Reinventing Physical Retail in a Digital World

Why physical stores may be your best ally in the Amazon era
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PHYSICAL STORES ARE NOT DYING; THEY’RE EVOLVING. Retailers are pressured more than ever before to keep customers in the store and prevent store closures. Today’s tech-savvy customers are clearly shopping on Amazon and major e-commerce marketplaces. Consequently, retailers have been forced to close down many brick and mortar stores in 2017.

However, the competition between Amazon and other retailers will only get more fierce. Physical stores have tremendous opportunity to transform traditional brick and mortar into a digitally interactive brand experience. This transformation begins with empowered and effective store associates that create a remarkable and personalized store experience for customers. After all, over 90% of retail sales are still made in physical stores. This paper highlights the core problems physical stores are facing from the constant battle against Amazon to the increase in store closures. We will dive deep to unveil why these challenges exist and how physical stores can become an advantage against the vigorous competition.
SECTION 1

The Struggle to Keep Physical Stores Open

Retailers are experiencing a consistent decline in store sales and foot traffic, forcing them to close down physical stores, their main source of revenue. As a result, revenue and profits declined. Some retailers are even turning to online-only presence, which results in another set of complications they must overcome. The struggle doesn’t end there as Amazon continues to take over the online marketplace. In this section, we will explore the unique qualities of Amazon and its continuous threat to retail, the battle for the customer’s attention online, and the near death experience of physical stores.
The World of Amazon Continues to Grow

As a consumer, you think about convenience, flexibility, and customer service. The convenience of shopping and purchasing from your own device, the flexibility of comparing brands, products, and pricing from within the same site, and the shipping and delivery options that will either make, or break the overall experience. Amazon seems to win in each category.

Amazon is every online shopper’s dream and every retailer’s nightmare. From the very beginning, retailers have been threatened by what has now become the world’s largest online marketplace. Amazon is the biggest beneficiary of e-commerce growth by far, accounting for 43 cents of every dollar spent online in the U.S. alone last year, according to Slice Intelligence.

About one in every three online product searches begins at Amazon.com

Consumers who regularly search, browse, shop, and purchase on Amazon enjoy the diversity of brands, categories, and services it has to offer, including Amazon Prime. Prime is one of the most important offerings of Amazon’s business and brand. As expected, Prime members tend to spend more on Amazon. According to a survey by Morgan Stanley, about “40% of Amazon Prime members spend over $1,000 a year on Amazon, while only 8% of non-Prime shoppers do so.” Amazon Prime members also spend nearly 4.6 times more money on Amazon than non-Prime members do.

95 million transactions were made on Amazon Prime Day, 2017

The success of Amazon is embodied by its customer service and reputation as a brand. They take the time to understand who their customers are, where they are from, and use that data and qualitative research to meet those customer expectations. Customers want accurate shipping dates, so Amazon gives it to them, then takes a step further by offering same day, or even 2 hour delivery.

They have the highest search engine ranking for any keyword related to apparel and electronics. When you search something on Google, such as “cell phone charger” or “books,” Amazon appears within the top three Google search results. More than 50% of shoppers began their product searches with Amazon in 2016 compared to 44% in 2015.
Amazon has increased market share and expanded its presence into physical storefronts such as Whole Foods. Amazon is preparing to take over more of retail and customer dollars than any other e-commerce and physical stores combined. Their market cap is $461 billion as of August 2017; over 34% from the beginning of the year. They will most likely continue to grow as they disrupt the retail industry (including grocery-retail) and potentially hurt physical stores.

Source: Visual Capitalist
The battle doesn’t end with Amazon. Every online brand is also fighting for the customer’s attention through Google search. Retailers are already under immense pressure from Amazon as it is. Amazon’s major online success is curbing many leading retailer’s growth in the e-commerce landscape. If retailers close down their stores and only focus on e-commerce, it will only get tougher. With hyperaggressive prices and fast, cheap shipping and delivery options, any other retailer, big or small, cannot replicate Amazon’s unsurpassed economies of scale.

RBC Capital survey shows that Amazon is the clear winner when it comes to shopping online and website visits.

