



CONVERGENCE: ONLINE MEETS OFFLINE

Understanding a blended future

An exclusive report by Mark Faithfull for MAPIC

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THE QUICK AND THE DEAD



The pace of change in retail has never been faster, with legacy retailers battling to adapt their offers, pure players opening physical space and brands seeking new opportunities. At MAPIC, the key players came together to discuss what a blended future might look like.

We live in a time of extraordinary retail change. For legacy retailers in some retail categories, the situation has arguably never been worse. In the US many mid-tier malls are facing perhaps terminal extinction. In the UK, a host of established retail names have closed or are in administration, shutting down unprofitable stores and renegotiating leases with embattled landlords. Many of the same challenges face retailers and destinations across Europe.

And yet signs of inspiring retail are everywhere. Retail and F&B has infiltrated travel locations and prospered in designer outlets. Whole emporiums to F&B are springing up around the world while tech giants such as Amazon, Microsoft, Zalando, Alibaba and JD are embracing physical space. At the same time brands and retailers are introducing innovative pop-ups, adopting event space and mingling their offers with leisure.

So what is going on? Many of the players at MAPIC are immersed in the new battle for space at a time when, according to global advisor Colliers International, e-commerce spending could hit maturity by 2025 and no European market will top the market share achieved in the UK of about 27%.

“At the moment, there is a fear of unlimited online growth,” says Paul Souber, co-head of EMEA retail at Colliers International, reflecting on the company’s report, which was launched on the first day of MAPIC. “In fact, to be a retailer you have to offer a seamless omni-channel experience.”

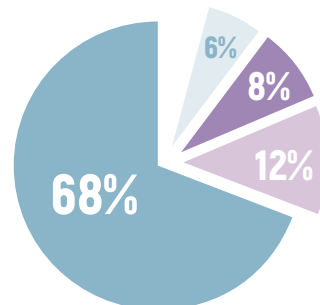
FIGURES



B2C ECOMMERCE

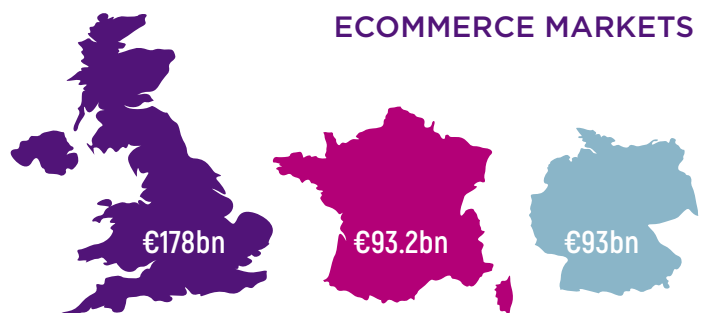
Online retail has continued its double-digit growth, with European ecommerce turnover increasing by 11% to €534 billion in 2017 and forecasted to grow by 13% to €602 billion in 2018.

EUROPEAN ONLINE RETAIL TURNOVER



Online retail is strongest in Western Europe, with approximately 68% of total European online retail turnover. Southern Europe, Northern Europe and Eastern Europe show lower share of European ecommerce: 12%, 8% and 6% respectively.

ECOMMERCE MARKETS



Key trends identified in the report show that the largest ecommerce market in Europe is the UK (€178 billion), followed by France (€93.2 billion) and Germany (€93 billion). The UK scores the highest also in terms of E-GDP (ie Ecommerce Turnover / GDP = Ecommerce Share of GDP), with a 2017 rate of 7% and a projected 8% in 2018.

Source Ecommerce Europe and EuroCommerce

LEGACY RETAILERS

Established retailers are rethinking their strategies as they integrate their channels and make the store the focal point.



