THE MORPHING STORE

Bricks and mortar evolution in a convergent commerce world

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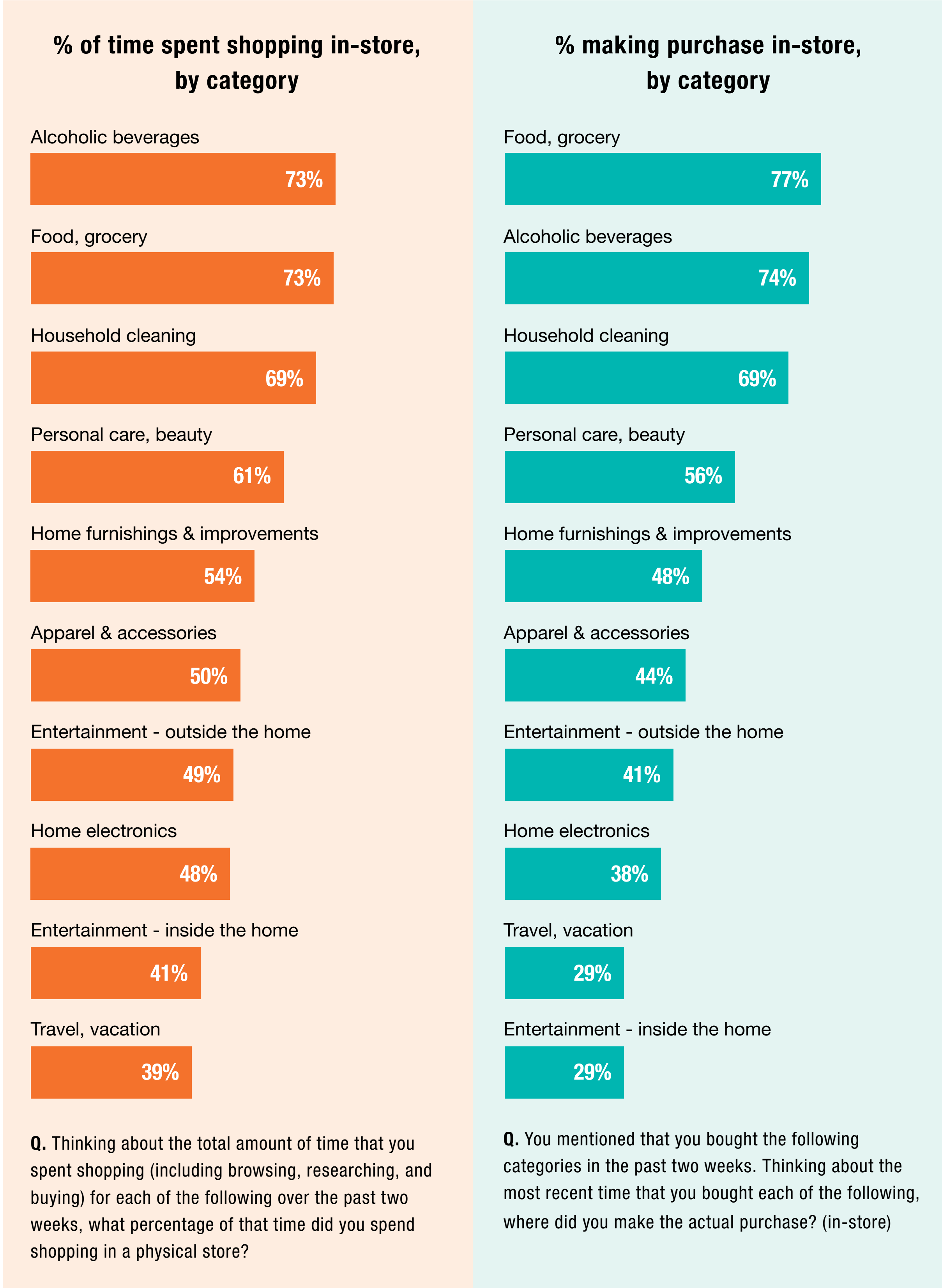
In this paper we discuss the evolving roles and formats of the physical store, from operational to convenience to experiential; imperatives for their continuing survival and success, and the implications for customer experience, channel measurement, and shopper marketing among other disciplines.

