Defining the 21st Century Store

Five elements every retailer should embrace
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The battle between clicks & bricks is officially over. Retailers must shed the outdated prototype design mentality and shift to a flexible, holistic approach to brand experience and retail development. Enter the new reality of Retail Portfolio Strategy with integrated brand ecosystems, direct-to-consumer concepts, and a reconstructed prototype archetype.
Over the past five years, the retail industry has been turbulent, to say the least. Many brands, both mature and novice alike, have been rocked by forces all around them—shifts in shopper behaviors, generational preferences, local nuance, economic pressures, commercial real estate values, and the infusion of private equity inducing influx of expensive corporate retail debt—which has put many retailers into a tailspin, if not out of business.

Brands that have historically been in offensive mode on growth and expansion, have been forced to live in defensive mode where the struggles of meeting day-to-day goals have inhibited them from making real progress on future visioning. Those mired by expensive debt have sunk due to their inability to invest in their brand ecosystem and retail experience. Even those who have invested in future visioning and have draft strategies, may have found themselves with very expensive ideas, but still left wondering where to go next. Too many brands have millions of dollars of ideas on the shelf and are still unsure what move to make next.

Branded Manufacturers who have historically built their retail proposition through wholesale points of distribution are doubling down Direct-to-Consumer (DTC) retail (e.g. Nike and Adidas). And brands who have predominantly built their business around brick and mortar stores have found their sea legs with robust digital commerce capabilities. Even digital pure

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**e-Commerce Sales in U.S.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>150</td>
</tr>
<tr>
<td>2013</td>
<td>200</td>
</tr>
<tr>
<td>2014</td>
<td>250</td>
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<td>2015</td>
<td>300</td>
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<td>2017</td>
<td>400</td>
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<tr>
<td>2018</td>
<td>450</td>
</tr>
<tr>
<td>2019</td>
<td>500</td>
</tr>
<tr>
<td>2020</td>
<td>550</td>
</tr>
</tbody>
</table>

Source: Statista
play brands are expanding their strategy to include brick and mortar (e.g. Amazon, Warby Parker, Wayfair, Bonobos and One Kings Lane).

We all know that ecommerce is not putting companies out of business, it’s simply changing the way customers connect to brands. Instead, private-equity-backed real estate, high-interest debt and brands’ inability to focus on investments that will connect all facets of their digital and physical ecosystems, have been their downfall. The result? Brands who are winning today have focused investments on mapping brand experience strategies to both the needs of the customer and to the overall health of the brand.

**We all know that ecommerce is not putting retailers out of business, it’s simply changing the way customers connect to brands.**
Let’s cut to the chase—the old prototype store model is obsolete. It is too inflexible and tone deaf to serve the needs of today’s sophisticated customer. This dated approach, of one ideal-state design that’s sized to small, medium or large, leaves retailers stranded with anomaly stores, which are difficult to replicate, may contain un-scalable experiences and/or operational challenges, posed by a lack of integration between their retail storefront and digital operations.
Most importantly, the prototype design fails to accommodate the new reality of retail, ruled by personalized experiences, local flavor and nuance, new options in order fulfillment and service offerings dictated by what customers need for on-demand access to product de jour. Yet, for all those flaws, giving up the prototype is hard to do.

A new strategic approach to concept, design and execution has emerged. At WD Partners, we call it a Retail Portfolio Strategy. It is a flexible set of modules to help retail brands create a strategically designed system of integrated parts and operations, to achieve synergy and scale, with both customers and their brand in mind.

For decades business operations and brand experience innovation have run separately and without regard for one another. “Everyone swims in their own lane,” as the saying goes. Restructuring the retail ecosystem requires new and integrated approaches to these pain points, designing these functions, from the start, to work in symbiosis with one another as a single, assemblage of clicks & bricks.