### When shopping online, what sites do you use?

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<tr>
<td>Jet</td>
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</tr>
</tbody>
</table>

Source: RBC Capital Markets; Proprietary survey of 1,845 respondents via Survey Monkey
Online real estate has become crowded and expensive. Retailers that are pivoting toward online-only selling are fighting for online keywords against Amazon and other major e-commerce sites.

Launching an online-only storefront is an entirely different ballgame than selling in-store. Amazon has created a formidable e-commerce platform and customer experience, which present a serious challenge to potential competitors. Retailers are struggling to keep up with new, emerging disruptive technologies (such as AI augmented commerce), constant change in consumer behavior, and delivering a consistent branded experiences at scale.

Modern and flexible technologies are required to implement and operate e-commerce capabilities. There are costs associated with online order processing and management when an item is purchased online. The product has to be picked, packed, and shipped to the customer from a distribution center. Online operations have other incremental costs that are associated with serving the customer: order management, tracking, inventory, shipping and delivery partnerships, and overall management of the site or app. This can become a problem if retailers don't have the right technology and resources to do so.

Many retailers are still using legacy, monolithic systems that prevent them from unifying and tailoring every part of the platform. A digital commerce platform has a key role. It empowers retailers to create and capture the true essence and voice of the brand and fold them into the overall customer journey.

Customers care for a quality, branded experience above all others and will choose brands that consistently deliver them. As noted above, these experiences are the culmination of strong operations and a nimble yet robust e-commerce platform. The first enables differentiating capabilities, such as same day shipment and the latter delivers intuitive and engaging customer interactions. Retailers who decide to go fully online will find out that Amazon has nearly perfected both.
There is a vicious cycle when it comes to physical stores closing down. Customers dissatisfied with their store experience are less likely to visit that store again. It may even go further to stores of that brand.

This, in turn, leads to a decline in store revenue and foot traffic. Retailers that react to the decline in traffic and revenue, reduce the number of store employees, resulting in fewer store associates left to serve the customer. In-store customer service further deteriorates, which results in additional decline to both revenue and traffic.

Retailers that have closed down their stores are now competing online for price, convenience, and brand choice. Over the past decade, U.S. department stores sales have declined from $87.46 billion in 2005 to $60.65 in 2015, according to the U.S. Department of Commerce.

Major retailers, such as Macy's, JC Penney, Sears, and others have closed down more than 5,000 stores in 2017. Meanwhile, Payless ShoeSource, Aeropostale, and American Apparel have all filed for bankruptcy. These department store closures may affect the possible shutdown of an entire mall, forcing other physical stores to close down in a domino effect. Some stores have “co-tenancy” clauses in malls that allow them to break the lease and leave if a large department store, or “anchor tenant” closes its doors.

There were 35 million visits to malls in 2010. But, in 2013, there was a 50% decline, leading to only 17 million visits. Cushman and Wakefield forecasted that about 15% of mall visits will decline in the next decade. Retailers may want to revise their current strategy of placing physical stores in malls and consider other models to reach success. For example, leading makeup retailer, Sephora, is experimenting with a new kind of store: neighborhood studios. Sephora’s large-scale stores are still thriving, but they’ve noticed that consumers’ shopping habits are changing. Some customers prefer to shop online while others don’t have time to travel to a large shopping center. Thus, placing smaller boutique stores in neighborhoods can help solve that problem.

“[Customers] want to pop by somewhere closer to home, but many of these shopping streets offer much smaller storefronts than malls”

—Calvin McDonald, CEO, Sephora Americas

Between 1970 and 2015, the number of U.S. malls grew more than twice as fast as the population, according to Cowen and Company’s research analysts. The U.S. has 40% more shopping space per capita than Canada, five times more than the U.K., and 10 times more than Germany.
So, why are we seeing an influx of store closures?

Since the Great Recession of 2008, rise in health care costs forced consumers to stop spending money on material things. From 2011 to 2015, consumer spending at department stores fell 7.7%, according to MasterCard SpendingPulse. They are diverting their purchasing efforts to everyday costs, such as healthcare, housing, education, and family. When they're not spending their money on everyday costs, they spend it on travel and dining out. During those same years, spending on travel rose 14.5%. This influence comes from the Internet itself; social media channels like Instagram and Pinterest drive consumers to collect moments and experiences, rather than material things.