REPORTS OF THE DEATH OF THE PHYSICAL STORE ARE GREATLY EXAGGERATED

Whilst the pandemic opened the digital commerce floodgates, there has been a return to physical store shopping as the pandemic eases.

Recent Ipsos data indicates that shoppers are spending a significant portion of their shopping time – between 39% and 73% depending on the category – shopping (browsing, researching, buying) in physical stores. Between 29% and 77% of the purchases were subsequently made in the physical store. This has actually increased between January and September 2022.

Figure 1 Time spent shopping in-store by category vs making a purchase in-store



Source: Ipsos Essentials Wave 64 September 2022. Base n=10,017 across 15 countries.

Even in 2020, a year when many physical stores were shuttered during lockdowns, Google reported that 82% of global retail sales occurred in physical stores.[1]

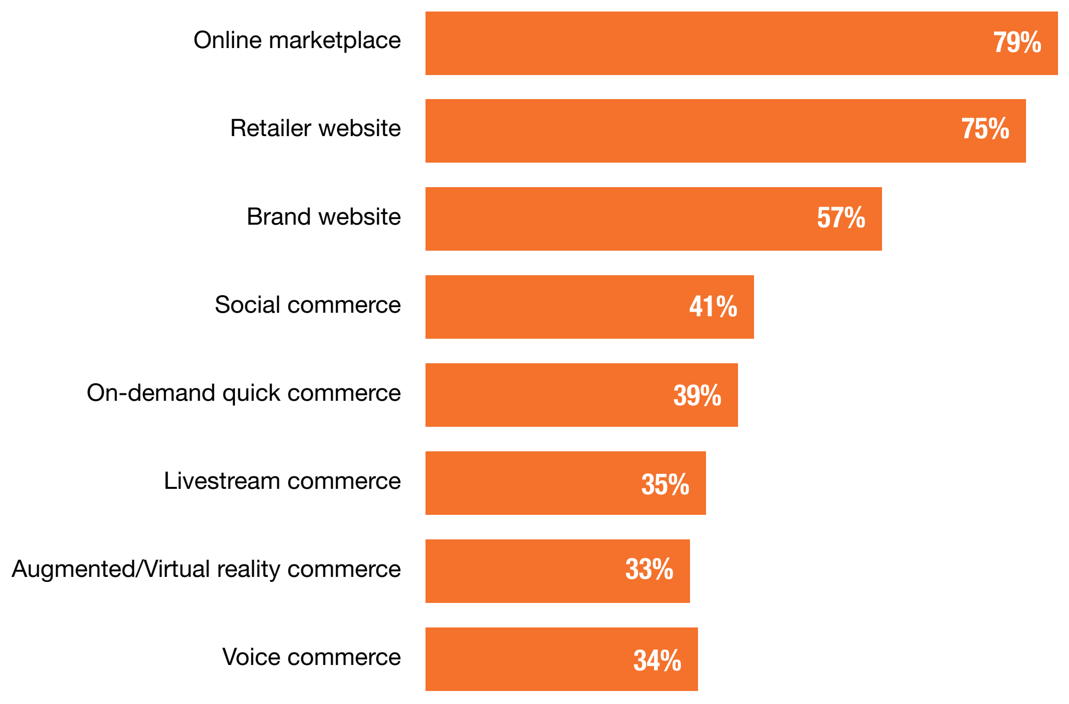
That said, some reports indicate that digital commerce sales will overtake physical store sales globally as soon as 2024.[2] One study found that 30% of Gen Z and 36% of Millennials planned to shop less in physical stores than they did pre-pandemic.[3]

It would be easy to assume that the role of the physical store is shrinking in the face of the emergence and scaling of a number of types of digital commerce.

