

The end of retail, the future of retail

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Abstract

For many years airports have enjoyed stable growth in retail revenues. But profound changes in demographics, a poorer middle class, as well as the rise of online retail will challenge this. It might be the end of 'easy' retail as we know it. What will a new world of retail look like?

Keywords

airport city, airport strategy, demographic changes, online-retail, retail

Airport retail seems like a sure bet, a never-ending story of growth and easy money. Is this true for the future? What if the retail landscape changes profoundly? How can airports respond to a new reality of retail?

CHANGING TIMES

Today it is time to realise that there are very important drivers of change. We are truly living in changing times. First of all, it looks like the golden 30 years of growth are over. It is true that some Western economies are rebounding, but most of them are doing so via cheap money driven real-estate bubbles or credit-driven consumption. More serious voices see a prolonged phase of low growth or stagnation for Europe and North America and slower growth rates for the emerging markets. This will automatically have an impact on retail. Many of us don't see it that way, but could it be that most of us have never really experienced a downturn or stagnation because we started our careers in the 1980s and 1990s when the Berlin Wall came down, the EU enlarged,

easy money was available and globalisation created dividends?

An equally worrying fact is demographics. We are getting older and do not have enough kids. Aging societies may not shop and buy experiences in the same way that a younger society does. Many European countries are already shrinking in population terms. The forecast for the EU-27 countries is a growth in population of under 1 per cent, more likely to be around 0.1 per cent in the coming years.¹ Some Asian countries will see massive aging starting basically today. Around the year 2030, Japan will have a dependency rate of 60 per cent; that means less than 1.5 working-age people per one non-working person.² This will shift the type of retail activities profoundly. So there will simply be fewer people to shop in the markets that matter.

Another major force is of course the internet. Online retail has barely begun to take off but already accounts for a substantial number of purchases. In Europe in 2013 growth in online sales was 18.1 per cent and online retail captured 7.2 per cent of the overall market, while in

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the US online retail already accounts for 11.6 per cent of overall retail and its turnover was an impressive US\$306 billion in 2013.³ Meanwhile in China, online retail grew a whopping 66 per cent in 2012 and accounts for 6.2 per cent of overall retail.⁴ Keep in mind that this is just the beginning; the share of online retail will grow massively in the coming years. People will still buy stuff — but soon mostly via their mobile phone or from their home sofa.

So, to summarise the overall situation for retail, especially in the West is that there is now too much physical retail space for a shrinking population that is buying more and more online.

Certain implications are already visible today: the US is over-malled and many malls have had to be converted into office complexes, schools, labs or even the headquarters of online retailers! In Europe, we have many city centres being emptied out or lacking interesting retail space because there are not enough customers. Airports so far have been on the winning side of this development, but will they be forever?

KEY MOMENT: CONSUMER AND PRODUCER INTERACTION

The time when producers and consumers would not interact but only 'meet' at the point of sale are over. Today, the producer can, thanks to big data, etc., creep deep into the life of consumers. But the other way is also true: thanks to the internet, social media, blogging, etc., the consumer has much more say about the product, the production process, and even co-designs and co-positions the brand of a producer. In this new zone of mutual interaction interesting new formats will develop over time. This is a key opportunity for airports to be a leader in the development of such new types of consumer-producer interaction. Some say this is not retail anymore;

others say it is still retail but in another shape and state of matter. So airports probably need to shift from being sole providers of point-of-sale space to a more hybrid model where certain commercial spaces are more like branding/marketing tools or even prototyping showrooms, where customers can discuss personalised products with brands, to be manufactured and later delivered to their homes.

What are the answers of the retail industry and consumer brands to these game-changing developments? Of course traditional retail spaces will never die but they will be complemented by new, hybrid forms of consumer-producer interaction which of course still serve the purpose of somehow selling the product (or service) to the customer, but in a more intelligent, subtle and flexible way.

'SHOWROOMISATION'

A key development many see is the 'showroomisation' of retail. If retail is being done online, then the physical space needs to serve more as a brand and product showcase than an actual point of sale. There are already showrooms of brands where customers 'experience' the brand, can test products, interact with the brand, and so on. Good examples are AudiCity in Beijing, Berlin or London as well as various brand restaurants such as 'Alfie's' by Alfred Dunhill. There the actual selling process is hybridised: the customer is in the brand, enjoying it, and then either buying there or buying online. Interestingly enough, this also works the other way round. Online retail brands now develop physical/'offline' spaces in order to become experiences and to make a statement. Here again are huge opportunities for airports. A good example is the US East Coast eyeglasses online brand Warby Parker, who inaugurated a physical

showroom in Boston recently in order to make itself more desirable, touchable and relevant. It is reasonable to suggest that eBay and Amazon will soon add physical spaces to reinforce their brand image. Again, this is an interesting opportunity for airports.