This is especially true for Millennials. Seventy-two percent of Millennials prefer to increase their spending on experiences to material things, based on a study by Harris Group.

Physical stores aren't dying; they're changing just like the everyday consumer. And the shutdown of stores is not necessarily a bad thing, but an opportunity to do something different and better to build memorable brand experiences.

A new age shop hosts a meditation class in their physical store for customers. This is a prime example of building a better, more memorable brand experience.
The competition with Amazon and other giant online marketplaces will not end anytime soon. It is a constant battle. However, selling in-store can be an advantage to further evolve your brand and leverage technologies that benefit both the customer and the retailer. In this section, we will dive into what really makes physical stores superior to online-only brands.
By going beyond selling a product, retailers can establish a solid brand identity and build a relationship with their store customers. Emotions influence what customers buy. For some customers, shopping is a social activity, a way to spend time with friends and family and connect with brands on a personal level. A physical store is an essential part of the brand identity. Retailers are no longer considered a supplier of products; they're a lifestyle partner and experience-makers to connect with and inspire customers.

As the Customer Experience Officer, you want your customers to connect with your brand across all touch points of their shopping journey. It's not enough anymore to just offer store promotions, point of sale checkout, or fitting room assistance. These experiences are widely considered table stakes. Brand consistency requires coordination between online and offline channels, whereas online activity may be the driver behind store visits. Otherwise, your brand's identity can get lost in multiple yet disparate touch points.

Retailers must think beyond the data to engage shoppers in the store. By thinking beyond the data, you must think about the brand experience in itself. Customers spend more money on brands that show their passion and values. Bringing this to life begins with the feeling you want your customers to identify with and how they're shopping. This also varies from one retailer to another and is very specific to the products you sell.

For example, if you sell athletic gear, you can offer yoga and fitness classes in your store, or gather a running club before they go on their weekly or daily run.

“You have the opportunity to make your store experience experiential”

—Dave Barrowman, VP of Innovation, Skava

Selling stuff in person has an obvious appeal. As a customer, you walk into a store with a purpose; to browse around for fun, or to walk out the store with an item you were ready to buy.

The top reason why customers choose to shop in store is to “see, touch, feel, and try out items” in the store. The graph from Retail Dive explains other reasons why customers choose to shop in stores rather than online.
SECTION 2.1

A Physical Store is Much More Than a Transaction

Reasons for Choosing to Shop in Store vs. Online

- See, touch, feel and try out items: 62%
- Take items home immediately: 49%
- Return items more easily: 20%
- Enjoy in-store experiences: 18%
- Pose questions to store associates: 13%
- I only shop online: 7%

Customers want to touch and feel the products to inspect its fit or quality before making the purchase. If it’s shoes, they try them on and walk around the store to get a better feeling of the shoes on their feet. If it’s a dinner table, they want to touch and feel the quality of the table and visualize how they see it fit in their home. Create a store space that allows them to do just that.

Shoppers also have a sense of urgency. They want their items now and to take it home immediately, rather than wait for delivery, no matter how fast. Interacting with products is one of the key components to bring customers closer to the brand. Customers still prefer to shop in stores.

Source: Retail Dive Consumer Survey, fielded by Google Survey
Understanding the Individual Customer

Dynamic customer expectations, priorities, and behaviors are a challenge for retail executives to keep up with and even identify. Customers always want something better, even when they don’t know it. Amazon, for example, is customer obsessed.

“We’re not competitor obsessed, we’re customer obsessed. We start with what the customer needs and we work backwards”

— Jeff Bezos, CEO, Amazon

According to a CEI survey, 86% of consumers are willing to pay more to receive a better customer experience, but only 1% of customers feel their expectations are being met consistently. Retailers have an immense opportunity to deeply understand their customers with today’s intelligent tools and technologies.