In fact, the reverse is true as the roles the physical store plays in a consumer's commerce ecosystem of channels, touchpoints, retailers and brands is expanding in some ways.

The value of physical stores has been validated by previously online pureplays and 'big tech' companies such as Amazon and Google moving into the physical store space. While not always successful, such as with Amazon, they have led others in building seamless 'scan and go' grocery stores, among other formats.

Figure 2 Use of digital commerce channels, past six months



Source: Ipsos Essentials Wave 64 September 2022. Base n=10,017 across 15 countries.

THE ROLE OF THE PHYSICAL STORE IS EXPANDING, NOT CONTRACTING

The role of the physical store varies markedly by country, culture, category and channel. But even with these caveats, traditionally the role of the physical store historically revolved around exploration, display, demonstration, transaction and perhaps some after-sales servicing. All of which led to a variable customer experience.

Over the past decade the experiential role of stores, particularly brand flagships, has increased. The pandemic underscored both the experiential opportunities (AR, VR, metaverse) and limitations (tangibility, sensoriality, human connection) of digital commerce types. During and since the pandemic the role of physical stores in fulfilling digitally placed orders has also accelerated markedly.

Whilst from a retailer's or brand's point of view the physical store serves both sales and marketing goals, from a shopper's standpoint the store serves a number of functional, experiential and human purposes outlined in the table below.

The functional, experiential and human roles of the physical store have all increased, and the customer's brand experience is, in effect, the sum of these differing aspects.

PHYSICAL STORE ROLE TYPES

Sales	Marketing	Functional (Logistics)	Experiential	Human
Sales conversion in-store	Brand story	Delivery fulfilment – eCommerce, quick commerce & on-demand, third party shoppers	Discovery & exploration	Face-to-face connection with staff
Drive sales online		Pickup – in-store, drivethru, curbside, locker, etc	Showroom	Community hub, 'town square'
Upsell & premiumisation		After sales – e.g. returns, exchanges, alternations & servicing	Demonstration & product trial	Leisure & social connection for together time, particularly malls
Impulse incremental sales		Recycling & refillables	Tangibility & certainty, e.g. sw, fit & quality checks	
		Stockroom & warehouse	Sensory – all 5 senses	
		Manufacture, e.g. supermarket (ghost kitchens)	Education, advice, consultation & makeovers	
			Entertainment e.g. gamification	
			Convenience – ease, simplicity, speed, location, immediacy	

LOGISTICAL FUNCTIONALITY INCREASES

Functionally, the Covid-19 pandemic accelerated innovations in delivery and collection in safe ways such as curbside pickup, and in use of physical stores for online order fulfilment. These range from third party shoppers such as Instacart picking in-store, to 'dark stores' for quick commerce on-demand delivery service providers such as Gorillas. In Latin America, shoppers had already been utilising WhatsApp for delivery from their local corner store, and in India similarly using Amazon for fulfilment by local 'kiranas'.

In another example, British pet supplies retailer, Pets at Home, offers its online customers free click-and-collect within an hour. This helps drive traffic to its store, where the brand upsells pet services such as vet surgery and grooming, categories which account for half of its sales.

Then there is the world of returns, exchanges and refunds where shoppers now expect to be able to return a product bought online to a physical store, rather than go through the hassle of repackaging it and sending it back, with the associated postage costs. Nordstrom has launched mini service-oriented outlets where shoppers can't buy anything, rather just return things or have them altered. Amazon had planned to open department stores which would feature Amazon-owned clothing brands and household items that also function as return and customer service centres. Kohl's already accept Amazon purchase returns.

Apparel retailer Timberland has taken this a step further, with receptacles available in their physical stores into which shoppers can drop used products for repair and resale, or for breakdown into recycling parts as part of the chain's Timberloop programme. Further tapping into the sustainability imperative, in the UK, refill stations look set to become mainstream with the recent announcement that four of the country's major supermarket retailers are partnering with CHEP and Unpackaged to roll out refill stations across their store networks for fresh food categories.

