



GLOBAL RESEARCH AND CONSULTING

Omnichannel Retailing

The Complementary Relationship between
Brick-and-mortar Stores and E-commerce

CBRE

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E-Commerce and Brick-and-Mortar

E-commerce is defined as “activities that relate to the buying and selling of goods and services over the internet.”ⁱ While e-commerce’s origins date back to the 1960s in terms of purchases made over telecommunications networks, its force as a retailing revolution began in 1994 with the rise of Amazon.com.

E-commerce’s main advantage over traditional brick-and-mortar stores is its convenience. Buying an item straight from an electronic device in a matter of minutes can be very appealing to shoppers. Customers can shop 24/7 with no geographic boundaries, avoid long check-out lines, save on transportation costs, read product reviews, quickly perform price comparisons and have access to a vast array of inventory. On the other hand, one of e-commerce’s main disadvantages to the customer is the lack of instant gratification—customers cannot immediately take an item home. There is also no way to physically test or inspect a product prior to making a purchase, which is especially challenging with apparel. Returning products is often an arduous task when buying items online. Another drawback is that customers are not able to engage a sales professional about specific items, although “live chat” functionality, when available, can offset this somewhat.



Source: www.wired.com.

Brick-and-mortar stores remain the preferred choice for most customers. The shopping environment, sensory engagement with products, interaction with onsite sales associates and immediacy of receiving the product is challenging for an e-commerce retailer to match. The brick-and-mortar store is still the main source of revenue for a business—accounting for roughly 90-95% of all sales.ⁱⁱ However, e-commerce revenue is growing steadily. According to a U.S. Commerce



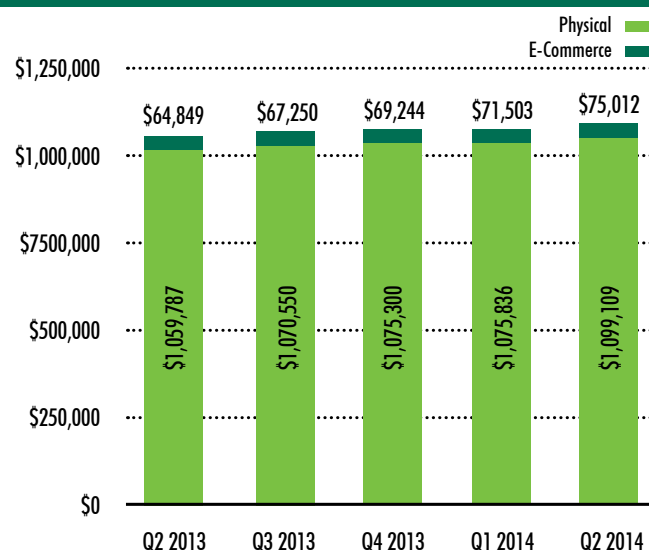
Click above to watch highlights from a retail panel discussion at CBRE’s Q3 2014 Media Breakfast featuring Andrew Goldberg, Richard Hodos and Amira Yunis.

Department study, from Q2 2013 to Q2 2014, online (or “e-tail”) sales increased from 5.8% to 6.4% as a percentage of the country’s total retail sales.

For retailers, an e-commerce model is attractive because it costs less to conduct business than what a brick-and-mortar store requires, since overhead is cheaper. An online-only retailer is also able to display its entire inventory to a global consumer base.

A key to a successful online-only retailer is its distribution strategy. The ability to rapidly process orders and ship products to customers is paramount. To meet the growing customer demand for faster delivery, e-commerce retailers will increasingly need to open distribution centers near their customers. For New York City, surrounding areas in New Jersey and the outer boroughs are attractive locations for warehouses. A brick-and-mortar

Estimated Quarterly U.S. Retail Sales (Millions)



Source: U.S. Department of Commerce.

store's ability to offer a customer the instant gratification of taking an item home is exactly what online-only retailer Amazon.com is trying to rival with its Amazon Prime free two-day shipping and experimental same-day delivery system via unmanned aerial vehicles. Additionally, Amazon.com recently announced that it leased the entire building at 7 West 34th Street for office use—which could also involve a retail component.

Retailers should not question which business model is preferable, but rather how they can fully align their in-store and online presence to maximize revenues gained from both channels.

Omnichannel Retailing

Omnichannel retailing is a concept that provides customers with a seamless brand experience across multiple channels of engagement—the physical store, internet, mobile devices and social media.

