



Illustration by ANA Yael ZARECEANSKY

NEW WAYS OF REACHING CONSUMERS

The Decline of Main Street, the Rise of Multichannel Retail

By JOSÉ L. NUENO

More than a sales outlet, Zara's flagship store on New York's Fifth Avenue is a statement. With more than 32,000 square feet of selling space, its main value is as a standard bearer for the brand. But showcasing its brand on one of the world's most exciting shopping streets is not Zara's sole ambition: It also maintains regular stores in more than 1,750 locations, sells online and through mobile apps, and has its own official pages on Pinterest and other social media networks.

Zara is significantly more dogmatic regarding its sales formats than the Barcelona-based retailer Desigual, which has more than 6,000

points of sale in 12 channels: flagship store, main street/high street store, mall store, outlet store, store catalog, kiosk/sales stand, store-within-a-store, pop-up store, online store (both monobrand and multibrand), travel retail shop and traditional department store. The CEO of Desigual recently hinted that they were even piloting two new formats, which they expect to launch soon.

When it comes to the proliferation of formats, the world's best retailers are pragmatic, pursuing a strategy of taking the store to consumers, wherever they show the greatest willingness to buy. After six years of economic crisis – the longest recession cycle since the 1930s

After six years of economic crisis – the longest recession cycle since the 1930s – companies accept that any channel is good, so long as it allows them to connect with increasingly elusive consumers.

– companies accept that any channel is good, so long as it allows them to connect with increasingly elusive consumers.

But is this elusiveness a temporary effect of the crisis or has the way we shop changed forever?

Over the past few years, I have led various studies on what the consumers of the future will be like, and the retail strategies that companies should adopt in order to stay relevant.

Based on this research, I have classified the different marketing channels according to their prospects for the years to come.

The New Consumer

Certain demographic trends that we already knew about have become more firmly established. Population aging in developed economies is one of them.

As we noted in the article “Teens Today, Young Adults in 2020” in Issue 8 of *IESE Insight* magazine, 9 out of 10 adolescents live in developing countries. This means that, by 2035, the proportion of young adults of working age will have increased dramatically, as will the number of households and these young people’s socioeconomic status.

In less than 25 years’ time, we will see the emergence of a converging global middle class of more than two billion people. Most of these potential buyers are children or adolescents today, and live in emerging countries such as Brazil, Russia, India, China, South Africa, Mexico, Turkey and Bangladesh. They make up a huge market that most brands neither understand nor address.

In developed countries, meanwhile, the trend is the reverse: Several hundred million middle-class consumers are slipping down the ladder to join a global lower middle class.

The purchasing power of this middle class has been eroded by the economic crisis. Unemployment is up, salaries are sharply down and pensioners are living longer.

On top of all this is heavy household debt, a legacy of the boom years. As a result, consumers’ purchasing behavior has become more rational. Shoppers who a decade ago consumed compulsively are now keen to avoid unnecessary spending, and try to avoid temptation.

At the same time, with the spread of mobile Internet access and, in particular, the explosion of social media networks, technology has sparked a radical change in consumer habits. People no longer need to go to a shopping mall to socialize or check out new products. They also get much better prices online, whether in vertical communities or through sharing via collaborative platforms.

Basic triggers – such as the desire for ownership, the preference for exclusive goods, and impulse buying driven by a perception of scarcity – can no longer be relied upon to work with consumers.

Goal: To Be a Brand That Matters

Brands are steadily losing relevance. According to Havas Media’s Meaningful Brands study carried out between 2011 and 2013, most consumers would not care if two-thirds of existing global brands disappeared tomorrow.

To survive in this harsh new environment, companies need to understand and use certain levers that – in combination with other,

EXECUTIVE SUMMARY

Six years into the economic crisis, companies have learned that they must go wherever consumers congregate and engage them there: in a flagship store on a prime shopping street; in a pop-up store calculated to surprise passers-by in an unexpected location; on the Internet; on their smartphones; in social media networks; or combining the online experience with a click-and-collect service, where goods purchased online can be picked up from a local

collection point.

Any channel is good, so long as it allows companies to connect with increasingly elusive consumers. But there are other reasons for the proliferation of retail formats, beyond the economic situation.

This article reviews the factors that influence the way we shop today, and how these factors affect retail formats. It also looks at how different formats can be integrated into a multichannel strategy.

One of the biggest constraints on consumption is when consumers stay home so as not to be tempted. If they do ever go out, it is for “showrooming” – trying stuff on, before later buying it online.

longer-term developments such as demographic change and digitization – influence the way that people consume.

Here I review nine trends that will define the way that companies approach consumers over the next several years.

1. TIMING IS EVERYTHING. Consumers in mature economies are reluctant to spend except during sales seasons, when traveling or on special occasions.

One way to exploit these exceptions is through special or limited-time offers by physical retailers or online sellers. Companies should adopt a multichannel strategy to reach out to consumers at just the right moment.

2. ALWAYS ON THE MOVE. Today’s consumer is always on the way somewhere, whether locally or across continents. The smartest answer to mobility is m-commerce, using mobile devices as a consumer touch point.

Tourism presents another great opportunity for consumption. Retailers can benefit from having a presence at every stage of the journey – from the airport to the busiest shopping streets.

There is even scope for retail strategies based on attracting foreign shoppers. Michael Goldenberg, CEO of Value Retail, which operates outlet malls, now defines his company as a “shopping tourism operator.” The company’s 200 agents recruit shoppers at source in Malaysia, Turkey, Brazil, Russia and the Gulf countries for the malls of La Roca, Barcelona, and Las Rozas, Madrid.

3. NEED TO SOCIALIZE. Shopping has always been a way of socializing and still is, but two contradictory trends are apparent.

On the one hand, shopping with friends is losing its appeal. It can even be insulting if people have very different standards of wealth.

At the opposite extreme, vertical communities have become a channel for group purchasing and recommendations that inform individual purchase decisions. Wishbuuk, a Facebook

application for sharing wish lists with friends, and Pinterest, the content-sharing service, are two examples of transaction-oriented social networks.

4. ALWAYS CONNECTED. One of the biggest constraints on consumption in the countries most affected by the economic crisis is when consumers stay home so as not to be tempted by window displays.

Even so, most of them stay connected 24/7 to their smartphones, tablets or PCs. If they do ever go to physical stores, it is for “showrooming” – that is, trying stuff on, maybe photographing it, before later buying it online.

This is another reason why retailers need to be present in as many channels as possible. Every opportunity counts to make an impact on consumers and to recapture lost in-store sales by presenting offers or suggestions online.

5. SHARING VERSUS OWNING. Whether by choice or necessity, the need to own has given way to the idea of sharing. For many young people, leaving home has become impracticable unless they share an apartment with friends, while for many elderly people, staying in their own home is not an option unless they share costs with a lodger.

Collaborative consumption platforms such as Zipcar, for car sharing, and Airbnb, for accommodation, help make such sharing possible. Often, no contract is signed, and no money changes hands.

This is a consumption channel that is with us to stay, so companies would do well to pay attention to it and try to use it profitably.

6. FREE LUNCH. Some categories of consumption are especially prone to this tendency. Music is a classic case. In some countries, like Spain, pirated music dominates paid-for music by a ratio of 2:1. The same goes for movies, TV series and newspapers. Experience tells us that once people get used to these cost-free pleasures, they are very unlikely to be convinced to start paying.