3 lessons from retailers that have reimagined physical retail

Article

"Increasingly, retailers are going to be pushing toward store formats that are either more convenient or experiential, as a chance for consumers to enjoy time with friends," our analyst Carina Perkins said on the "Behind the Numbers: Reimagining Retail" podcast.

This year, physical stores will account for 83.7% of all US retail sales, according to our February 2024 forecast. Yet, the way shoppers are interacting with stores has shifted.

"There's a whole slew of different ways consumers are engaging [with stores], so retailers need to adjust and shift the way the store is laid out, what it looks like, and how to better meet their audience's needs," our analyst Zak Stambor said.

From the growing popularity of less traditional store sizes to the rise of experiential opportunities, here are three lessons we've learned from US and UK retailers that have innovated their brick-and-mortars.

1. The size of the store dictates the experience

Some retailers are choosing smaller stores on busier streets to be closer to more consumers, especially younger generations, Perkins said. Other retailers are investing in larger real estate to offer more products and amenities such as cafes and restaurants. The key to selecting the right square footage is determining what store qualities attract your audience, whether it's a convenient location or a wide product selection.

Macy's Inc. has been experimenting with small-format stores, first with Market by Macy's launched in 2020 and with Bloomie's in 2021. "Bloomie's is a really curated experience. It's still fairly large, but it is easier to navigate," Stambor said. In its Q1 2024 earnings report, Macy's reported comparable owned-plus-licensed sales from Bloomie's and Bloomingdale's Outlet have outperformed Bloomingdale's fleet.

2. Interactive opportunities make an in-store visit special

One way for retailers to attract footfall is to be experiential, Perkins said. Half of US retailers believe location-aware interactive marketing and promotions will engage their shoppers the most, per an April 2024 report by Retail Systems Research.

Boots is doing this by leaning heavily in the resiliency of the beauty category, having opened 170 premium beauty halls across the UK and Ireland. In addition to being home to a wider range of brands, the beauty halls host discovery areas and consultation spaces, offering treatments, advice, and demos. Last December, Boots opened a dedicated beauty store in London, helping it expand services to include dermatologist-led skin and scalp analyses, a Hair Bar, and more.

The investments helped Boots pre-tax profits spike 42.3% "It's a really good example of a retailer honing in on one category," Perkins said.

3. Technology can add—but not replace—elements of brick-and-mortars

More than three-quarters (76.0%) of US retailers have implemented self-checkout technology, according to the same Retail Systems Research report. However, 27% of US adults have not used cashierless checkout and are not interested in it, according to our February 2024 Ecommerce Survey conducted by Bizrate Insights.

"[The technology] can be clunky and there's a big learning curve that a lot of people just aren't up for. They want to have the experience of somebody checking them out, bagging their items, or maybe engaging in a brief conversation," Stambor said. "It depends on the particular retailer and what they're trying to achieve."

Last November, Tesco began testing scan-free technology at select GetGo stores, where products were automatically totalled, so shoppers only had to check the itemized list and pay. At the same time, other checkout options were made available—including traditional self-service systems, attended tills, and cashierless payment through the mobile app—to help ensure shoppers did not get overwhelmed or frustrated without their preferred method.

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