

Views

on the world of
shoppers, retailers
and brands



Getting Physical Online Retailers Move Offline

by **Barbara Thau**

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commentary by Herb Sorensen, Ph.D.

2013 Charles Coolidge Parlin Awardee, American Marketing Association
Adjunct Senior Research Fellow, Ehrenberg-Bass Institute for Marketing Science, Univ. of S. Australia
Scientific Advisor, TNS Global, Retail & Shopper Practice

[RetailWire BrainTrust Panelist/Blogger](#)

E-Mail: herb.sorensen@shopperscientist.com

With this issue of the *Views* I offer a broader view of retailing than is perhaps common. But I think it is important, because too many times there is a failure to appreciate the grandness of the enterprises we pursue. My hope is to energize and inspire many with a greater appreciation for their own work, and for that of their partners in what could be the greatest endeavor ever undertaken amongst us.

Here's to [GREAT "Shopping" for YOU!!!](#)

Your friend, Herb Sorensen

herb.sorensen@shopperscientist.com



features



By Barbara Thau

Go offline, young man: That appears to be the mantra of e-commerce merchants these days.

As competition in the world of online retailing heats up — with Amazon’s ever-burgeoning dominance posing the biggest threat — more pure-players are taking the brick-and-mortar plunge. It’s a reminder, many experts say, of the strong appeal of the in-store experience — even when stacked up against the convenience of online shopping.

“E-commerce retailers have learned what brick-and-mortar stores have relied on for years,” said Faith Hope Consolo, chairman of the retail leasing and sales division of real estate firm Douglas Elliman. “The fact is that shopping is a social activity, and people like to see, feel, try on the merchandise. Now they’re seeing if their business model can adapt to the rigors of physical stores.”

As to the lure of brick-and-mortar, Christian Davies,

executive creative director, Americas, Fitch, Columbus, Ohio, believes the physical store offers opportunities to connect with the consumer in ways that even the best website can't match.

"It may be that online retailers want to showcase the products in a more experiential way," Davies said. "Or they may want the opportunity to differentiate themselves from their digital competition in ways beyond what they can share on-screen. I think one of the most significant opportunities is to put a human face on the brand, to have shoppers interacting with the brand in ways that are more personal and emotionally resonant."

As the online retail playing field gets more crowded and Amazon continues to undercut the prices of its e-commerce brethren, pure-play sellers ranging from Gap Inc. fashion spin-off Piperlime to niche sites like menswear merchant Bonobos are seeking new avenues of growth in the brick-and-mortar space — which still accounts for about 94% of all retail sales, according to data from eMarketer, a research and trend analysis firm on digital marketing and media.

"It's tough to play Amazon's game and win in terms of online sales," said Clark Fredricksen, VP and researcher, eMarketer.

And it's getting tougher as Amazon continues to up the competitive ante. In select markets, the online behemoth is now testing lockers in such chains as Staples and 7-Eleven, whereby shoppers order items online and pick them up at lockers in these local outlets. (Meanwhile, rumors continue to circulate that Amazon plans to open a physical store in Seattle. The same goes for Google.)

"Amazon's relentless dedication to low pricing and, in some cases rapid shipping, is making it harder for retailers of all stripes to compete," Fredricksen explained.

Beyond seeking new growth opportunities, e-commerce retailers are also opening physical stores "in order to build a more complete picture of consumer behavior," according to Fredricksen. They're in search of data "that they can't get from the online world," he said.

These are not, for the most part however, your mother's retail stores. Many pure-play merchants are adding new twists to in-store shopping, while bringing best practices of the online world in the offline space. They are redefining the shopping experience for a new age, and providing a glimpse of a future that is not likely to be so black and white, a future where nearly all of retail will be a meld of online and offline components. >

Worth Watching

Here are several pure-play online retailers that are venturing into the physical space — or thinking about making the leap:

- **Rent the Runway**, which rents high-end designer gowns, dresses and accessories to women for weddings and other special events, will use a recent infusion of \$24.4 million in financing to build showrooms where shoppers can try on the frocks and consult with stylists. The popular online destination reportedly has Chicago next on its agenda.