Online % to total retail sales may top out at one-quarter of all retail by the year 2030, by some forecasts. The real opportunity lies in stores’ leveraging customer data to serve them better on all fronts, especially from inside their reconfigured and newly refreshed stores. A Retail Portfolio Strategy can assist them in reconciling operations on both sides. In the next retail wave, we’re recognizing that the biggest part of online sales likely will come from old guard storefronts rather than online.
brands—or better yet, a fusion of both. Amazon alone accounts for half of all online sales in the U.S. (and 5% of all retail sales), and by some forecasts its online share could rise to almost 60%. Yet among the Top Ten sellers online in the U.S., storefront retailers occupy seven slots, from No. 2 (Walmart) to No. 9 (Costco).

New formats will blend clicks & bricks so well, that they barely are distinguishable. After all, to the customer, retail is retail. The challenge for brands is seeing themselves from the customer’s point-of-view. **Brands will succeed by investing in integrated brand experience and technology strategies that map a shopper’s experience, agnostic to place, space, and time.**

All of this is accommodated by a Retail Portfolio Strategy, especially when it comes to direct-to-consumer efforts. In contrast, almost none of it is covered by the narrow scope of Y2K’s retail prototype model.

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**Most popular online stores in the U.S.**

**2018 e-commerce net sales**

(E-commerce Revenue in billion U.S. Dollars)

<table>
<thead>
<tr>
<th>Brand</th>
<th>E-commerce Revenue (billion U.S. Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>64.2</td>
</tr>
<tr>
<td>Walmart</td>
<td>16.4</td>
</tr>
<tr>
<td>Apple</td>
<td>9.7</td>
</tr>
<tr>
<td>Home Depot</td>
<td>6.9</td>
</tr>
<tr>
<td>Best Buy</td>
<td>6.4</td>
</tr>
<tr>
<td>Wayfair</td>
<td>4.8</td>
</tr>
<tr>
<td>Target</td>
<td>4.8</td>
</tr>
<tr>
<td>Macy’s</td>
<td>4.7</td>
</tr>
<tr>
<td>Kohls</td>
<td>4.0</td>
</tr>
<tr>
<td>Costco</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Source: Statista
THE NEW DYNAMICS OF RETAIL

The need for retail transformation results from a decade of turmoil, disruption, rises and falls in the retail sector, so severe that it warrants an entry in Wikipedia under “retail apocalypse.” Gloomy yet realistic, the extent of disruption is almost unfathomable.
In the past decade or so, retailers have shut down three-quarters of a billion square feet of space, including more than a 100 million square feet in 2017 and another 145 million in 2018. 7,000 retail stores in the U.S. closed in 2017. Another 5,500+ stores closed in 2018. Classic retail brands continue to shut tattered and slow-trafficked stores, including Macy’s, J.C. Penney and presumably bankruptcy-bound Sears and Kmart.

In the next five years, recent reports point to 50% of mall leases will expire and as considerable retailer debts come due, another 20% of all malls could close for business, some 240 shopping malls in all, by some forecasts. That could entail upwards of 20,000 more storefront closings.

Source: money.cnn.com
When planning a new store concept and/or DTC growth strategy, retail executives must weigh some dynamic and tectonic shifts that lie beyond the old prototype model’s reach:

1. **Product Innovation**
2. **Experiential Retail**
3. **Distribution Logistics**
4. **Localization**
5. **Omni-Technology**
6. **Value-Added Services**

Online gets the blame for this destruction, unfairly. The real cause of this glut of empty space lies in two decades of booming mall construction and expansion. In 1970, the U.S. had 300 malls, and by 2016, the total was at more than 1,200. That is up 400%, although the U.S. population grew only 60% in the same period. That unbalanced ratio illustrates the fall, but let’s talk about today. Even post-apocalypse, Americans are the most over-stored shoppers in the world. We have almost 24 square feet of shopping space per capita in the U.S., compared with just 5 square feet per capita in the U.K., France, Spain and Italy. It begs the question—“apocalypse” or just math?