Omnichannel retailing is a boon for customer and retailer. The two channels are symbiotic: the brick-and-mortar store drives customer traffic to a retailer's online site, while the online site drives customer traffic to the physical store. For example, a customer enters a retailer's physical store to examine an item and speak with sales professionals, and then uses a mobile device to purchase it through the retailer's website. Another customer discovers an item on a retailer's website, reads the reviews and then goes to the physical store to examine the item and buy it there. The customer is given multiple options through which to discover, research and purchase an item.

Omnichannel retailing extends beyond physical stores and websites. Retailers also promote their brands and products



Source: www.istockphoto.com/drafter123.

through social media. Facebook, Instagram and Twitter can be powerful marketing tools that help retailers increase their exposure among customers. A celebrity tweeting a picture of a favorite designer or accessory can quickly generate buzz and increase a retailer's sales. Fashion blogs, which give the general public a voice in the discussion of the latest trends, can further enhance a retailer's image and popularity.

The optimal business strategy for a retailer is to create appealing physical stores and support them with a comprehensive online shopping component. The more shopping channels a retailer offers its customers, the more channels a customer will utilize. This helps retailers develop and maintain brand loyalty among their customers.

Neiman Marcus, which operates department stores and outlet stores in the U.S., exemplifies a retailer capitalizing on omnichannel retail. Neiman Marcus recently announced a deal to buy Mytheresa.com, a Germany-based online luxury business that is well established in Europe. According to Karen Katz, Neiman Marcus Group CEO and President, “The acquisition is an important component of Neiman Marcus’ long-range strategy to more broadly serve affluent customers around the world.”ⁱⁱⁱ The retailer also recently announced plans to debut its first Manhattan department store, a 250,000-sq.-ft. flagship location scheduled to open in Hudson Yards in 2018.

Online-Only Retailers Open Brick-and-Mortar Stores in Manhattan

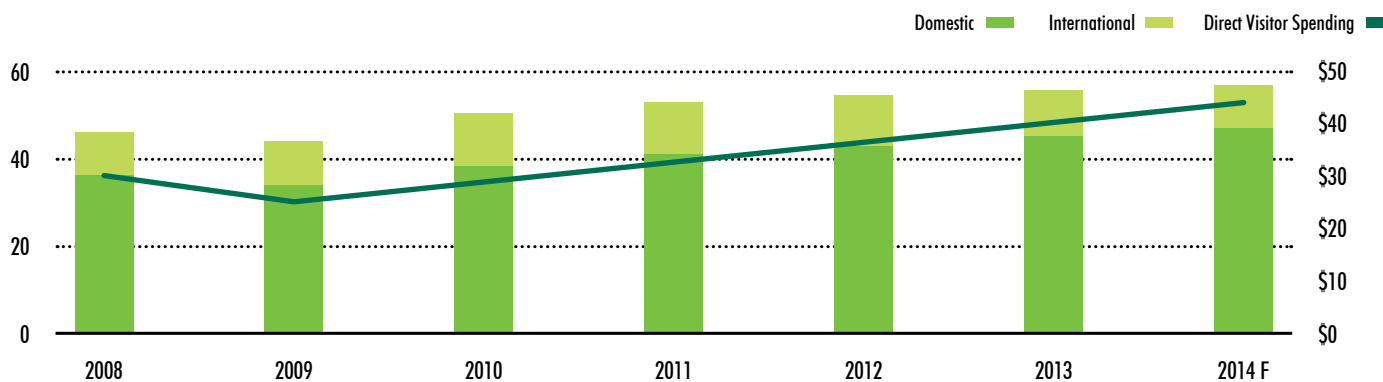
With all the benefits that an online-only retailer, or “e-tailer,” provides its customers, an online-only shopping platform may not be enough to ensure long-term success. Sometimes even the savviest online shopper wants to physically experience products and brands in real time. Added to this, an online-only retailer’s entrance into the brick-and-mortar realm creates



Neiman Marcus @ Hudson Yards Rendering

Source: Related Companies.

New York City Visitors (Millions) and Direct Spending (Billions)



Source: New York City & Co.

credibility. These retailers may need a physical presence to establish a recognizable brand and distinguish themselves from competitors. Expansion into a physical store also demonstrates to the marketplace a retailer's maturation and success.