- **Fab**, best known for its "everyday design" philosophy and amusing, irreverent attitude, is reported to have its sights set on brick-and-mortar. The site, founded in 2010 as a social network, has evolved into one of the Web's fastest-growing and hottest retailers, with a massive selection of design-focused goods that include kitchenware, food, furniture, art, clothing, accessories, kids' items, novelties and gadgets.

Initially dismissed by some as too hipster and edgy, Fab now

counts more than 11 million registered customers across 26 countries. Sales grew by more than 500% in 2012, with one-third coming from Fab mobile apps.

According to founder and CEO Jason Goldberg, 90% of the product featured on Fab is not available at any other major store, including Amazon. (Soon-to-launch lines of Fab private-label goods will only cement its positioning.) In interviews, Goldberg has made no secret that Fab, which closed a \$105 million financing round last summer, is thinking about brick-and-mortar.

"Just like Apple reinvented the retail experience for computers, we think we can reinvent the retail experience for design," Goldberg told Mashable.com in July. "Expect to see Fab stores in the future."

- **BaubleBar** opened its first physical location in New York City last year, in part to monitor buying trends and data culled from face-to-face interactions with shoppers to inform its merchandising strategy.

Called "The Bar," the bright and cheery shop combines baubles from the trendy jeweler's online site with in-store-only offerings. It also rents itself out for "Girls' Nights Out" and other special events.

- **Kiddicare**, the U.K.'s top online baby gear shop, has announced plans to open 10 baby superstores throughout the country. The shops will give customers "a true multichannel experience," promised the company, owned by British grocer Morrisons.



Here's a look at several innovative e-tailers that are going offline, either with existing or new concepts.

Baby Town

When Ocean and Tracy Zhang, owners of online costume shops Costume Alibi and Costumelicious, conceived the strategy for Baby Town, they saw no choice but to spread their wings offline as well as on.

"It was getting harder and harder to compete side by side with Amazon," Ocean Zhang said.

Year by year, the giant retailer has been eating into its market share in the costume business.

Amazon currently carries about 7% of the merchandise sold by Costume Alibi, but at prices 25% lower. Zhang predicts that next year Amazon will carry as much as 15% of the same goods, "as they steadily increase their product selection," he said. "And it would be impossible to match their price."

But it's not only Amazon that's nudged the Zhangs to open a freestanding retail store.

"So many of the barriers to entry are really low for an online business, so just about anybody can do it," Zhang said. And the proliferation of players online "tends to drive the prices lower."

To that end, the Zhangs sought to fill a void in the retail market for an expansive, one-stop-shopping destination for upscale baby products that offers the customer service of an independent retail store.

Therein lies the concept behind Baby Town, which will open this summer in a 28,000-sq.-ft. space in Gilbert, Ariz., filling a former Linens 'n Things space.

Baby Town, which will serve the needs of infants to 3-year-olds, will feature a merchandise mix akin to the

high end of Babies 'R' Us's assortment, with upscale items such as Orbit strollers and Petunia diaper bags, as well as all the baby gear "that's difficult to buy on the Internet," said Judi Butterworth, the store's real estate broker.

Baby Town will target households with a median annual income of \$80,000, and Zhang is banking on the store to generate \$150 in sales per square foot.

In one bid to enhance customer service, Baby Town will be staffed with sales associates who are also parents, "as we think parents can identify with other parents more," Butterworth said.

Baby Town merchandise will also sell online. The company plans to offer free overnight shipping on everything but furniture within Arizona.

Other differentiating perks: Baby Town will offer a 365-day return policy (compared with competitors' 90-day offers), and shoppers will be greeted with a free beverage upon entering the store.

"We knew we had to be different," Zhang said. "The barriers to entry to brick-and-mortar are more challenging than e-commerce."

Bonobos

Bonobos.com was founded in 2007 to solve two problems, according to Kaitlyn Reilly Axelrod, senior public relations manager: "Provide men with better fitting clothes and to make shopping an easy and hassle-free experience."

