

Briefing note

The Transformation of Retail Outlets

2018

(e)volutions rev'olutions



E-commerce and new consumer expectations are driving the transformation of retail stores

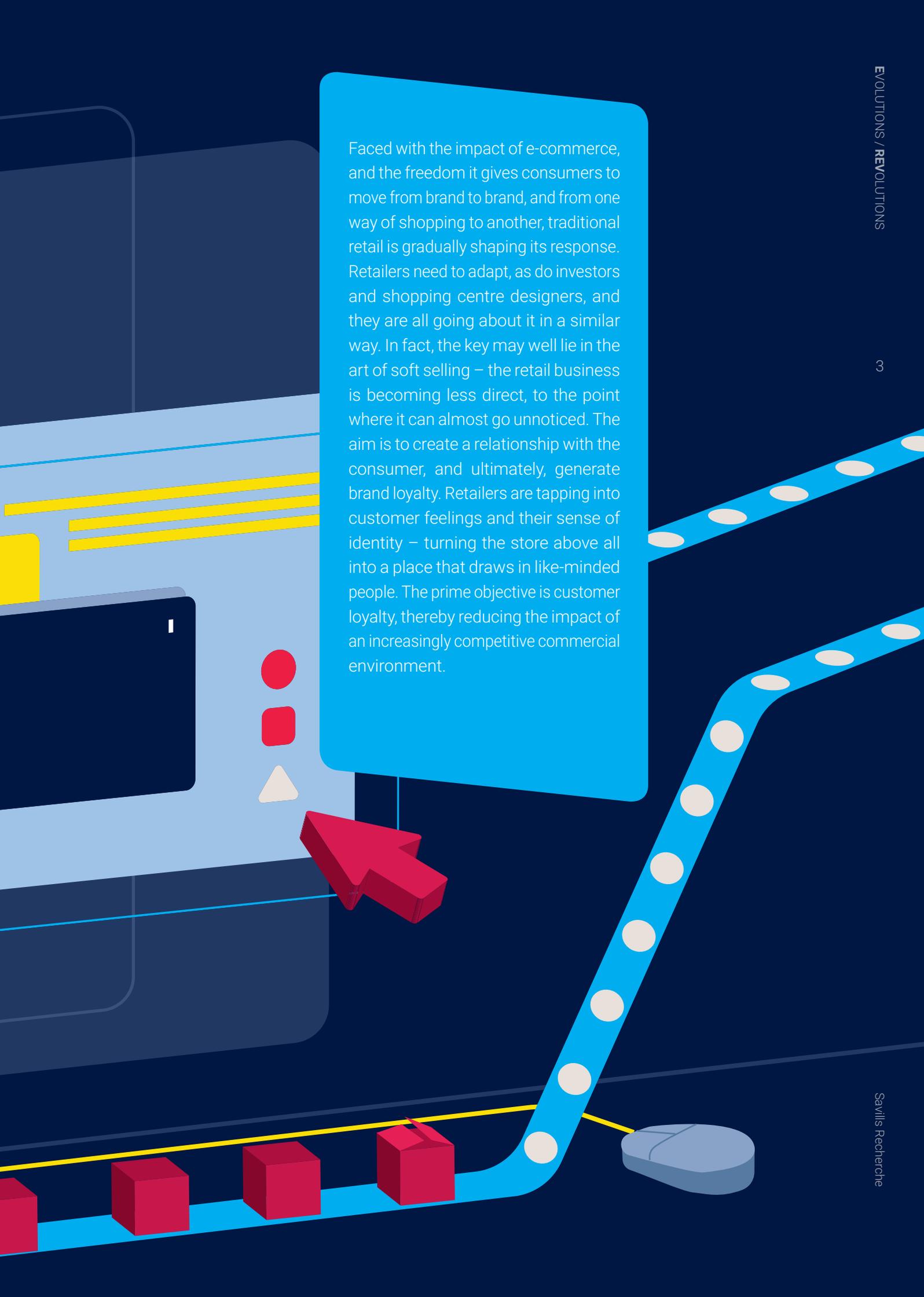
Once a consumer, always a consumer. Whether we like it or not, there is no escaping the facts: we consume on average three times as much as we did fifty years ago; nevertheless, our shopping habits are changing. Major technological and social transformations have impacted our everyday lives and fashion, style and communities have become more diverse. Work patterns have changed drastically, with boundaries between peoples' work and home lives becoming increasingly blurred, and a new generation – millennials – having an ever more commanding role in society. Inevitably, these changes have altered the way we choose to spend our money.

