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10x10

Changing Retail Currency

— Alexander Grünsteidl,
Senior Director, User Experience

The New Currency

As e-commerce continues to shape the retail experience, new and exciting opportunities for retailers and customers are emerging. The transactional value of the storefront has a different currency than the value that online shopping offers. We are witnessing a transformation in business models for retailers, opening up possibilities for more fluid and convergent retail experiences.

Method



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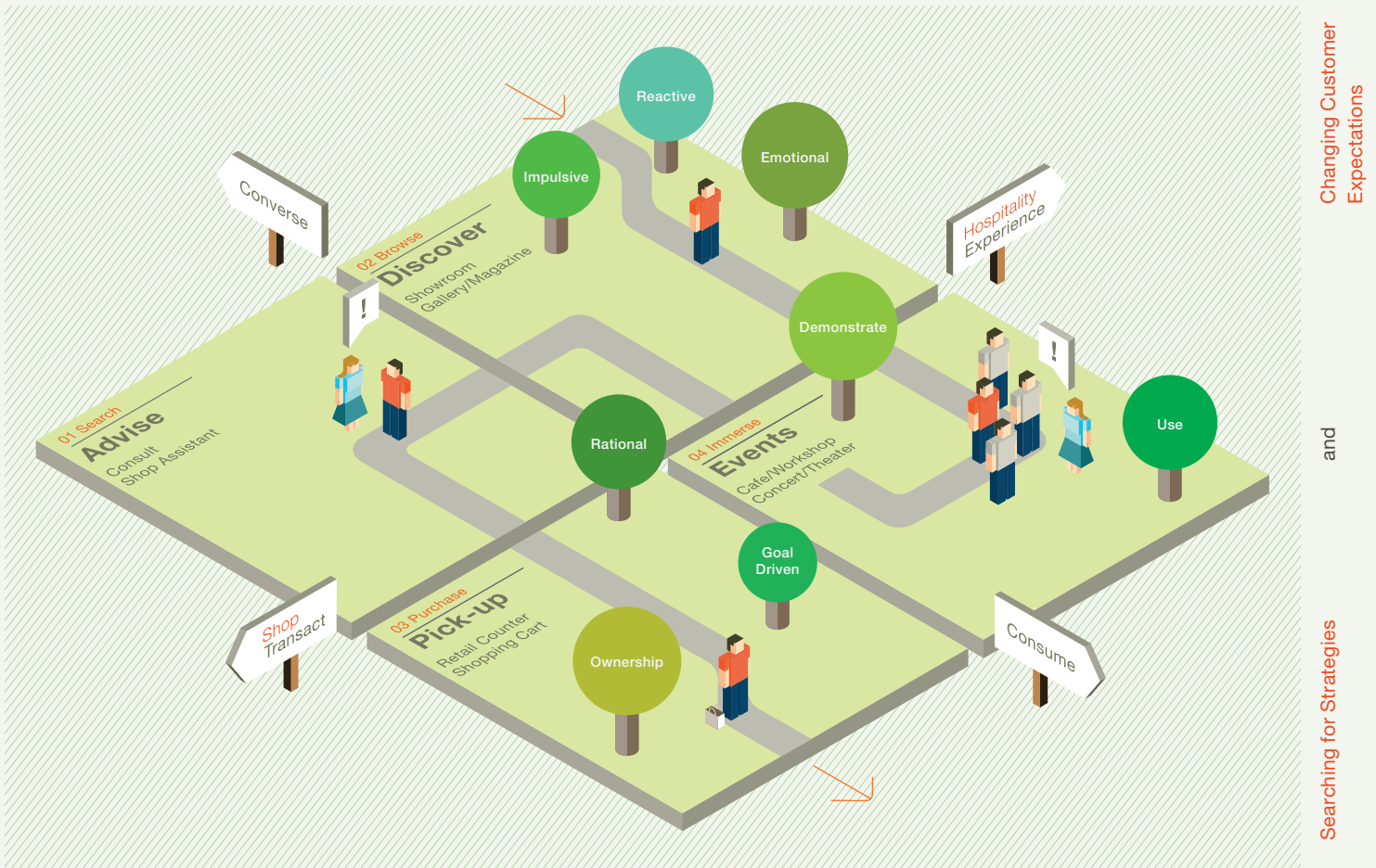
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Closing and Opening Time

There is no doubt that the Internet is changing the retail experience, and with it how we shop. Beloved stores are feeling the pressure of the prices and convenience e-commerce retailers offer. An ongoing study by IPG Media Lab reveals that shopper satisfaction at retail stores is declining up to 15% per year. Stores that used to define the diversity of shopping centres, from book-stores and clothing to consumer electronics and home goods, are closing. Small and large brands alike are searching for strategies to react to the change in customer expectation, where online retailers win on prices and convenience. For the first time in centuries, the role of the storefront is changing.

