Navigating the New Retail Landscape
The Forces of Change

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Retail research in Oxford

“Relating critical analysis and sound scholarship to the practical needs of retailers and consumer service companies” — a bridging role for 30 years

- Retail planning & development
- Innovation & technology in retailing
- Retail marketing and strategy
- Sustainable consumption
- Analysis of international retail performance
- Supply chain management
Headlines in the New Retail Landscape

Some defining themes from the World Retail Congress 2015

- “Unprecedented change”
- “Economic fluctuations”
- “The omniconsumer is always right”
- “E-commerce as destruction of value”
- “Brave new creatives”
- “Sustainability obligations”
- “Building sustainable margins”
- “Transformational retail leadership”
Agenda

- What's at risk?
- Sources of sectoral disruption
- Some implications for retailers and retail places
  - Physical responses to disruption
  - Are there e-resilient retail places?
  - An Oxford case study
- Stores of the future?
European retailing: What's at risk?

- The retail sector is a huge part of the European economy

  - 3.7 mio businesses
  - 15% of all private sector non-financial enterprises
  - 152.3mn sq m shopping centre space
  - €3.6 trillion turnover
  - €500bn of gross value added
  - 18.6mio people employed
  - €69.5bn in direct taxes

Sources: Oxford study for Eurocommerce, Eurostat, 2014, CBRE
Growth is hard to come by...

GDP growth 2015-16
... there are significant geopolitical challenges ...

Out to 2040, there are few convincing reasons to suggest that the world will become more peaceful.

A time of transition. The world is likely to face the reality of:
- a changing climate
- rapid population growth
- resource scarcity
- resurgence in ideology
- shifts in global power from West to East
... Consumers' confidence is still uncertain ...
... and competitors are everywhere ...

XIAOMI: Tech company, social media enterprise, retailer? Or all 3?

- Founded April 2010
- Phone sales likely to exceed 100m units in 2015
- Business valued at US$46bn
- Co-created MIUI operating system
- Mi.com 3rd biggest e-commerce website in China
- 6th April 2015: Fifth anniversary MiFan Festival – online shopping day when 2.1m devices were sold in 24 hours

- Vendors
- Logistics businesses
- Media / social media enterprises
- Payment providers
- Tech companies
- Customers
1. Commerce everywhere

Global internet sales 2015 = €654bn

Growth in Online Retail Sales 1999-2018

Source: Euromonitor
Where? Real & virtual

[Images of various scenes and technologies related to real and virtual environments, including 3D printing, Amazon Books, Magic Leap, and a gymnasium.]
2. Pervasive customer intelligence

- Disruptive innovation: e.g. pricing
- Destructive of intermediary value?
- Digital divide amongst consumers
- Limits to retail intelligence?
- Customer tracking & profiling

"The 20th Century was about dozens of markets of millions of consumers. The 21st Century is about millions of markets of dozens of consumers."

(Joe Kraus, Google Ventures)
3. Supply chain and logistics resilience

push to efficiency leads to brittle supply chains

There were 14 billion parcels delivered in 2014, up 52% from the same period a year earlier, the State Post Bureau of China reported recently, making it the world’s biggest express delivery market by volume.
4. DIY production

- additive vs subtractive manufacturing
- decentralisation of production
- decentralisation of material knowledge
- digitalisation 2.0: sectors at risk?
- material vs design knowledge
- resurgence of craft production
So for many store-based retailers this means ...

- smarter consumers with more information & choice
- lower sales & profit per sq ft
- surplus driven into price competition
- margins driven down
... and

- increased costs
- chain expansion remains at an all time low
- many seek to trade more intensively/profitably from existing space
- "We have learnt that second guessing what retailers will want in the future is a fool’s game as not even they fully understand where technology is taking them." (Lunson Mitchenall)

Estimates for US retail company, assuming a 5% decline in sales per square foot over 5 years, % of sales

<table>
<thead>
<tr>
<th></th>
<th>Earnings before interest and taxes</th>
<th>Return on invested capital</th>
</tr>
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<tbody>
<tr>
<td>Starting point</td>
<td>8</td>
<td>24</td>
</tr>
<tr>
<td>In 5 years, given projected online and space trends</td>
<td>-28%</td>
<td>-32%</td>
</tr>
<tr>
<td>In 5 years, if operations are optimized</td>
<td>+18%</td>
<td>+18%</td>
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</tbody>
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Source: Forrester Research; Internet Retailer; Kantar Retail; retail benchmarks; store plans; 10-K filings; McKinsey analysis
40% UK malls planning refurbishment over the next 3 years (College of Estate Management)

- Small pipeline (179k m2 in 2017)
- Scarcity of prime assets
- Polarisation of risk

... and for shopping centres?
Implications: are there e-resilient retail places?

(c) Singleton, Delige et al. 2016

(c) Singleton, Delige et al. 2015

Consumer Data Research Centre
(c) Singleton, Dolega et al, 2016
Oxford in retail context

Available demand
- 1.3mn residents, comparison goods spend of €750mn
- 9mn visitors a year

Competitive context
- Comparison goods centres:
  - Milton Keynes, Reading
- Specialty centres
  - Bicester Village, Bath, Stratford-on-Avon
- Online competition (11.9% penetration)

Source: CACI, retail footprint
An "historic" managed shopping centre: the Westgate Centre

- 1972 €2.5mn Westgate Centre opens, anchored by Selfridges & Sainsbury’s
- 30 shop units
- 21,500m²
- Library
- 1,200 parking spaces
45 years later .... a new development

- €690mn 75,000 m2
- Retail-led mixed use development
- 12,000m2 John Lewis department store
- 70 shops
- 5-screen cinema
- 59 new homes
- Retention of Library
- 4 architects
- Opening 11/2017

Source: Westgate Oxford Alliance
In the meantime ....

- Oracle Centre, Reading
  - Opened 1999
  - 76,500 m2
  - 3 floors, 2 department stores
  - 90 shops
  - 'retail for leisure' concept
  - ICSC Best International Centre, 2001

- thecentre MK/intu Milton Keynes
  - opened between 1979-2000
  - 166,000m2
  - 4 department stores
  - 270 stores
  - accessible/extensive parking
... and Bicester Village

- factory outlet mall opened in 1992
- Bicester population 30,000
- BV receives 6mn visitors annually
- 130 stores (Burberry, Hugo Boss, Dior)
- €37,000 per sq m (£2,500 per sq ft)
- "we are not in the outlet business, we are in consumer travel"
- "the shopping experience is still shockingly primitive" (Scott Malkin, Value Retail)
Retail impact /1

Bicester Village shoppers cause chaos again
Retail impact issues / 2

Westgate positioning & leasing strategy
- Headroom
- Positioning & leasing

“Westgate effect”
- Centre of gravity effects
- Creation of voids in previously prime pitches
- “An opportunity for small retail businesses to ‘fill the gaps’?”
- Attitudes and flexibility of landlords

Oxford and the wider region
- Oxford ‘catching up’ with regional retail provision?
- Is any diversion of trade from elsewhere likely?
- Infrastructure and structural issues
- Online impact
The store of the future: convenient, personal, experiential?
More convenient
More personal & informational

PERSONAL STYLING AT
THE FASHION LOUNGE
NOW OPEN IN THE VILLAGE
SULTATION ON 020 3371 2300
ESTFIELD.COM/LONDON

Westfield

Mr B's
emporium of roiling drinks

iBeacon
More experiential

How to Eataly

“We cook what we sell and we sell what we cook.”
Implementing change: "winning the red queen's race"

"It takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"
-- Red Queen