The industry’s woes have been aggravated by private equity investments that saddled some chains with high-interest debt, draining cash flow that should have been spent on upgrading their clicks & bricks ecosystems and the retail experience. This inability to invest in connecting facets of their digital and physical storefronts, helped sink such icons as Sears, Toys ‘R’ Us and Sports Authority.
Product innovation is hard to pinpoint through all the noise, but it’s everywhere, from customizable products, to dynamic assortments to custom-packed subscription boxes. From “smart” everything to material innovation. Meanwhile, traditional branded manufacturers are doing an end-run around their retailers to take control of their brand experience, and go direct-to-consumer.

Nike has been, and at least for the foreseeable future, will remain king of uncovering what’s next thru their relentless pursuit of innovation. The new Nike “House of Innovation” concept in New York City, opened November 15, 2018, reeks of newness every second through sensorial elements, powerful storytelling, and a choose-your-own-adventure basket-building experience.

Or take Soma Intimates new SomaInnofit™ technology, which “cut out the inaccuracies of traditional tape measuring...while also guiding women towards the bra that would suit their measurements best.” A great example of product innovation that serves a population of women where Soma’s president, Mary van Praag states that “75% - 80% of women are wearing bras in an inaccurate size.”

Brands who excel at product innovation are those who have customer-centric insight driven product design that both delight customers and solve problems they didn’t even know they had.
tackles on a lot of different flavors. Some brands have invested in flagship stores that are seemingly un-scalable, while others struggle with creating a destination experience that drives foot traffic. Those who are doing it well understand the value of connecting like-minded people in an environment that allows for expertise and trial, resulting in a very real opportunity to bring new customers into their ecosystem.

The beauty industry is white-hot with experiential retail right now. Glossier’s latest New York flagship is drenched in made-for-Instagram moments, presenting product in a euphorically feminine environment that propels customers to engage with one another while at the same time the depth and breadth of the world of Glossier.

Recently, online brand Dormify partnered with The Lion’esque Group (experiential retail strategists and pop-up architects) to fuse their clicks & bricks experience in their first physical retail experiment. Shoppers received one-on-one personalized attention where stylists curated an assortment of dorm room options to fit ones’ specific style and space, which then conveniently shipped directly to their new dorm room upon arrival.

The most successful retail experiences are untethered to the challenge of establishing strict ROI on experience, yet the impact on the success of the brand is invaluable.
retailers contend with fractured brand ecosystems and outdated P&L models that are unable to keep up with purchasing patterns across all points-of-sale, as well as valuing multiple points of distribution and/or fulfillment. Chains must reconfigure storefronts with online in mind: set up a smooth flow for “buy online, pickup in-store” (BOPIS), allow for curbside delivery, or other inventive ways of fulfilling orders on-demand and provide easy and accessible ways for returns whether in clicks or bricks.

Panera Bread’s magic sauce brings together food, wellness and digital experience in ways fast casual and quick service restaurants should take note. Their mobile app and online experiences fuse together all parts of the brand ecosystem to deliver your food in six different ways. Panera shoppers are increasingly converting in clicks & bricks transactions which has catapulted the brands’ digital orders to 1.4 million per week and digital sales to $2 billion annually, which is about 33% of total company sales—the highest rate in the industry outside of pizza¹¹.

And of course, Amazon’s acquisition of Whole Foods was not only to connect with a shared customer base, but to match frequency of purchase (weekly) with numerous methods of fulfillment (BOPIS, pickup lockers, home delivery, etc). This move by Amazon and others reinforces the idea that a brand ecosystem cannot truly meet customer needs without providing service excellence in both clicks & bricks.
and its discontents: One-design-for-all, as in the old prototype store model, is a retail relic at a time when consumers are more individualistic than ever before. Brands must adapt to Urban, Suburban and Rural settings and be culturally relevant to their stores’ unique customer sets.