Times of transformation create opportunities. Retailers must adapt business models and integrate local, personalized services with online convenience. With these opportunities come new roles for the storefront that will redefine its social attractiveness.

The value of the local store for physical goods is continually evolving, driven by changes in distribution infrastructures. Recently, we have witnessed a shift in retail from physical to experiential, where the currency of value is the experience. However, we are only at the beginning of an economy driven by virtual goods. For example, while eBook market share is rapidly rising, Kindle eBooks only account for around 1% of total print sales. Virtual goods still need to fulfil the sales funnel from discovery and comparison to purchase and, later on, rediscovery.



01 What is the right product or service for me?

03 I am going to purchase this product or service.

02 What are the new products or services that I may not know of yet?

04 Trying out this product or service will help me understand it better.

“The role the store is playing is changing. Shoppers are walking up with a different set of expectations.”

— John Ross,
President at Shopper Sciences

Staying in Touch

Products and services increasingly exist within a cloud of information, continuously and dynamically linked to virtual brochure sites maintained by sellers, journalist reviews, consumer ratings, social commentary, and aggregated usage statistics. This cloud can be accessed any time in any place through multiple channels. While retailers traditionally see online and store marketing as competing businesses, customers ultimately care about convenience and perceived value — not the channel through which they are served.

As the “goods” we transact change, so do our purchasing behaviours. What was once a simple transactional process becomes a complex web of value shifts across several customer touch-points. Now, brands must manage multiple revenue streams, where the retail space may not be primarily devoted to income. Following this trend, wireless service providers such as Verizon have transformed their retail environments into places primarily for customer service, not monetary transaction.

Designing these new shopping experiences is not just about immediate sales but about creating opportunities to facilitate impulse purchases, up-sell, and cross-sell. The challenge is in constructing a seamless shopping experience that integrates the in-store, transactional, and post-sale goals. The experiences must converge to promote discovery in-store and the continuation of the sales process at home or on-the-go. This relies on context. Amazon suggesting a tripod with a new camera may not create more value. However, recommending a guide to photographing Wildebeest for a camera purchased for a Safari trip is more likely to increase perceived value.

We have to radically rethink how retail businesses earn revenue when sales margins are declining. The challenge is to design

user experiences across offline and online environments that focus on different types of transactional values.

We can learn and apply insights from sectors that have made this move already.

