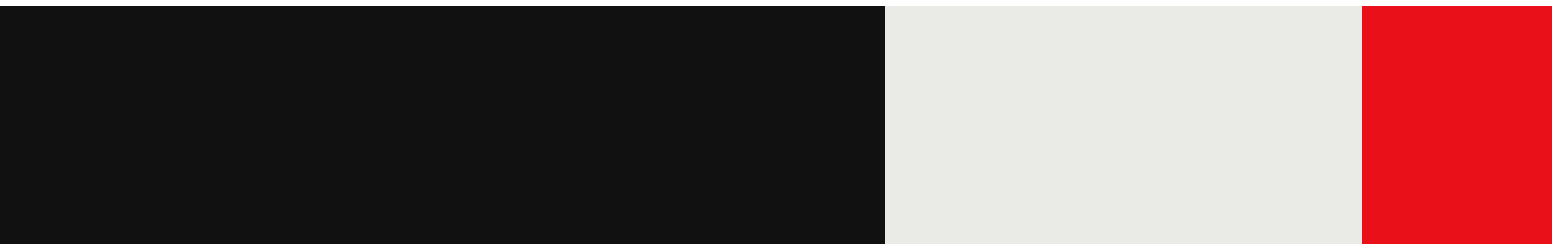


Reimagining Retail: Why retailers are launching new store formats, which ones have worked, and which ones have not

Audio



On today's podcast episode, we discuss the reasons that retailers are launching new store formats, what those layouts look like in the US vs. the UK, which ones are working, and which ones are not. Join our analyst Sara Lebow as she hosts analysts Carina Perkins and Zak Stambor.

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Episode Transcript:

Sara Lebow (00:00):

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Hello, listeners. Today is Wednesday, June 12th. Welcome to Behind the Numbers Reimagining Retail, an e-Marketer podcast Made Possible by Roundel. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is Stores Launching New Formats. Let's meet today's guests. Joining me for today's episode, we have senior analyst, Zak Stambor. Hey Zak, welcome back.

Zak Stambor (00:54):

Yeah, thanks for having me back. Hey, Sarah.

Sara Lebow (00:56):

Also with us is Senior analyst Carina Perkins. Welcome back Carina.

Carina Perkins (01:00):

Hi Sara. Good to be back.

Sara Lebow (01:01):

Okay, let's jump into talking about stores. We talk about e-commerce a lot on this podcast and in general, which makes sense. E-Commerce is making up an increasing share of retail sales at 16% this year and 20% by the end of 2028 according to our forecast. But that still leaves at least 80% of sales, US sales specifically taking place in stores, which might be why we're seeing so many stores launch new formats. In the last few months, we've seen new format announcements from Whole Foods, Walmart, ikea, Aldi, Wayfair, and Party City, just to name a few. So Zach Carina, can you tell me what's going on with the whole new store format trend?

Zak Stambor (01:42):

I think it's largely about the concept of form follows function and the function of the store has changed, particularly post pandemic is consumers returned to physical retail, but the ways in which they interacted with the store shifted. They became accustomed to buy online pickup in store. They went into the store to get customer service or return items, but bought the items online. There's just a whole slew of different ways in which consumers are engaging, and so retailers need to adjust and shift the way in which the store is laid out, what the store looks like and all of that sort of stuff to meet consumers needs.

Sara Lebow (02:26):

Yeah. Karina, I feel like that buy online pickup in store is particularly big in the UK.

Carina Perkins (02:31):

Yeah, click and collect is huge here and we are seeing even now some innovations in stores to try and reduce the impact that that can have on stores. So if you have click and collect, it can build up store traffic and queues and things like that. So we've got people trialing automated click and collect kiosks. Also automated return kiosks because the return in store piece is something else that we are really seeing since the pandemic. And I think really what's happening with stores now is they need to either be really convenient and add something from a convenience angle or they need to be a bit experiential to attract shoppers and attract footfall.

