The Evolution of The Store and its Impact on Real Estate Strategies

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Mitchell J. Weimer, Senior Manager
Deloitte Consulting, LLP
"I wish my life had 12 items or less."
The Retail Industry is Feeling the Pressure from Every Direction

- Consumer Behaviors & Expectations
- Stagnant Macroeconomic Environment
- Heightened Competition
- Consumer Technology, Price Transparency
Online Sales Growth Continues to Outpace Traditional Growth

YoY Quarterly Growth, Ecommerce vs. Traditional Retail

Source: U.S. Census (Quarterly Ecommerce reports, Monthly Retail Trade reports)
During Cyber Week, 2011:

I shopped online instead of in stores because there were better deals online 72%

I shopped in stores less because I shopped online instead 59%

From Bizrate Insights/Forrester Holiday Shopping Flash Surveys, Q4 2011 (Forrester Research, Inc.)
Ecommerce Sales are Reshaping Brick-and-Mortar Economics

By 2015, it is estimated that $175 billion will shift out of stores to online

Source: Multichannel Forecast for the US and the UK. Gartner Oct. 2011 (US sales numbers only), Deloitte Analysis
Translating Sales Into Square Footage

- Consider revenue numbers and growth rates for traditional and ecommerce
- Determine physical footprint and SPSF metrics
- Forecast growth of all channels based on projected trends and current performance
- Estimate the sales ‘shift’ from the store to online, and translate into square footage
Some Retailers Have Already Begun Reacting to the Shift

% Change in Average Physical Store Square Footage 2002 - 2011

Source: Company 10k reports
Lower In-Store Sales May Warrant Square Footage Reduction

Assuming retailers are currently at their desired target of sales per square footage, and conservative online sales shifting, by 2015 retailers could be over capacity by:

- Department Stores: 4-9%
- Specialty Retail: 3-16%

The more aggressive a retailer’s online push, the greater likelihood of excess capacity in the short term.

Source: Company 10k reports, InternetRetailer.com, Deloitte analysis
If Retailers are Already Behind...

Retailers face further reductions by 2015 if, to date, they have failed to factor their current online presence against their physical footprint.

- **Department Stores**: 4-25%
- **Specialty Retail**: 7-38%

Variation will depend upon the retailer’s current online presence, products sold, and overall growth rates.

Source: Company 10k reports, InternetRetailer.com, Deloitte analysis
Smaller Stores, Fewer Stores, or Both?

The considerations are complex

- The Competition
- The Customer
- Advertising
- Logistics
- Economics

Each retailer must weigh its own situation and objectives
Implications for Retailers

**Shorter Term: Reimagine and Repurpose**
- Showrooming & showcasing
- Extended services & customization
  - Stores-within-a-store

**Longer Term: Reduce and Reinvent**
- Understand implications of ecommerce sales on square footage
  - Consider smaller stores, fewer stores
  - Focus on the customer experience
Showrooming & Showcasing
Extended Services & Customization
Store within a Store
Summary

As retail sales continue to shift out of stores, retailers will increasingly need to reevaluate their real estate strategy:

- Identify and qualify evolved customer expectations and competitive pressures
- Measure current and projected shifts of sales volume from traditional to online, and assess impact on traditional performance metrics
- Assess real estate position – the number of stores and their size
- Manage existing stores
- Project future stores
Thank you

Mitchell J. Weimer

Deloitte Consulting LLP
1750 Tysons Blvd.
McLean, VA 22103
Tel: +1 202 215 1576
miweimer@deloitte.com