This increased logistical functionality requires operational improvements across a number of elements including signage and point of sale materials for navigation; staff and space allocations and locations for in-store and curbside pickup; and space, staff and processes for product returns, exchanges and refills.

Physical stores have the capability to be immersive, entertaining and sensorial in a way that digital means such as AR and VR cannot fully deliver. This means activating all five senses, particularly touch, smell and taste (as sight and sound can be replicated digitally). ”

THE EXPERIENTIAL IMPERATIVE

Ipsos' 'Forces of Customer Experience'[4] is a human-centric framework that helps organisations drive stronger relationships through a better understanding of customers' functional and relational needs. Those more inherently emotional Forces – of *Status, Enjoyment* and *Belonging* – can be better leveraged in the in-store experience to enhance relationships, particularly through the human connection with store staff.

Physical stores have the capability to be immersive, entertaining and sensorial in a way that digital means such as AR and VR cannot fully deliver. This means activating all five senses, particularly touch, smell and taste (as sight and sound can be replicated digitally). Touch and tangibility are particularly important for older generations, and in certain categories such as fresh fruit and vegetables and apparel. Even for pandemic-wary shoppers, sampling and the ability to try products remains important.

Personalisation talks to the CX Forces of *Belonging* and *Status* by using customers' names and knowing the customers' sales histories. Luxury apparel retailer Tory Burch excels at this, equipping its store staff with mobile tablets and apps where a customer's purchase history can be accessed instantaneously in order to recommend suitable items; not just providing solutions for a segment or a persona, but a 'segment of one' personalised experience. Providing store staff with both product and customer information and history enables staff to add value to the customer's experience, going some way to addressing the thorny question of how store staff can add value if the customer comes into store knowing more about the product than the store staff do.

Customisation of the product also talks to *Belonging* and *Status.* Kit Kat boutiques and M&Ms flagship stores, where consumers can create their own flavours, are examples of this.

Flagship experiential permanent stores driven by brands – 'signature experiences' which truly reflect the brand's values and purpose – have been on the rise for the past decade. Typically seen in high traffic and often prestige locations in global cities such as Tokyo, New York and London, they serve as experience centres where consumers can interact with the brand, but also where the brand tells its story.

The Samsung store in Madrid, their second largest store in Europe, offers a high-tech, interactive experience where shoppers can try Samsung's latest products via VR for activities such as canoeing and mountain biking.

Samsung Madrid

Google turned heads last year when it opened the doors to its first physical store, in New York City. More along the Apple store lines of showroom and education space than traditional retail outlet, the store sells all of Google's products, from Nest to Fitbit, includes a workshop space reserved for sub-brand events such as photography lessons with Pixel, cooking demos with Nest, YouTube concerts, and more.

Extreme weather jacket manufacturer Canada Goose leverages its Toronto mall retail space to tell its story through 'The Journey: A Canada Goose Experience'. Visitors walk on an Arctic floor that cracks like ice, climb through a rocky crevasse, and enter a freezing room with drifting snow. Visitors can try on Canada Goose jackets to keep warm, but the space does not carry inventory for visitors to purchase, as the focus is on telling the Canada Goose story through a multisensory experience which not only affects people's enjoyment within the store, but also perceptions of product benefits. When retailers offer experiences congruent with desired consumption benefits, it increases enjoyment of the products people buy.[5]

The Journey: A Canada Goose Experience, Toronto, Canada

Other examples include Dick's Sporting Goods' 'House of Sport' concept store in Victor, New York. It features a 17,000 square foot turf field, an outdoor track, a rock-climbing wall, batting cage, and putting green. Dyson's Demo Store and Beauty Lab, originating in Singapore and now in several cities across the globe, enables first-hand personal care product experience at the hands of professional stylists.