Sara Lebow (03:09):

Yeah, I feel like there are a few buckets that the store revamp falls into. You have some stores going smaller and opening small format stores in new places, some stores going bigger and opening big format stores in new places. Then you have the ones that are introducing a bunch of tech to stores or the ones that are just establishing a physical presence in the first place like Amazon, like Wayfair. So there's always seems to be some sort of specific motivation, but they fit into a handful of these buckets.

Carina Perkins (03:37):

And I think if you look at that, again, a lot of it fits into that convenience or experiential split. So you've got people going smaller, they're looking to be more high street locations in the UK, closer to the consumer, maybe attracting younger generation that might not drive or visit big retail parks. And then at the same time some of 'em are going bigger and that's also more convenient because people have access to more under one roof. They might have cafes and restaurants in them. The tech, again, is making stores more convenient. That can be a kind of checkout free experience, but also more experiential like virtual reality.

Zak Stambor (04:12):

The convenience piece I think is interesting because during the pandemic, a lot of people moved and a lot of people moved out of city centers or nearby suburbs to farther away areas. And so retailers like Macy's are trying out and putting in place smaller format stores that are

more convenient to those shoppers so that they don't have to drive 15, 20, 25 minutes to get to their closest store.

Carina Perkins (04:40):

In the UK we've seen a bit of a different trend. So we've seen pets at home, which has always been in big kind of retail park out of town locations, and they've started opening a lot of smaller format stores in the London area because they're really Targeting that kind of Gen Z audience who perhaps don't go to retail parks but still have pets and still willing to spend on them.

Sara Lebow (05:01):

Well, that brings me to another question. Is this trend markedly different in the US and the UK? Are there different motivators for these store revamps or are we seeing the same trend in both geographies?

Carina Perkins (05:13):

We're seeing the same trend. I think we have seen this shift towards smaller format stores happening for quite a long time in the UK. So the big UK grocers have all launched convenience format stores, and that's quite a big part of their strategy. And I guess some of that is that we are more advanced in the shift to e-commerce here, and some of that will also be the differences in geography between the US and the UK. But I think generally the kind of formats that we are seeing and the kind of shifts that we're seeing in the US are also happening in the UK.

Sara Lebow (05:41):

The whole going smaller thing in the US almost feels like, correct me if I'm wrong, but a mimicry of the UK in some ways in the US, we tend to go for stores that are as big as possible, and now we're seeing the smaller Ikea showroom type stores opening in more urban areas, which is reminiscent of those high street stores in the UK.

Carina Perkins (06:01):

Yeah, absolutely. And it's something IKEA has done in the UK too. It's got a store in Hammersmith that focuses on soft furnishings. So yeah, we've definitely seen it happening in the UK of quite a long time that shift to smaller stores

Zak Stambor (06:13):

And sometimes it works and sometimes it doesn't. I think Market for example, rolled out all slew of small format stores that often don't feel satisfying. You can't find 10 different things that you go to a Target store to get. And lately what we've seen is they've shifted to larger format stores and so they are having more large stores where they can fulfill items for online orders. And that's a huge piece of Target's e-commerce business because they fulfill almost all of their online orders through their stores.

Sara Lebow (06:50):

That does bring me into my next question though, which is who is doing this, right? What's an example in the US and in the UK of a new store format that's worked? Well, Zach, why don't you go first with the us?

Zak Stambor (07:02):

Yeah, so Macy's has really leaned into this concept in a couple different ways. One with the concept that was originally called Market by Macy's, not just Macy's, and then also the Higher End Variety, which is a smaller air format Bloomingdale's store and the Bloomie's concept in particular, it is really kind interesting. It's like a really curated experience. It has a lot of stuff in, it's still fairly large, but it is easier to navigate. And Macy's has said pretty consistently on its earnings that those stores have been outperforming other stores. Now, there is a caveat to that because when you open a new store and all of these stores are fairly new, you typically do outperform other stores because people want to see it. So we'll see over the next few years how these stores actually performing, whether they can help turn around Macy's outlook. Yeah,

Sara Lebow (08:02):

Well I think that's one of the reasons that we see so many store revamp announcements is I actually don't think a lot of them are, I don't know what you define a revamp as, but I think a lot of them aren't huge changes stores just know that if you announce a revamp the same way, if you put a banner outside that says Grand Reopening Sale, you're going to get a few more feet in the door.