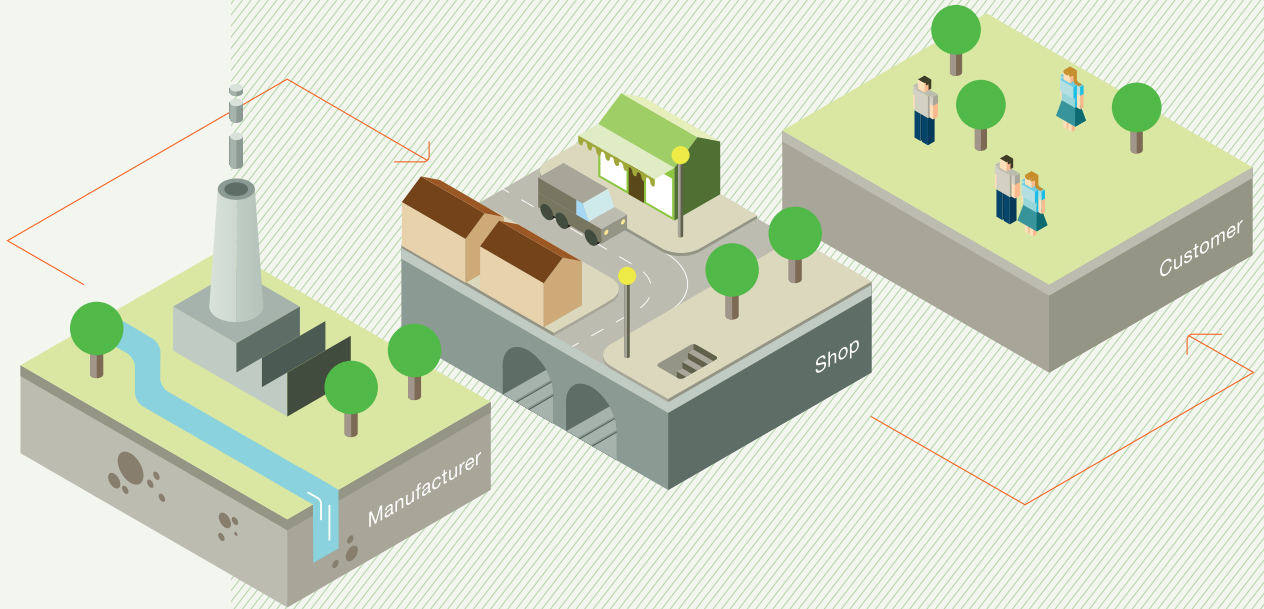
01 Think Like an Editor

We are overwhelmed with choice, and most products advertised to us do not match our lifestyle expectations. Too much choice results in confusion and indecision, the stumbling blocks for purchases. Additionally, as products become commoditized, the perceived value must come from the user experience. Nordstrom’s online and in-store growth can be attributed to their innovative approach to handling inventory to match shopper searches. The recent launch of their redesigned website includes editorial features for a magazine-like shopping experience. Online shoppers looking at products can see where they are available nearby and reserve them for pickup. By creating a fluid and personalized online and in-store shopping experience, Nordstrom has increased same-stores sales by an average of 8%.

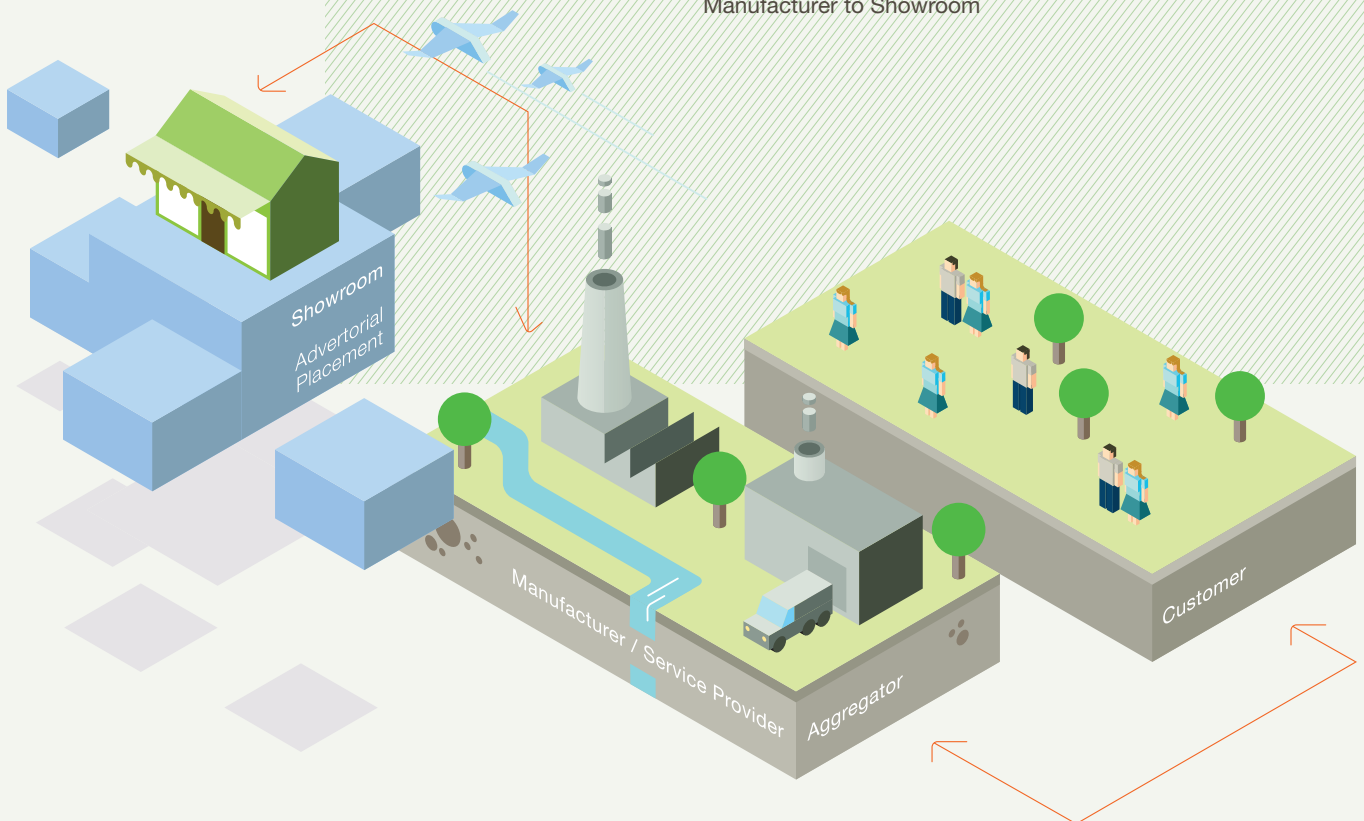
Brands such as National Geographic are beginning to move into experiential offers by opening highly curated entertainment and educational destinations. National Geographic’s offering has expanded from a lifestyle publication to include a TV channel, educational website, museum, and store that nurture lifestyle interests and offer products that match lifestyle goals. These brands recognize that the competitive advantage lays in differentiating based on audience desires and not the range of products and services.