Manhattan is an optimal choice for an online-only retailer's first brick-and-mortar location. Already the country's most diverse and populous city, New York City is home to 8.4 million people, an all-time high, with 1.6 million living in Manhattan alone.^{iv} Meanwhile, the population of the New York Metropolitan area, which includes Long Island, Northern New Jersey, Westchester County and Southern Connecticut, has swelled to nearly 20 million.^v In addition, tourism is booming. In 2013, New York City welcomed 54 million visitors, of which 11.4 million were international visitors—an all-time high—while year-end 2014 projections are estimated at 55.8 million visitors and \$41.3 billion in direct spending.^{vi, vii}



Corner of Prince and Green Streets

The first physical store an online-only retailer opens in Manhattan sets the tone and character for its brand—and the choice of neighborhood is paramount. Some retailers tend to cluster in hip, fashion-forward neighborhoods with beneficial co-tenancy, and popular destinations include SoHo, Flatiron and the Meatpacking District.

SoHo is a sought-after neighborhood because it attracts a wide range of shoppers—locals as well as national and international tourists. The neighborhood also has one of the highest concentrations of retailers in Manhattan, and SoHo's density is part of its appeal. Main streets and side streets all contain core retailers.

The core area of SoHo is on Prince and Spring streets between Broadway and West Broadway. Due to strong demand and tight supply, the area's asking rents can range from \$500–\$1,000 per sq. ft., sometimes going even higher. E-tailers usually consider cost-effective areas of the neighborhood, such as periphery streets like West Broadway and Crosby Street, along with pockets of Mercer Street, Greene Street and Wooster Street. Asking rents for these locations are 30% to 60% lower than rents on Prince and Spring streets, due to less vigorous tenant competition and greater supply.

New entrants into the Manhattan retail market, including online-only retailers, face several potential barriers to entry. First is overhead cost: Manhattan is expensive. Rent, construction costs, operating expenses and real estate taxes can add up quickly. A second barrier is credit. Landlords may be hesitant to lease space to a relatively unknown retailer if it does not have the backing of a strong-credit entity.

Another barrier to entry is the length of the lease term. Landlords want to sign leases for 10-15 years, while new

West Broadway		Wooster Street		Greene Street		Mercer Street		Broadway		Crosby Street	
Dos Caminos		Bulthaup				American Eagle		Hollister			
Trico Field		Tui Lifestyle									
Porsche Design		Maclaren Baby		Dior Homme		Kenneth Cole		Desigual		Carhartt	
				WARBY PARKER		Paul Smith		Victoria's Secret			
Halstead Properties								Versace			
The North Face						Brunello Cucinelli		Vera Wang		Under Armour	
						Hugo Boss		Versani			
								Balenciaga		Aldo	
D.V.F.		Proenza Schouler						& Other Stories			
Fred Perry								Prada			
Coach		To be Lululemon		Ralph Lauren		Apple		Armani A/X		Equinox	
To be Lululemon						The Mercer Kitchen		Equinox			
				</							

retailers, opening their first Manhattan location, may desire a much shorter lease term with options in order to test the market. Additionally, aside from the premium cost for construction in Manhattan, a retailer may have to endure a lengthy approval process prior to building out its space. For example, if a building is landmarked or located in a historic district, Landmarks Preservation Commission approval would likely be required before any construction could commence, and the process might take a long time.

Warby Parker, Birchbox and Bonobos typify companies that began as online-only retailers and incorporated a Manhattan brick-and-mortar platform into their business models.

Warby Parker is an eyeglass retailer that sells fashion-forward, affordable products online and through a limited number of kiosks in the U.S. The retailer quickly gained momentum by avoiding costly overhead expenses, like retail mark-ups and brand licensing fees, by selling its in-house-designed products directly to consumers, primarily through its website.^{viii} In 2013, Warby Parker opened a 2,200-sq.-ft. flagship store in SoHo, at 121 Greene Street, to bring its online brand to life and strategically align itself with luxury co-tenants including Dior Homme, Proenza Schouler and Ralph Lauren. The light-filled new store creates a physical experience for its customers, with product-lined walls, a photo booth and reading materials, while also offering eye examinations. By enabling customers to try on its products, the company aims to ease the process of getting the right fit, a challenge for the firm in an online environment. Additionally, using in-store analytic devices and programs, Warby Parker uses its brick-and-mortar locations to glean design preferences, and understand how customers utilize the retail space. The company now operates three stores in Manhattan.



Warby Parker @ 121 Green Street

Source: www.unitedstyle.wordpress.com.



Birchbox @ 433 West Broadway

Source: www.ageistbeauty.com.

