Nu-Retail:
A counter to the Net

Table of Contents

1. Nu-retail: an overview
2. What is nu-retail?
3. Nu-retail’s ally: entertainment retail
4. The competitive advantages of nu-retail
5. More showroom, less storeroom
6. Catering to “high-rollars”
7. Spotlight on the dressing rooms
8. Lifestyle merchandising
9. The nu-music store
10. Merchandising “Wellness”
11. Collections merchandising for the masses
12. Merchandising goes Improv
13. Cultivate personality
14. Returns policy
15. Stimulate all the senses
16. The “look and feel” of nu-retail
17. Sometimes it is best to join instead of fight
18. Bricks and mortar, but not cookies
19. A video-free environment
20. Negative Advertising is OK
21. Did we mention parking?
22. Conclusion: Kick ‘em when they are down.

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The dot.com bubble has burst. For almost a decade, the creative forces in the business world focused on the Internet as a new channel of distribution. Traditional channels – newspapers and magazines for information, bricks-and-mortar for goods and services – were on the defensive. The response was to join rather than fight back. The only question was how best to leverage brand names and fulfillment infrastructures.

The predicted massive shift to online buying has not occurred, although Amazon and Ebay did make serious in-roads. Basically, the competitive advantage of online shopping was hype. The Internet does have advantages over traditional channels, but the advantages are not overwhelming. And there are weaknesses.

The time is ripe for traditional retailing to attack the Internet head-on. People are no longer snowed by Internet hype. They have been exposed to its weaknesses and now should be receptive to, even downright relish, a frontal attack on the dot.com world.

This paper presents a broad analysis of what traditional retailers might do to counter Internet shopping. This is a strategy based on exploiting the weaknesses of the opposition rather than emulating their strengths. It is a strategy that focuses on the basics of tradition retailing—merchandising, dressing rooms, and returns policy — rather than on fancy technology or spectacular entertainment.

**What is nu-retail?**

We call this counter-attack “nu-retail”. This is derived from a term used by rock critics to refer to a new generation of heavy metal bands in the 00-decade – “nu-metal”. Using the term “nu-retail” suggests aggressiveness — a “kick ‘em when they are down” attitude. It also dates it, importantly,
as a 00-decade reaction to Internet shopping and not a nineties reaction to TV, “cocooning”, or other retailers.

**Nu-retail’s ally: entertainment retail**

Entertainment retailing grew up and got noticed in the Nineties. Retailers, especially the mall developers, saw the need to offer entertainment of their own to draw consumers away from their TVs and their homes, or “cocoons”. Also, entertainment retailing was a tactic to distinguish the “Great Malls” from the ordinary ones.

To draw traffic, developers bolted on three-ring circuses and skateboard parks to their malls. They simulated Venetian canals, Parisian streets, and Roman fountains. The emphasis was on the spectacular. The nitty-gritty of traditional retailing was ignored.

Entertainment retailing is still going strong. The Mills Corporation, the leader in building mixed-use retail-entertainment malls, has many projects in development. They have even copyrighted their own term for entertainment retailing and vow to protect their property with impunity. High-end retailers like Prada hire famous architects like Rem Koolhaas to design their flagship stores with entertainment value. With Internet shopping stalled out, the media has returned to entertainment retailing as the “big thing”.

Nu-retail and entertainment retail are allies in the sense that they are both employ tactics to draw customers out of their homes and to bricks-and-mortar retail stores. But, the opponents are different. TV is the enemy of entertainment retail and the Internet is the enemy of nu-retail. Different enemies demand different tactics. Using a baseball analogy, entertainment retail plays for the “long ball”. Nu-retail plays old-fashioned “little ball”. Indeed, nu-retail can be characterized as putting back a “T” in traditional retailing. Also, entertainment retail loves technology, especially video. Nu-retail views technology cautiously and sees the use of video in stores as actually reinforcing a TV and computer-centered life.
The competitive advantages of nu-retail

A nu-retail initiative starts with a fresh assessment the advantages and disadvantages of traditional retailing vis-a-vis “e-tailing”. Features taken for granted in the past, under-emphasized or neglected, are now seen as strikingly advantageous. An example to be discussed in more detail later, is the demo or the showroom. It becomes a feature appreciated more by consumers disillusioned by Internet shopping. The same goes for “unmediated” entertainment like the Nordstrom’s piano player.