Dyson Demo Store and Beauty Lab, Funan Mall, Singapore

Experiential stores are not just limited to technology, sports, apparel and beauty. Supermarkets, which traditionally have struggled with experiential elements, are getting in on the act. German supermarket chain Edeka has installed gourmet restaurants, smoothie stations, champagne bars and fresh herb gardens in a number of its locations. Italy's Esselunga has taken the 'theatre of the restaurant kitchen' into the supermarket, bringing the previously unseen kitchens into the centre of its Brescia store in a glass-walled environment where shoppers can watch bakers and chefs at work. Large video screens on the store walls feature white-coated employees at the chain's production plants inspecting large cheese wheels and other foods.

Budget, location and space constraints mean that experiential 'flagship' stores aren't possible everywhere. Enter the popup and shared space for temporary activations, such as Ikea sleepovers in-store and Selfridges' comedy club and skateboard bowl. Showfields in New York City, where customers enter via a slippery slide, showcases different brands on a rotating basis in each of its experiential rooms. Tesla, Polestar and Volkswagen all invest in experiential pop-ups, often in shopping malls.

PUTTING HUMANITY AT THE CENTRE

There's some evidence that consumers are becoming tired of dealing with chatbots and webchat, which haven't advanced as much as perhaps anticipated, and those poor experiences are in some cases driving customers back to a physical outlet or the human in the contact centre. Only 25% of shoppers currently turn to a chatbot for help.[6] People want to talk to a real human 'IRL' – in real life, in a real environment. Store staff fulfill this function. Not only can they recommend specific brands, they act as advisors. Burberry blends the physical and digital by scheduling video chats between customers and store associates in a physical store. Via video, store associates located in the store environment show customers clothes the customer has indicated they're interested in.

In a world of increasingly digital and impersonal commerce options, we may get to a place where consumers are willing to pay a premium for having a human involved in the transaction. The precedent has already been set with apparel shopping concierges, wardrobe consultants and personal brand consultants. High end luxury try-on curated advice sessions, in environments approximating sophisticated loungerooms and complete with premium champagne and whiskey refreshments, cannot be replicated online. And they can be socialised. That is, made into a group experience, that's also Insta-worthy. A more personalised experiential version of what used to be leisure-browse shopping trips or 'window shopping'.

CONVENIENCE IS NOW TABLE STAKES, NOT A DIFFERENTIATOR – WHATEVER THE CHANNEL

Convenience, the dominant motivation behind most online shopping, does not necessarily equate to humanity. And in fact may be the reverse. Removing hassle may potentially create more enjoyment but doesn't have to involve humans.

Convenience is the result of removing friction points. These are not necessarily traffic-driving in and of themselves. Ease, speed and simplicity are not channel differentiators; any commerce channel, whether digital or physical, is expected to provide a simple and easy experience.

Consumers have come to expect seamless commerce experiences. In-store innovations therefore can and should be made for convenience based around ease, speed, and simplicity and friction point removal. Amazon Go stores, with their 'just walk out' technology being sold to other retailers, eliminates the need for checkouts and registers. Sweden's LIFV shipping-container-based unmanned supermarkets located in rural areas operate in a similar fashion. China has a burgeoning network of unmanned convenience stores. Consumers have been able to 'just walk out' of Apple and Nike stores for a while, assuming that they have installed the relevant apps.

Separately, express and metro formats are mushrooming in supermarkets and even in hardware such as the UK's B&Q, taking advantage of the pandemic-accelerated trend to shop locally.

Convenience is now merely the cost of entry, rather than the end game.

FLUID, MUTUALLY SUPPORTIVE CHANNELS

The converging nature of commerce, where physical and digital environments are blurring, is giving the physical store more roles to play. It is a case of 'and', not 'either/or'. The channels are no longer competing but merging, creating the need to redesign and measure customer journeys across channels based on their needs.

Simple examples include the ability to access product information in-store via QR codes on the stock; the educational aspect. Or the ability to buy online whilst in the physical store; the functional aspect.

