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PAPERS

# Retail Property

The Five Dynamics  
Shaping Future Success

P R A G M A

KIN+CARTA



# Pragma View

Andrew McVicker Director, Property

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Experience. Convenience. Though not mutually exclusive, these are the fundamentals that will drive success within the retail property industry for years to come.

The structural change affecting retail is real. The development of online impacts not just sales performance by format, it has fundamentally changed the way in which we engage, not just with retail, but across the business and social spectrum. This is evidently a change from which there is no return and provides a serious challenge to all those with a stake in the retail property industry.

Retail has always been about adapting to change, creating a competitive advantage and delighting the customer.

**“Whilst the property sector may prefer stability and surety, it is essential that those who wish to succeed embrace the current and future challenges facing the industry and proactively engage with customers and occupiers to maximise opportunities to prosper.”**

Pragma are market leaders in advising asset owners and investors by understanding customer behaviour. We understand how - by comprehensive evaluation and its 360° industry insight - strategy can be embedded to recognise opportunities, maximise performance and increase commercial value.

Over the next 20 pages, we set out **five dynamics that will shape the retail property sector** over the coming months and years. Each is intrinsically linked to the descriptors of experience, convenience or both.

Online has made the world a more convenient place – a Louis Vuitton dress can be delivered to your local petrol station within 24hrs and your fridge can order your groceries for you so you never run out – but we remain social beings that thrive on stimulation, be it through purchases, experience or interaction.

**“Those without a clear and considered place on the Experience/Convenience spectrum – the so called ‘Middle Ground’ – risk falling by the wayside by delighting no-one.”**

**The five dynamics shaping future success are:**

- **Understanding location**
- **Single ownership**
- **True mixed use**
- **Experiential environments**
- **Merging physical with online**

**“Based on these dynamics it is the role of the physical store that is most impacted. Until the value of a physical store can be recognised and measured beyond the sales that go through the till, property values will continue to fall.”**

Whilst falling rents suit occupiers in the short-term, falling values stifle investment leading to outdated environments and formats that lack relevance to shoppers and brands. It is imperative that the retail property industry collaborates and innovates to create a solution that secures investment in physical locations, to the benefit of all.

If you would like to discuss any of the trends or points raised, drop me a line at [a.mcvicker@pragm auk.com](mailto:a.mcvicker@pragm auk.com)

A handwritten signature in black ink, appearing to read 'Andrew McVicker', written in a cursive style.

Andrew McVicker **Director, Property**  
Pragma Consulting

# By The Numbers

## Retail Property Survey Key Statistics

Pragma regularly runs proprietary market research to understand both the behaviour and the drivers of decisions of UK consumers. This includes our quarterly Pragmarket survey, a nationally representative study of the UK market across key retail areas and concepts. Results of one of our recent studies showed:

- ▶ Thinking about your shopping patterns (excluding groceries), how often do you browse and/or shop in-store and browse and/or shop online?



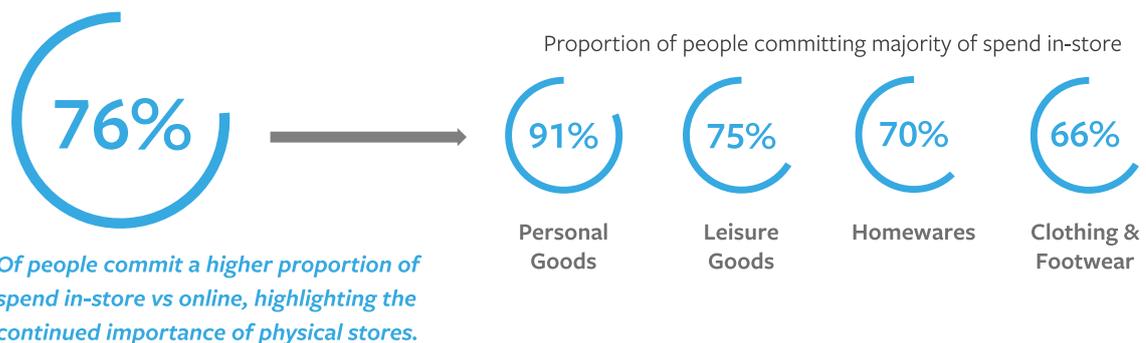
Of people shop online on a regular basis\* (i.e. daily, several times a week or weekly)



Of people shop in-store less frequently (i.e. fortnightly, monthly or less often)

\*Convenience and accessibility with phone and tablet use are likely drivers of frequent online shopping. However, this doesn't account for people who are browsing without making a purchase.

- ▶ Do you spend more in-store or online in the following four merchandise groups?



The need to feel, touch and try items is still intrinsic to the purchase process, particularly with personal goods such as cosmetics and jewellery.

- ▶ Which factors are most influential when choosing to shop in-store?