**Nu-retail’s Competitive Advantages**

- The demo
- Lifestyle and collection merchandising
- Personnel
- Returns Policy
- Stimulates all the senses

**Nu-retail’s Competitive Disadvantages**

- Availability
- Information technology
- Convenience
- Price

The tentativeness of some of these relative strengths and weaknesses should be kept in mind. For example, it is highly uncertain what price advantage the Internet has over bricks-and-mortar because Web stores are unprofitable, with a few exceptions. It is too soon to know what pricing will have to be to insure survivability. Still, getting a feel for the relative strengths of these new advantages or disadvantages is important. It leads to an estimate of the “cost-effectiveness” of alternative initiatives. Furthermore, the cost-effectiveness of nu-retail programs depends on the retail segment. The number of options will be greater in some retail segments than others, because of both the effectiveness and the cost.
More showroom, less storeroom

Retail stores are both storerooms and showrooms. They are storerooms in that buying and possessing are simultaneous. They are also showrooms because "trying it on" or "trying it out" is allowed, if not expected and encouraged. The showroom feature has traditionally dominated certain retail segments. Automobile, furniture, shoes, and high-end audio is obvious examples. The storeroom feature has dominated other sectors like food and beverage, drugstores, building material / hardware stores. Other sectors are decidedly mixed. The large apparel sector, consumer electronics, jewelry, and recreational equipment come to mind.

Traditional retailing has a competitive advantage over the Internet shopping both as a storeroom and as a showroom. However, its comparative advantage is as a showroom. It is our belief that the single most cost-effective nu-retail initiative will be to enhance the showroom aspect of bricks-and-mortar. This priority is valid for all retail sectors, but it is especially valid for those sectors where the showroom feature is not well developed.

A few retail sectors have made notable improvements to their showrooms in the 90s. The most obvious is the addition of listening stations by stores selling music tapes and CDs. Another development has been spectacular re-creations of the rugged outdoors --"simulacrums"—by recreational equipment retailers. The outstanding example is the REI flagship store in Seattle. It cost $30 million and features a sixty-five foot freestanding climbing pinnacle, mountain bike trails, and a kayak slough. These environments can be a great draw to recreationists, but are very costly, and available only to the well financed, upscale chains. Simple, less costly initiatives like padded areas to test sleeping bags, and an area of fully erected tents, are available to less well-financed stores.
An effective way to emphasize the showroom aspect of retailing has been employed by very upscale stores like Prada. The merchandising technique features shrine-like showcases, while eliminating completely the floor stock. This creates the desired illusion of sacredness and scarcity. Art photographer Andreas Gursky has captured this minimalist look.

The Internet touts itself as being “interactive”. A notable “interactive” retail development pre-dating the dot.com era is Sony’s Metreon complex in San Francisco. At cost of $115 Million, it combines interactive demos of the full range of Sony content like video games, DVDs, and CDs, played on Sony’s own hardware line of TVs, audio, and computers. The Metreon also include passive elements like a movie complex and a range of themed restaurants. The traffic has greatly exceeded expectations. However, the Metreon isn’t really a retail store but advertising via bricks-and-mortar. It is a fine example of offering “interactivity” to the consumers, but suggests that this level can only be cost-effective for manufactures and not retailers. Still, consumer electronics stores should consider extending “interactivity” beyond it high end products into lower end products.

I want to point out that retailing initiatives that feature more interactive demos are not a guarantee for success in the 00-decade. The trend in the 90s for computer retailing was toward direct sales using catalogues, 800-numbers, and Web sites. In the late nineties, Gateway Computers launched a bricks-and-mortar strategy to complement its direct sales channel. These stores were pure interactive showrooms, including configuring and ordering assistance, but no “cash and carry” inventory. Gateway promised seven-day delivery for custom configured computers and 24 hour delivery for pre-configured computers. Gradually, they offered limited on-site inventory.

The Gateway program is nu-retail in that it is a bricks-and-mortar response to the limitations of its direct channel. This initiative has not been a success for Gateway as they have closed down 10% of their stores. However, Gateway’s problematic profitability model should be kept before
extrapolating to other retail segments. Gateway was facing a 20% gross profit margin for its product, insufficient to cover increased infrastructure costs of the bricks-and-mortar, even though the retail store initiative created increased revenue. The moral of this story is that retailers need to be working on more that a 20% gross profit to afford the costs of demo initiatives.

**Catering to “high-rollers”**

In a pure storeroom, all consumers are treated equal. Store personnel serve only as cashiers. As nu-retailers add showroom and demo features, which are costly, there is a need to qualify the customer for attention and avoid giving time-consuming demos to “tire kickers”. Once a “high roller” is identified, nu-retailers should be capable of offering more to the big spenders without turning off those rejected for this special treatment.

For the most part, an individual retailer has never tried to segment its services based on customers’ spending potential. In smaller stores, the personnel can give warmer service to repeat customers because they know who they are from memory. But, this is nothing like the attention afforded to “high rollers” by Vegas casinos.

There are two pre-conditions for segmentation. First, the store must have a lot of repeat business. Second, segmentation is cost-effective only if the distribution of sales by customer is highly skewed. It is not cost-effective to offer special service if the distribution is uniform – i.e. the top 10% of the customers account for only 10% of sales, etc. In my estimation, it takes a skew of at least top 10% of customers representing 30% of sales for a segmentation to be cost-effective.

