

White Paper - Number 14

The Death of the Shop?



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The Death of the Shop?

Summary

Online will dominate future shopping

It's perhaps hard to believe but in 20 years time shops as we know them might have disappeared. Just consider the facts. Firstly, and most importantly, online shopping is expanding rapidly in virtually all product sectors. Price, of course, is the main driver behind this trend but people are also realising that online shopping is very convenient, is less stressful and can save money in terms of reduced travel. Shopping via the internet also has major environmental advantages over visiting a mall or a high street. And in China Group Buying (Tuangou) is proving phenomenally popular and again threatens the existence of the traditional shop.

Shops will become Showrooms

We acknowledge that many people actually enjoy a visit to the mall or high street, it's an important social occasion. In 20 years time these people will still be making such trips but they will be visiting showrooms rather than shops. Having selected an item they like they will then buy it online, via their Smartphone or their home PC or laptop.

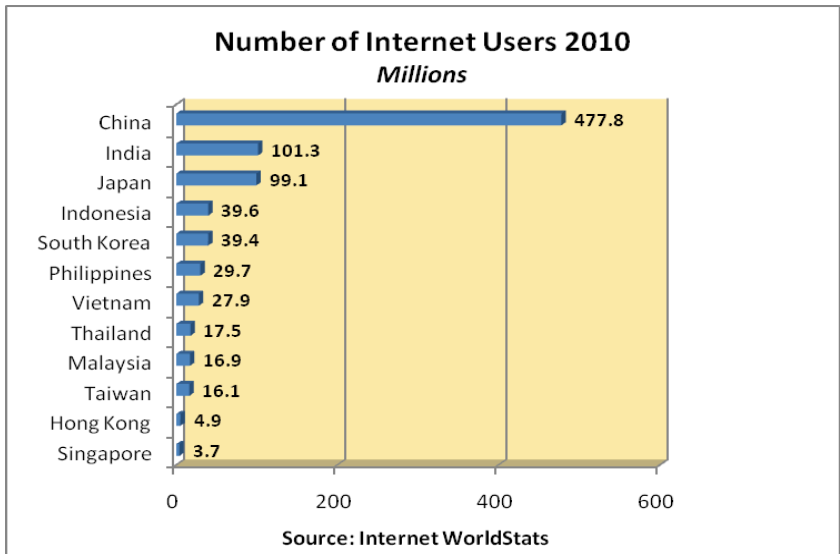
Huge implications for Retailing

When shops become showrooms the implications are many and significant, not only for consumers but for retailers, retail staff, manufacturers, distributors, transport firms, property companies, advertising agencies – and the environment!

Online Shopping – It's The Future

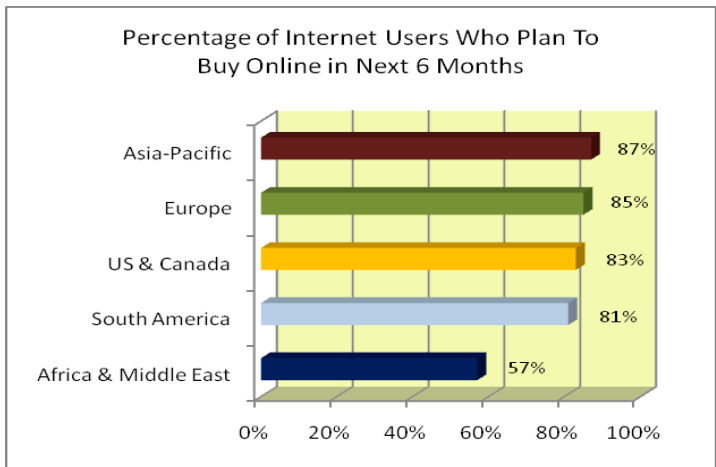
Just consider how our shopping habits have changed over the past 10-20 years. In 1990 we would go to a High Street travel agent to book holidays and flights. Now we don't, over 60% of all flights are currently booked online. We used to go to Borders to buy books, to Tower Records to buy CDs, but not anymore, we go to Amazon and iTunes. We don't visit an insurance broker we buy our auto insurance online. We now buy groceries, clothing, furniture, cosmetics online, and we read newspapers and books on our Tablets. As a result the High Street is changing and traditional retailers such as travel agents and book stores are fast disappearing. This trend will accelerate over the next 20 years and many shops will cease to exist.

