3-D RETAILING

I am going to make a bold prediction here:

Retail is <u>going to</u> change irrevocably.

Not bold enough? How about this:

Retail <u>is</u> changing irrevocably.

Still not bold enough?

Retail is changing right now in ways that will blow your mind; to the extent that half of retail businesses - as you know them - won't exist in 5 years.

I exaggerate. A little.

OK, a lot. But not as much as you think.

The statements above are not predictions as such, but I would like to put it to you to view these as CHALLENGES.

What would your business look like if 50% of current retail formats disappeared in the next 10 years?

Morgan Stanley <u>says</u> a combination of high rents and massive price differences will hurt electronics, department stores, clothing and book retailers, adding that it has downgraded price targets for David Jones, Harvey Norman, Billabong and Myer.

They expect the in-store retail sales compound annual growth rate to slow to 3.6% over the next four years, down from 5.9% over the past 10 years, and a worst-case scenario would see growth at just 2.1%.

In contrast, they expect online sales will grow 20+% a year.

If you think this is unlikely, then <u>read this article in the New York Times</u> (**1982**). It predicts changes that will be driven by the internet. I mention a few here:

- The home will double as a place of employment, with men and women conducting much of their work at the computer terminal.
- Home-based shopping will permit consumers to control manufacturing directly, ordering exactly what they need for "production on demand."
- There will be a shift away from conventional workplace and school socialization. Friends, peer groups and alliances will be determined electronically, creating classes of people based on interests and skills rather than age and social class.

- A new profession of information "brokers" and "managers" will emerge, serving as "gatekeepers," monitoring politicians and corporations and selectively releasing information to interested parties.
- The "extended family" might be recreated if the elderly can support themselves through electronic homework, making them more desirable to have around.

It may have taken longer than they thought, but you must agree it is pretty spot on?

So the question we must ask is what changes are imminent?

IMMINENT CHANGES

There are many societal trends which seem irreversible. For instance, a futurist is predicting the demise of many professions by 2020:

<> Shorthand secretary <> Switchboard operator <> Receptionist <> Bookbinder <> Printer <> Typist <> Supermarket cashier <> Photo processor <> Video store owner. (Read the full list of 48 dying professions.)

Your homework is to consider how these dying professions have parallels in the business world. (E.g. does 'No Typesetter' mean no Printed Books?)

I won't go into Gen Y, Z and whatever comes next. The ageing population. The global village. The list goes on.

The obvious, current retail/ economic trends that are likely to continue are:
1. More pervasive, faster internet access. (In Australia the National Broadband Network is being rolled out.)
2. The mobile phone is ubiquitous. (Over 100% penetration in Australia, and smart phones at over 50%. No source available.) 3G and 4G technology is the norm.
3. Growing eCommerce channels and options.
4. Costs are being driven down. (The establishment of EPC (Electronic Product Codes) will improve efficiencies in the physical supply chain. This report published by the **Global Commerce Initiative** makes for very interesting reading.)
5. Consumption patterns are currently 'value orientated' and likely to remain that way. This report by **McKinsey** (winning in Value Driven World) is excellent and thought provoking.
6. Finally, technology has become an enabler for the social nature of people. Social Media (as we know it) is just one, current manifestation of that.

Grant Arnott wrote on his blog recently:
Mobile and social are the big buzzwords in US retailing, but still relatively few are fully leveraging the channels. One thing is certain beyond a doubt – the customers depth of

understanding in using mobile and social as tools of empowerment far outstrips the retailers' general understanding of how to market these channels effectively.

Consulting firm PSFK released this trend report in 2010. It is over 80 slides, so you may want to come back to it. But check out slide 4 (key learnings) & 5 (key trends) for now.

[Click on the 'expand' arrows in the bottom right for a full-screen view.]

PSFK presents Future of Retail report

CREATING RETAIL STRATEGY

I am coining the term 3-D Retailing here. Allow me to explain.

- First Dimension

Fundamentally retail is/was ***transactional***. A customer exchanges money for goods or services. Success requires that you stock the right product at the right time and place and price. It is pretty simple. Your competition is clearly identified on this same dimension. As a retailer, all that is required is that you push your message out to market and convince them of the benefits.

I term all the elements of this first dimension the 'RETAIL PROPOSITION'. I have written two blog posts about it - start here. If you are seriously interested in this topic, I recommend that you get the **Jump the Curve** eBook.

- Second Dimension

For a long time consultants and good operators have acknowledged that it is hard to sustain a competitive advantage at the transactional dimension. '**Customer Service**' became the new battle ground.

With customer service I refer to things like all the add-ons (delivery, wrapping) through to pleasant human interactions (courtesy, responsiveness.)

Have you ever wondered if there was ONE SECRET to customer service? There is: Read this article on HBR.