In late 2018, Neighborhood Goods, the “modern alternative to the department store,” opened its first brick and mortar storefront in Plano, Texas. The new outlet will be a playground for “cult” online-only brands, creating an intuitive platform for reflecting the hottest trends and innovations at a local level. That coupled with social spaces, food & beverage, events and live speakers—all which will fuel their original content creation engine to be published across their website, app and printed magazine.

These days, Melrose Ave. seems to be where it’s at with the new “Nike Live” concept dubbed “Nike by Melrose”, which was “inspired by and built as a hub for its local NikePlus members”. An experimental “digital-meets-physical retail pilot that will be tested based on a deep understanding the neighborhood”.

Localization presents endless opportunity for brands to speak meaningfully and directly to their customers. Done well, brands present a controlled, cohesive and relevant brand expression, perhaps even a key to cracking the code behind driving repeat traffic to all transactional points across the brand ecosystem.
DEFINING THE 21ST CENTURY STORE

Omni-Technology offers a path forward for retail transformation, albeit at a significant cost. Many brands have already invested in integrating systems to encompass a single-view-of-customer, single-view-of-inventory, multichannel attribution, loyalty & rewards programs and mobile app optimization with the ultimate goal of delivering sharper personalization.

Starbucks is arguably one of the pioneers of delivering on a seamless brand experience. In Q1 2019 they announced a 14% jump in Rewards membership to the prior quarter—their largest gain in three years. That coupled with their ability to iron out the kinks of mobile ordering, payments, and enhanced personalized messaging have contributed to same store sales growth of 4% in Q1 2019 YOY.

Sephora has been one to watch over the past few years as they have solidified their personalization strategy and activated new experiences seamlessly connecting clicks & bricks. Consciously catering to the Digital Native, Sephora has doubled down to deliver personalized experiences, engaging content, and relevant product recommendations by leveraging their Beauty Insider community. New in-store technology effectively makes their mobile app an on-demand controller to one’s in-store shopping experience.

More retailers than ever are focused on understanding what delivering on personalization means to their brands. While we see that many brands have invested in omni-technology, the real hurdle now is determining how to leverage their assets in meaningful ways across their retail experience.
are an edge for some retailers, as they look to stay top-of-mind with their fidgety and on-the-run customers. Many are relying on value-added services to drive traffic and service engagement in new, unexpected, yet hyper-relevant ways.

DSW will sell you shoes as always, and newer stores also bundle in cobbler services and even a nail bar. Get a new pedicure to go with your new pair of sandals. That’s synergy.

The new RH Gallery in Chelsea, NYC has outdone itself in drawing locals and tourists alike, but the real magic sauce to the store is how they’ve given independent, local interior designers a space to consult, collaborate, problem-solve, and entertain their clients.

Nordstrom launched its new concept “Nordstrom Local” in Los Angeles mid-2018 and is a testament to the 117 year old brand’s unyielding focus on customer service, in a new/modern way.

Brands that are looking for ways to stay top-of-mind and build deeper customer relationships through value-added services are seeing increased momentum and new opportunities to expand their reach to new customers in new format concepts.
Given all of the shifting dynamics we’ve discussed, gone are the days of the old prototype model and a one-size-fits-all solution for retail development—and these days should be gone. By deploying an integrated Retail Portfolio Strategy, retailers can strategically architect an integrated system-of-parts to drive scale vs. a tactical application during a prototypical site-adaptation process.
In discarding the prototype model, retailers can use this approach to take a broader-based view to designing and maintaining a brand ecosystem. Modules are dialed up or down for the dynamic conditions of their retail experience, with the ability to prioritize various modules relative to store format and locale, to serve the needs of a variety of primary shoppers, instead of store size being the driving factor.

Retailers know they must “get unstuck,” unshackle themselves from old ways and change their approach to most everything. The hard part is to know where to begin and what it should look like. While the base framework is simple, the hidden shackles lie in designing a system of parts for developing and applying the strategy to today’s current, and future state.

