



FANCY SEEING YOU HERE!

ONLINE RETAILERS
AND THE GROWTH
OF 'SHOWROOMING'

EMEA
Q4 2017

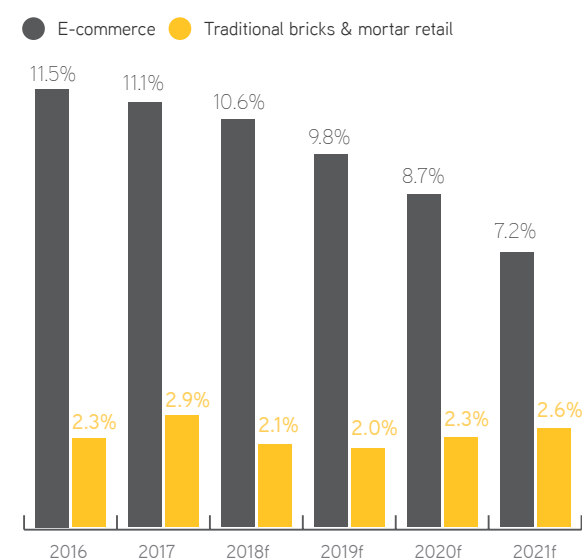
Colliers
INTERNATIONAL

ONLINE GETS REAL

The growth rate of e-commerce sales is forecast to fall over the next four years and - like any other type of retailer - the online 'pure-play brands' are increasingly looking at how they can support future sales. For many e-retailers, part of the remedy is to open 'showrooms' in physical shopping environments which both generate online sales and raise awareness of their brand.

In 2016, online retail sales grew by 11.5% year-on-year, but this level of growth is projected to steadily decline through to 2021 when it is forecast to be around 7%.

EUROPEAN* RETAIL SALES: GROWTH RATES



*EU28 + NORWAY & SWITZERLAND
SOURCE: OXFORD ECONOMICS, STATISTA, COLLIERS INTERNATIONAL

In the face of this downward curve, online retailers are looking at how physical stores can showcase their products and generate more trade.

The increasing presence of pure-plays 'on the High Street' is being supplemented by a growing number of brands which previously sold through stockists, but are now looking to go direct to the consumer through their own store networks.

ONLINE RETAILERS ARE
LOOKING AT HOW PHYSICAL
STORES CAN SHOWCASE
THEIR PRODUCTS AND
GENERATE MORE TRADE

YOU SAY 'STORE', I SAY 'SHOWROOM'...

For many online pure-plays, it's perhaps more palatable to describe these physical outlets as 'showrooms' rather than 'stores'. However, there is an increasing convergence between the brands that started 'in the real world' and subsequently went online, and those which started online and are now signing up for physical stores.

Showrooms are proliferating and possibly giving birth to a new verb in the retail world – 'to showroom'.

Showrooms offer pure-play retailers the opportunity for consumers to experience the brand and to see, touch and feel products that online-only retailing prevents. For traditional 'bricks & mortar' brands, showrooms offer a shift away from traditional P&L outlets and a way to increase brand awareness, showcase innovative products and provide excellent customer service and that all important experience in order to promote brand loyalty.

There is already a proven link between opening a physical store and generating increased online revenues. Research by British Land highlighted that pure-play retailers which opened a physical store saw online sales increase by 52% within the catchment area. For several years, when it was purely an online brand, Hotel Chocolat steered away from opening physical stores as it thought it would increase its overheads dramatically and also diminish online sales in the relevant location.

When it cautiously entered the physical realm, it found that it actually boosted online sales as the store acted as a conscious or subconscious advertising hoarding. Today, it has approaching 100 stores in High Streets and shopping centres across the UK.

BAD NEWS FOR THE MIDDLE-MAN...

The other 'new faces' which are turning in the real world, having previously only sold online or through third-party stockists, are some of the most well-known brands in the world. Given that Apple blazed this particular trail years ago, the only surprising thing is that the penny didn't drop with its peer group earlier.

Samsung, Microsoft, Dyson and Volkswagen are in the vanguard of big-name brands which are opening their own showrooms or unashamed stores in key retail locations. Yes, they are facing increased overheads, but they're also not paying a very substantial retail mark-up to an intermediary – and they get the kicker of brand prominence.

THE NEW BREED OF 'SHOWROOMERS'



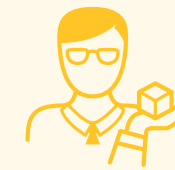
BRAND FLAGSHIP

- Brands becoming retailers
- Some brands willing to make a loss on a physical store due to halo effect to other divisions, such as wholesale or online

Gives brands control in how their products are seen by the customer



dyson



PURE-PLAY PHYSICAL STORE

- Grows brand presence
- Shoppers can try the product
- Immediately purchase – instant gratification

Customers can see, touch and feel what would be an otherwise online purchase

MADE.COM

ME+EM



MISSGUIDED

FAIT AVEC
AMOUR
SÉZANE
BY
MORGANE SÉZALORY



COLLABORATIONS

- A platform which showcases a range of brands
- Used by high-end fashion, high value tech and premium cosmetics

Showrooms offer an edge over the fiercely competitive markets of premium fashion, design and beauty

FABLED
by marie claire

MATCHES
FASHION.COM

smeg

D&G
DOLCE & GABBANA

ER, WHERE DO I PAY?