Most Important To: 55-74 Year Olds



Most Important To: 35 to 54 Year Olds



Most Important To: 35 to 54 Year Olds

- ▶ Benefits of click & collect and in-store returns



Of people additionally spend in-store when using click & collect.



Of people return online items in-store. (2nd most popular method)

# 1. Understanding Location

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The shift from physical to online retailing has been well documented: Amazon is now the UK's 5th largest retailer and over half of Next's sales are online. The impact is varied but has undoubtedly been a significant factor in the struggles of many brands including the likes of HMV, Mothercare and Office Outlet.

**“With the role of the physical store poorly defined and quantified only by sales, demand for physical retail space is at a ten year low.”**

## Oversupply of Retail Space

The impact of the widespread lack of demand for retail space is exacerbated by the continued oversupply in the UK market. The UK has long wrestled with a planning system which, whilst containing policies to support a town centre first approach, has at various stages seen developers, occupiers and customers prefer out of town locations, that are better-suited to modern occupier and consumer needs.

Though the factors that have driven demand for out of town retail over high street locations (parking costs, underinvested environs and poorly formatted space) are not insurmountable, they persist, despite widespread acknowledgement of their impact. The drive to 'Save Our High Streets' is well intentioned, but typically fails to address from what they are being saved, for what purpose and to who's benefit?

**“There is now a generation of young consumers that have never had the experience and connection of shopping in vibrant high streets.”**

Use of shopping centres, retail parks and out of town malls amongst younger and middle aged shoppers are much more typical – and we will soon have a generation whose connection with physical retail itself is tenuous.

*All of this leads to a need to recognise there is simply too much retail space.*

## Understanding Your Audience

Though every operator is different, our experience is that most have a desire to locate where there are multiple drivers of footfall, providing a secure, day-round flow of potential customers. The recent increase in demand for retail and services at transport hubs is clear evidence of this trend.

A further example sees the likes of Matalan and Dunelm opening in high footfall in-town space, where their own offer is not the sole driver of visits.

As online creates a level of convenience previously unattainable, what once was an opportunity for out of town locations (the ability to create space designed entirely around the needs of retail) could now be its undoing, if ways to drive footfall beyond just 'buying stuff' cannot be devised. Even the most dominant retail parks struggle to create an engaging experience above and beyond the stores they provide.

# 1. Understanding Location

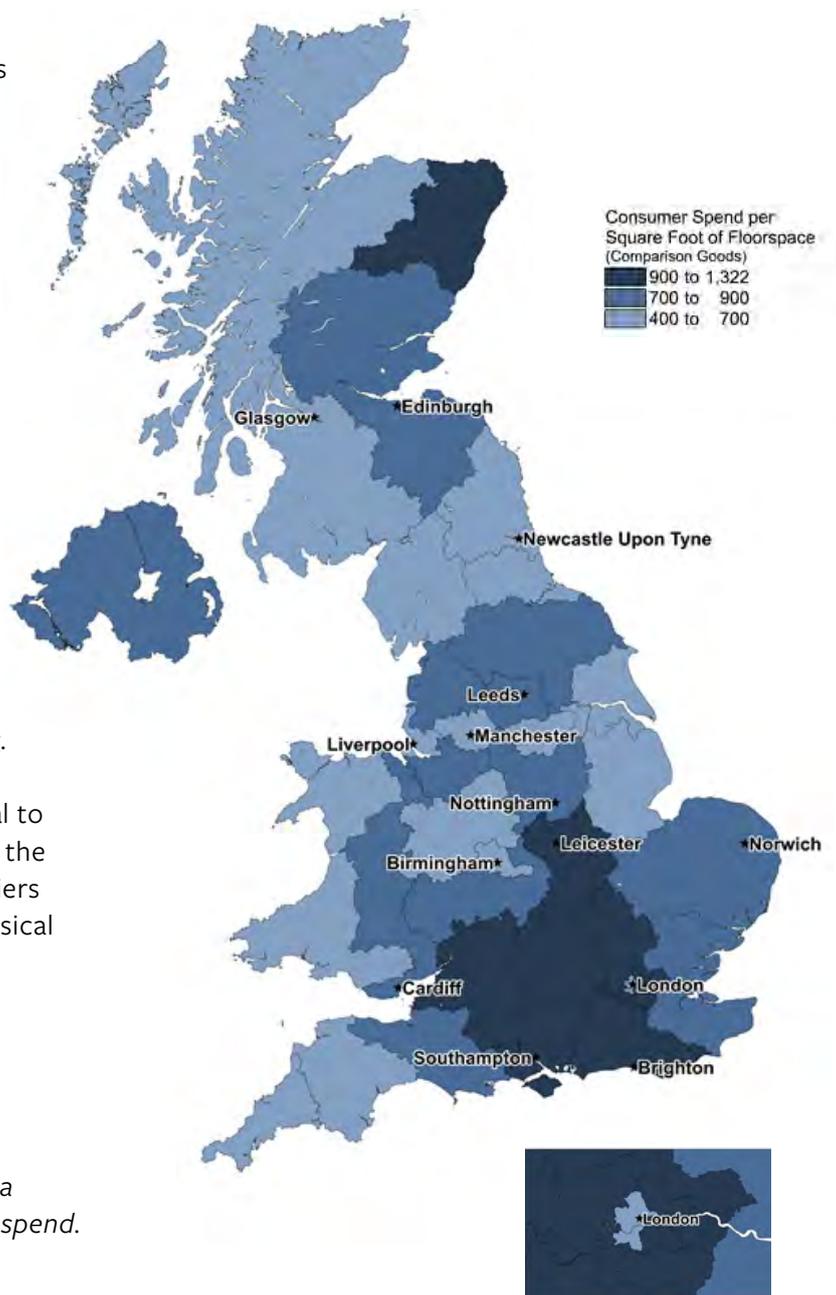
Ultimately, no single format, region or location is immune from the challenge of how to continually drive footfall - all locations are in some ways unique but in a world with too much space and not enough demand, a clear, forward thinking strategy is essential.