Changes in the Retail Industry

Now
Manufacturer to Retailer to Customer



Future
Manufacturer to Customer Direct
Manufacturer to Showroom



“Retailers are grappling with lackluster sales and consumers who are dissatisfied with the store experience as online shopping becomes mainstream.”

— Wall Street Journal

02 Learn from the Fashion Industry

Fashion stores have radically changed in the past decade. Previously, customers purchased clothes once every season, limited by narrowly managed fashion trends. Now, customers return regularly, anticipating new discoveries as part of the experience. Zara's secret to success is through encouraging frequent shopping and continuing to inspire by regular reorganization of store layout and rapid turnover of merchandise.

Conversely, e-commerce still lacks browsing and discovery experiences that satisfy curiosity. The current standard for online shopping revolves around instant satisfaction initiated by a specific search. Etsy is one exception, with rich interfaces and interesting browsing options (color, time spiral, local) that stimulate exploration.

Increasingly, online magazines on platforms like the iPad will be directly linked with e-commerce convenience. The fashion mentality must be applied to online stores, improving on discovery.

03 Embrace Hospitality in Your Brand

Brands have the opportunity to become destination spots. Retail spaces can relax customers, offer refreshments, and provide entertainment while creating the conditions to engage in a conversation that builds brand loyalty.

Nestlé's gourmet coffee brand, Nespresso, successfully crafts various types of encounters with their customers. Although the machines are available in several stores, the capsules are only available from the company via mail, phone, Internet, or in Nespresso Boutiques. The boutiques are designed to develop and maintain a continuous relationship, even offering a club for coffee connoisseurs. The boutiques offer complementary coffee, distinguishing the purchase of new capsules from other repetitive shopping rituals.

This new lifestyle showroom for demonstrations and hands-on workshops could be applied to the Apple App Store and its labyrinth of apps. While few people have the time, patience, or desire to spend money to select an app that may or may not provide the expected value, an entertaining demo setting can provide a bridge for product sampling.

04 Own Your Community Network

Brands can extend relationships with customers by providing a community or gathering around shared events. Pop-up “stores” are the testing grounds for this format. Starbucks was the original force behind the idea that customers should linger and mingle when they made WiFi a coffee shop standard.

On the other end of the spectrum, small pop-up brands are riding the trend. For example, the traveling Rapha Cycle Club pop-up is a combination gallery, cycling shop, and WiFi café. The club organizes events around cycling races, is a meeting hub for biking enthusiasts, and also generates revenue from foot traffic. It is an early example of differentiation in an otherwise saturated market for coffee shops and cycling stores.

Design the Experience

As sales margins decrease, business models must change. Retailers must embrace the fact that monetary transactions are moving elsewhere, and often at a different time. As a result, retailers are becoming places that manage customer relationships and form and maintain brand awareness. Designing for customer relationships opens exciting opportunities for up-sell, cross-sell, rediscovery, and consumer advocacy. These relationships can be built using insights from lifestyle editors, fashion, hospitality, and community to create continuous experiences across retail channels.