E-commerce is one of the responses to these changing trends. The tool of the times, and of an entire generation, e-commerce is now firmly anchored in spending habits and is gaining market share every year – it grew by over 14% in 2017¹ and represents between 5% and 8% of French consumer spending². Although it has not by any means swept everything away in its path, its influence can now be felt in all walks of life. Certain commentators see e-commerce's market share approaching 10% by 2025³ – enough to spur the world of bricks and mortar retail into action.

¹ Ice / Fevad

² Kantar Worldpanel / Fevad

³ Xerfi, L'e-commerce BtoC en France à horizon 2025 (B2C E-commerce in France by 2025)

A stylized illustration of a computer interface. A large blue text box is the central focus, containing text about e-commerce and retail adaptation. To the left, a dark grey panel features a black screen, a red circle, a red square, and a yellow triangle. A large red 3D arrow points towards the text box. At the bottom, a yellow line runs across the screen, with a grey mouse cursor clicking on it. Below the mouse cursor, a blue path leads to a series of red 3D rectangular blocks of varying heights. The background is dark blue with light blue and yellow lines suggesting a digital or network environment.

Faced with the impact of e-commerce, and the freedom it gives consumers to move from brand to brand, and from one way of shopping to another, traditional retail is gradually shaping its response. Retailers need to adapt, as do investors and shopping centre designers, and they are all going about it in a similar way. In fact, the key may well lie in the art of soft selling – the retail business is becoming less direct, to the point where it can almost go unnoticed. The aim is to create a relationship with the consumer, and ultimately, generate brand loyalty. Retailers are tapping into customer feelings and their sense of identity – turning the store above all into a place that draws in like-minded people. The prime objective is customer loyalty, thereby reducing the impact of an increasingly competitive commercial environment.

RETAILERS:

TIME TO CHANGE

New consumer habits and the growth of e-commerce have forced retailers to rethink their strategies for attracting consumers who are increasingly spending more time online. Physical stores are at the forefront of this change, reinventing themselves and incorporating digital technology into all aspects of their businesses.



Bricks and mortar stores making the great technological leap

Improving the customer shopping experience has become a priority for retailers. Firstly, they need to address the traditional drawbacks associated with physical stores: the checkout process, waiting times for fitting rooms, and customer choice being limited by available stock. All these factors can discourage customers, and have become e-commerce's key strengths. Several in-store innovations are focused on reducing customer waiting times – payment is increasingly subtle and fast thanks to self-checkout machines, connected shopping trolleys and payment in fitting rooms. Delivery methods are also evolving; in addition to click and collect, the “hands free shopping” facility offers a simple solution: giving customers the option of leaving a store without their purchases and getting them delivered direct to their homes at their convenience. For example, Darty has entered into a partnership with Colisweb, a start-up specialising in last mile logistics. In-store digitalisation is another initiative that aims to ease

the buying process. For example, Mango, part of Punta Na Holdings, has announced the introduction of fitting rooms equipped with smart mirrors – customers can scan their items, try them on and see which sizes are available in store if unhappy with the fit. Zara, another Inditex brand, has incorporated these innovative developments in its new Westfield Stratford store, near London.

Each and every step of the buying process is now becoming subtler and smoother. The consumer is free to enjoy the experience, while the retailers take care of the rest. They are now able to define consumer needs, which can now be anticipated thanks to the boom in smart devices and predictive data analysis. Retailers know what their customers like, and can therefore appeal directly to them and offer bespoke services. These technologies allow an increasingly personalised shopping experience.