A further challenge to the UK retail market is the uneven distribution of space. Though a crude measure, the UK has a ratio of consumer spend potential to comparison goods floorspace of £815/sq ft.

Locations in the South and South Midlands, where population densities and spend potential are typically high, or in the North East of Scotland, where spend potential is high and provision of floorspace is comparatively low, look well placed, at a top line level, to deliver continued opportunities for physical retailing.

Locations with lower ratios of spend potential to floorspace face a greater challenge to deliver the quantum of footfall and exposure that occupiers will typically demand in order to invest in physical space, unless locations have a high degree of dominance within their catchment.

Even the UK's major retail destinations - the likes of Birmingham, Glasgow, Liverpool and Manchester - face severe challenges; *there is a clear need for landlords to provide a clear raison d'être, given the competition for spend.*



## How Pragma Can Help

Pragma has been central in advising on, shaping and delivering The Lexicon, a £240 million retail and leisure destination in Bracknell.

Working Initially with future anchor Fenwick and Legal & General, Pragma determined the scale and nature of the opportunity, taking into account

customer views, demands and spend potential, as well as future and established competitors.

Additional work has assisted Schrodgers with leasing and marketing, all intrinsically linked to a comprehensive understanding of customer and location.

## 2. Single Ownership

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Whilst all formats of physical retail are under increasing pressure, high streets continue to have to deal with the further limitation of fragmented ownerships. Whilst there are plenty of examples of shopping centres, shopping parks and retail parks where single ownership has not delivered the benefits that strategic positioning and a curated tenant mix could, opportunities to do so in a high street environment are typically limited by the lack of co-ordinated, and often conflicted, aims of multiple landlords and tenants.

Features of disparate ownership include a lack of communication and co-ordination between landlords, no mutually agreed strategic aims and competition for tenants, allowing downward pressure on rental values. The outcomes are largely underperformance, underinvestment and often neglect, potentially creating a downward spiral that is difficult to rectify.

The potential falling value of retail space provides a key opportunity: to consolidate assets under a single ownership. In doing so, investors have the potential to implement long-term, strategic planning across a quantum of space.

The trend is not entirely format specific – the amalgamation of ownership of previously disparate assets at Fort Kinnaird, for example, has allowed British Land to develop a dominant out of town scheme, with zoned retail, leisure and office use and further augmentation of the physical environment and offer underway.

The following pages contain examples of how consolidation of ownership has benefited in-town locations and how, with the council friendly loans that are available from central government, it is a factor that will shape the landscape of UK towns for years to come.

## 2. Single Ownership

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### Benefits of Sole Ownership

#### Howard De Walden Estate, Marylebone

The retail areas in London that are owned by a single landlord make it easier to take a strategic approach and provide a joined-up customer experience.

Howard De Walden Estate own large portions of Marylebone, with Marylebone High Street providing an iconic retail experience within London's crowded offer.

#### Sole Control Over Leasing

Howard De Walden employs a dedicated in-house retail specialist to enhance the customer journey, provide synergies in leasing structure and promote sustainability in retail in the wider Marylebone area.

#### Create A Cohesive Retail Offer

Zoned areas for types of retail have been developed, ensuring a relevant, complementary tenant mix, augmented and not disrupted by adjacent residential, offices and services.



#### Cultivate A Strong Identity

A destination has been created and developed through consistent marketing and branding, with a clear audience and purpose in mind.

#### Evolve To Suit The Customer

The retail mix has continued to evolve, reflecting changes in catchment demand and maintaining a point a difference vs. competition.

