



# Blurring retail boundaries

BTG Global Advisory looks at the global retail market, covering the challenges and opportunities of globalization and the blurring of boundaries between physical and online retail.

International retail has found itself at a crossroads, with pure online players, brands, and market entrants both disrupting the sector and, in turn, mulling over the role that real estate may play in their own global growth strategies. In parallel, traditional retailers have been left to wrestle with the redefinition of their offers and how they use their hard-won locations, brand strength, and a fresh focus on the consumer experience to reinvigorate their performance and sustain their future.

As retail giants such as RadioShack, Woolworths, Mexx, BHS and Dick Smith, among others, have shown, the transition to modern, omni-channel retailing is far from an easy path and there will, no doubt, be more casualties along the way, especially with online-behemoth Amazon breathing down the neck of retailers, as it widens its array of product categories and globalization.

It is, without question, a unique time to be on the global retail stage. The opportunities created by franchising e-commerce and multi-country strategies mean that the world has opened up for those retailers with an internationally relevant proposition. However, at the same time, competition is brutal. Disrupters, from Uber to Airbnb, Facebook to Amazon, are radically changing markets and consumer expectations, and tearing up the rule books, while even well-laid plans for global growth can go humiliateingly wrong.

## Culture Club or Culture Clash

UK grocer Tesco spent two years building up a picture of the American consumer and testing its 'Fresh' format in Californian research labs. Some of its executives even lived with American families in order to get a feel for how they conducted their lives, and their shopping habits. Yet Tesco's much-vaunted US adventure was an unmitigated disaster, and it is only just beginning to shake off the financial legacy of its huge misstep into the American Southwest.

US retailers have been no less prone to international miscalculations. Few would have thought that the comparatively small geographical and cultural move from the US to Canada would have been so unforgiving for US general merchandiser Target. However, the retailer was so badly rejected by its northern neighbor, it beat a rapid retreat. Best Buy in Europe and China, Gap in Germany, and even Walmart with several of its earlier overseas operations, have had similarly embarrassing flops.

The failure of Target in Canada illustrates just how hard it can be for US brands to break into an international market. What should have been a relatively straightforward expansion from the US into Canada turned out to be an expensive and embarrassing mistake, and Target decided to completely exit the Canadian market.

Yet cross-border retailing and the potential rewards, are an opportunity that is tough to ignore and, coupled with the huge opportunities online in all its various guises, the appetite to move beyond domestic borders remains undiminished.

## A Store-first Strategy?

What has undoubtedly changed is the nature of the retailers seeking internationalization. Globalization, at the tail end of the last century, was all about the big grocers who blazed a trail across countries and continents. This has all but ended, with most reverting to key regional hubs and selling off their overseas arms to domestic incumbents. In their place has been a 'fast fashion' phenomenon, including Zara, H&M, Topshop and Uniqlo, that has swept across nations to become the dominant retail genre of their age.

Interestingly, most of these household names have achieved globalization with a store-first strategy backed by phenomenal supply chain support. Furthermore, while they all have online offers, these have been secondary to the brick-and-mortar stores, and far from pioneering in terms of launch, features and prioritization. As a matter of fact, growing online sales remains unlikely to deter retailers' physical store expansion plans this year, according to global advisor CBRE. In its recent study 'How Active Are Retailers Globally?' over a 150 major international brands based in the Americas, Asia Pacific and Europe, the Middle East and Africa (EMEA) were interviewed and the survey findings showed that 83% of brands said their physical store expansion plans will not be affected by the growth in e-commerce in 2016. Only 22% of the brands expressed concern about competition from online retailing as a threat to their market in 2016.

In fact, overall, the retailers were more bullish about growth. Out of those questioned, 17% had large-scale ambitions with many retailers looking to open more than 40 stores (up from 9% in 2015), while the vast majority (67%) said that they were looking to open up to 20 stores. Core Western Europe is at the top of retailers' expansion targets, with Germany proving most popular, with 35% of retailers looking to expand there; France, 33%; the UK, 29%. China is at the top of the Asian market with 27% of retailers looking to expand there and a quarter of retailers are looking to the US as a retail destination in 2016.

Natasha Patel, Associate Director, EMEA Retail Research, CBRE, said of the findings: "Despite the backdrop of economic uncertainty and the popularity of online shopping growing year to year, a physical store presence in key locations is still critical to the strength of a brand's presence. Stores still need to create an emotional affinity with a shopper, and customers still feel a need to go into a store, physically touch a product, and enjoy the feel-good factor. The store is integral to the shopping experience and can be used in a number of different ways, such as to click and collect, research or to test the product. It isn't solely about the transactional side."

In this omni-channel world, not much is, it seems. One of the latest retailers to blur the edges of online and physical trading is UK general merchandiser Argos, promising that its digital stores underline its commitment to the main street and malls. The launch came only weeks after Argos had also confirmed an agreement with online juggernaut eBay to act as a distribution point for its products – a move which also confirmed eBay's commitment to the main street. Since then, UK grocery group Sainsbury's has snapped up Argos, which will begin to appear as a concession within supermarkets and may step back from its main street presence.

Confused? Well it would appear that shoppers aren't and some retailers are significantly flexing their formats to embrace and adjust to the omni-channel scenario. Probably best known among these is upscale UK department store group John Lewis, which has opened smaller branches in shopping centers in Exeter and York, that use technology such as iPads and touchscreens to enable it to offer the same in-store assortment within its 60,000 sq. ft. space as is available in the full-line 250,000 sq. ft. John Lewis stores. Recently, the retailer also committed to a multi-format store expansion program, in a strategic move which has fundamentally reshaped its expansion strategy, while it has also opened stores in Asia.