Customer service and the human touch as value-adds



The success of such a strategy depends on one golden rule: soft selling. Consumers are not ready for the cold and disembodied relationships characteristic of artificial intelligence. As such, digitalisation also emphasises the key role that sales assistants play and the value-add of the services they provide: 85% of French customers like to see sales assistants passionate about the products they sell⁴. It is a direct relationship that the internet does not offer.

Sales assistants are becoming real advisors, experts who understand, reassure and encourage. Retailers in DIY, cosmetics and well-being were trailblazers in this respect, redefining the concept of stores – several beauty and cosmetic stores now offer nail bars, make-up workshops or massages for example. In the Bon Marché and Printemps department stores, customers have access to personal shoppers, while they can go to lessons and demonstrations in FNAC stores, Decathlon City and Leroy Merlin Campus, and even test several domestic appliances before making a choice in Comptoirs Boulanger. Far from being mere extras, these services enrich the shopping experience, increasing time spent browsing, and the potential for purchases as a result.

⁴ Havas Shopper Observer 2017: Human relations and experience at the heart of tomorrow's trade

Creating a world beyond shopping alone

Beyond this wide range of services, retailers are transforming shopping centres into focal points for attracting and engaging customers on an emotional level. It is no longer only about selling a product, but presenting it in a world that gives it meaning, and inviting the customer into that world. Customer experience is the new number one differentiating factor, ousting price and product off the top spot.

Two successful models illustrate this trend; flagship stores and concept stores. The former are ambassador stores for brand values that allow each customer to enter their world, while the latter are units offering a range of multi-brand products, linked by theme, such as home decor, fashion or sport, very often including a food court. More than offering consumers an opportunity to buy, these marketing strategies allow them to discover new experiences. Above all, these stores aim to inspire, showcase certain lifestyle trends and appeal to the aspiring customer. Lastly, but by no means least, their ultimate advantage is that they encourage impulse buying over planned purchases.

Fun-filled leisure destinations

In order to provide customers with a memorable experience so that they will return time and time again, shopping centres and stores are becoming leisure destinations and offering more and more immersive experiences. For example, visiting Samsung 837, the Korean brand's flagship New York store at the heart of the Meatpacking district, with its art installations and virtual reality tunnel, is like going to a theme park, while Nike has introduced various sports trial zones in its stores. Adidas is no stranger to this either, rolling out the "Adidas Football VR Experience" at its Champs-Elysees store, where customers are placed at the heart of a decisive match, wearing a VR helmet and motion captors on their feet. Beyond these individual initiatives, retailers are benefitting from the value-add brought by the shopping centres or retail parks that they are part of, via concerts, broadcasting, demonstrations and participative workshops, which give them unequalled striking power. The Atoll shopping centre near Angers, developed by the Compagnie de Phalsbourg in 2012, is a prime example. It offers an eclectic programme, from Roller Night and Mother's Day in the flower garden, to the Bee Api initiative, where children can learn about the world of bees and honey.

Retailers are also focusing on customer enjoyment. Carrefour chose Milan for the launch of its new convenience store concept – its Express Urban Life is more like a restaurant than a



small supermarket, featuring several tables for dining, a lounge area and a co-working area. It is also likely that the Paris opening in 2019 of the first Eataly in France will take customer enjoyment to the next level.

Retail is reinventing itself in order to offer consumers an experience

they cannot find online. To achieve this, stores are promoting new ways of using their space. They are no longer only designed as retail units, but are becoming real community areas oriented towards enjoyment, discovery and fulfilment: areas in which entertainment and recreation lie at the core, and sales activity is a mere nuance. The aim? To draw in

the public and become just as much of a go-to destination for leisure and enjoyment as shopping centres.

Advent of augmented retail

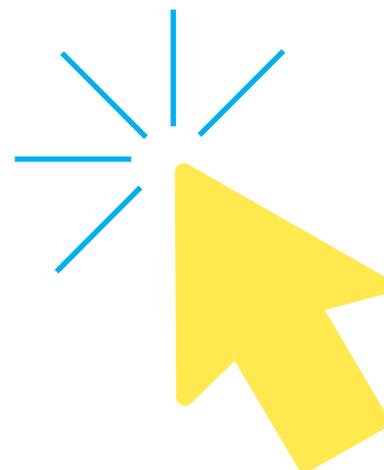
Far from physical stores and online shopping competing, the future of retail will depend on how well the two dimensions are able to complement each other.