#### Understand The Occupier Market

Focus on the type of offer, for example high quality specialists alongside local independents, which add to the dynamic mix.

#### Unique Events

Drive footfall and create alternative reasons for visiting. Marylebone Food Festival and Marylebone Summer Festival both increase sales in-stores and raise awareness of the offer in Marylebone, ensuring return visits and building a loyal customer base.

## 2. Single Ownership

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### Consolidation of Property Ownership

Consolidating the ownership of the high street makes it possible to adopt a more strategic approach to retail and regeneration.

Since 2014 local councils have spent a total of £4.1bn on commercial property. In 2018 £994m was spent, a 960% increase on £94m spent in 2014.

Council share of investment in commercial property has increased to 3.4% up from just 0.16% in 2014.

The top 5 councils by investment in retail since January 2014 are Spelthorne (£620m), Runnymede (£217m), Warrington (£215m), Canterbury (£155m) and the City of London (£142m).

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### Why Are Councils Spending More On Commercial Property?

#### Government Cuts

In the face of government cuts to council budgets across the country, becoming land owners and developing property assets is a means of generating income.

#### Low Interest

Their ability to purchase property is facilitated by long term low interest.

#### Regeneration

There is a greater scrutiny than ever on regeneration of high streets and making local towns more desirable. Purchasing property provides councils an opportunity to shape their town centres beyond the typical instruments of policy and planning.

### By Buying Spaces, Councils Have Greater Autonomy To:

- Kick-start Regeneration
- Create Attractive & Stimulating Physical Environments
- Improve Transport & Infrastructure
- Attract Resident & Business Activity Through Incentives
- Create Better Use of Temporary Space

## Bolton Council

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The Council spent more than £14m this year to gain control of Crompton Place, a 1960's style shopping centre along with its car park covering more than 280,000 sq ft.

Crompton Place has been in decline in recent years. There is a large vacant former BHS unit and with New Look recently relocating there are ever-increasing numbers of void units which are becoming harder to fill. Private sector investors including Beijing Construction and Engineering Group International

(BCEGI) have agreed in principle to invest millions in a wholesale redevelopment rent project with Midia, an investment and development specialist, leading a private consortium made up of the Department for International Trade and the Greater Manchester Combined Authority.

A key focus will be to replace retail space with residential and leisure uses to bring more people into town.

## 2. Single Ownership



### Cherwell District Council, Banbury

When the owner decided not to proceed with the planned Castle Quay 2 leisure Development, Cherwell District Council purchased both the existing Castle Quay Shopping Centre and development site, to ensure the Castle Quay 2 development will be delivered.

The new scheme will feature The Light cinema, Premier Inn hotel, Lidl supermarket and a range of canal side restaurants. With the existing scheme, and town centre at large, experiencing significant vacancies, the consolidation of ownership and the council's supplementary powers, including planning, provide the opportunity to right size Banbury's retail space and mix.

#### How Pragma Can Help

Pragma recently assisted Barnsley Council with their redevelopment of the town's retail and leisure offer, including the creation of the new Glassworks development.

As the town's local authority and major landlord (the sustainability of performance and a town that worked as a whole, rather

than just a successful development) were the key facets that informed Pragma's strategy and the Council's decision-making.

Work to date has seen the town attract a new cinema, library, market hall, retail provision (Next and JD plus numerous independents) and food & beverage, with footfall up 11% year on year.

## 3. True Mixed Use

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The success of airport and transport hub retail demonstrates the benefits of going to where your customers are, rather than encouraging them to come to you. Mixed use developments offer a similar opportunity to create an audience to drive retail performance, via residential, offices, leisure or a combination of some or all.

In order to create a successful mixed use development, it is key to understand the role that retail can play alongside other uses, determining:

- **Who is the retail for - residents (on site or in catchment), workers, tourists?**
- **What sort of provision (experience or convenience-driven) is required?**
- **How will this compete/complement the existing offer?**
- **What type of environment needs to be created?**
- **What quantum of space is optimal?**

There are many examples where lip service is paid to the concept of mixed use, where other use types are just another way to occupy vacant space. True mixed use embraces the challenges and opportunities that multiple audiences provide and shapes the entire development around delivering the services and experiences required by the user groups.

Of particular note is the increased opportunity for mixed use caused by the continued under-provision of housing in the UK. With the relationship between annual income and house-prices largely broken, generational shifts in lifestyle have seen millennials (and baby boomers to an extent) prioritising home ownership less than previous generations, instead wanting to live in inspiring, vibrant locations – predominantly town and city centres.

The move toward city centre living creates a demand and opportunity for instant gratification and convenience. Not only do consumers want to live in proximity to vibrant locations, they want provision of amenities within a walkable area, creating time effective ways to live, work, socialise and shop.