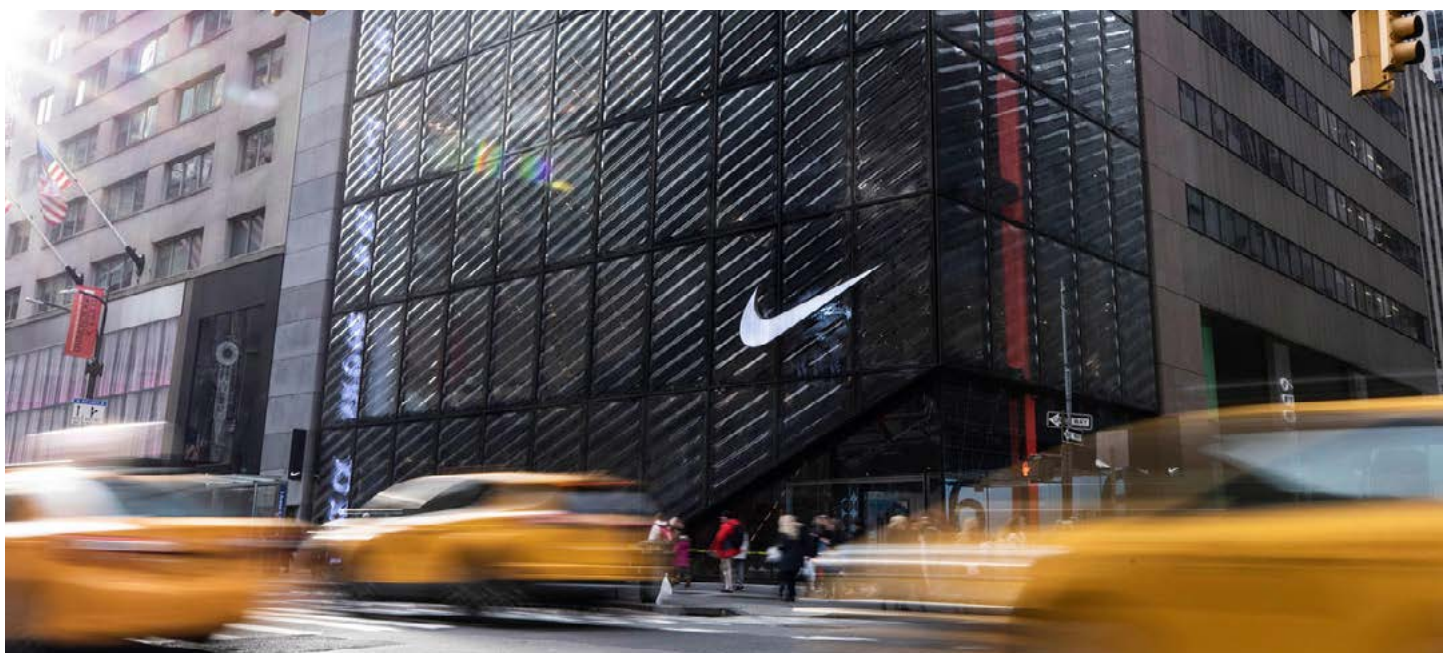
Omni-channel concept:
Zara's flagship Milan store

Probably the most notable of recent transformations has been that of Inditex, which has not only opened two new omni-channel concept stores in London and Milan but also announced in November that it will serve 106 new markets - many of them in Africa - online as part of its strategy to service the entire globe by 2020.

Yet there are many different responses to the changing digital world. Irish fast fashion retailer Primark does not have any online transactional website, for example, even withdrawing from a brief trial with Asos. And this has clearly not impacted its sales.

Footwear brand Dr Martens was at MAPIC looking for expansion opportunities across Europe, having recently opened in France and Germany, but its global flagship is in the distinctly off-pitch Camden, north London. The space includes an event room and experiential approach that reflects the brand.

Meanwhile, Nike has opened a New York 'immersive store' that includes a floor dedicated to product driven by local data on demand. The athleisure brand has also opened a basketball-oriented event space in LA called Jumpman, a bespoke offer called Nike by Melrose and is rumoured to be looking at another digital store in Los Angeles.