Physical stores are increasingly considered a strategic advantage for online retailers, as their core business model also has its shortfalls: as well as sensory deprivation and the absence of human contact, product returns are logistically complicated and increasingly expensive. In addition, they are facing new competition from mobile commerce (via apps and social networks). Pinterest rolled out buyable pins in 2016, Facebook launched Marketplace, and Instagram is innovating with shopping tags in association with around twenty brands. More and more pure-play online retailers now view opening physical stores as a

way out. Some have already made the leap, such as Amazon, Spartoo, Miliboo and Birchbox. Others, for the moment, favour pop-up stores, or associations with physical stores, such as Sensee, who has installed corners in various FNAC stores.

In contrast, traditional retailers are focusing on developing their e-commerce initiatives. For example, a recent partnership aims to offer Monoprix food products to Amazon Prime Now customers, a service currently only available in Paris and close suburbs. The market is also seeing an increasing number of acquisitions of specialist retailers by large retail brands who want to diversify their core business. For example, the e-merchant Mister Good Deal has become part of the FNAC-Darty group and La Redoute has joined the Galeries Lafayette group.

The retail world is already branching out into multi-channel, cross-channel and omnichannel concepts, learning to juggle with the varying synergies to be created between the on and offline spheres. More recently, the unified commerce trend is establishing itself as an all-encompassing solution, allowing retailers to streamline their operations and merge the various distribution channels – both the physical and the virtual. This solution, which also covers retailers' logistics, stock management and last-mile delivery, should become more established in the years to come.



SHOPPING CENTRES & RETAIL PARKS:**DISCOVERING THE
ULTIMATE SHOPPING
EXPERIENCE**

This evolution – or more to the point revolution – does not just affect retailers, who must find spaces that help them to develop and deliver their strategies. Investors specialising in commercial real estate and retail developers are also at the forefront of this change, as they are the ones charged with designing these new spaces, or redefining existing spaces, in order to allow retailers to adapt.

**From “non-destinations”
to “hyper-destinations”**

What are these eldorados? These intense and richly diverse spaces where retailers and consumers alike can express their desires and aspirations. In short, they are the polar opposite of “non-destinations”, a concept that flourished in the 1990s to define shopping centres, characteristic of the anonymous standardisation of space that followed the onset of globalisation. It is not a question of trying to stamp out globalisation in the design of these new shopping centres, but rather integrating it in with the specific setting and striking the perfect balance so that they can take on their own unique character. This balance is what the anthropologist and geographer Michel Lussault identifies as “hyper-destinations”⁵.

⁵ Michel Lussault, “Hyper-lieux. Les nouvelles géographies de la mondialisation” (Hyper-destinations: new geography of globalization) Seuil, 2017.

“Hyper-destinations” can be defined by five criteria. The first is flexibility and diversity, as they are spaces that are used in a variety of ways and for various purposes. The second is their connectivity, as individuals, objects and events can always be connected to others via telecommunications networks. Thirdly, these places operate on both the local and global level, while the fourth indispensable characteristic is that they are places where experiences are shared. The habits, expectations and aspirations of the visitors that use these spaces allow them to engage with one another. This brings us to the fifth and final criterion: “hyper-destinations” must be places that appeal to customers and create a sense of belonging.