At L'Oréal's omnichannel concept store in Shanghai, visitors can take an immersive bike ride along Paris streets whilst collecting L'Oréal Paris discount points along the way. They can watch and interact with influencers who livestream from the in-store set. Each visit connects with users' WeChat account via the L'Oréal mini programme on the platform, enabling the brand to provide visitors with a personalised experience and continue the relationship after they have left the store. Visitors can also use face scanning technology to receive a printed skin analysis report and personally coded key which can be used to explore their recommendations in store and learn how the recommended products help improve the quality of their skin.

Polish online footwear retailer, Eobuwie, opened a bricks and mortar store without the shoes on physical display, but rather a row of LED screens from which shoppers choose shoes to try on. Store associates retrieve the selected items from the warehouse backroom of ~110,000 pairs of shoes in as little 30 seconds via a special digitised racking system. Australian online apparel retailer Birdsnest does something similar at its head office physical store location, where shoppers select items from screens on the shop floor or in the fitting room, and store associates bring the items direct to the fitting room.

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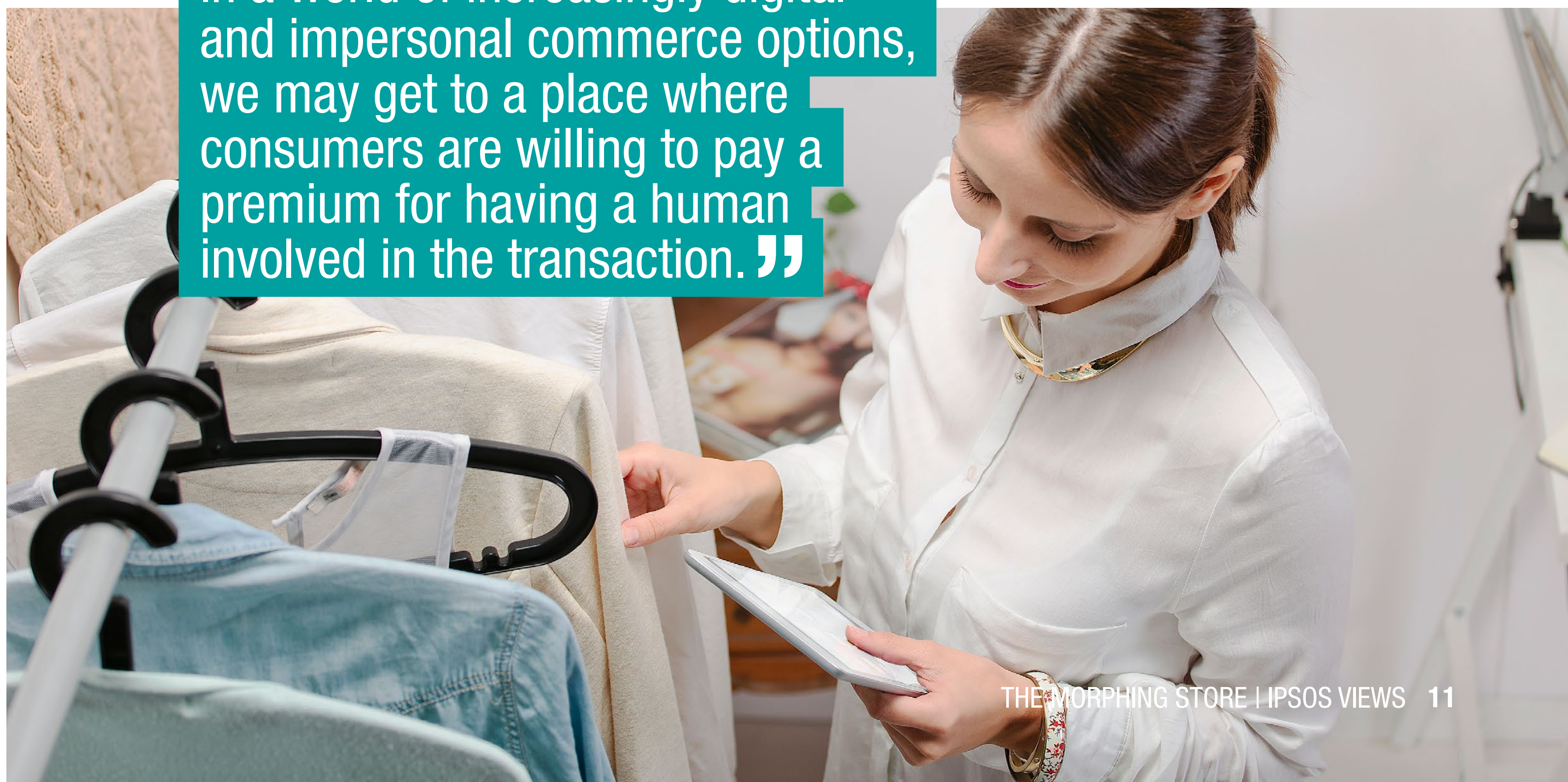