In a saturated retail environment, one cannot compete on convenience, price, or relationship alone. To remain relevant, retailers must design experiences that merge the physical and online store.

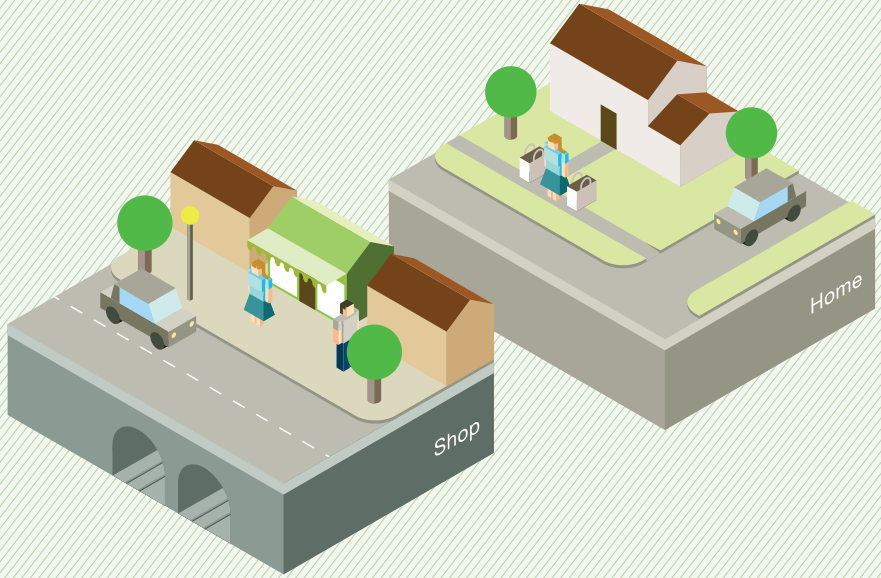
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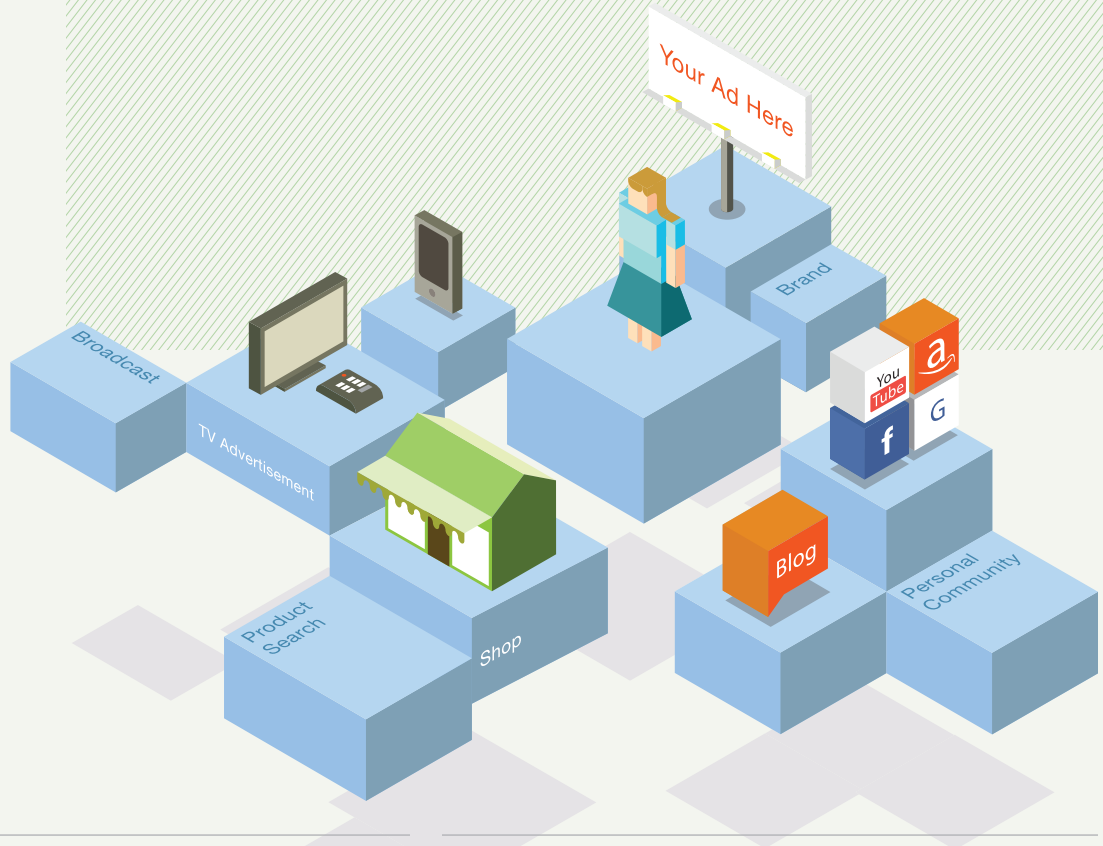
Home
Friends
TV Advertisement
Tupperware Party