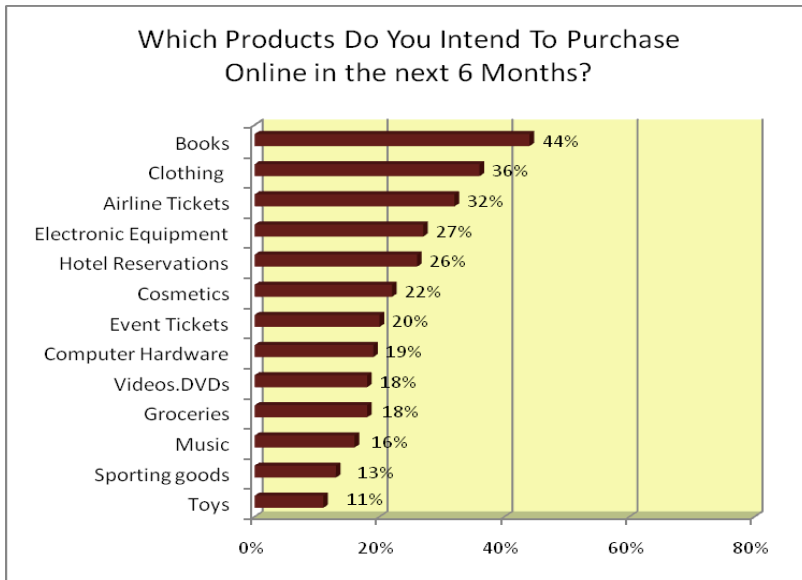
The chart below shows the number of internet users in the main Asia-Pacific countries and confirms the potential for online shopping, especially in China, where there are already 477 million users with many more millions likely to join their ranks in the future.



The Chinese have taken to the internet with passion, but it seems their appetite for shopping online is growing even faster. Total online retail sales are forecast to double this year to Rmb500bn (\$75bn) from Rmb253bn in 2009, according to Analysys, an internet research firm. The number of people shopping online rose from 28 per cent of all internet users to more than 33 per cent in less than six months earlier this year. Among the hundreds of companies opening e-commerce sites in China are Armani, Gap, Walmart, Uniqlo, Coach and Adidas. Chinese consumers appear to trust retailer and manufacturer websites and are likely to search for product information there. “That is a stark difference from the US, where consumers prefer to consult consumer and third-party reviews, such as Amazon,” a recent McKinsey survey said.

The charts below show the importance of online shopping in Asia-Pacific – and also in Europe and the US





Source: Global Trends in Online Shopping. Nielsen. 2010

By 2030 we could be buying everything online – food, drinks, clothes, furniture, holidays, insurance, domestic appliances, cars and even houses. So what’s driving this process? Well it’s mainly price, of course, most products are much cheaper when bought online. And the more expensive the product the greater the savings. A recent analysis of the China luxury goods market showed that a beige Prada leather satchel is priced at 6190 yuan on www.vipstore.com, half the retail price in China mainland stores. A Hermes watch is offered at 26,800 yuan, costing 48,000 in the shops. Sunglasses made by Fendi, Zegna and Emilio Pucci are on sale for 1000-1300 each, 70% cheaper than the stores

But there’s also the convenience factor – many people actually don’t like shopping, they see it as time consuming, uncomfortable especially in congested malls, stressful when shopping with fractious kids and carrying heavy bags, and expensive in terms of travel, car parking, congestion charging etc. And environmentally a visit to the shops is a no-no, given petrol consumption, exhaust emissions etc.

In China moreover the trend towards online shopping is being driven by more local factors – retail outlets are inconveniently located for many, shops have poor sales staff, and often Chinese consumers feel more comfortable purchasing items from manufacturers’ websites – they are seen as “genuine”.