Famed department store Nordstrom's physical stores now operate to a degree as the support for online sales, with many stores behaving as service and fulfillment centres. Westfield London's SituLive 'playhouse' features gamified fitness, in-store challenges and virtual workouts as well as a number of 'lifestyle theatres' demonstrating brands. Shoppers can scan a QR code for a product they like and save it to their favourites to buy later.

US retailer Target views their physical stores as hubs in their commerce ecosystem, whose role is "to get close to our guests, to get them what they need conveniently and quickly". To bring physical and digital experiences together with locally relevant assortments, gamification, and faster and easier checkout as well as in-store AR and VR product try-ons. Using technology in-store to enrich shopping experiences and to help sales associates become more productive so they spend less time in the stockroom searching for products.

This fluidity, where shoppers move between channels and experiences whether online or offline, and often don't differentiate between them, means that retailers need to think about how the physical store can support and incorporate digital commerce channels, and vice versa. Sephora for instance has merged their physical and digital retail teams in order to have a 360-degree view of the customer experience, and how best to operationalise it.

CHANGING ROLES, CHANGING METRICS

Given the multifaceted roles of the store discussed already, from sales, marketing and customer experience to functional and human, we have collectively moved beyond the fundamentals of sales per square foot, and display and price compliance measurement. Although such metrics still matter as the 'baseline', with execution measurement type research playing an important brand compliance measurement role.

The expanded role of the physical store means the expanded need for metrics and success measures to match the store's new roles and objectives. What is the relative importance of each of volume, revenue, profit, trial? How will sales volume and fulfilment be tracked, including the store's role as gateway to a digital sale?

With investment in measuring, managing and designing the store experience comes the need to demonstrate that Return on CX Investment (ROCXI); to demonstrate the impact on share of spend, retention, advocacy, and operational efficiency. Ipsos' paper 'When Money Talks, Budget Walks'[7] addresses the link between CX success and the financial performance of organisations and how to set about quantifying the impact of CX on business performance and unlocking resources accordingly.

Convergent physical and digital environments and shopping experiences means mystery shopping has moved omnichannel as the physical store may be one of a number of touchpoints and sometimes at the beginning, rather than the end, of a shopping journey. If a customer has walked into a store having already checked price, availability and reviews online first, all of these need to be measured. Sephora for instance have merged their digital and physical teams to create a unified retail team. Now, if a customer browsed online and then bought in store, the team can see that.

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MEETING CHALLENGES BY CHANGING THE MODEL

The evolving role of the physical store places prominence around the cost/benefit equation and how to ensure physical stores remain profitable, if profit indeed is their primary role. That is, how to make the physical space pay for itself, if it becomes experiential (and the capital spend per outlet increase accordingly) rather than transactional, or if it serves as a gateway to a digital sale. How and where would the sale be attributed?

We are already seeing retailers ‘right size’ their store network footprints, to have fewer but bigger flagship stores, or shift to specific locations such as local high streets rather than city centres. So, not just how many stores to retain, but where, as well as in what form. On the plus side, the pedestrianisation of large city centres and the increase in people working from home may mean that shoppers visit city centres less frequently, but for longer, choosing to enjoy leisure or hospitality venues along with retail outlets and services. So, the role of city centre locations may become experiential flagships rather than ‘express’ for working commuters on lunch breaks.