Birchbox is an online cosmetics subscription retailing service whose subscribers are sent a box of four to five carefully selected samples of beauty products, allowing them to discover and experiment with a variety of brands. Birchbox co-founder Katia Beauchamp stated that beauty sales are “90% offline,” and that evolving a brick-and-mortar store speaks to the process of discovery that defines the brand.^{ix} The retailer decided to bring its online experience to life at a 4,500-sq.-ft. store at 433 West Broadway in SoHo. It leased 2,200 sq. ft. on the ground floor and, in addition, took another 2,300 sq. ft. on the lower level to incorporate new concepts such as a “Try-Bar” and in-store salon. Like Warby Parker, Birchbox will use its new location as a laboratory to gain a firmer understanding of customers and their purchasing decisions through the use of in-store analytics.

Menswear retailer Bonobos, which was founded exclusively online to provide a convenient shopping option for men, recently began opening physical stores known as Guideshops. Customers are encouraged to set up a one-on-one appointment at a Guideshop where they can meet with a sales associate to be sized and fitted. Each store stocks only one item in each size, allowing the retailer to retain a small real estate footprint, generally 1,000 sq. ft. Bonobos signed a ten-year lease at 35 Crosby Street, which is its first ground-level retail store in Manhattan and its sixth nationwide. Indeed, the cobblestoned Crosby Street has become a destination for men’s apparel companies, hosting such retailers as Carson Street Clothiers, J. Crew Men’s Shop, Saturday’s Surf and Topshop. According to founder Andy Dunn, Bonobos is growing at a rapid pace and generating nearly \$40 million a year in revenue.^x In-store transactions are double the average order placed online, and first-time visitors buy again within an average of 58 days versus waiting 85 days between web purchases.^{xi, xii} The new



Bonobos @ 35 Crosby Street

Source: www.selectism.com.



The Retail Complex at WTC Rendering

Source: www.cdn.macrumors.com.

brick-and-mortar strategy has become so successful that Bonobos is planning to open 30 more Guideshops by 2016.^{xiii}

Beyond SoHo, as Downtown's critical mass continues to develop, it could evolve into a market conducive to e-tailers. Numerous development projects are underway, such as the \$250 million redevelopment of Brookfield Place—where it was recently announced Saks Fifth Avenue will open an 85,000-sq.-ft. store in 2016 to anchor the project. The retailer also leased 55,000 sq. ft. at 1 Liberty Plaza to open its first outlet store, Saks OFF Fifth, in Manhattan. Additionally, the retail complex at the World Trade Center is slated to open in 2015, and the South Street Seaport, currently under construction, is scheduled to re-open in 2016. Luxoft USA, GameChanger and Pixable are just some of the recent technology-related companies that have already relocated their offices from Midtown South to Downtown. Downtown's growing residential population, which

is now at an all-time high of approximately 61,000, should influence additional retailers to open stores in the area.^{xiv}

The Experience Store

As omnichannel retailing becomes more common, retailers continue to explore innovative ways to further differentiate their brand to attract customers, and one approach is through experience stores. Designed to become destinations for shoppers and provide them with something memorable, experience stores use event space—which can host fashion shows, parties and celebrity appearances—as well as interactive technology, unique art and design, and in-store cafés/restaurants to attract customers. As an example, Chanel's London flagship store installed iPads in its fitting rooms so that customers can take their picture and share images with friends on social media to get opinions—before they purchase anything.



Brookfield Place Rendering

Source: www.brookfieldplaceny.com.



South Street Seaport Rendering

Source: www.mms.businesswire.com.



Urban Outfitters @ 1333 Broadway Source: www.fabulousforeverblog.wordpress.com.

A retailer's financial commitment to an experience store is considerable. Retailers want to make a statement when opening an experience store, and generally desire a location in prime neighborhoods—which are expensive. Average asking rents in many of the core neighborhoods are at record levels. Fifth Avenue between 49th and 59th streets is currently at an average asking rent of \$3,567 per sq. ft., which is the second highest in the world; the Times Square Bowtie averages \$2,390 per sq. ft.; and Herald Square's average is \$860 per sq. ft. In addition to the cost of real estate, the capital commitment to build out an experience store can be considerable.

Often credited with being a pioneer of the experience store, Apple, Inc. opened its first in 2001, creating an environment that enabled customers to fully experience Apple products. Known for their sleek, inviting appeal, Genius Bar and mobile-checkout service, Apple stores allow customers to spend hours experimenting with technology and speaking with sales professionals—and



Apple Store @ 103 Prince Street

Source: www.flickr.com.

then buying products without waiting in line. A destination for tourists, the Apple cube store on Fifth Avenue is rumored to be one of the company's most profitable locations in the world.

