



Retail Reconsidered

Reinventing the rules

**KL Stores: A case study series
exploring innovation in retail**

Retail reconsidered

Part 3: Reinventing the rules

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“Uber, the world’s largest taxi company, owns no vehicles. Facebook, the world’s most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory. And Airbnb, the world’s largest accommodation provider, owns no real estate. Something interesting is happening.”

This quote from Tom Goodwin, an executive at the French Media Group Havas, highlights the fact that the once typical retail model of bricks and mortar stores is no longer the only option to businesses. Indeed, some of the world’s largest and most powerful companies in fact own no physical assets and carry none of the costs of their business model. Instead they control the interface between the customer and the provider of the goods or services, and in return take a cut of the returns. This is just one example of a number of innovative business structures being employed by businesses to appeal to customers and set them apart from their competitors.

Such changes are typically being driven by a changing customer base and technological advances: it is estimated that in 2020, 3.5 billion people will own a smartphone worldwide , and 62% of smartphone owners use their device to shop . While this shows a need for businesses to have an online presence, it does not mean that bricks and mortar stores are completely redundant: 51% of customers consider the biggest drawback of online shopping is not being able to touch, feel and try on a product , and 43.8% of Gen Z shoppers (those aged 17-24) chose shopping on the high street as their favourite method of shopping (which was only slightly lower than Gen X shoppers (those aged 39 - 58), and significantly higher than Millennials/Gen Y (those aged 25-38)) . As such, retail companies are being forced to consider innovative business and store structures to drive sales, balance the books and stay current with their target audience.

In this article, we return to our KL stores case study and a meeting between Andrew (the CEO) and Emma (KL Stores’ Chief Financial Officer) to discuss the non-conventional use of bricks and mortar spaces, from online stores to the use of pop up spaces. The retail world is changing at a fast pace and there are now many alternatives to the “big spends” that were once essential in the traditional retail world.

And back to the meeting room...

Andrew – as a retail company we need bricks and mortar stores, don’t we?!

Emma – Not necessarily. While this has typically been a staple for retail businesses, times are changing and many businesses are experiencing significant success online and despite not owning any physical assets. Here are a couple of things we could consider:

- 1. Customer interface companies (“CIC”):** many CICs have experienced significant success as a result of connecting customers with service/goods providers. Consumers are increasingly looking for quick, easy and convenient options for goods and services such as transport, shopping, takeaways and holidays, so by connecting customers with these services, the CIC can take a cut of the profits without having to invest heavily in the assets required to provide the goods/services.

CIC which are gathering attention recently are companies which offer clothing as a service (CaaS) i.e. companies which connect people who are willing to resell or rent their clothing to others, and take a percentage of the fee. This is becoming increasingly

popular for customers who are looking for sustainable ways to expand their wardrobes and have instant access to luxury goods without a hefty bill.

- **Uber**, possibly one of the most famous CIC, has built a business valued at \$82.4bn in May 2019, by using its mobile application to connect customers with private taxi drivers in their locality and at their convenience. Uber owns no taxis itself but sets the fares based on the journey distance, time of day and transport type, and takes a percentage of the journey cost. By making the process of ordering a taxi, easy, electronic and cashless (as all payments are made securely by credit or debit card) Uber is able to capitalise with very little personal investment or risk. However, Uber's app is known for being very stable and reliable, which drives brand loyalty and repeat business.
2. **Online companies:** various companies now operate solely online. If they do not have bricks and mortar stores, their overheads (such as rent, utilities, business rates, staff wages) are greatly reduced. This allows such companies to offer goods at competitive prices and maximise their profits. However, online only businesses should ensure that they have appropriate systems in place to maintain a high customer experience in the absence of face-to-face contact.
- **ASOS.com**, the online fashion retailer, benefits from this business model. Without the need for bricks and mortar stores in all major towns and cities across the country, it is able to significantly reduce its overheads. Instead, ASOS has invested in ensuring its delivery (for orders over a certain value) and returns processes are free, easy and convenient, which ensures a high quality customer experience and negates the lack of face-to-face customer interaction.
3. **Concept stores:** in an attempt to fight back against the popularity of online shopping, a number of businesses are using concept stores as a way of cultivating a customer experience that cannot be replicated online. A concept store is a shop that sells carefully curated products and lines which are displayed in a way that appeals to a specific target audience and creates a unique shopping experience. Many concept stores also offer experimental elements such as a café, exercise classes or exhibition spaces, appealing to shoppers seeking a particular lifestyle. For these reasons, concept stores are therefore used by luxury and lifestyle brands. While a concept store is likely to be more financially costly than a typical bricks and mortar store, they are typically one-offs and are considered to increase brand loyalty and typically result in improved long term financial performance.
- **Story**, located in New York, "takes the point of view of a magazine, changes like a gallery, and sells things like a store". It bases its store appearance around specific themes, trends and issues, and reinvents its look and merchandise every few weeks. Story has collaborated with big brands including General Electric, Pepsi and Walmart, and holds events throughout the month which encourage return visits and a sense of community from its customers.
4. **Temporary stores:** often described as temporary retail, flash retailing or pop-up shops, these terms all mean the same thing and describe temporary retail spaces that sell merchandise of any kind. They can last anywhere from a few days to a few months and are typically based in high foot-fall areas such as city centres or shopping malls. Their purpose is usually to launch a new product or brand, generate awareness, move inventory (such as for an end of season sale) and introduce collaborations. Because of the temporary nature of these stores, businesses can trial a product or brand before investing in costly permanent premises. Further, sales tend to be higher for pop-up stores compared to permanent stores, as they generate excitement and customers are