NEW PLAYERS

The positive impact of physical space is attracting more pure-players to open stores.

Ever since pure play retailers began to take physical space, the debate has raged about the impact of having stores to support online. Retailers see an average 12% increase in online sales in the catchment area after opening a new store, according to a research report published in November, while 29% of online sales are reliant on physical stores. The report by UK shopping centre organisation Revo, entitled "Tomorrow's World: Retail on the line", also revealed that 39% of returns

purchased online are returned through store networks. The data for the report was captured by CACI and GlobalData, on behalf of Revo. Surveys were conducted among 2,000 UK shoppers and a cross-section of 50 major multi-channel retailers that have had a presence in the UK for more than 10 years.

Overall, the research concludes that the relationship between physical and online is and will remain mutually

FIGURES

75% of shoppers conduct research to inform a purchase, with in-store research (41%) being the most popular form

In total, physical stores contribute to **86%** of comparison goods spend across the UK, meaning just 14% of digital spend is pure online spend

29% of all online purchases touches a store, whether by research or collecting in-store

60% of click and collect customers conduct a further purchase in stores / shopping centres

Revo survey, November 2018



NEW PLAYERS

beneficial, supporting revenue and sales growth. Click and collect customers are particularly valuable, with each trip generating on average an additional £68 of spend per household.

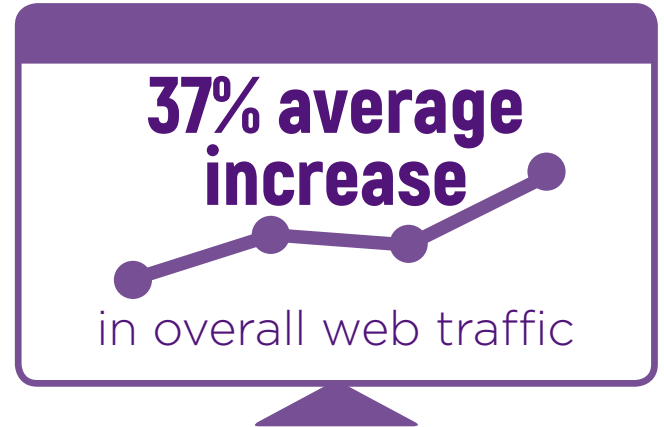
Both Alibaba and JD have opened supermarkets in China, Zalando is partnering with retailers in Europe and has opened two outlets, Microsoft is to follow its New York flagship with one in London, while brands such as Missguided, Birchbox, LDLC, Matches, Warby Parker and Peleton have opened stores – indeed the list goes on and on.

But of course the retailer that everyone tends to look to is Amazon, which followed up its book stores with the acquisition of Whole Foods, then a wider expansion of its stores and rumours of a major rollout of Amazon Go, its frictionless checkout concept. Amazon is also understood to be looking at bringing its futuristic checkout-free store format to top US airports.

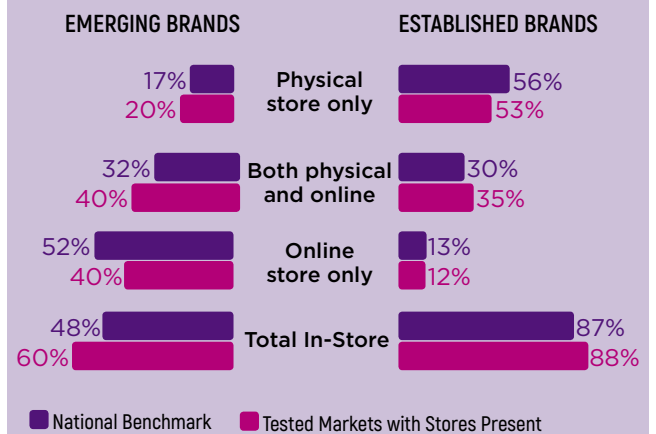


FIGURES

Opening a New Physical Store in a market leads to a...