Recently, Microsoft announced that it leased 21,000 sq. ft. at 677 Fifth Avenue to open its first New York flagship retail store—which will feature an experiential space where customers can interact with Microsoft products.

Last year, Urban Outfitters leased 57,000 sq. ft. at 1333 Broadway in Herald Square, an area long known as a shopping mecca—with several national retailers reporting that their stores in the area are among their highest-grossing worldwide. Branded as a "lifestyle center," Urban Outfitters' new store is double the size of the retailer's typical larger-sized stores. Inside is a coffee bar, full-service hair salon, make-up shop, hundreds of vintage vinyl records, bicycle repair station and a photo booth where customers can take pictures of their outfits. These amenities are convenient for shoppers—and they keep them in the store for longer periods of time. Club Monaco's revamped 20,000-sq.-ft. flagship store, opened in 2013 on Fifth Avenue in the Flatiron District, follows a similar vision.

Automobile makers are also getting into the game. Lexus recently leased 15,000 sq. ft. over three floors at 412 West 14th Street in the Meatpacking District to create its own "luxury brand experience space." The new store, "Intersect by Lexus," lets customers engage with the brand through design, art, fashion, culture, film, music and technology in a "comfortable and inspiring space for interaction," in the words of Mark Templin, executive vice president of Lexus.^{xv} Similarly, as a way to attract younger customers, Mercedes-Benz opened a "Visionary Store" in Milan that lets customers digitally interact with car models and connect with friends on



Intersect Lexus Flagship Store in Tokyo

Source: Lexus.

OMNICHANNEL RETAILING PROVIDES CUSTOMERS WITH A SEAMLESS BRAND EXPERIENCE ACROSS MULTIPLE CHANNELS OF ENGAGEMENT—THE PHYSICAL STORE, INTERNET, MOBILE DEVICES AND SOCIAL MEDIA.



Story @ 144 10th Avenue

Source: www.architecturaldigest.com.

social media-enabled devices in the store.^{xvi} And Audi created its first digital experience store in London, called Audi-City, with plans to open 20 additional stores throughout the world.

Experience stores are not limited to established retailers. Story is a new retail concept that sells products out of its 2,000-sq.-ft. store at 144 Tenth Avenue in Chelsea around constantly changing themes. “Story has the point of view of a magazine, everything changes every four to eight weeks like a gallery, and it sells things like a store,” said Rachel Shechtman, Story’s owner.^{xvii} Each Story is aligned with various brand partners, products and “moments” that reinforce a specific narrative. The unique alignment between seemingly dissimilar products changes how consumers view and perceive the brands. The store’s incarnation as “Color Story,” for example, was sponsored by Benjamin Moore and offered “colorful wireless speakers, bright cashmere socks and lipstick,” in addition to showcasing the brand’s paint samples.^{xviii} The different “Stories” provide shoppers with an interactive experience with the sponsoring company’s products, and also act as a testing ground to gather metrics on consumers.

Conclusion

Retailers able to successfully incorporate an omnichannel approach are likely to enhance customer loyalty. Our research suggests that a destination brick-and-mortar store that provides its customers with a compelling experience and is supported by an efficient online component is the optimal business strategy for a retailer.

The success of several online-only retailers opening stores in Manhattan may lead to additional e-tailers opting for a physical presence in the city. SoHo continues to attract online-only retailers given its trendy appeal and dense shopping environment. As pricing continues to rise in SoHo, other

neighborhoods such as the Meatpacking District, Flatiron/NoMad and Downtown—especially given projects such as the redevelopment of Brookfield Place, the new retail complex at the World Trade Center and the revamped South Street Seaport—may become destinations for e-tailers.

Experience stores create a distinctive physical shopping environment for the customer by incorporating components such as special event space, interactive technology and in-store eateries that reinforce the brand. For established retailers, experience stores are typically opened in prime thoroughfares such as Fifth Avenue, Times Square and Herald Square. While they can be very expensive due to real estate and build-out costs, they can also drive home the appeal of a brand with unique power.

As technology continues to evolve, retailers are likely to increasingly incorporate it into their business platform. First desktops and laptops were used for online shopping, and now tablets and mobile devices are common. It will be interesting to see how retailers utilize the newest wave of technology such as wearable computers like Google Glass, Apple Watch and Samsung Smart Watch—or, indeed, to see what new technological innovations will drive retailing in the future.



The Future of Retail?

Source: www.smartretailer.ru.

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