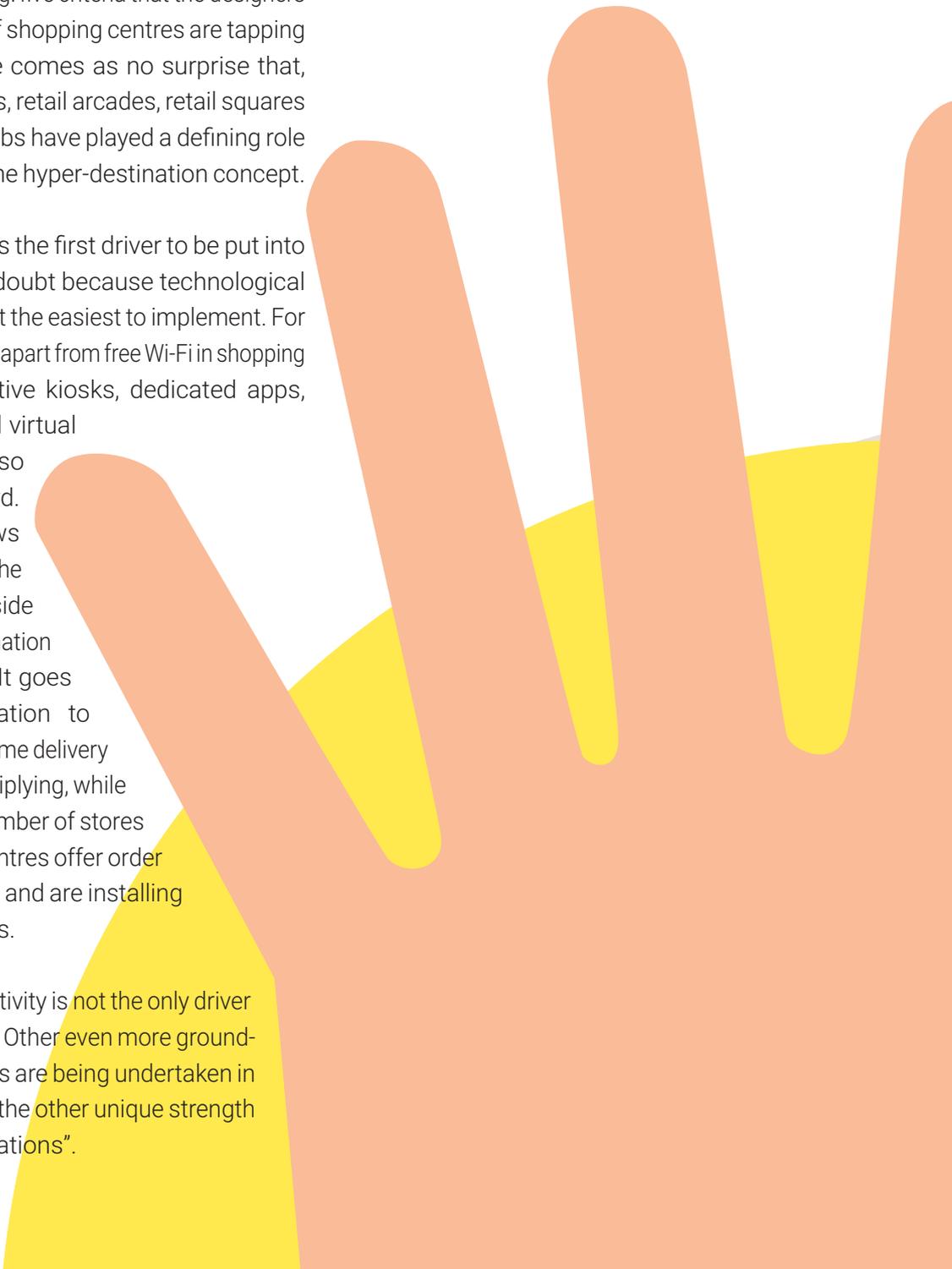
Five criteria, like the fingers on a hand

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Flexibility and diversity, connectivity, local and global public spaces, shared experiences and a sense of belonging: five criteria that the designers and managers of shopping centres are tapping into. It therefore comes as no surprise that, shopping centres, retail arcades, retail squares and transport hubs have played a defining role in establishing the hyper-destination concept.

Connectivity was the first driver to be put into action, without doubt because technological advances made it the easiest to implement. For several years now, apart from free Wi-Fi in shopping centres, interactive kiosks, dedicated apps, tablet loans and virtual reality have also become standard. Connectivity flows both ways, from the outside to the inside of the retail destination and vice versa. It goes beyond information to access goods: home delivery services are multiplying, while an increasing number of stores and shopping centres offer order collection points and are installing Amazon Lockers.