When we think of machine learning, we think of online. Machine learning improves decision making by harnessing massive amounts of data to uncover important insights and patterns. Innovative retailers can tap into the power of machine learning to personalize a customer’s shopping experience across all touch points beyond merely making generic product recommendations. Machine learning offers personalized recommendations based on a variety of customer dimensions. These include behavior patterns, online activities, profile data, purchase history, and so on. Such capabilities can be essential to delivering an exceptional in-store experience.

Let’s say, for example, a customer is heavily using social media channels, such as Instagram and Pinterest. When she pins new outfits she likes to her Pinterest board or posts an “outfit of the day” on Instagram, retailers can mine that data for the store associates and create a rich customer profile.

Machine vision capabilities are yet another way to support product suggestions. Store associates armed with digital devices should be able to use the camera on the device to make product recommendations. Machine learning algorithms can generate suggestions for complementary items, predict future purchases, and understand customer intent. This will help store associates provide a much more valuable and personalized customer experience.
Every interaction with your customer matters; every touch point is an opportunity to connect and engage. And that connection begins with the store associate.

Store associates are the face of the brand. Today’s store associates are poorly trained and are uniformed about the brand as well as the products placed in the store. According to PwC’s Total Retail Report 2017, 78% of shoppers believe their experiences would be improved by “sales associates with a deep knowledge of the product range.”

Retailers have the opportunity to supercharge their store associates. In a recent Harris Interactive study, “88% of customers prefer doing business with a company that offers quality customer service over a company that has the latest and most innovative products.” Supercharging store associates is the idea of arming associates with digital devices to provide customers a magical store experience. Supercharged store associates have the ability to check out shoppers on the spot, look up customer profiles and inventory, and access brand and product information, so they’re ready to answer any questions customers have.

Digital devices, such as associate apps and point of sale provide store associates with a wide range of opportunities to further evolve the customer store experience. These technologies help transform mediocre associates to superstar store associates and potentially bolster their overall confidence.

“The opportunity lies within the technology; to make that mediocre, or average associate perform as well as the great associate. That means, arming them with the right tools”

—Dave Barrowman, VP of Innovation, Skava

Customer service is not only about helping the shopper find a different size, prepare a fitting room, and help with a return. Customers expect a store associate to greet them as soon as they walk into the store. At the same time, they expect the store to be equipped with technologies that would empower them to explore and interact with the brand. In a survey by Interactions, over 60% of shoppers want to be greeted in-store by an
associate while 84% of shoppers said they expect retailers to successfully utilize technological features to improve their shopping experience in the store. Retailers must find the right balance of leveraging a traditional store associate and technological advancements to streamline and compliment the customer’s overall journey.

Customers want an honest opinion and helpful advice. After all, they are spending time and money at your store. Equip store associates with training materials to help them engage with the products and learn more about the brand. Store associates shouldn’t have to worry about logistics of the store, or check inventory in the stockroom; leave that to the technology.

The technology’s role should support the store associate in providing valuable information that will better serve the customer. The role of the store associate should be all encompassing. It starts at the very beginning of the customer’s shopping journey in the store and ends when the customer is satisfied with their purchase. The retail landscape is at a point where technology is intertwined within the customer’s shopping journey, whether it’s in-store only, or across all touch points.
Shoppers expect a certain level of privacy in the store and want to have control over it. They don’t want businesses to watch their every move online and while at the store. Customers will only provide their information if they are given a strong incentive, such as redeemable store promotions.

Personalization in the store compared to online is more challenging given the limited amount of available in-store customer data. Furthermore, store associates may want to use caution when leveraging customer data in their interactions.

Some store customers will not open the retail app within the store, or even have their device’s Bluetooth powered on to receive beacon-triggered messages. According to Business Insider, “1 in 3 shoppers who have never tried in-store tracking and push notifications say they will never use beacons in stores.” This stems largely from privacy concerns and retailers accessing their personal data. However, about 60% of shoppers would only consider giving beacons a try for discounts and coupons.

To summarize, the first interaction with your customers should be with the store associate. The store associate should be upfront about accessing their profile information to better serve their needs and provide targeted discounts and coupons. Striking a conversation, the store associate can either scan the customer’s loyalty card or ask for their phone number to look up their profile. Providing customers’ phone number to an associate is becoming the norm in stores, such as Safeway, Ulta, Sephora, and others. The moment the store associate identifies who the customer is, he or she can create and deliver a branded yet personalized experience.
Computer programs, such as chat bots, use AI to help shoppers with customer service questions, rather than a real store associate.