In the UK, Marks & Spencer opened a flagship technology-based store in Cheshire Oaks, but arguably more influential was its decision to open a 5,000 sq. ft. 'e-boutique' in Kalverstraat in Amsterdam. The concept store features digital innovations including a 'virtual rail', comprising three stacked 46-inch screens and three physical rails, each holding 50 clothing samples, showcasing the latest trends. It sits alongside order points, a range of screens and style advisers equipped with iPads. It should be pointed out that Marks & Spencer has not opened any further e-boutiques, and its smaller format and franchising growth is a tiny "plus" in relation to the prime real estate it sold off to El Corte Inglés and Galeries Lafayette during a previous retrenchment.

Indeed, widespread alteration of stores' estates is yet to happen, although retailers who once had only franchising or self-ownership of stores as their way to new markets are now much more likely to take a more flexible approach. Many have opted to widen their markets to cover multiple countries, and even established country-specific websites. This has the advantage of creating a brand presence and testing out the appetite for their products ahead of a store opening, influencing their expansion plans. In addition, rather than a widespread roll-out, they can target major cities with their high footfall, spend and marketing potential, supplemented by an online offer.

## Amazon – From Digital to Physical?

Hovering in the background of this new world is, of course, the ultimate disruptor and global behemoth, Amazon. Its unrelenting assault on categories, global location, and distribution has made it a daunting competitor. As if formidable financial muscle was not enough, rumors continue that it will make the step into physical stores, in part to showcase its own-brand products (notably the Kindle family) and in part as an element of its strategy to speed up delivery and bring it closer to where the consumer lives, works and plays.

Rumors have been just that, to date, prompted by the opening of a small number of campus bookstores, the collapse of RadioShack, (which led to suggestions that Amazon might take the leap into a ready-made, national store portfolio,) and most recently the very ill-advised words from Sandeep Mathrani, Chief Executive of Chicago-based mall developer General Growth Properties, who said during his company's recent earnings call with analysts that Amazon had plans to open "300 to 400 bookstores".

He was, understandably, quick to downplay his comments, although he stopped short of specifically denying them, saying they were "not intended" to represent the online retailer's plans. An Amazon spokeswoman responded that the company does not comment on "rumors and speculation."

Amazon opened a bookstore in its home city of Seattle in November, although a wider expansion of bookstores would be a surprise reversal (and one dripping with irony) for the online retailer credited with driving physical booksellers out of business. Its bookstore in Seattle carries a book selection based on customer ratings and their popularity on Amazon.com. The storefront also provides a space for visitors to test-drive Amazon's Kindle, Fire TV and other devices.

A number of theories prevail as to what Amazon might do in respect of stores, from nothing through to a full national and international store program. Amazon could focus in on volumes, market share and testing to justify a wider roll-out, although real estate is a very expensive way to go after such metrics.

A property base would provide Amazon with a way of meeting several different objectives: brand awareness, showrooming, own product demonstration, delivery speed, cost of delivery and data capture. Put those together and you have a much more compelling argument for a roll-out in key cities and high traffic locations. Amazon needs not so much a bookstore, but a physical base from which to retail the Amazon brand and to get delivery costs down. And the retailer – with its high foot traffic proposition – is likely to be able to drive a hard bargain, with landlords, over rents.

However, it has yet to be seen whether Amazon or other online players will make a significant commitment to physical retail, beyond customized stores and special outlets. At the same time, there is no compelling evidence that retailers are dramatically reducing their property portfolios in favor of digital channels. The two business models – store first and online first – continue to operate in parallel, although the boundaries have become blurred.

The key for traditional retailers is to ensure that their business model and strategy are properly in place, especially those that find themselves in some form of distress. Managing the business during difficult times requires a global partner that can optimize the situation.

## Fashioning a Digital Mind-set

In response to an increasingly demanding consumer and the pace of innovation, legacy retailers are re-examining their own offers. At the influential World Retail Congress, held in April in Dubai, retail icon Tommy Hilfiger revealed that the Tommy Hilfiger September runway collection will be immediately available for consumers to purchase online. In what is believed to be an industry first, Tommy Hilfiger will enable the public to buy the September fashion show collection immediately via [tommy.com](http://tommy.com), rather than waiting six months for it to appear in stores.

Hilfiger explained the rationale for the move: "I really believe the entertainment value is incredibly important because we're not just showing the editors and buyers anymore, we're showing the public. As a matter of fact, in September we're opening our shows to the public and broadcasting them worldwide. We really believe that click and buy is the future. The consumer no longer wants to see something shown on the runway and then have to wait. He or she wants to see something, click, buy, wear it that night or the next day, so speed to market is really important."

At the same event, CEO William Kim of global fashion brand AllSaints, which has 148 stores worldwide, revealed that the company had been developing a new business model since 2012, underpinned by a 'brand obsessed' approach and influenced by the strategy of successful digital companies, which has resulted in 20% of sales migrating online.

"We opted to organize ourselves more like a digital company that happens to have some stores," said Kim, as opposed to operating like a traditional fashion business. "In our company, [digital] is everyone's responsibility. Digital cannot be bought. It's not a gadget. We actually think it's more of a mind-set."

Against such radical rethinking, for the retail market the pace of change looks unrelenting. Adaptation and flexibility are key requirements for the successful businesses of the future and the remodeling of traditional retailers is both inevitable and necessary. Digital retailing has stripped away the need for transactional-based retailing but created an opportunity for experiential-focused retail. That is also being complemented by a growing array of leisure and food and beverage offers.

Retail has always been a game of winners and losers. The complexity has raised the stakes, the speed and the sustainability of maintaining a retail offer that resonates with the consumer is a challenge that must be faced.

## For Further Information

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