerce with m-commerce and social commerce, without forgetting to reinvent the brick-and-mortar store to keep the customer surprised.

Yet, multichannel marketing is much more than the sum of a retailer's physical and online presence. It is about using every possible channel to deliver a seamless shopping experience.

South Korea and the United States are the world's most omnichannel markets, according

to ABN Metrics. South Korea is experiencing a prolonged, severe recession, during which manufacturers and importers have had to try every conceivable innovation to tap the market. The United States exemplifies a different approach, using multichannel marketing as a defensive strategy against e-commerce.

Christmas 2012 will be remembered as the time of the leap to multichannel. Up to 16 percent of retail sales during the holiday season were made online, according to Comscore. This prompted traditional retail icons such as Target and Macy's to go head-to-head with eBay and Amazon by launching online versions of their stores.

One of the first concerns when adopting a multichannel strategy is the possibility of cannibalization. Under certain conditions, however, the evidence shows that the effect is one of synergy. The online channel drives traffic to the physical stores, and vice versa.

A multichannel strategy can even boost individual consumption. Consumers who visit and gather information from multiple channels spend 82 percent more on each purchase than those who use only the traditional channel, according to a study on future marketing trends by TNS.

Most experts agree that multichanneling also has other advantages for companies and consumers alike, including:

- Better service and customer satisfaction, with the possibility of collecting and returning goods in physical stores, where customer care and after-sales services can be provided.
- Increased customer share, as traffic generated in one channel can be redirected toward another.
- More flexibility in procurement through having an integrated supply chain.
- Continuous learning, which can be transferred from one channel to another. For example, dynamic price and inventory information from the online channel can be used in physical stores.
- Entry into new markets, with the online

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channel providing an economical way to address global markets.

Channels Under Threat

In today's multichannel world, some retail formats are disappearing, others are holding out or reinventing themselves, while other new formats are bursting onto the scene.

FORMATS HEADING FOR EXTINCTION. Of all retail formats, the worst affected is the small brick-and-mortar store, be it independent or part of a small chain. Small retail outlets are in decline due to shrinking consumption.

There is also a tendency in mature markets for shopping areas to become polarized. Research by Bitcarrier using urban sensors in a Spanish city reveals a pattern common to many other cities around the world: Footfall remains strong on the main shopping streets – the so-called “A” locations – but is falling sharply in peripheral areas – the “B” and “C” locations.

Foreign tourism is one of the main reasons why footfall remains strong in the prime shopping areas of the world's top cities. This drives up rental prices in these areas, and the demand from domestic and foreign luxury brands is intense, much to the detriment of the “B” and “C” locations.

Other endangered formats include the

multibrand store and the department store, both of them battered by declining sales, tight credit and the growth of own-brand stores. Year after year, multibrand chains are losing market share to large specialized chains.

VULNERABLE FORMATS. E-commerce has put a question mark over formats such as door-to-door selling, home shopping and vending. Given the wider selection and better prices available online, traditional direct selling has lost relevance.

Direct selling companies are aware of this, but few of them have ventured, as Avon Cosmetics has done, into hybrid formats that expand the business model to include online sales.

A further challenge to direct selling and home shopping comes from online discount clubs such as Privalia and BuyVip.

Home shopping sales are expected to continue to decline at a rate of 3 percent per year for the next five years. Television selling is the only format that might survive, thanks to the segmentation achievable through digital TV.

In all other cases, including catalog sales, survival depends on adding the Internet to the business model, as Venca and LaRedoute are doing.

Vending industry sales, meanwhile, fell 2 percent in 2011, due mainly to a decline in cigarette vending, which accounted for 92 percent of total industry sales and which has been hard hit by tough anti-smoking legislation worldwide. Sales in this channel are expected to continue to suffer.

DECLINING FORMATS. Hypermarkets and large specialized retailers – the big-box “category killers” – have also been badly affected.

In 2011, Dixon Group, one of Europe's leading consumer electronics retailers, suddenly announced the closure of its operations. Its e-commerce site was taken down and all physical PC World and PC City stores were closed.

Another category killer that failed in its attempt to adapt to the new rules of the game is

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the bookseller Barnes & Noble. It was slow to react to the rise of Amazon and suffered the consequences.