The importance of physical stores holds true for Millennials across both emerging and established retailers.



SPECIFIC MARKETS

The vast majority of the time – 86% – emerging brands see at least some boost after opening at least one new store in a specific market. For established brands there is a lift in web traffic 78% of the time.



ICSC survey, 2018



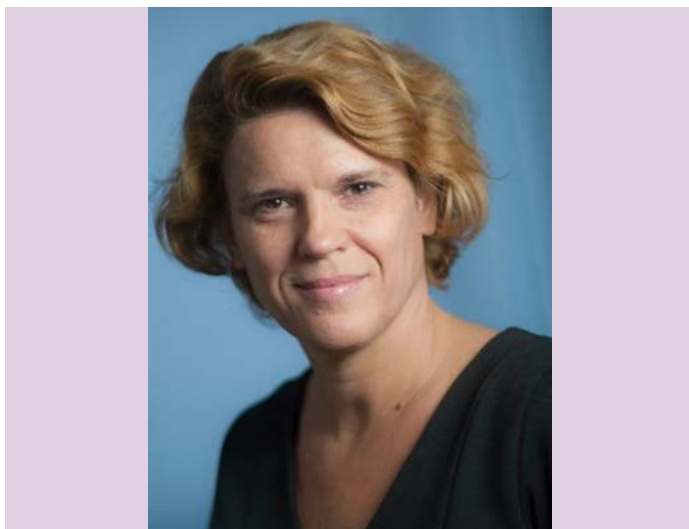
Retail centres are hosting an increasing number of new and pure players looking for a physical presence

Julie Villet, director of URLab and CSR at Unibail-Rodamco-Westfield, believes that taking physical space can become effective “marketing activity” for an e-commerce player and that the opportunity for retail brands to boost their own presence through physical was a big opportunity for landlords.



“The cost of media spending online is so amazingly high and the returns are decreasing. Media costs are increasing by 40% each year, but retailers’ click-through rates are only 10%. A digital retailer going into physical can see web traffic increase by 52%. If it’s a small business it can go up by as much as 84%,” she says.

Sandrine Guichard, director of homes and interiors at French retailer La Redoute, says that shoppers are willing to pay higher prices, and are less insistent on discounts, when visiting a new store. She says: “We expect to be able to sell with less discounts in stores as customers are able to appreciate the products and see the quality of the products. Stores are a driver for sales. It’s important to create new links with the customers.”



Villet adds that one of the challenges landlords face today is to find new streams of “non-leasing revenues” in their malls. “Our first job is to make sure we are successful together but then we have to drive new incomes from non-rent services, and being more and more of an advertising platform.”

Dubai-based **Michael Ripfl**, general manager, global retail, umdasch adds that this need for flexibility needs to be pushed even further, as he foresees a reshaping of what both retailers and consumers perceive as ‘stores’.

“We need to look at new ideas about flexibility but at high quality, which can provide fast-changing solutions for airports and brands and can tackle the need to give shoppers something different, away from the traditional offer,” he says.

He cites Qatar’s airport as a good example: “We produced refurbished transport pods that created excitement and that redefine what the store is, taking the product to the consumer and selling to the last minute,” he says. “But of course we also need to consider the operational aspects of the airport and how we make these ideas work. So it’s about rethinking the shop. A pop-up is not necessarily a store but an experience.”

Intu’s managing director for the south region **Rebecca Ryman**, adds: “People do lots of things with their weekend. Retail is not just about purchasing a dress any more, it is about purchasing a memory. We like the idea of encouraging people to ‘own the weekend’. We are creating leisure destinations in their own right.”

