

Online Gets Physical

Why online retailers are looking to build physical presence

Introduction

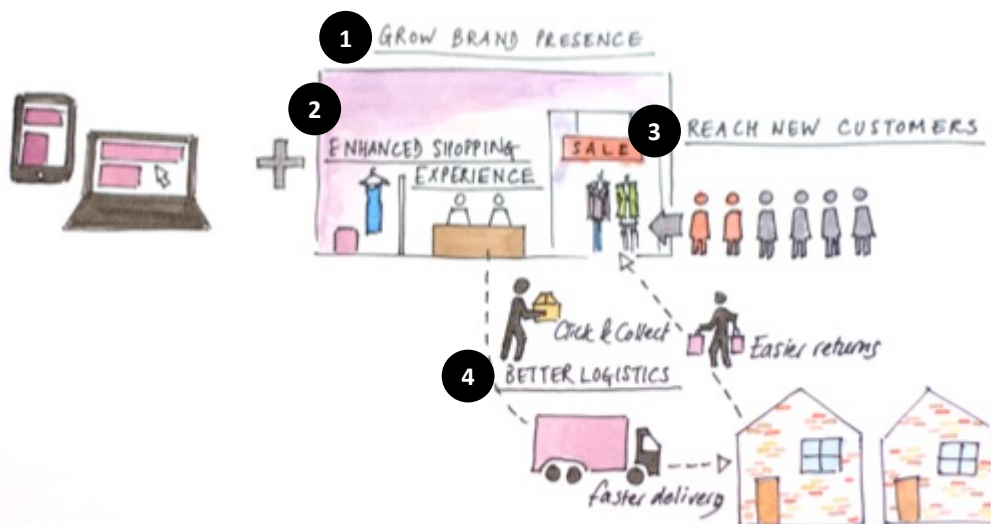
The online retail market has grown on average 17% each year since 2009, with 66% of Brits using the internet to research and buy goods online. However, physical stores still account for 87% of retail sales and it is the successful integration of online and physical sales that remains the holy grail of retail. By combining these two distribution channels, retailers begin to act as multichannel retailers and create real changes for customers.

In our experience, building physical presence not only creates an additional sales channel, but also helps boost sales online. John Lewis has reported up to 30% sales increases online in areas where they have opened new stores. And for online retailers with an existing small physical presence, there may be an opportunity to optimise these operations to realise their full benefit.

Why go physical?

We have already seen big e-Commerce names moving to build physical presence. eBay has launched a number of pop-up shops around London and Google has opened its first shop in Currys PC World on Tottenham Court Road and is using this space to drive sales of its growing hardware range. And over in the US, Nordstrom (a US department store) has created a number of shop-in-shops for online retailers. There have also been success stories like Oak Furniture Land, who after launching on eBay in 2003, opened their first showroom in 2010 and now operate 59 showrooms across the UK.

These spaces work because they create new customer experiences via new channels that can excite and attract customers. We present our reasons for why UK online retailers should consider getting physical:



1

Growing brand presence

By combining online and physical stores, retailers can grow their brand awareness and create a deep ongoing relationship with their customers through a physical location. The space can also be used to hold events and create theatre that can strengthen the brand's overall image and increase customer loyalty.

3

Reaching new customers/ growing sales

Physical stores allow brands to reach out to their customers in a new way and capture them when they're in a mood to buy. If stores are treated as flagships, they can be designed to inspire and draw customers in as well as serve customers who are less comfortable shopping online.

2

Enhanced shopping experience

Physical stores allow customers to try or touch merchandise before they buy, which gives them confidence in what they're buying. Alongside this, store colleagues are able to answer customers' questions and provide advice and support – all of this can help boost conversion both in-store and online, as well as reduce the number of returns.