- Third Dimension

This is the new battle ground. Of course, both the first and second dimensions of retailing remain valid. It is just that a good offer and good service are now considered cost of doing business. Consumers demand/expect a great value offer accompanied by great customer service. These are givens.

But if you want to operate/compete in an environment where online is a serious option, then you have to build out the third dimension of retailing: THE EXPERIENCE.

This is more than customer service. It is a new way of shopping.

I wrote **this document** in Nov 1999, proposing an approach that shopping centre landlords should be approach eCommerce. The bulk of those arguments STILL hold true.

I say this not to brag about how insightful I am, but to point out that many of these changes are obvious - and have been for some time.

Retail Experience is *more* than Retail Theatre

Jon Bird wrote up a piece on Urban Outfitters. It is what he terms re   tail theatre. And whilst I agree with what Jon writes about that particular retailer, I do think that it qualifies only partially as an 'experience'.

This article, also by Jon Bird, describes something more akin to the notion of retail experience I want to explore.

In my mind there is a difference between 'theatre' and 'experience' - and whilst I am being arbitrary here, it is an important distinction.

'Theatre' is entertainment ('shoppertainment') - and I am after more than that.

An experience INVOLVES the customer - it is interactive and engaging on an intimately personal level.

Watching 'Getaway' on TV is entertaining, going on the holiday is the experience.

Creating an experience is not about sexy visual merchandising.

A store that *really* delivers an experience is Jay Kos. Read this article and follow the link to their website.

Two commentators have written interesting articles that explains how retail may play our in the future.

- Doug Stephens used the phrase the 'store as media' (not sure if he coined it) but it is a phrase that resonates with what we have been saying for some time. This article by Doug touches on many of the same points I make here.

- Michael Fox runs an online business Shoes of Prey) and wrote this article in SMH depicting a future retail scenario.

Everyone has been to a family restaurant, so I thought that might be a good example.

The OLD way (two-dimensional)

- You arrive a few minutes early, but they have the table ready anyway.
- The waiter acknowledges you, greets you, introduces himself and takes you to your table where they hand you your menu
- The waiter comes around within a few minutes to take orders
- They even suggest a few specials and make a recommendation for the wine
- They place the order at the kitchen and return with water & crockery
- They bring the food out and serve it the proper way.
- Everyone gets the meal they ordered, and it is presented well and it tastes exactly how you expected.
- During the course of the meal there are a few 'table checks' and they top up the wine/water.
- They bring the desert menu, take the order and serve the desert in good time.
- The waiter is alert and you catch their eye easily and you signal for the bill.
- Your credit card is approved and you leave a healthy tip.
- You are greeted when you depart.

The NEW way (three dimensional)

- You arrive at the restaurant and you are greeted by name by the host.
- He accompanies you to the foyer where other guests are mingling.
- The host enquires about your last business trip and compliments your companion on her earrings.
- As the host introduces you to a few other guests, the sommelier brings you a pre-dinner drink (based on knowledge of your preferences. But it is a new flavour, and they share a few titbits about the new process/grape/brand whilst serving you.
- One of the hosts is telling a story to a few people gathered around her, and you join the half-circle to watch the 'performance'.
- A few minutes later the door to kitchen opens and the host invites everyone in. There are long bench tables arranged around the kitchen island, which is manned by 8 chefs.
- The lighting changes and the head chef introduces the crew. Each of the four long tables will be serving different range of dishes based on your recorded preference. You had indicated 'seafood' and your companion take your seat at that table.
- Your seafood chef greets you by name (they had the seating plan indicated on their side of the table, and they have learned something about every customer.)
- He then proceeds to run through the menu planned for the night.
- As they start the preparations, they engage you in conversation, telling you what they are doing giving some tips as they go.
- The courses are placed in front of you by your chef throughout the night.
- When you are ready to leave, you simply get up and excuse yourself.
- The chef comes around and gives you a hug and your companion a kiss on both cheeks.

- They insist you take the half bottle of wine with you as you leave.
- At the door, the doorman opens the door to the waiting taxi.
- At the end of the month, your credit card is charged the usual monthly membership fee.

Whilst you may argue that you would not like the 'new' restaurant experience; that is not quite the point. This is just one example aimed at people who do this for the food experience. I am sure you can imagine a few other 'themes' or experiential outcomes that would suit your tastes better - and if there us a market for it, some restaurateur will cater for it.

The point of this exercise is to imagine how a 'traditional' concept might be transformed in an experience. You may think a restaurant is an easy option, but the same can be done for a travel agent, a hair dresser or a shoe shop - quite easily.

Dreaming up the experience is the easy part.

Translating it into a physical experience (staff, systems, procedures etc.) is the hard part. And of course doing so at a profit is harder still.

Kind Regards
Dennis

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