Consumers are also increasingly aware that online shopping is very efficient, given the wide range of comparative sites and consumer reviews now available. So take today’s trends and project them 20 years forwards and we find that many shops will have disappeared altogether as consumers increasingly shop online.

Group Buying – A Boost to Online Retailing

Group Buying (Tuangou) in China is proving phenomenally popular and again threatens the existence of the traditional shop. Tuangou is a recently developed shopping strategy originating in the People's Republic of China whereby several people - sometimes friends, but possibly strangers connected over the internet agree to approach a vendor of a specific product in order to haggle with the proprietor as a group in order to get discounts. The entire group agrees to purchase the same item. The shoppers benefit by paying less, and the business benefits by selling multiple items at once. The popularity of the strategy in China is often attributed to the Chinese tradition of bargaining for the purchase of goods of all types. Tuangou buying also ameliorates a traditional distrust of goods purchased from unknown sellers as individual members of the buying group can vouch for a particular seller's quality to the rest of the group.

Group buying sites increased from 4 in 2009 to over 1700 by end 2010 and it is estimated that some 10-15 million people now use Tuangou. Sites like Lashou, Meituan, and Teambuy are selling everything from mobile phones and tariffs, home broadband, energy and utilities, cars, home furnishings, holidays, flights and cosmetics.

Shops Become Showrooms

But – we hear you say very loudly – “I actually like shopping”. And it's true for many millions of people all round the world shopping is an enjoyable experience, it's a hobby and a pastime for many, a great way to meet up with friends on a Saturday or Sunday. In many parts of the world shopping is the number one social activity

This is not going to change, in 20 years time people will still be flocking to the mall or the high street, but the big difference is that they will be visiting showrooms not shops. While it's simple to buy books, wine, CDs etc online for other major product lines consumers feel the need to look, touch, feel, smell and try the product. This applies to clothes, cosmetics, furniture, domestic appliances, cars and a whole range of other goods. Customers will still be getting this first hand product experience in 20 years time but the difference is they will be in a showroom not a shop. They will be examining the goods in a retail environment but not buying them. After sampling and evaluating a particular item the consumer will pop back home and buy it online – where it would cost much less than if the consumer had bought it in the shop. Shops will have become showrooms.

Of course the showroom staff will try to persuade the customer to buy online in the showroom itself, either via a hand-held device from the showroom or the customer using a Smartphone. But the advantage of online shopping is that it enables the buyer to check for the cheapest price from a variety of online sources, and also to seek consumer reviews. So it is likely that most purchasing will be done at home.

But how will consumers manage to get a dress that fits perfectly, or a pair of shoes, pair of trousers, jacket, skirt, coat etc? How can they do this without going to a shop and trying it on? The answer is that consumers will go to a fitting specialist who would take all a person's measurements from socks and shoes to skirts, trousers, shirts, blouses, underwear all the way up to hats. People would walk away from a fitting specialist with a "prescription" that they can use to buy clothes online, knowing that they will fit perfectly. Sounds far-fetched? Well consumers already do this with spectacles, an optician provides a prescription which can be used anywhere in the world to obtain a perfect pair of glasses. And of course people are already using such prescriptions to buy spectacles online.

Shops Becoming Showrooms – It's Already Happening

The move towards showrooms not shops is already happening. Alibaba Group's Taobao, an Internet platform through which an estimated 3 percent of all retail sales in China pass, recently opened a new five-story home furnishings showroom in Beijing for customers to try out sofas, tables and other big-ticket items before placing an order online with one of its merchants. Taobao says its 25,000-square-metre Beijing mall will display 22,000 items from some 300 suppliers. Orders and payment will only take place online. Taobao says it plans to open similar showrooms in other major Chinese cities.

Other Internet retailers such as jewellery seller Zbird.com have opened showrooms to encourage customers to buy higher-priced items online.