ARTIFICIAL SCARCITY

A totally different approach in this new world of retail is 'artificial scarcity'. For example, we know from nightlife that people are more excited when other people are there as well. Limited access or difficult access (bouncers, etc.) is seen as a positive. Why not then use this phenomenon? In fact, pop-up spaces and stores already operate in this way. By limiting the time of a space it adds excitement. More scarcity levels are imaginable: what if a retail/showroom space is a secret location and only people with brand affinity (identified via social media and/or Big Data) know about it? It is already a reality: Levi has a secret location in Los Angeles. Or a space could be by invitation only. It is visible but only certain people can enter (laws/regulations permitting). Italian shoe and fashion brand Tod's has several 'by-appointment-only' locations worldwide. What if there are retail and/or brand showrooms accessible only to a preselected group *at airports*?

AIRPORTS AS FRONT RUNNERS?

All these examples show that airports could play a major role in this new reality of retail. This is because airports have one big advantage: there is a mutually agreed dwelling time. Airports are one of the few physical spaces where people need to physically be at a certain time. This makes airports very interesting for showrooms, artificial scarcity and consumer-producer

interaction. Airports could actually profit from the online retail revolution, but only if they are innovative, front-running and open to new ideas. So far airports have been mostly followers. Many brands have innovated new concepts in high streets or in special areas of cities (ie a 'cool' location in a gentrified area, etc.), but hardly ever in airports. Therefore, airports need to be more active, adventurous and strategic if they want a bigger slice of this new retail reality. They need to see themselves less as landlords and more as curators and experience makers. This might also require a new type of retail/commercial management team at airports. Airports could in theory grow into thought-leaders in retail 2.0 and, regulations permitting, start operating curated spaces at non-airport sites. This could be in the surrounding areas of airports (Airport Cities) but also in the downtowns and Central Business Districts (CBDs) of cities. Many airport operators are successful in exporting their airport management expertise to other countries. Why not export neo-retail expertise to *locations* other than airports?

PROMISING AREAS OF INNOVATION AT AIRPORTS

Among the many areas of innovative retail-oriented concepts, three stand out.

Chinese brands

There is a growing trend for Chinese brands to have at least one or several physical spaces in Europe (less in the US) in order to boost recognition and prestige back home. These brand retail/brand experience spaces need to be visible for Chinese visitors, so why can't they be in, say, Tier 1 airports in Europe? Some brands, of course, need flashy addresses

on iconic streets but not all of them. Airports could create a kind of 'package' for these Chinese brands to make it easy for them to operate their brand-image spaces overseas.

Brand showrooms

Brands can use airports as perfect locations for presenting their brand in a new way. Enabled and empowered by social media and consumer data, brands can redirect their potential customers to attractive showrooms and combine brand exposure with online functions (actual buying/transaction moments, etc.). For this, both brands and airports need a longer, more strategic view of retail. Airports need to offer attractive and dynamic pricing models as well as physically flexible spaces, while brands need to understand that brand experience spaces, etc., are actually part of the sales process and not just marketing expenses.

Curated space

Airports could also help brands to test new sub-brands and products, or even help new up-and-coming brands to present themselves. Following the initial idea of the Colette store in Paris to present a large variety of brands in a curated way, curated spaces at airports could be a very lucrative and highly visible platform. Role models include LAB Concepts in downtown Hong Kong or BOX PARK in London — a pop-up mall enabling new and established brands to present themselves in a completely new way.

The latter two approaches could be particularly interesting for US airports as they are traditionally weak in high-concept

retail. Recent developments, however, at airports such as NY La Guardia's Delta Terminal and JFK's Terminal 6 (Jet Blue) where new forms of food and beverage have been made available, local offerings in a cool, design-led environment could lead the way to brand experiences for a new generation of US travelling public. The same is true for Asia where a more self-conscious and informed middle class wants to know more about the brands and companies they might spend money with.

CONCLUSION

Airports will soon feel the challenges affecting the retail sector: low-growing or even shrinking populations in many countries, a middle class under pressure in the highly industrialised countries of Europe and North America, as well as the rise of online retail. But 'showroomisation' and other new forms of retail, ranging from by-invitation-only to platforms for Chinese brands in the 'old West', are actually ideal areas for innovative airports to capitalise on. What is needed is a more strategic view and less landlord behaviour, as well as new types of retail/commercial teams. With all this, airports could become big winners in the End of Retail.

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