The hypermarket format, which expanded rapidly in the 1980s and 1990s, has lost market share to the neighborhood market. Consumers have evolved. Now they want shopping to be closer to home, more rational and less full of temptation.

Over the past decade, the Spanish discount leader Mercadona has trebled its market share, while Carrefour and Alcampo have seen theirs dwindle by 1.6 points.

RESILIENT FORMATS. Proximity, pricing and opening hours are proving to be the keys to survival for large supermarket chains and small convenience stores alike. The Dia, Aldi and Fresh Market chains have led the way by opening longer hours and offering a wide range of own-brand products at a hefty discount.

Meanwhile, convenience stores, usually run by foreigners, offer a reasonable selection and are open all hours. In cities such as Madrid and Barcelona, these have rapidly taken as much as 60 percent of the traditional channel.

New Ways of Seducing Customers

If all these retail formats are in decline or merely holding on, what are the formats of the future?

DISRUPTIVE FORMATS. First, there are the hybrid formats born out of deregulation, new technology and disintermediation. Visionary, breakthrough retailers have grasped how the sector is being upended and have successfully revamped their business models. Most of them are online retailers, outlets or a combination of the two.

They include companies such as Value Retail and Privalia, which have triumphed by combining three things: brand, discount pricing and push selling. By committing to sophisticated e-commerce – customization, recommendations, coupons – they have been able to enter new markets and beat their competitors.

Amazon, with its exceptional quality of consumer experience, has become the poster child for these new formats, and also for the traditional formats. Despite operating in only one channel, it is both a vertical and a horizontal distributor. It acts as an intermediary for millions of small retailers or specialized stores, which have too little online traffic to do business on their own. In return, Amazon takes a percentage of each transaction.

WINNING FORMATS. Reinvented physical stores are thriving. More than a point of sale, a flagship store acts as a shopfront or advertisement for the brand. It can have a floor area up to eight times that of a conventional store, and its location will be part of the brand's DNA.

A flagship store shapes the brand's image and tells customers how the company wants to be seen. Flagships are already very common in the luxury goods sector because they enhance the status of the brand. All that empty space screams exclusivity, extravagance and prestige.

Now they are starting to appear in other sectors, notably fast fashion and low cost. The new Desigual store on Fifth Avenue and the Uniqlo Soho store in New York City illustrate this trend.

Another winning format is the type of store that offers services complementary to physical sales. These range from after-sales service to completing purchases initiated in a different channel.

For example, some have opened click-and-collect services, whereby customers can conveniently pick up goods purchased online, without having to wait in line. The Tesco supermarket chain in the United Kingdom was one of the first to do this, and now hypermarkets such as Argos and Asda, fashion brands such as Dorothy Perkins, and even gardening companies such as the Gardening Club have followed suit.

Another up-and-coming form is pop-up stores, where brands experiment, innovate and impress the public in new ways through

Winning Formats

EXHIBIT 1

REINVENTED PHYSICAL STORES AND ONLINE FORMATS
AIM TO SURPRISE THE CONSUMER

FORMAT	CHARACTERISTICS	EXAMPLES
Disruptive Hybrid Formats	<ul style="list-style-type: none"> Take advantage of deregulation and disintermediation Rely on technology and e-commerce Combine brand, discount pricing and push selling 	<ul style="list-style-type: none"> Value Retail agents recruit shoppers at source in emerging markets for outlet malls in Madrid and Barcelona
REINVENTED PHYSICAL STORES		
Flagships	<ul style="list-style-type: none"> A point of sale, a storefront and an advertisement for the brand In prime locations 	<ul style="list-style-type: none"> Uniqlo Soho, New York Zara, Barcelona Apple Store, Shanghai
Click-and-Collect	<ul style="list-style-type: none"> Collection points where customers can pick up goods purchased online, without having to wait in line 	<ul style="list-style-type: none"> Tesco, Toys "R" Us, Interflora
Pop-up Stores	<ul style="list-style-type: none"> Temporary outlets in unexpected places: emblematic buildings, parking lots Can be used for seasonal sales of certain products 	<ul style="list-style-type: none"> Custo Barcelona in Gaudí's Casa Batlló in July 2012 Prada's pop-up on Place Beauvau in Paris, which stayed open for two months
MORE SOPHISTICATED TYPES OF E-COMMERCE		
Social Commerce	<ul style="list-style-type: none"> Selling or endorsement through social networks 	<ul style="list-style-type: none"> Telepizza and 1-800-Flowers Facebook fan stores Fashion firms driving product recommendations through Pinterest and Fancy Restaurants offering discounts through Foursquare
Mobile Commerce	<ul style="list-style-type: none"> Selling through mobile devices 	<ul style="list-style-type: none"> After just six months, mobile sales accounted for 10 percent of all Privalia's sales, and 15 percent of the total sales of Vente-privee.com in one year