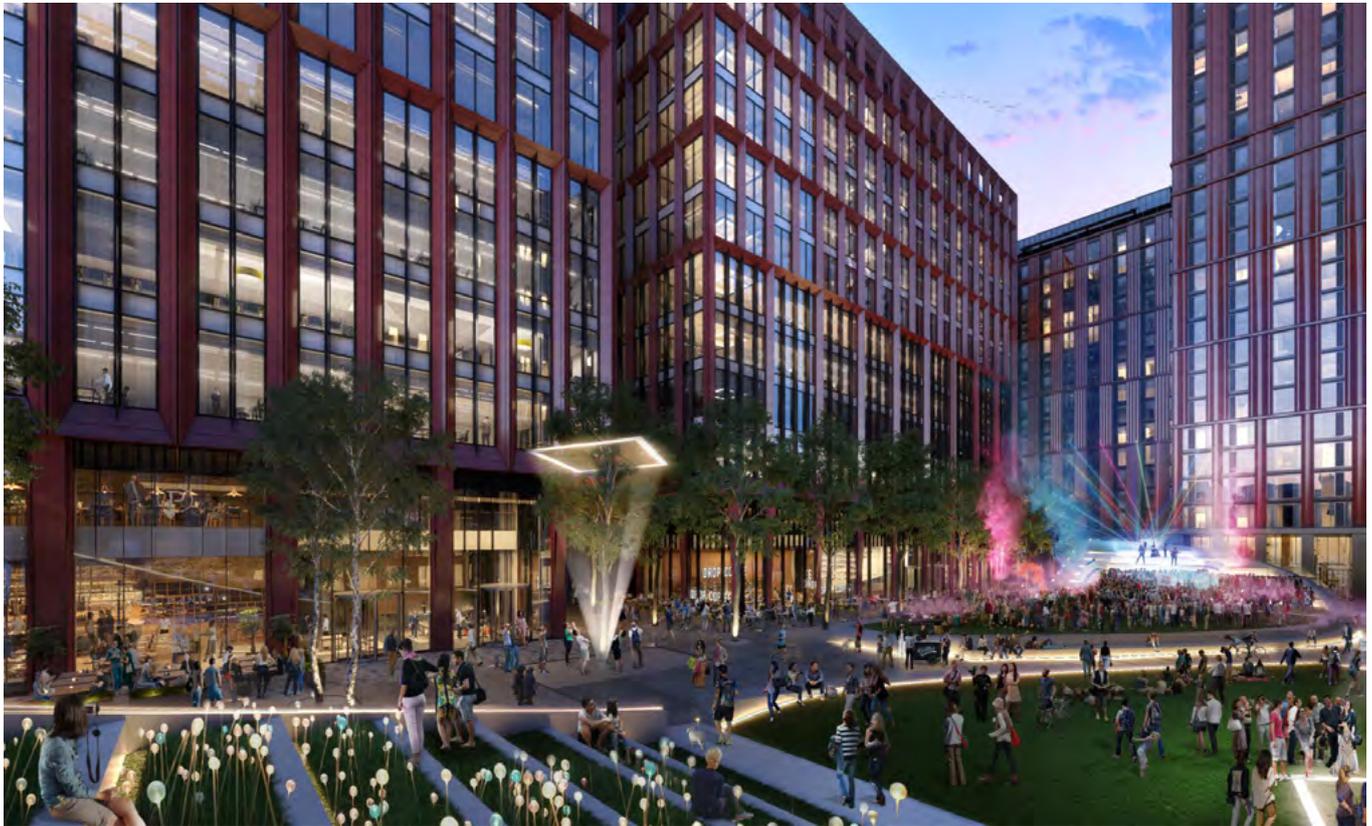
True mixed use in this sense is about making life itself as easy as possible, creating an environment where people wish to spend time, rather than providing space for occupiers to attract an audience in order to spend money.

### **Key components of true mixed use include:**

- **A blurring of the lines between home, work and play**
- **The recognition that leisure is not simply adding cinema or trampolining, it is about creating an environment via private and public space, facilities, arts and services in which people want to spend time**
- **Sustainability, health, creativity, innovation and imagination are all concepts that stretch across retail, leisure and work that can unite a mixed use development**

### **Challenges**

The retail component must be pitched correctly to embrace varying levels of experience and convenience and it needs to reflect the broader lifestyle of users and feel ‘personal’.