However, connectivity is not the only driver being developed. Other even more groundbreaking changes are being undertaken in order to develop the other unique strength of "hyper destinations".



How do shopping centres gain depth and diversity while still remaining within the context of their local environment? By turning their space around; gone are the days of inward facing shopping centres, featuring nothing but internal attractions. Shopping centres have become visitor magnets, both destinations in their own right and spaces that people pass through on their way to somewhere else. Spaces that encourage through-flow “traffic” (each passer-by a visitor and therefore also a potential customer) and are opened up via large windows that make the outside space part of the interior. The remodelled Beaugrenelle shopping centre is a very good example, with its windows fronting onto Rue Linnois, several entrances and far-reaching views to the outdoor surroundings. It boasts broad promenades and oases of calm, where customers can sit and relax without the need to make any purchases. Denis Valode, the architect behind this creation, explains: “Instead of a dark centre, we created an urban light-filled promenade that boasts spectacular views out onto the

city. Visitors do not feel trapped, they are able to enter and leave via the various doors (...)”⁶. This trend is being taken further and further. Citynove is in the process of refurbishing the BHV department store: the menswear store is open, as are boutiques on the rue des Archives and rue du Temple; while the future Eataly unit has also just been delivered on rue Sainte-Croix-de-la-Bretonnerie. Opposite, the Lafayette Anticipations foundation has just opened. Eventually, this whole complex will be linked by passages and courtyards open to the public, providing new urban spaces. Outside France, the same trend is also gaining traction. The Europa shopping centre, developed by Unibail, and expected to open in Brussels in 2021, will be a completely open-air complex on Avenue Houba de Strooper, and linked to the historic sites in the Heysel district (Atomium, planetarium, Exhibition centre etc.). All of these initiatives are being increasingly designed as comprehensive urban hybrid development programmes – half private, half public.