here-today-gone-tomorrow outlets. Rather than selling products, which can be done either on the spot or through other channels at a later date, the goal for the brand is to showcase its latest launches and generate unique experiences.

As implied by the name, most pop-up stores are temporary and aim to surprise customers by appearing in a novel location. Examples include: the outlet organized by Custo Barcelona in Gaudí's Casa Batlló in July 2012; the store opened for one week by the Japanese brand Comme des Garçons in a New York parking lot; or Prada's pop-up on Place Beauvau in Paris, which stayed open for two months.

Pop-up retail can also be a good way of selling seasonal items. This makes it a good strategy for products such as toys or ice-cream, where demand is concentrated during a very specific time of year. Some retailers create

stores that sell whatever products sell best in each season, running a succession of pop-up sales in a stable location.

Other innovations include self-service pickup stations, lockers or kiosks, such as those used by Amazon, and "shoppable windows," a concept piloted by eBay in the summer of 2013 in various shopfronts on the main shopping streets of New York City. Shoppable windows are interactive touch screens installed in storefronts, via which customers can buy products that are not currently available in the store and have them delivered to their home. In this way, no sales are lost due to lack of stock.

Another growing category of physical stores is shopping centers in the emerging regions of China, the Middle East, Latin America and Eastern Europe.

Despite the unprecedented rate of construction and new openings, the shopping

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center life cycle has shortened significantly, from around 20 years to barely eight or 10, forcing operators to make substantial changes to maintain visitor numbers. Practically half of Europe's shopping centers will soon be obsolete and in need of major rehabilitation and modernization.

Having a good location and a high-quality retail mix is no longer enough. Nowadays, shopping centers need to deliver a memorable shopping and leisure experience.

The Rise of Online Channels

E-commerce still accounts for only a small proportion of retail sales but is expected to more than double by 2016 and become the dominant channel within a few years, as it is already among travel agents and tour operators.

It is no longer enough to have an e-commerce-enabled website. As the use of mobile devices has grown, retailers are being forced to add further capabilities.

Smartphones give consumers the ability to find information, compare prices, check availability and share opinions with other consumers. Thanks to near field communication (NFC) wireless technology, smartphones can also be used as a convenient and secure payment method. A total of 35 million NFC-enabled devices were sold in 2011, and it is calculated that by 2015 that figure will have reached 1.2 billion.

Companies should make the most of all these opportunities to interact with and relate to their customers at every stage of the purchase process: by sending discounts and promotions to customers in the vicinity; by sending real-time delivery alerts; by providing video product demonstrations to help customers decide.

Companies that build m-commerce into their multichannel strategy, and that synchronize their online and offline channels, will be more attractive to consumers. It has clearly worked for discount clubs. After just six months, mobile sales accounted for 10 percent of all Privalia's sales, and 15 percent of the total

sales of Vente-privee.com in one year.

Another springboard for e-commerce is social commerce. Social networks have become much more than platforms for self-promotion. Two years ago, brands were content to create Facebook fan pages, Twitter accounts, YouTube channels and blogs for sharing information of interest, with the aim of attracting followers and eventually converting them into customers. Today they can sell directly through these channels.

True, there is as yet no clear relationship between a brand's popularity in the digital arena and its sales revenue. But social commerce sales reached \$9.2 billion in 2012 and will pass the \$14 billion mark in 2013, according to Comscore.

Applications such as Wishbuuk, and sites such as Pinterest and Fancy – where vertical communities form according to interest – have seen spectacular growth and are turning into huge product recommendation platforms.

Companies should not let channel proliferation or the rise of new media overwhelm them. To persuade the new consumer, they must arm themselves with a strategy that integrates the various channels and uses each channel in the most appropriate way for each type of customer. □

■ TO KNOW MORE

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