Shop
Store Associate
Billboard
In-Store Marketing

Traditional Retailer Standard Buy and Sell Transaction



Internet Retailer Discovery and Comparison Using Aggregated Shopping tools

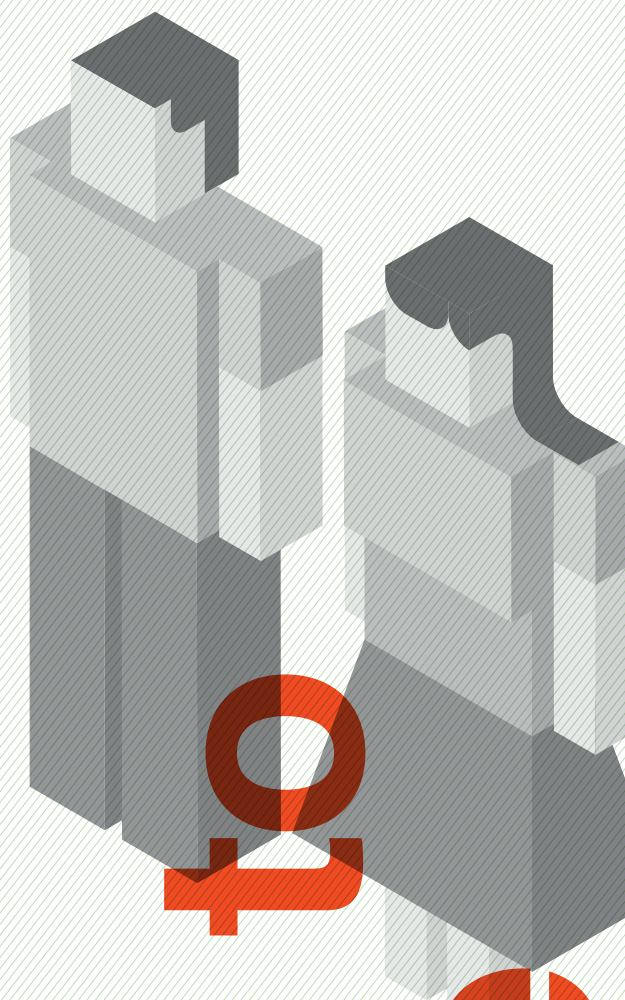


This is the
Sixth Issue

next

Service Design

More to Come



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About the Author

Alexander Grünsteidl leads Method's User Experience team in London. His expertise ranges from uncovering user needs, crafting interface behaviours, and managing usability requirements to formulating both the underlying business models and how the product is sold on the shop floor for retail experiences. He has conceived and produced the AppLounge, a pop-up store aimed at discovery and sampling of curated lifestyle apps.

About 10x10

2010 marks Method's 10 year anniversary, and we are only looking forward. Written by our own industry leaders, we are launching the 10x10 series, which will focus on game-changing topics that will fundamentally impact today's brands and their search for new revenue streams.

- 1 **Cable's Lost Generation**
- 2 **Unlocking the Infinite Library**
- 3 **Entertain Me Now**
- 4 **Place, Space and the Mobile Interface**
- 5 **Gaming for Behavior Change**
- 6 **Changing Retail Currency**
- 7 **Service Design**
- 8 **Wrap It, Pack It, and Stack It**
- 9 **Power to the People**
- 10 **Welcome to the Metaverse**



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About Method

Method is a brand experience agency with offices based in San Francisco, New York and London. Our clients are best described as owners of progressive, era-defining brands, and include Google, Comcast, Nordstrom, Sony, Samsung, Nokia, Microsoft, Time Warner, Intel, and BBC. Collaboratively, we help them create products, services and businesses that are smart, beautiful and extendable.

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