## Circle Square, Manchester

Circle Square is a new neighbourhood that will stand in the place of the former BBC site at the heart of Corridor Manchester, a £750m Oxford Road mixed-use development with:

- 1.2m sq ft of commercial office space
- 1,700 new homes
- 100,000 sq ft of ground floor retail and leisure space
- 250,000 sq ft of green public realm

“Circle Square is an affinity living development, combining offices, residential, leisure and green space to create a modern collaborative community. Surrounded by leaders in the arts, science, technology and business, this beautifully designed, architecturally interesting, green and pleasant place brings forward-thinking people and progressive businesses closer together, on a human scale so that in its offices, apartments, shops, bars and restaurants, minds will meet. Randomly. Intentionally. Sharing. Co-operating. To enable the extraordinary.”

- Spokesman, Circle Square

Circle Square provides an example of true mixed use development as, rather than rely on its proximity to the city centre, it aims to provide for all its users needs despite this proximity.

Phasing of development will initially bring residential units, swiftly followed by comprehensive car parking provision (1,000 spaces) and commercial floorspace. This is essential in providing for the wants and needs of new residents, despite alternative options in the wider city centre.

At all stages, public realm development will be advanced. The creation of a football field of green space, with the public being invited to submit design ideas, will provide a much needed injection of nature into Manchester City Centre whilst engaging with the community provides potential for users to take ownership of the new development.

The addition of over 1 million sq ft of flexible office space presents the opportunity to provide employment to existing and new residents, creating a neighbourhood where people spend time, rather than commute to and from.

## 3. True Mixed Use



### White City Place, London

Situated on the site of the old BBC HQ, White City Place is a new creative campus in White City, made up of **The MediaWorks**, **The WestWorks** and **Garden House**.

White City Place's retail is based on lifestyle-focused brands, with often interesting food concepts (e.g. Waka combines Japanese and Peruvian cuisine, Feast offers street food, Shola Karachi Kitchen is homestyle Pakistani food) and fitness concepts (F45, Studio Lounge pilates).

The MediaWorks (231 sq ft. of office space), The WestWorks (290 sq kft of office space) and the Garden House (40 sq kft of office space) brought a new demographic, and with it, new opportunities, which owners Stanhope were keen to cater to, and benefit from. Equally, Stanhope were keen to create a scheme that provided relevance and appealed to the 20k residents that already lived within a 10 min walk of the site, plus the 21k already working in the area.

Embracing the diversity of desires and needs of this hugely diverse demographic has created a scheme that is embraced by its community, rather than one that has been foisted upon it.

### How Pragma Can Help

Pragma assisted Stanhope in their development of the offer at White City Place.

By providing qualification and quantification of the various current and future demand streams available to the site - including those from onsite workers, adjacent housing plus ongoing development of Imperial

College and Hammersmith hospital - Pragma were able to assist in devising a line-up of provision with the necessary relevance to target users, as well as retaining the individuality in the offer that Stanhope desired.

## 4. Experiential Environments

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The role of the store of the future has been much discussed, with the industry keen to promote a vision of experiential stores backed up by the facilitation of fulfilment by remote warehousing. This vision of the future is certainly valid, with examples below and over the next two pages of how and where it is already in operation.

These examples show the level of change in experience that brands wish to present to consumers.

Brands will only invest in doing so if the wider environment in which the store sits has the relevant mix of environment, adjacencies and narrative to attract their target audience.

If this is the store of the future, then the vast majority of the UK's retail offer will require significant change. As ever, early movers and those that truly understand their location and audience, will gain competitive advantage.



### Etude House, Seoul, South Korea

South Korean cosmetics label Etude House has redesigned its Myeong-dong flagship to reflect its brand philosophy of being a 'friend for all women'. Embracing key consumer trends including personalisation, customisation and the integration of physical and digital, they have created an experience which allows consumers to experiment, learn and enjoy, creating a strong affiliation with and trust of the brand.

At the three storey interactive beauty destination - dubbed the 'House of Colour Play' - there is a 'Personal Studio', allowing customers to use a specialist face colour scanner to find their exact skin tone. There is also a 'Colour Factory' concept, allowing customers to create their own lipsticks whilst personalising and engraving packaging. Etude House also educates customers, through the range of demos from on hand beauty experts whilst the 'Snap and Share' studio encourages customers to share their experience on social media, boosting the brand's following.

## 4. Experiential Environments



### NomadX, Singapore

NomadX is a multi-label experiential retail space for pure-players and new-to-market products and experiences, featuring 18 brands, launched in November 2018.

The 'Phygital' concept store combines a wide range of brands, across beauty, F&B, technology and fashion.

Shoppers have to go through an onboarding gamification process when they enter the futuristic store, where they take a selfie and input their personal details. Through a series of questions, shoppers get a personality profile, which proposes an ideal shopping route around the store, as well as product suggestions.

Brands include, Mamonde, a Korean skincare and beauty brand that have interactive screens allowing customers to view products side by side, comparing the skincare benefits.

Oo La Lab – allows customers to make their own fragrance and hold educational and interactive displays.

### How Pragma Can Help

Pragma have worked on Manchester Arndale for a number of years, where Lush opened their largest store outside of London.

