The omnichannel approach: promises and problems

KAREN FLUHARTY, MODERATOR of Omnichannel Strategies for Outlet Retailers and Developers, posed four key questions for her panelists. Each of the queries involved the challenges and opportunities in adapting to the technical changes in brand messaging, branded merchandising, consumer behavior and shopper expectations. An edited transcript of the discussion, held at the 2014 VRN Fall Outlet Convention, follows.

Omnichannel panelists

Moderator: Karen Fluharty, partner, Style+Strategy
Colleen Conklin, principal, Conklin & Associates
Marie Driscoll, CFA, president, Driscoll Advisors
Karl Haller, principal, Dottit
David Lobaugh, president, August Partners

FLUHARTY: How should outlet center developers respond to the omnichannel environment?

CONKLIN: Shopping is fun: Buy on the phone, why drive 60 miles? Well, outlet centers have 120 stores, and they are meeting spaces where people can come together and engage with the brands. We have to extend the life of that experience and work at ensuring that our retailers deliver on the promise.

DRISCOLL: Yes, shopping is ultimately social. We want to see and touch what the world has to offer. The omnishopper is spending 1.3 to 1.4 times as much as a single-channel shopper. Omni is making it a more joyful experience.

HALLER: Agreed, it is a lot more than strategy tools and tech. It is about processes, people, organizational structures and metrics. Take for example the Bonobos guide shop – how do we measure the sales by square foot [when the purchase begins online]? The metrics have to evolve.

LOBAUGH: Online sales of apparel, in particular, are growing fast – omni is driving this. A Forrester Research study from January 2014 showed that shoppers expect omni. Seventy-one percent expect to view all store inventory online, and 50 percent expect to be able to buy online and pickup in-store.

FLUHARTY: What are the implications: Do we see this as diminishing percentage-rent structure...or treat it as add-on sales? Where do sales get credited?

HALLER: There is a significant battle brewing between developers and states and localities over the sales tax. When you have BAGA – Buy Anywhere Get Anywhere – there can be 20 different scenarios. But does it matter what tech rails you rode? The store's wifi, the outlet center's wifi, your own phone's 3G? We are looking at five years of sausage-making; new tax systems may be five to 10 years out.

DRISCOLL: Shoppers don't care how you figure out the back end. Outlet centers could in this sense evolve to be more like malls, charging less percentage rent and more CAM rent. But the upside is there; [Macy's chairman] Terry Lundgren says shoppers who buy online and pickup in-store are good: You get 100 percent of the purchase price – with no shipping cost – and then they spend another 25 percent in-store.

Omnichannel panelists, from left, Karl Haller, Marie Driscoll, David Lobaugh and Colleen Conklin, with moderator Karen Fluharty.

LOBAUGH: It is certainly going to affect the way leases are written. We could see something like an affiliate sales commission, a transferable model. Credit is not so hard to trace to a store; we think that's going to translate to better income for center operators. It will seem ancient to have charged 10 percent of gross sales and have 30-day rents.

FLUHARTY: So many of the new influences are transactional. With Macy's Shazam app, mobile phone viewers of Macy's fashion show clicked on a second screen to buy what they saw on the first. Burberry has just launched its Buy Button on Twitter, with a similar potential.

DRISCOLL: At this season's New York Fashion Week, Versace's audience could choose an item by mobile while watching the runway show, then walk to the Fifth Avenue store and buy it with no wait.

LOBAUGH: Prediction: Whoever can do what Pinterest does and do it in a commerce sense, curate for sale, will win.

HALLER: Another example is the Saks style link [available as a mobile app]. We're getting closer to "everything will be able to be transacted upon." If you like what the characters are wearing on a show, just scan and buy.

DRISCOLL: These apps are meeting the needs of the brands. The only way to maintain some level of profitability is to have less markdown. Demand will directly connect to fulfillment.

CONKLIN: Developers don't sell anything. Our challenge is how to embrace that and pull together with the brands. Geofence, help consumers target shops before they arrive; track their browsing at one part of a center, and then garner offers through relevant retailers. From the retailer's standpoint, the challenge is how to leverage your developer.

FLUHARTY: Yes, and one way developers can help is to repurpose information from retailers via their own Facebook, Twitter, etc.

FLUHARTY: Made-for-outlet goods. As brands produce more, how do outlet divisions leverage their share of voice?

DRISCOLL: The supply chain is getting faster; outlets must produce fashion product more quickly. There is no time to develop a broad and shallow full price line and then slice out the color and size for outlet. Now this brings more fashion risk: you have to develop the lines simultaneously. Still, look at Nordstrom: positive 5.2 percent comps at Rack, and negative 1.7 percent at the mainline stores.

CONKLIN: There once was a stigma about made-for-outlet goods. Now there is clearly a demand by consumers for that product. We have outlet exclusives now.

FLUHARTY: For the brand, the marketing messages for the different lines have to be simultaneous, too. The message used to be, there are sweaters "like that" in our outlets – now we say, we have that sweater.