To be fair to those who draw a distinction between ‘showrooms’ and ‘stores’, there are instances where the two are very different. In some showrooms, it is actually impossible to buy anything; they are just for providing a look and feel – the shopper being directed online to make the ultimate purchase.

A good example of this is made.com – one of the first pure-play showroomers – where visitors can view furniture, take away fabric swatches and make ‘wish lists’, but not actually make a purchase. It now has nine showrooms including London, Berlin, Paris and Amsterdam.

No discussion of this phenomenon would be complete without reference to Amazon. The delivery giant is looking at a myriad of options for developing its physical presence. Its acquisition of the Whole Foods grocery chain was seen by many as a forerunner for a growing physical presence across the world. It is also trialling ‘cashless’ stores where you just walk in and take goods off the shelves: the Amazon system having already engaged with you wirelessly.

On the subject of Wi-Fi, some retailers offer free in-store Wi-Fi and use the splash page to offer discounts to avoid shoppers buying elsewhere.

However, for many physical retailers, one of the bugbears is shoppers coming into their stores and effectively using them as a showroom whilst using their smartphone to check the cheapest price elsewhere for an item.

With impressive logic, Amazon has patented a method to stop customers in physical stores from finding better prices online (something, ironically, it has been helping them do for years). When using a store’s Wi-Fi network, the technology will block, redirect or control a customer’s smartphone so that they can’t find a better price elsewhere.

WHERE’S THE REST OF THE RENT?

Because showrooms are often located in a non-prime property and in units which would not appeal to mainstream retailers, the rents they command are often acceptable to both landlord and occupier. The landlord is letting a property which may have been problematic or not in demand and the pure-play is getting a lower rent than it would pay for a mainstream store.

Of course, there are exceptions to this scenario: Dyson is on London’s Oxford Street and SEAT has a hi-tech car showroom in Westfield London – soon to be the biggest shopping centre in Europe.

However, both situations raise the question as to how the landlord sets an estimated rental value which reflects the operational value of the showroom and also its sales activity/profitability from an online perspective. Where no sales are going through the cash register, landlords can’t collect point-of-sale data as a guide for applying a turnover rent.

In fact, this is a conundrum throughout the retail property sector, but is more acute when online brands take physical stores – and particularly when these are showrooms.

SHOW AND TELL

With vacancy rates for retail space being worryingly high in all but the prime locations, the advent of showrooms is a very welcome development for both landlords and the retail property sector as a whole.

However, their growing presence asks as many questions as it answers. One of those questions is fundamental to how retail space is rentalised. In an environment where maybe no money is going through tills at the store, how do you calculate profitability and, therefore, the rent you are going to charge for that store?

Let’s say you’re leasing a shopping centre unit and you have two competing occupiers. The first is a local independent retailer which will pay you a modest base rent and is happy to pay a top-up figure in respect of the turnover achieved in-store (as recorded by your point-of sale technology).

The second prospect – a previously pure-play online brand – wants the space as a showroom and will pay a rent which is double the base rent offered by the independent, but will not pay any turnover related top-up as it is not applicable to the usage.

Who do you lease the space to? Do you take a risk by going for the potentially bigger ‘turnover’-driven income, or stick with certainty?

PERSPECTIVE

At its core, e-commerce isn’t really that new. We’ve had home shopping for more than a century. So while the digital age has significantly increased the range and quality of goods available to us with a few clicks, and more efficient logistics networks have enabled a much faster delivery of these goods, it is still an existing ‘retail channel’.

What is different, however, is the growing sophistication of shopping and the way in which multi-channels are being harnessed by retailers to drive success.

Our research has shown that fashion retailers suffer up to 40% returns on their orders. This means there are huge carrying costs in two directions.

It is also clear that IT platforms, distribution and delivery all combine to form a different level of cost, in addition to rent.

Bringing ‘showrooming’ into the equation creates a happy, multi-channel medium for success. For pure-play online retailers, running an internet-only business may not prove as profitable in the long-term as multi-channel, or even traditional, alternatives.

Colliers’ analysis of a range of fashion retailers continues to point to much lower net operating margins for those in the pure-play category, even though gross revenues may be on the increase. So in the world’s more mature online marketplaces, the rapid growth in showrooming by pure-play retailers should come as no real surprise. Which begs the question: when does a ‘pure-play’ morph into a traditional retailer?

CASE STUDY

A marriage MADE.COM in heaven?

One of the pure-play retailers at the forefront of the showrooming trend has been online furniture retailer, made.com, which opened its first showroom in London. The space for the first showroom was a large former bookstore on Charing Cross Road and was let to made.com by Colliers International acting on behalf of landlord, Almacantar.

More recently, having tested the market in Birmingham with a pop-up showroom, it has now opened a permanent outlet in at the Mailbox development in the city – at the same time as one of the oldest furniture sellers in the world, Heal’s, has also taken space in the scheme.

It is the first opening in the Midlands in the 200-year history of Heal’s and the first showroom there for made.com.

The new 20,000 sq ft Homewares section is located on Level 1 of the Mailbox and these two brands are being joined by a collection of other homeware, furnishings and accessories retailers, including Danish brand BoConcept, Wesley Barrell, Calligaris and The Design Quarter. Annabel Kilner, commercial director at made.com, reports: “Having seen great promise from the made.com Birmingham pop-up, we are delighted to open our showroom in the Mailbox. Birmingham is an important city for us and we’re keen to see the impact the bigger location will have on sales.”



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€2.3

billion in annual revenue

170

million square metres
under management

15,000

professionals and staff

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