The China experience is very revealing. As luxury retailers rush to open new stores in China, these branded stores are seen to be showrooms for online purchases. Chinese internet consumerism is developing in a different way than Western consumers might expect. "Many Shanghai consumers consider branded shops to be showrooms rather than places to purchase," according to Sam Mulligan, director of market research company DDMA. Mulligan's firm researches online consumer activity in Shanghai, China's most advanced consumer market. DDMA thinks that the habits of Shanghai consumers will predict behaviour of consumers across the country. "We found that often one person in a group of friends would go to a store to check out a new phone model or tablet computer," Mulligan said. "They'll discuss it with their friends using social media. Then the friends can buy. Not everyone needs to go to the store."

Shops Become Showrooms – What Are The Implications?

When shops become showrooms the implications are many and significant, not only for consumers but for retailers, retail staff, manufacturers, distributors, transport firms, property companies, advertising agencies – and the environment!

- ▶ **Consumers.** They will love the idea of showrooms rather than shops. First of all they will have a much larger range of products to choose from in any one outlet. Showrooms, unlike shops, will not need to maintain high stock levels, just one or two of each product – in just one size. Showrooms will therefore be able to display a far greater range – with all the benefits of customer choice. Dress showrooms could carry ten times the range they now offer as retail stores. Showrooms could also widen their offerings - shoe showrooms could start selling other clothing lines, dress showrooms could carry bags, underwear, travel goods etc. Showrooms could become department showrooms.

The customer benefits are enormous. Imagine the range of products that a supermarket could offer if it only had to show one example of each item.

- ▶ **Retailers.** The big question, of course, is that when shops become showrooms how will they make money if they don't actually sell anything? The answer probably is that the manufacturers will pay them a fee to display their products, the better the position in the showroom, the higher the charge. Payments will also reflect how successful a showroom is in attracting visitors, and this will call for clever monitoring of visitor numbers. Success will be related to number of visitors, not sales volumes. Alternatively the manufacturers could own their own showrooms – the car manufacturers already do this and do such well known brands as BodyShop, Burberry, Prada etc. One thing is for certain, the consumer won't pay a fee to visit a showroom.

Retailers will need to change their in-store layouts. Consumers will not be going into a showroom to shop, just to look. The way goods are displayed will need to change dramatically, and point-of-sale material will be replaced by point-of-display material.

- ▶ **Retail Staff.** Showrooms won't have sales staff, they will have consultants and advisers. Their job is not to sell – so forget sales commissions – they have to convince the consumers of the attractions of the product and try to ensure that the consumer goes home to buy the product online. Of course consumers now armed with powerful smart phones will be able to buy the item there and then in the showroom. This change in roles will call for a higher level of employee and has major implications for staff training. It is possible that older people could fill the role of a showroom consultant better than younger employees.

- ▶ **Manufacturers.** The move to showrooms rather than shops will require a sea change in the thinking of manufacturers and service providers. They will, of course, have to set up super efficient online ordering and delivery services, and build excellent relationships with independent online retailers. They will need to build up a network of showrooms to display their products and these could be very different from the retailers they currently work with. They will also have to devise attractive incentive scheme sot persuade showrooms to display their items rather than a competitor's. Their advertising and sales promotion activities will need to be revised.
- ▶ **Retail Property Companies.** The advent of online shopping should mean that there are fewer outlets, either in the mall or the high street. Rents could be lower. Property firms specialising in the retail sector could become a much less attractive investment.
- ▶ **Advertising Agencies.** In the new retail environment agencies will aim at persuading consumers to visit showrooms, rather than buy products. In addition they will need to convince these visitors to buy their client's products once they have gone home and are doing their online shopping. This calls for some intelligent, innovative campaigns
- ▶ **The Environment.** More shopping online is good for the environment. Consumers will travel much less to go to the mall or high street. Showrooms won't need continuous deliveries that shops and supermarkets require today so there will be fewer trucks on the road. There will be less need for giant distribution centres. Of course the online purchases have to be delivered but this will cause much less damage to the environment than the current distribution structure.

CAP STRATEGIC RESEARCH

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With offices in China, Hong Kong and Singapore we are ideally placed to meet your research needs in Asia-Pacific.

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