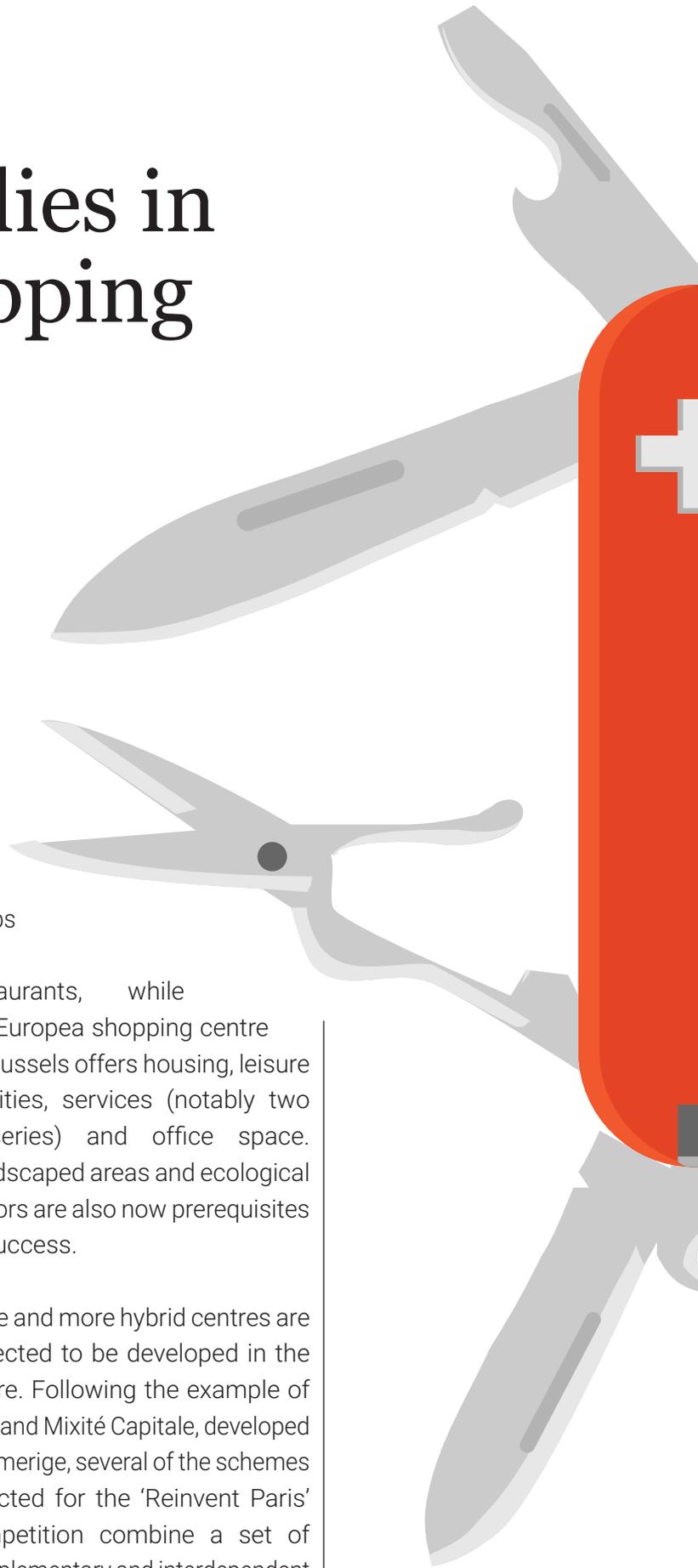
⁶ Les Echos, 4th June 2014

The future lies in hybrid shopping centres

Such hybridisation is deliberate. In addition to openness, a variety of uses and how they complement each other is becoming a common theme. Retail areas are no longer only places for spending money. The Muse shopping centre, which opened at the end of 2017 in Metz, a stone's throw from the Centre Pompidou, has a co-working space in addition to 115 stores and restaurants. The rooftops of major Parisian stores have been transformed into event venues and popular party destinations, with customised opening hours. The Lafayette Anticipations Foundation provides the BHV with a cultural, creative and ultra-trendy dimension that links it to the Marais and the Paris that millennials love. Art and cultural or sporting events are held at the heart of shopping centres and retail parks. Such events often form part of the contracts signed between stores and shopping centre owners, a sign that this is definitely not a passing trend. The Confluence mall in Lyon combines leisure and hotel accommodation with its hundreds

of shops and restaurants, while the Europa shopping centre in Brussels offers housing, leisure facilities, services (notably two nurseries) and office space. Landscaped areas and ecological factors are also now prerequisites to success.

More and more hybrid centres are expected to be developed in the future. Following the example of Morland Mixité Capitale, developed by Emerige, several of the schemes selected for the 'Reinvent Paris' competition combine a set of complementary and interdependent spaces within the same building: retail units, restaurants, offices,





nurseries, housing, temporary accommodation, hotels and urban agriculture, all under one roof. Real urban UFOs in a world that has long been driven by specialisation

that has now been delegated in part to the private sector. The Valbonne Open Sky project, developed by the Compagnie de Phalsbourg, is designed to revitalise and redevelop the heart of the Sophia Antipolis technology park with 60,000 sqm of retail space; 20,000 sqm of offices, public services and facilities; 10,000 sqm reserved for hotels, and organic architecture - the work of Gianni Ranaulo. It is set to open in 2020 – so almost in no time at all!

Behind all of this, the goal is to re-establish customer contact, interaction and loyalty and thus promote shared experiences and a sense of belonging – two of the criteria specific to “hyper-destinations” and key to their prosperity in a globalised, virtualised and constantly changing world.

and monofunctional spaces. Above all, there is a strong emphasis on responsible and sustainable development, highlighting locally sourced products. As Laurent Boutbien, president of Immo Mousquetaires notes: “the shopping centre of tomorrow will be more like a village square than a simple retail store”⁷. Towns and cities are being developed through these initiatives – a mission that was until now reserved for public authorities, and

Following in the footsteps of retailers, shopping centres and retail complexes have started their revolution. Their transformation is unfinished and no doubt holds many more surprises, but one thing is certain, a new name which truly reflects their identity must be found for them; a new name for a third generation of retail space...

⁷ LSA, 19th June 2017



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