Zak Stambor (08:24):

That's exactly right. It's a little bit exciting. It captures people's attention. I know we've talked about it ad nauseum on the podcast, but the ways are that opened right by me, just the parking lot is packed at all times every day because people just want to see what it is, what it looks like. And you see that with all of these different formats, whether it's a new Macy's, whether it's a Bloomie's or whatever it might be.

Sara Lebow (08:51):

Even this one's not a new format, but the Wegmans that opened in New York, it was such a big, everyone was like, have you been to the Wegmans that opened in New York City? So yeah, any store that can capture that energy of doing something new in a new space is going to do it. Corina, what's an example of a new store format that's working in the UK?

Carina Perkins (09:10):

So mine's also a bit of a cheap, because I think some of it's probably a revamp more than a brand new store format, but there is a new format element to it. So Boots, which is a health and beauty pharmacy retailer in the UK has, yeah,

Sara Lebow (09:22):

Boots is Walgreens, right? Yes.

Carina Perkins (09:24):

Yeah. Has opened or revamped over 170 beauty halls in the UK. So it's really leaning into beauty, which has been one of the strongest performing categories here. And they've got trending zones, discovery areas, consultation spaces with beauty treatments and beauty specialists who will give out free personalized advice. And it's recently just taken that further by opening a dedicated beauty store at Battersea Power Station, and it's got skin consultations, LED, light treatments, skin scans, scalp checks, and then it's got hundreds of beauty brands and hairstyling I think as well in store.

Sara Lebow (10:01):

I didn't know it needed to do all that.

Carina Perkins (10:03):

I know, but you do now, right? It's seen really, really strong growth in beauty sales and it's attributing some of that to these kind of new formats, the beauty halls and this new store. So I think it's just a really good example of a retailer honing in on one element of what it does.

Sara Lebow (10:21):

I don't think Beauty Hall is a term we have in the us. What is a beauty hall?

Carina Perkins (10:25):

Well, a beauty hall. It is basically a kind of dedicated beauty area within Boots. Yeah,

Sara Lebow (10:30):

Gotcha section. So

Carina Perkins (10:31):

It's a fancy name for what is basically a beauty section. Great.

Sara Lebow (10:35):

Love that. Beautiful language. British English. That is interesting though, because Walgreens was on my list of stores that have also revamped the us. This was a year ago, but they were changing their stores around to prevent retail theft. I dunno if you remember writing that a year ago, Zach. Yes. No. But we've seen a lot of other stores shaking up their formats in similar ways in the us taking out self-checkout, things like that and calling it revamps, but it's essentially making it kind of more difficult to buy things but also more difficult to steal things.

Zak Stambor (11:06):

And again, it's like what is the purpose of what you're seeking to achieve? So Walgreens was seeking to achieve people not stealing stuff, but you walked into the store, which I was just by the other day, and it's just like it's a terrible experience. You walk in, you can't get into anything. It doesn't function well because Walgreens is all about convenience and getting in and out really quickly. Or the seamless checkout where you aren't stopping at the cashier, it can be clunky and there's a big learning curve that a lot of people just are not up for and they want to have the experience of somebody checking them out, bagging their groceries, maybe engaging in a brief conversation what it is that they bought. And so it sometimes can work

and sometimes doesn't work, and it just depends on the particular retailer in the particular space and what they're seeking to achieve.

Sara Lebow (12:06):

When someone bags my groceries, I'm like, what a luxury.

Carina Perkins (12:09):

We saw the big grocery players in the UK like Tesco follow Amazon in that just walkout tech store format. And it was interesting to see the reaction. Aldi did it as well, and they had a real backlash here with people outraged that they couldn't pop in and buy something. They had to download an app or scan a QR code. And Tesco then switched to a hybrid format for its get-Go stores. So you can have just walkout tech or you can pay at a checkout. And I think there was also self scanning and it's just introduced something new now, which I thought was quite interesting. So it's scan free, so you walk up to the self-checkout and it will present you with a list of products that it thinks you have and then you can accept that and then pay for it. So I think that's really clever because it overcomes something that people don't like about self-checkout, which is having to scan the products themselves, but then it overcomes the thing that people don't like about the sort of just walkout, which is only getting their bill after they leave the store, rather than being able to see as they pay what it is.