Retailers are also investigating smaller individual store and outlet footprints. Banks are getting creative with their branch networks, with post offices in the UK serving as banking hubs and Mexico’s Banco Azteca setting up concessions in Elektra stores. Some retailers and brands may elect to do more temporary pop-ups to supplement only a few large flagship locations.

Then there’s the effects of the Covid-19 pandemic, which has resulted in some shopping behaviour changes and attitudes that can muddy the experiential waters. Hygiene safety measures are now a customer expectation, and if not present or enforced can reflect poorly on the brand. Another is the customer desire in some markets for minimised time in-store to reduce exposure to others. How should retailers reconfigure their store spaces for more short, highly planned targeted journeys and behaviours which will likely reduce impulse opportunities? And how does providing an experience and slowing shoppers down fit into this paradigm if self-serve becomes more prevalent? More tactically and related to hygiene, is concern around product sampling. And brand and product loyalty are harder to come by in an environment with disrupted supply chains causing out of stocks, along with physical stores being used to fulfil digital orders. Showing in-store inventory levels online before a shopper comes to a physical store is becoming essential.

Click-and-collect and same-day delivery have raised customer expectations for accessibility and distribution. Only three in ten shoppers would shop in-store because it is convenient, versus six in ten for online. Shoppers are no longer prepared to wait days or weeks for something to be transferred from one store to another in the retailer’s network for pickup. Speed of transaction has increased, even if the research conducted by the customer pre-sale may have also increased.

And last but certainly not least, there’s the ongoing challenge of seamless handoffs and a consistent experience between consumer touchpoints in their commerce ecosystems, whether physical or digital. How can organisations build capability in a physical store to acknowledge the touchpoints and conversations a shopper has already had (likely online) with the organisation, in order to personalise recommendations? Skoda car dealerships use a ‘typing tool’ to allocate customers into segments to adjust their service style. This is a starting point, but ultimately each individual customer’s interactions before setting foot in the store should be transparent and inform the interaction with the sales associate. This is one of the central challenges of omnichannel retail and convergent commerce.

OUTLOOK, IMPLICATIONS AND IMPERATIVES

The physical store is not going to die off, but its role is evolving. Morphing, if you will. In a world with a plethora of commerce channels, where the lines between shopping IRL and URL are blurred, and in which shopping has become an activity not a place, physical stores need to provide more reasons to shop in person than the convenience of shopping at home. And these reasons are a combination of functional, experiential, and human. The physical store is moving beyond being a primarily transactional space.

It has been said often enough to almost become cliché that 'retail isn't dead, but boring retail is'. Implying that 'retail' means physical stores. Darwin's theory of natural selection advocated that it is the most adaptable who survive. Physical stores must continue to evolve roles, formats, experiences and operations to meet consumers' commerce ecosystem needs.

Smart retailers and brands are looking at physical stores from a new perspective. They understand that store visits are an opportunity to reinforce their brand story, create impressions via experiences, and drive conversion through whichever fulfilment means. That physical stores are part of a customer's seamless ecosystem, not separate to digital.

This means retailers and brands need to look at merged operations, rather than physical and digital teams operating in separate silos. It means having a deep understanding of consumers' commerce ecosystems; mapping, designing, and then measuring omnichannel customer journeys, including via Voice of the Customer research and mystery shopping. It means understanding how shoppers navigate channels, and reassessing the roles of the physical store for different categories. It means determining what the store and wider customer experience need to look like, and designing that experience to drive those desired customer outcomes; attracting new customers, retaining existing customers, driving up share of spend, and doing so in an operationally efficient fashion.

As the roles of the physical store morph, so must models, experience design, execution, measurement and management.

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For more information about convergent commerce, head to: https://www.ipsos.com/en/omnichannel

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