But the hip menswear e-tailer, best known for selling well-fitting trousers that save men from the dreaded slouchy-behind syndrome, realized that it would never fully win over those guys who wanted to try on what they might end up buying.

"As we began designing new categories, including blazers, suits, dress and casual shirts, more customers wanted to first try Bonobos on in person," Axelrod said. "Indeed, while we're an online company, from the early days, we often had customers asking if they could come by our office to try on product."

Hence the birth of its Guideshop format, one-on-one shopping environments, designed to serve as highly personalized extensions of Bonobos' online store.

The first Guideshop opened in 2012 in Bonobos' headquarters in Manhattan. Four other stores followed, in Boston, San Francisco, Chicago and Georgetown, with plans to open more in the coming months, according to Axelrod. (In 2012, Bonobos also entered into a deal to sell select apparel items in Nordstrom.)

Guideshop "guides" work one-on-one with customers during appointments, >



Online menswear retailer Bonobos is expanding its Guideshop store format.

which take fewer than 45 minutes, depending on a shopper's needs.

"We aim to have one guide per customer in the Guideshops, which means the experience is intimate with usually just two or three customers at a time," Axelrod said.

The store accepts walk-ins but suggests shoppers book appointments in advance. The space is inventory-free but offers a full display of merchandise and sizes to try on.

That model means "they don't have to develop an in-store supply chain and deal with any of the issues that come with carrying inventory," eMarketer's Fredricksen said.

Having no inventory and an intimate setting allows the focus at Guideshop to be on the customers, not the product, Axelrod noted.

"Guides are spending their time assisting customers and working with them to offer a personalized experience, rather than stocking racks, folding clothes and cleaning up dressing rooms," he added.

Associates check out shoppers via iPad, laptop or a touch-screen device. Afterwards, customers are emailed about their size and try-on information. The stores also keep that information on file.

"The stores are doing great," Axelrod said. "On average, order values in the Guideshop stores are double what they are online. Return rates are lower and repeat transactions happen in a shorter time period."

Warby Parker

Warby Parker, the hip online eyewear maker that trades in cool frames for an affordable price, is one of the few notable competitors in a sector dominated by Luxottica, whose holdings include LensCrafters and Sunglass Hut. Stylish glasses — complete with prescription lenses — starting at \$95 are not Warby Parker's only call-out features. It also allows for home try-ons and free returns by mail. (The company designs all frames in-house.)

The online start-up has gained considerable attention — and traction — since it was founded in 2010. Retail icon Mickey Drexler, CEO of J. Crew Group, and American Express have joined the company's impressive lineup of investors. As Warby Parker's online popularity exploded, it began to experiment with physical spaces,



Warby Parker opened a flagship in New York City, above, where customers can try on and purchase glasses, as well as have their eyes examined.

opening small showrooms, shop-in-shops and pop-ups across the country where customers could try on its wares before purchasing online. It also retrofitted an old school bus into a traveling store staged to look like a professor's studio. The bus is currently touring the nation visiting eight cities in six months.

In April, Warby Parker opened a flagship in New York City's SoHo neighborhood. The 2,000-sq.-ft. space has a classic library feel, with high ceilings, rolling ladders, book cases and brass lamps. Glasses are on open display for try-on, and there are plenty of mirrors. An in-house optometrist is available for \$50 eye exams, with appointments noted on a train-station inspired board. Non-prescription glasses are sold for take-away, and customers can choose to receive prescription products by mail or to pick them up on site. The store also sells a selection of books from small independent publishers.

Warby Parker includes such non-optical shop extras as a photo booth, where customers can take snapshots of themselves wearing various glasses. Customers can also print out the image and get a digital image via email.

As more offline retailers open brick-and-mortar outposts, they may find the move is not an easy one. The biggest challenge, says Fitch's Davies, is developing the strategy and direction required to execute a physical space.

"The ability to craft a multidimensional interaction with a brand is very complex — especially if the brand was birthed in the digital space," he added. "How can you take what makes the brand successful online and bring it to life? And, do its online attributes and characteristics actually have any relevance in the physical world?"

Barbara Thau is a New York City-based business writer.

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