Facial recognition technology identifying the shopper as a loyal customer and passes along the shopper's preferences to a store associate.

Brands understanding a customer's shopping habits so well that they are able to use AI and data to choose and order products on their behalf.

Search and order products verbally using voice recognition technology.

Digital screens, interactive mirrors, and virtual reality glasses display additional products that complement what shoppers are trying on.

Consumer Attitudes to Retail In-Store Personalization Tactics

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<th>Creepy</th>
<th>Indifferent</th>
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<td>Computer programs, such as chat bots, use AI to help shoppers with customer service</td>
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<td>along the shopper's preferences to a store associate</td>
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<td>Brands understanding a customer's shopping habits so well that they are able to use</td>
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<td>AI and data to choose and order products on their behalf</td>
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<td>Search and order products verbally using voice recognition technology</td>
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<td>Digital screens, interactive mirrors, and virtual reality glasses display additional</td>
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<td>products that complement what shoppers are trying on</td>
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Source: RichRelevance / MarketingCharts.com, July 2017

A physical store is much more than a transaction. Understanding your customer. The magic begins with the store associate. Personalization: balance between intelligence & creepy. Digitally reboot the physical store.
Digitally Reboot the Physical Store

The store associate device should be the most powerful piece of technology used in the store. Store associates can personalize the shopper’s experience with opportunities to upsell and cross sell in the store. Eighty-nine percent of retailers plan to equip store associates with mobile technology within the next 3 years, according to Boston Retail Partners. These mobile technologies administer customer profiles, help shorten checkout lines and process faster transactions in the store with POS capabilities.

A customer's mobile device can be transformed into a store device. According to Retail Touchpoints, nearly 60% of shoppers spend more money at stores that send mobile notifications. This doesn't necessarily mean beacon-triggered notifications. These mobile notifications should be personalized based on both qualitative and quantitative research and can be received while they are shopping in the store or while they're at home. Retailers have the opportunity to influence purchase decisions through a consistent stream of engagement, leading to unplanned visits to the store.

Convenience is key. Self-service technologies such as kiosk and endless aisle experiences must provide both convenience and value to the customer. We are already beginning to see the way physical stores are equipped with modern, self-service technologies. Department stores, such as Target, Walmart, and Macy’s have conveniently installed price checkers around the store. Customers can independently and accurately check prices, without the need to look for a store associate.

Realistically, shoppers walk up to kiosks out of curiosity, then continue shopping in the store. This is where the store associate comes into play. As the store associate guides the customer in the store, he/she should introduce the in-store kiosk or device and walk the customer through its capabilities, such as inventory look up, to make the most use out of the store’s device.

Personalization and digital store devices go hand in hand. Retailers are well aware that both are needed in the store. It’s just a matter of time that all traditional physical stores will evolve into digitally interactive spaces.

89% of retailers plan to equip store associate with mobile technology within the next 3 years

—Boston Retail Partners
Many leading retailers that have started out as an online-only storefront have seen tremendous success in the physical world of retail. Warby Parker and TOMS Shoes have something major in common: they interweave their company values and passions into the brand experience, allowing the products to shine through the brand.
Eyeglass retailer, Warby Parker, launched in 2010 and has grown exponentially, growing into a $1+ billion company. It began purely online. The founders designed and produced their products under their own brand, in-house, and sold them directly to consumers. Warby Parker is known for their home try-ons; allowing customers to order a few eyeglasses online and try them on at the comfort of their own home. At some point, the founders realized that more customers wanted to touch the glasses in person.

Despite the chaos surrounding the closing down of many physical stores, Warby Parker didn’t hesitate to expand to physical stores. With 41 stores in the U.S. and two in Canada, they plan to open more store locations in 2017, with a grand total of 70 stores.

“I don’t think retail is dead,” Warby Parker Co-Founder and Co-CEO Neil Blumenthal told The Wall Street Journal. “Mediocre retail experiences are dead. While e-commerce has been growing, the majority of retail still happens within four walls.”