This Retail Portfolio Strategy offers retailers an adaptable approach, with a big-picture view of the rapidly shifting retail landscape. The five modules across the top of the chart (on page 21)—experiences, product, services, localization and integrated technology—can be strategically applied in different portions and combinations to fit different scenarios.
New build and remodel programs are now strategically planned through the evaluation of both customer and business needs, with market expansion and real estate strategy as key components. Brands are free to solve problems and stay locally relevant while reining in and fine tuning the costs of providing experiential retail and value-added services. A Retail Portfolio Strategy helps retailers account for regional and cultural nuances that the prototype-store design fails to serve. And, reconfigures both clicks & bricks to account for one another—as portals to and from each other.

The diagram illustrates the contrast between how DTC Retail is strategized and managed today vs. tomorrow—as a full portfolio view of DTC distribution, vs. individual silos operating in a vacuum.
THE NEW RETAIL DEVELOPMENT MODEL
Flexible Configurations for Dynamic Conditions

OLD
Prototype Approach

NEW
Modular Kit-of-Parts

Prototype

Experience | Product | Services | Local POV | Technology

FLAGSHIP

MALL STORE

POP-UP
And so, the million-dollar question... where to start. If even some of this POV strikes a chord, ask yourself the following questions.

1. Does your retail experience truly embody the ethos of your brand, across all points of distribution?
2. Does your head of retail maintain a broad purview across all DTC channels, including pop-ups, social media and other emerging retail transaction points?
3. Do you intimately understand your shoppers at a local level and provide relevant products, services and experiences that make their life easier and happier?
4. Are you managing a retail development prototype and not taking into account different shoppers' needs from each store based on locale?
5. Are you attempting to scale un-scalable experiences?
6. Does your team think through all operational considerations as a conceptual activity vs. an after-the-fact fix?
7. Has your brand made significant investments in technology integration, yet still struggle to realize the impact of having done so?
8. Have you aimed at the ability to deliver an holistic, personalized experience, yet still struggling to find the magic bullet that will resonate with your most beloved customer, and opportunity customers simultaneously?
9. Are you experimenting with new value-add services but not sure how to read and/or react to the data you collect?
10. Is change management driven by a CEO vision, backed by a highly functional leadership team who will collaborate and amplify that vision across the organization?
If you can affirm your brand is doing most or all of these things—then chances are your brand is currently either thriving or steadily evolving. If you’re not doing at least some of these things—then it’s likely you’re staying afloat and/or searching for help as we speak.

Shoppers expect one thing, and that is that brands they support offer the shortest distance between them and the product they want, as soon as humanly possible.

At WD, we are solving for the future of retail by breaking the mold of the past and reassembling the clicks & bricks into a structured yet scalable model for brand resilience and growth. As more online retailers open more storefronts, and storefront retailers improve their game in the ether, the lines between physical and digital, and even brand and retailer, are long past blurred. If you’re stuck somewhere in the middle and looking for a partner to help you and your organization get unstuck, call us, we’d be happy to help.

Whether you’re a staid retailer or an on-fire retail start-up, one thing rings true—the ultimate retailer in the post-digital world approaches retail development as a strategic function mapped to future visioning and expansion plans...not a tactical activity to be determined in rinse-and-repeat, commoditized process.

While the tides will change and turbulent waters are inevitable, the key to retail success is adopting new perspectives and being an agent for change.
WD’s mission is to drive and shape the future of customer experience. Our passion has been to solve our clients’ challenges and anticipate their future needs. We are customer fanatics that pride ourselves on being on the forefront of change. WD’s integrated services include: strategy & insights, brand & design, operations planning & design, architecture, engineering and construction services.

We are thinkers that do.

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DEFINING THE 21ST CENTURY STORE

Sources
4  https://www.statista.com/chart/14043/top-10-online-stores-in-the-us/
7  https://www.nreionline.com/retail/how-many-more-store-closures-are-expected-2019

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