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Outlet sector innovative and open to new ideas

The ability to adapt, transform and evolve is more important than ever in today's rapidly changing retail world.

BRICK AND MORTAR retailing is thriving, and outlets are playing a huge role in that surge, according to ICSC president and CEO Michael P. Kercheval. The association's top executive opened the 2014 VRN Fall Outlet Convention with a state-of-the-industry address that amply illustrates the outlet sector's dramatic growth in North America:

- ✔ 13 million sf added at 32 new outlet centers in the last three years
- ✔ high occupancy rates (97 percent)
- ✔ booming sales activity ($532 per sf)
- ✔ and increasing consumer visits (more than 16 million weekly)

ICSC president and CEO Michael P. Kercheval

"Because of the outlet industry's unique marketing and sensitivity challenges," Kercheval told the audience, "you have always been innovative; you have always been open to new ideas, and you were among the earliest adopters of technology."

Describing the industry's successful adaptations, he lauded retailers such as Coach, Kate Spade, Michael Kors and Brooks Brothers for their attractive but still cost-effective store designs and for their carefully incubated product offerings.

Kercheval spooled out figures that clearly demonstrate the outlet sector's strength, pointing out that even as the mall sector rebounds, outlet development has outpaced that growth.

"Sales today at U.S. malls are almost $480 per sf, which is the highest we have seen since we began reporting on this in 1996," Kercheval noted. "But look at the outlet sector: The 205 outlet centers in North America are posting $532 per sf. In fact, since 2009, total outlet industry sales have more than doubled, to $42 billion in 2013 from $19.9 billion in 2009."

He pointed out a similar pattern in occupancy and rent. "Occupancy rates have been steadily rising in the traditional shopping center sectors [all sectors, not just regional mall], and we're now back to pre-recession levels of 92 percent, with rents up to $17.61 per sf," he said. "But in the outlet sector, occupancy rates have never in 25 years fallen below 95 percent and today occupancy hovers between 97 and 98 percent, which accounts for the robust average rents of $33.72 per square foot."

Two regional malls will open in 2014, Kercheval said. "Once again, the outlet industry has a completely different story," he said. "Eleven outlet centers will have opened by the end of this year – that's eight in the U.S. and three in Canada."

Kercheval exhorted the outlet industry to embrace omnichannel practices. Instead of fearing showrooming, he said, help shoppers with webrooming, the art of browsing online and buying in-store.

He shared some pertinent data on this melding of bricks and clicks: 48 percent of consumers have ordered online and picked up the item in a store; 37 percent use the Internet for research and then buy in-store, (webrooming); and 35 percent have ordered online, but returned the item to a store – and 95 percent of those who return an online purchase to a store make a purchase on that visit.

"Consumers also hang out at physical stores longer than on websites, spending an average of 54 minutes in a physical store versus 38 minutes on a single retail website," Kercheval said. "They make a purchase on average 7.5 times per month at shopping centers versus just 2.2 times per month online, and they spend significantly more money per month at physical stores, $1,710 compared to $247 online."

He pointed to successful click-to-brick merchants, those who launched their businesses as dotcom-only retailers, but who have since opened physical stores, from pop-ups to flagships, as they discover how stores drive sales, marketing and brand enhancement. He cited Athleta, Bonobos, Frank & Oak and Warby Parker as among these etailers-turned-omnichannel merchants.

Kercheval summed up, "What's clear is that our industry is quickly evolving, making the in-store experience seamless, integrated and more efficient. I am heartened by the improvements we have already seen and I am excited about ones that we haven't even begun to imagine yet…but I'm sure they will be here faster than we would have ever thought."

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HALLER: The evolution is happening quickly. Multibrand retailers are going all in for MFO. The monobrands are mixed. It comes down to the brand. Brand managers have to think about the economic values of the business and the risk to sales by channel and the risk to the brand.

FLUHARTY: What are outlet center developers doing to embrace the technology that makes omnichannel possible?

CONKLIN: We have to do more to understand what retailers are doing. Be more like ShopKick, a branded umbrella mobile app that provides special offers to customers when they are on the property, and tie that in to delivery.

HALLER: Developers must provide infrastructure: wifi, beacons, etc. and leverage the qualitative information they gather on the customers: Do they want valet parking? Bus service? Share your customer insights – what's happing in the outlet center?

FLUHARTY: This brings up ownership of data. How do we deal with this in the wifi generation?

HALLER: I recently walked the Easton-Columbus, Ohio mall. They have mall-wide wifi – but your phone asks you to constantly choose store vs. mall wifi. This creates a fragmented experience. My digital trail doesn't exist in one space. The opportunity is there for the developer who can package and sell the info back to the tenants.

DRISCOLL: Macy's has a Santa app – make an appointment and save 30 to 60 minutes to shop, and the same with dining there – why stand in a line? It is the simple things; when you are great on the details you can make an experience pleasant.

FLUHARTY: To sum up, I think we can agree that retail is an evolving animal, and outlet center people need to ponder: How do we monetize that change?

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