4

Better logistics

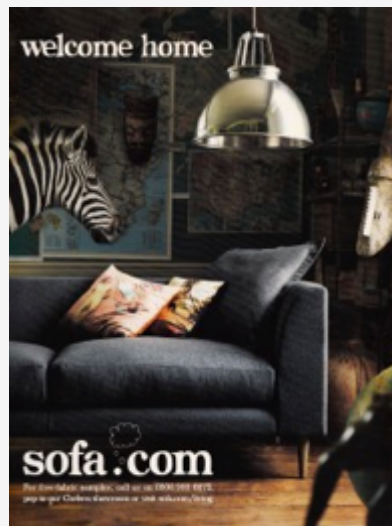
Physical stores are not only showrooms but can be used as storage and shipping facilities to support online operations. Stores allow retailers to offer shorter delivery times and multiple delivery options. 'Click and collect' is expected to account for 35% of orders by 2018, with direct deliveries declining to 65%. In addition, better logistics also means easier and cheaper returns.

Sofa.com

Founded in 2006 at a time when the furniture industry did not believe it was possible to sell online, Sofa.com now generates £18m of revenue with just 2 UK showrooms (Chelsea and Bath).

The showrooms allow customers to see the designs in real life, with knowledgeable staff and free coffee, cold beers and prosecco!

This interaction increases conversion, but also allows Sofa.com to use this physical space to communicate their brand values and create a stronger bond with their customers. For example, dogs are welcome in-store and the space is used for arts and crafts sessions, face painting and storytelling.



Bonobos

Headquartered in New York, this menswear e-commerce retailer was founded in 2007. The brand traded exclusively online until 2012 when it started opening “guide shops” and selling a select range at Nordstrom department stores.

The business now turns over \$40m in revenue with 13 guide shops all based in the US.

Unusually, the guide shops do not hold any stock that is available for sale. Instead, customers can try items and receive styling tips from the shop “guides” before placing their order that will be dispatched to their home or office.

This model allows Bonobos to sell 10,000 unique items (3,500 of which are variations on chinos) that ensure customers will be able to purchase the right size, fit and colour for every item.

The store experience is accompanied with complimentary beers and the latest technologies such as full-length mirrors that take selfies!



About PatelMiller:

PatelMiller is a business consultancy that works closely with its clients to develop their strategies and deliver their full benefit.

Our team have gained their skills from working for leading consulting firms as well as the world's best retailers.

We combine the tools, methods and analytics of a strategy consultancy with the pragmatism of a retailer, to make sure potential benefits become real benefits, quickly.

The main things we do are:

- Create a **challenging vision**
- Develop **business plans**
- Design new **operating models and improve business processes** (including Lean Six Sigma)
- Use **analytical tools** on key business levers to drive rapid improvement
- Run **programme management**
- Carry out **due diligence**

The businesses we have worked with include Dixons Retail, Feelunique.com, John Lewis, Monsoon Accessorize, Morrisons, Tesco and White Stuff.

Our senior team:

Anish Patel
Managing Partner
Anish has built up considerable Retail consulting experience, both with top tier firms and as an independent advisor. Recently Anish held the leadership role of Retail Consulting Director for Deloitte UK.

Jonathan Miller
Managing Partner
Jonathan is an experienced advisor to Retailers, having worked for Accenture as a strategy consultant, and then directly for Asda-Walmart, Tesco and Dixons in strategy and operations development roles.

Find out more:

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References:

Mintel, Guardian, CRR, Last Mile Survey

How we can help

It's no easy feat going from online to store retailer. But we understand the complexities involved and the importance of making the transition in an agile way, whilst remaining focused on your one priority – the customer. We can help your business decide whether stores will deliver the returns necessary to justify investment and what the best operating model is to support a move to multi-channel retailing. And if stores are opened, we can help ensure that they are run in the most effective way.

We have worked with an extensive list of retailers across the physical and online space to help shape their multichannel vision, whether that's implementing a lean click-and-collect service or simply helping them to understand how their customers shop and knowing which services in the multichannel eco-system they will respond to best.