The founders aim to make the eyewear shopping experience “as convenient and fun as possible” with knowledgeable and well-trained store associates, an in-store optometrist, easy and quick purchase processes using iPads, and an open display of frames. The store’s layout gives a welcoming vibe and a library-esque look and feel with shelves from floor to ceiling, sliding ladders for store associates to grab an item, and a help desk in the back of the store. Store associates are equipped with iPads in their hands as they roam around the store helping customers and accessing their accounts. Customers can even take pictures in a photo booth while trying on glasses.

Warby Parker has perfected the balance between its retail channels; complementing personalized customer service with mobile technology that brings the online experience in-store and its brand experiences to life. Retailers should rethink their store, the layout of their products experience, and focus on streamlining the customer experience with technology as well as knowledgeable store associates.

Dave Gilboa co-founder and co-CEO says Warby Parker has found that about 75% of their customers that shop in their stores have actually been on their website first. “The world’s not black and white, and people have been saying that physical retail is over.”

While Warby Parker segwayed to a not so traditional route from online to store selling, other retailers used their brand values to differentiate themselves from everyone else.

“We don’t think retail’s dead. We think mediocre retail is dead”
—Dave Gilboa, co-founder & co-CEO, Warby Parker
TOMS Shoes primarily focused on e-commerce and wholesale and has seen exponential growth since their launch in 2006. TOMS built their brand around helping those in need in developing countries by introducing their one for one program. For every pair of eyeglasses, shoes, or apparel a customer buys on their e-commerce site; they give one back to someone in the developing world. This is especially enticing for customers, specifically Millennials, who want to buy from brands that support social causes and know the money they spend will have a positive impact. Their very brand values provide a competitive advantage.

They’ve come a long way, but that didn’t stop TOMS from expanding even further. They opened up multiple store locations across the U.S. and transitioned from traditional store shopping experience to a community-based retail experience - “a welcoming environment that offers experiences in addition to products,” explains the New York Times. ‘We have to call them community outposts.’ An outpost seemed like more of a meeting center, an area for information, almost a political rallying point. This is the place where things are happening,” said Blake Mycoskie, Founder and Chief Shoe Giver of Toms. Again, it’s all about the brand experience.

TOMS established TOMS Roasting Company in 2014, but opened their first coffee flagship store in 2012 in Venice, California. “Creating TOMS Roasting wasn’t an attempt to compete with big chains but, rather, a bold move to reengage with the community and help more people,” said Mycoskie. They’ve expanded their café experience to other parts of California and Austin, Texas.

The TOMS flagship coffee shop lets people hang out among all the merchandise with a relaxed, outdoor space, free wifi, and couches that provide a welcoming vibe. The longer customers spend time here, the more they are connected to the brand. This is a prime example of a community-based retail experience.

For every TOMS Roasting Coffee purchase online, TOMS will give clean water to someone in need. TOMS have infused their passion for philanthropy and community into their brand and have been consistently embracing it.
Physical retail is far from dead. Retailers have the opportunity to build a solid foundation with their physical stores. A physical store experience provides an opportunity to bring brand experiences to life and connect with customers. Regardless of Amazon’s success and the apocalypse of store closures, physical retail is still viable and very much alive. Here are some key things to remember...

1. Establish a clear brand identity and fold it into your overall strategy, including in-store.
2. Selling stuff in person has an obvious appeal.
3. Understanding your customers with intelligence tools and technologies is key.
4. Transform store associates into knowledgeable brand experts.
5. Arm your store associates with digital tools to improve customer service and experience.
6. Personalize the customer’s store experience without invading their privacy.
7. Digitize the store to support store associates and better serve customers.
About Skava

Skava is a leader in providing modern e-commerce and digital platforms. Our cloud-native, microservices based technology enables continuous innovation in a mobile first world. We help leading retailers and enterprises across the world deliver engaging omnichannel, customer-centric experiences.

Headquartered in the heart of San Francisco’s Financial District, with offices in the US, Europe and Asia, Skava is a wholly owned subsidiary of Infosys (NYSE:INFY), a global leader in consulting, technology, outsourcing, and next-generation services.

REFERENCES