more likely to make spur of the moment purchases.

- **Glossier**, the online beauty company, opened a series of pop-up stores in major cities around the world with the intention of showcasing its products in person and engaging with its customers. It's London pop-up store in particular caused mass hysteria when it opened in November 2019. So much so, that the London store was originally set to close on 9 February 2020 but has been extended for the rest of 2020 after it experienced record-breaking footfall of over 100,000 customers in the first two months. This was a great way for Glossier to trial a permanent store in London but it will be interesting to see if the levels of customer excitement can be sustained now that the pop-up store is sticking around for a while.

Andrew – That's really interesting. But what are the pros and cons of making use of innovative store/business structures?

Emma – Some benefits of using innovative store structures are:

- By not having traditional bricks and mortar stores or having a lesser number, we would likely be able to make cost savings, which may result in increased profits.
- Whichever innovative store structure is chosen, we would need to ensure we have the right infrastructure in place to provide a good, seamless service, for example:
 - With a website or app, we need to ensure it is stable and secure;
 - For an online business our delivery and returns process needs to be easy, convenient and cost effective, and customers need to be able to contact us easily, if they so wish.
 - If we create a concept store, it needs to appeal to our target audience and be engaging; and
 - If we use temporary stores we need to consider the duration, location and ensure it is properly advertised.
- Using an innovative store structure is likely to result in increased media attention, which could in turn result in increased brand awareness and customer loyalty.

However, we should also bear in mind the following:

- Consider our target audience and whether the innovative store structure will appeal to them. For example, millennials are likely to favour online options opposed to physical stores, whereas Gen Z and Gen X customers favour the opposite.
- If we use a third party to deliver the goods/services to our customers, we will have less control over the process, which may result in potential quality issues and damage to our brand. To overcome this issue, we would need to choose any third-party partners very careful and continue to monitor their performance.
- How we structure the business going forward will impact our current staff, and may change the way we want to engage with people in the future. This all has employment law and employee relations consequences, which will need to be factored into our overall strategy.

Andrew – so what do we need to consider if we were to implement an innovative store structure ourselves?

Emma – When it comes to implementing innovative store structures, there is not a “one size fits all” model. We need to think really carefully about our target audience, business model and the potential legal implications of any decision. We also do not necessarily need to choose just one option – combinations may be appropriate to ensure that we can continue to engage with and service all of our customers, whilst remaining current and successful.

Legal Implications of innovative store structures

Fundamentally, all promotions (including competitions or prize draws) should be run fairly and not be misleading in any way. Below are some of the points that brands should consider before running a promotion:

- 1.** Ensure contracts are fit for purpose:
 - A.** If implementing a CIC structure, ensure contracts record the key terms including, how revenue is split, the provision of services and who carries the liability for failures.
 - B.** With third party providers (such as delivery companies) ensure the terms focus on providing a high quality service and provision for terminating the agreement where such quality measures are not met.
- 2.** If collaborating with another brand or company, consider the parameters around how each party can use the other's brand, and how to resolve any dispute that may arise. It is important to record such terms in writing so everyone is clear on the terms agreed.
- 3.** Don't lose sight of the human element:
 - A.** Closing down physical stores may lead to a significant number of redundancies, and outsourcing elements of your business that you no longer need physically in-house may trigger unforeseen (and unwanted) staff transfers. Careful communication is crucial, as is an early analysis of the employment law implications - not least the impact that this may have on timescales and costs.
 - B.** Think about what new talent you will need to attract and retain (and how) in order to implement your strategy and support its progress. These people may well not be within your organisation now, or even in the UK.
 - C.** And last but not least, if you are adopting a new structure, how are you planning on engaging with your staff? Will you retain a traditional employment model, or move to casual labour, agencies, freelancers, or a mix? Do your internal policies and processes support your aims? Which talent model you use will have employment

Whilst the traditional structure of a retail business revolves around bricks and mortar stores, the high street is becoming an increasingly harsh environment for businesses to thrive in. In addition, customers are becoming more demanding of businesses to offer goods and services in easy, convenient, exciting and innovative ways.

As this article highlights, there are legal elements to implementing innovative store structures and we would be happy to discuss these with you further. Please get in touch using the contact details at the end of this article.

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