“ Retail is not just about purchasing a dress any more, it is about purchasing a memory ”



The way to understand the market will be all about data, so long as the right questions are asked

We are living among the largest youth population in global history. In 2017, more than half of the world's 7.6 billion people were under age 30. At the centre of this youth boom are the Millennials, those born between 1980 and 2000, according to global payment platform Worldpay. Much of the evidence collected from Millennials in fact reveals that they often prefer a distinctly non-digital experience once they move away from their screens. Yet connecting interesting digital with location can provide destinations with valuable insight.

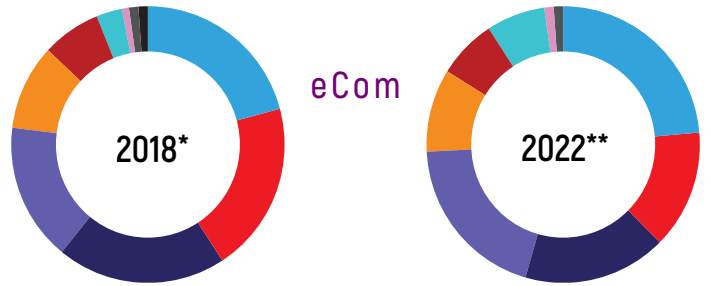
Shopper engagement specialist Nearbuy, based in Dubai, is planning a worldwide rollout of the Nexus Engage suite of products that it bought earlier in 2018. Mall owners can use Nexus Engage's interactive panels to enliven dead frontages of empty store units with interactive games. Head of business development Seb Ellson says the Play to Win product is proving popular with mall owners looking drive footfall and sales.



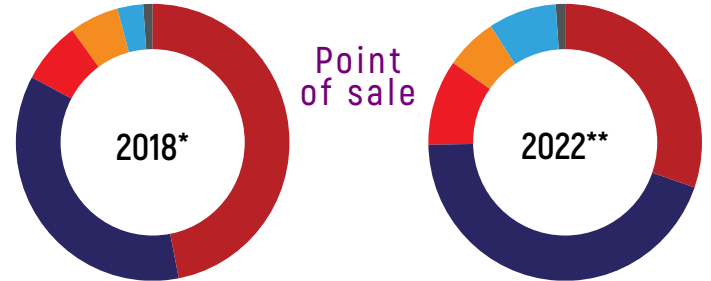
Customers play a game on the wall panel and in a receive a voucher for one of the mall's stores or F&B outlets, with redemption rates running at anything between 17% and 37%. "We're there to complement what shopping centres are doing by adding a bit of fun," Ellson says.

But many retailers are still making the mistake of failing to ask the most important people in the retail chain - the shoppers - according to Polly Barnfield, CEO of Maybe. "One thing we notice is that retailers use social media to share information about products and services but rarely mention their stores or their locations. They need to start focusing on those things that matter to their shoppers and which make use of their stores."

EMEA PAYMENT METHODS



	2018*	2022**
eWallet	21%	24%
Credit Card	20%	14%
Debit Card	20%	17%
Bank Transfer	16%	20%
Charge & Deferred Debit Card	10%	10%
Cash on Delivery	7%	7%
eInvoices	3%	7%
PrePay	1%	1%
Pre-Paid Card	1%	1%
Other	1%	0%
PostPay	0%	0%



	2018*	2022**
Cash	47%	30%
Debit Card	36%	44%
Credit Card	7%	10%
Charge Card	6%	6%
eWallet	3%	8%
Pre-Paid Card	1%	1%

* Estimated **Forecasted Numbers adjusted for rounding may impact totals.

MARKET FIGURES

	2017 eCom SPEND PER CAPITA	2017 POS SPEND PER CAPITA	2017 % eCom SPEND USING MOBILE WALLET	2017 % POS SPEND USING MOBILE WALLET
FRANCE	\$1,463	\$14,339	21%	1%
GERMANY	\$1,074	\$12,241	20%	5%
ITALY	\$469	\$11,958	31%	2%
SPAIN	\$761	\$12,383	19%	3%
UK	\$3,063	\$20,403	23%	5%