Sara Lebow (13:09):

Yeah. It's interesting you bring up the just walkout because I was going to ask what an example is of a retailer revamp that hasn't worked, but I think that the clear example is Amazon, everything. Amazon still can't figure out store formats despite how many times they introduce the new bookstore, the new convenience store, the new grocery store.

Zak Stambor (13:29):

It is surprising, but it gets to the crux of shopping online and shopping in the real world. IRL are different, and Amazon really understands the convenience that consumers want when they shop online, but it doesn't really get why people go to stores, what they're seeking to do. And you can see that whether it was the four Star store, which made no sense. I don't know if you ever went in one of those, but it was just a jumble. Which one

Sara Lebow (13:59):

Was the Four Star store?

Zak Stambor (14:01):

It was stuff that was rated four stars on Amazon.

Sara Lebow (14:04):

I don't remember that.

Zak Stambor (14:06):

It was in the mall right by me. And you walked in and you were like, why is this here and that here? And it just didn't make any sense. The bookstore was unexciting. It was very similar to the bookstore at the airport. The

Sara Lebow (14:22):

Bookstore was an algorithmic bookstore. If you don't remember the Amazon bookstore, they had all of the books facing out, which is an interesting idea, but being in there felt like scrolling through amazon.com. And that is not generally how people find books, even if it's how they buy them. And when

Zak Stambor (14:40):

You go to a bookstore, you want to engage with the staff, you want to say what is good? And I might not know about, I like this author who is like it., you just didn't have that sort of dynamic. And so time and again and then the just walk out. When I go grocery shopping, the end of the checkout experience is a time to get organized. You get all your stuff together and just walk out. I'll use stuff is just in a jumble because you just walked out. And so each time there's just been a lack of understanding of how consumers want to shop offline. Is

Sara Lebow (15:19):

Whole Foods an exception to that? I know that Amazon just launched a small format, whole Foods in March. Is that working for Amazon?

Zak Stambor (15:28):

I think it's too early to say if it's working or not, but Whole Foods has been okay in terms of a real world physical store for Amazon. It has not been like a blockbuster hit, but it has enabled,

Sara Lebow (15:44):

It's so funny that you say a blockbuster hit because that's an example of a store that doesn't exist anymore.

Zak Stambor (15:52):

But I mean the way in which Amazon, it took its time to weave its Amazon ness into Whole Foods, but at this point, weaving in Prime has worked. The ability to return items in the Whole Foods works really well. And so I think it's like, it's okay. It's doing fine, but Whole Foods is a niche business and so its ceiling is capped. It just is not going to be the Kroger grocery store. And that's kind of what Amazon has always wanted to have.

Sara Lebow (16:28):

Okay. So putting you both on the spot here, I am going to ask you for a top line takeaway on store, store format revamps in 2024.

Carina Perkins (16:38):

So I'm going to go back to my assertion that increasingly retailers are going to be pushing towards store firm that are either more convenient and bring an added element of convenience to consumers, or they're a bit experiential and they are a chance to go out and have an experience and enjoy some time with your friends.

Sara Lebow (16:57):

Love that. Anything to add, Zach?

Zak Stambor (16:59):

That was really good. I don't know that I have much more to add to that. I think Carina hit the nail on the hut.

Sara Lebow (17:04):

Love it. Okay. Thank you both so much for being on the podcast with me today. Thank you, Carina.

Carina Perkins (17:10):

Thanks Sarah.

Sara Lebow (17:11):

Thank you, Zach.

Zak Stambor (17:12):

Thanks for having me.

Sara Lebow (17:13):

Thank you to our listeners and to Victoria who edits the podcast so it's always in perfect format. We'll be back next Wednesday with another episode of Reimagining Retail and e-Marketer Podcast made possible by Roundel. And tomorrow, join Marcus for another episode of the Behind the Numbers Daily.