The store includes a range of experiential factors that help elevate both the experience and the brand beyond just the purchase of cosmetics. These include: a greenhouse to show ingredients in their natural state; a party booth to engage customers with the process of how products are made; a massage bar and hair styling salon to pamper shoppers with end products.

The choice of experiences cleverly offers appeal across age ranges and lifestages and showcases the offer from natural state to end product.

## 4. Experiential Environments

Closer to home, Tiffany and Dr Martens are two examples where the customer experience is at the heart of the store rather than immediate transactions.

### Tiffany & Co, Covent Garden

Tiffany & Co opened a new concept store in July 2018 in Covent Garden, known as a Style Studio. The experiential store is remarkably different from their traditional 12 stores across the UK, fueling interaction with the brand, through allowing customers to personalise gifts and explore the 'Everyday Object's range.

Events at the Style Studio include performances, art installations and talks from creators. In-store concepts include a Tiffany & Co. vending machine stocked with perfume. The #MakeItTiffany personalisation bar encourages shoppers to share their experience on social platforms and fosters brand loyalty.



### Dr Martens, Camden Market

Dr Martens' Camden Market store features a virtual reality experience, taking visitors on a virtual tour of the original UK Dr Martens factory showing how their shoes are made. There is also a GIF booth linking the store with social media and a customisation area allowing shoppers to personalise their Dr Martens.

There is an in-store gig space called The Boot Room and each month they host a series of free events, for up to 60 people.

It is perfectly in keeping with the brand and the musical heritage of Camden and shows the importance of creating experiences that fit with your image and customer base.

Dr Martens see this space acting as a cultural hub for the brand, its fans and Camden.



# 5. Merging Physical With Online

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To remain relevant to the consumer base and create a rounded shopping experience, physical retail and online must work in conjunction with each other. Physical retail has a vital role to play in the growth of online shopping as there are elements of the customer experience which online shopping cannot satisfy.

In a recent survey, when asked what influences in-store purchases, **86%** of respondents said the ability to feel and try items was key. Further to this, **69%** of respondents claimed instant access to products was their main influencing factor. Both factors cannot be fulfilled by online shopping.

Physical retail is adapting to become more convenient. Click and collect (C&C) combines the convenience of online shopping with the advantages of face-to-face retail and is set to account for 10% of all online sales by 2025.

## Advantages of Click & Collect

### Customer Convenience

Customers can collect their items at a time and location that is convenient without having to worry about missing a delivery

### Spin-Off Purchases

Higher chance of spin-off purchases while customers are in-store

### Additional Purchases on Collection

A quarter of survey respondents revealed they make additional purchases in-store when collecting online orders via click and collect

## Success Stories



### Argos and Sainsbury's

Argos installed click and collect pods into Sainsbury's stores creating additional locations to serve customers from and drive footfall into stores.

E-commerce can complement physical stores by making shopping between the two platforms easy to navigate and enhancing the customer experience of the brand.

Shoppers reveal different shopping habits depending on the products being purchased, however, on average **53%** of respondents either browsed and bought in-store or browsed online before making a purchase in-store, highlighting the importance of the relationship between in-store and online experiences.

## Disadvantages of Click & Collect

### Cost

High cost to serve from a retailer's point of view

### Staff

Shop staff taken away from in-store customers looking for deliveries

### Attributed Sales

Sales not attributed to the store being collected from



### Next and Amazon

Recent partnership 'Amazon Counter' will allow Amazon customers to pick up parcels from hundreds of Next's UK stores.

## 5. Merging Physical With Online

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The ease of shopping online has led to a surge in retailers competing to provide the most convenient way for consumers to receive their products.

From same day delivery to free returns and the latest phenomenon of ‘try before you buy’, consumers are offered many alternative delivery methods.

Try before you buy is being adopted by several product groups. Amazon launched its fashion service in June 2018 and mattress company Eve, alongside others offer a 100 night home trial.

### Retailers

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#### DELIVERY

Free delivery has for a long time been a hook to encourage online purchases, the cost of this has been a burden for retailers. Following its takeover by Sports Direct in 2018, House of Fraser revealed it was scrapping free delivery with the minimum amount shoppers would have to pay being £4.99 for standard delivery, regardless of how much the order amounts to.

#### RETURNS

Returns have been damaging to retailers; costing £20 billion a year from items bought online. Some retailers, including some of the large national chains, claim to be unable to attribute returns to the store of purchase. This means stores are being unfairly penalised through their bottom line; particularly those in convenient high street locations.

*Research by Barclaycard in 2016 revealed that six out of ten retailers were being hindered by people returning items after purchasing online. 31% of online only businesses said managing returns was affecting profit margins and one in five admitted to increasing prices to cover the cost. Small business have been worst affected and are often choosing not to sell online.*

#### TRY BEFORE YOU BUY

Retailers are footing the bill for indecisive shoppers and a culture for over-purchasing with the intention of sending back some or all of an order.

### Consumers

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#### DELIVERY

Delivery charges have started to become a hindrance to online shopping; only 10% of respondents said a delivery charge hadn't changed their online shopping habits. In contrast almost a third of survey respondents either cancelled their online purchase or sought an alternative supplier, whereas 40% decided to make the journey into a store to either click and collect or to purchase the item in-store instead.

#### RETURNS

Returning items via post came out top in the Pragma online survey with 60% of respondents preferring this returns method, this was closely followed by returning in-store (45%) as well as other convenient methods such as using Amazon Lockers or Collect+ (28%).

#### TRY BEFORE YOU BUY

Shoppers are enabled to order as much as they like, have their order delivered to their door ‘try before they buy’ and then return anything they don't want – including the entire order – without paying a penny.

## 5. Merging Physical With Online

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### Online Retailers Taking Physical Space

Despite the success of selling online, there are numerous examples of online brands that see the appeal of trading from physical space. Those that get it right have the potential to maximise interaction, loyalty and sales from customers, however it is not always a profitable venture.

## MISSGUIDED

Missguided was launched as an online retailer with a view to empower women with fashion inspired by real life.

Missguided opened its first store in Westfield Stratford in 2016, followed by Bluewater and its first international store in The Dubai Mall in February 2019. Performance is mixed and it was announced that the Westfield Stratford store would close at the end of February 2019.



## MADE.COM

Made.com started out as an e-commerce business in 2010 and opened its first showroom in Notting Hill, London in 2012, adding two additional stores in Yorkshire in 2013 and Soho in 2015.

The retailer cited a desire to enable customers to touch and feel the product before purchase. Performance in-store has greatly outweighed the performance online with average order values 50% higher in its showrooms.

## depop

Founded by the owner of PIG magazine as a means of being able to sell everything featured in the magazine, the Depop app now allows users to sell products online (like eBay) through a personalised profile. Depop opened its first store in LA in 2018, has since opened in New York and has plans to open in London and Milan in 2019.

Depop's physical stores weren't set up to make a profit, they are seen as a way to boost marketing efforts and act as community hubs.



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## Classic Measures Of Success

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Sales through the till have historically been the main measure of a successful retailer. However, with consumer habits changing there needs to be a fundamental shift in perceptions of the value of physical retail.



**Sales**



**Sales per sq.ft.**



**Footfall**



**Average Customer Spend**

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## New Store Values

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### Engagement

Customer service is a key selling point of visiting a physical store and almost impossible to replicate online. Retailers can answer questions, demonstrate products and offer tailored recommendations

### Experience

Stores are being used for far more than just making purchases, creating space which enables customers to interact with the brand and feel like they're part of a retailer's story

### Showrooming

Using physical space to bring products to life with limited stock holding in the store. Apple have for a long time used retail space to showcase its products and create a community space



The furniture retailer in the US has reinvented the way it thinks about its store estate. Joybird sees its stores as a marketing expense and includes the operation of the store as a line on the marketing budget, using stores as a showroom for engagement with shoppers in turn, able to interact with the brand.



## Pragma's Expertise

With its 30 year history of working with leading investors, operators and landlords, Pragma is ideally placed to help develop practices that put a value on physical store sales beyond the till.

Utilising its range of datasets, contacts and projects from across the globe, Pragma is keen to help shape the future of retail to help ensure the vibrant and rewarding industry consumers demand.

# Change Is Required

It is easy to become fixated on the challenges facing the retail property industry.

Trends, be they fleeting or structural, all revolve around the needs and desires of the consumer; businesses that understand their customers and facilitate their requirements will be the success stories of today and tomorrow.

For occupiers, the integration of platforms is key; online and physical are different ways of engaging a customer, rather than competing elements from which there can only be one winner.

For landlords and developers, better understanding occupiers and the role of the store is crucial in providing a salient business model.

The continued pressure on in-store sales (damaged by shift to online, showrooming, returns) devalues assets as it is the only measurable metric in which performance is judged. Understanding the role of the store and embracing the degree of change required is key to maximising the potential benefits this format can deliver.

*While there is no preformulated solution for how the value of a store can be accurately reflected, factors that need to be considered include:*

## Customer Exposure

Beyond an assessment of just footfall, how many, how often and what type of consumers does a physical location allow a brand to reach?

## Customer Behaviour

Beyond just understanding who came to a location, what did they do, how long did they stay, what did they spend? What did they then go on to do - repeat visit or spend online?

## Customer Experience

Beyond quantifying activity, understanding why people came, what they felt, what they loved and what they would like to see change?



If you would like to discuss  
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