These two conditions are present in the building material and hardware segment. This segment caters to a mix of homeowners and small contractors. I am sure there is a skewed distribution in this segment. Yet, there doesn’t seem to be a formal program, which caters only to the contractors, other than offering trade credit. This segment should consider coupling the introduction of extensive demo areas --- working shops --- with accessibility to favored high
spending contractors. They should be hidden, as much as possible, form the general public to avoid negative feelings of discrimination.

Department stores should consider segmenting demos offered by their cosmetics departments. The cosmetics department, situated in the center of the first floor, is surely the most profitable department of the whole store. Assisted demos and samplers are a tradition. But, customers must sit on high chairs in full view of passing shoppers. Why not create a secondary demo space off to the side? It would be hidden by opaque glass, be designed like a fully equipped salon. The “high-rollers” space would allow more extensive demos including full makeovers. The only question would be how to qualify customers and avoid “tire kickers”.

**Spotlight the dressing rooms**

The most cost-effective initiative of nu-retail would be to improve the dressing rooms. Build more. Make them larger and more comfortable. Make them elegant (for upscale stores), and possibly move them to the center of the store. Discount apparel stores present the greatest opportunity for the dressing room. What I see are dirty walls, the wooden seating, and the flimsy doors. The location of dressing rooms is hard to find and the lines are long on weekends.

I have estimated the following mix of space in a successful discount apparel store that I frequent. Total space is 20,000 square feet with changing area of 600 square feet, or 3%. I believe that nu-retail should push for changing area that is 6% to 10% of the total floor space. Individual rooms should be big enough to accommodate another person. They should be monitored twice daily for cleanliness. The store should install a nice carpeted area outside the rooms with chairs or couches for shoppers to model choices to their friends. For upscale stores, the dressing room can go high-tech. The famous architect, Rem Koolhaas, and his client, Prada, have recognized the importance of dressing rooms in nu-retail. The dressing rooms he has designed for the new Prada flagship store in SoHo features closets with touch screens and moving mirrors that allow the customer to see an outfit from all angles.
Another example of a bad ratio of showroom to storeroom is the drugstore segment. Longs Drugs, a major West Coast drug chain, has stated that its pharmacy business generated 46.3% of its total sales. Yet, I estimate that a typical pharmacy installation occupies no more than 15% of the floor space. Drugstore, and for that matter, grocery stores who are growing their pharmacy operations at a fast clip, should add resources to their pharmacy operations. They should increase the size and improve the décor of the waiting room. Because it generates so much sales and profit, more personnel should be allocated to the pharmacy operation.

**Lifestyle merchandising**

By and large, product offerings on the Net are grouped by product type. Clothes are sold on one site, music on another site. Dresses are found down one path, shirts down another, and shoes down another path. This is very traditional, uncreative, and unhelpful to the consumer because products have become just a means to a desired lifestyle.

Lifestyle merchandising is a direct attack on Internet shopping. After improving dressing rooms and increasing demos, it is probably the most cost-effective weapon of nu-retail. The business press love to write about lifestyle merchandising because it is window to the big picture that is American pop culture. Lifestyle merchandising does have its entertainment value and it is less expensive than the spectacles of entertainment retail. The key to executing lifestyle merchandising is having the considerably creative talent to pull it off.

It is not a new initiative. The May Company states in its 1999 Annual Report that “lifestyle marketing is the critical differentiating fact in competition with other department stores”. Nu-retail gives a new justification for this type of merchandising. It is effective in differentiating traditional retail from Web stores in which technology forces separation of categories.
Ralph Lauren has been called the inventor of lifestyle merchandising --- the thoroughbred look of East Coast country casual elite. Pottery Barn and Ikea have had success in presenting a wide array of home furnishings as a lifestyle. But, it is a lot easier to create a cohesive view when there is only a single brand. Multi-brand lifestyle merchandising that really works is rare. Urban Outfitters comes to mind. It has created a multi-brand “lifestyle emporium” where Diesel shirts are presented next to Urban Decay lipstick next to Dr. Marten boots.

The Nu-Music Store

It is amazing that the retail category most damaged by the Internet is exactly the one best suited to be become the “next big thing” is lifestyle marketing. Morphing into lifestyle stores may be the only way music stores can survive in the 00-decade. The likes of Amazon and CDNet, with unmatched breadth of product, have inflicted severe wounds to music stores. Then, vultures like Napster and its ilk, with free MP3 file-share, have zeroed in for the kill. And, the likes of Kmart and Wal-Mart, selling popular CDs as loss leaders, hit from inside retailing.

Music stores cannot survive the 00-decade by competing on availability or price alone. There are only two alternatives: lifestyle merchandising for big chains and niche marketing, like vinyl-only stores, for the small independents.

The basic idea is to take an Urban Outfitters outlet, throw out the apparel, and substitute music and a keep the Ticketmaster outlet. Overtures have begun. For example, Reebok has entered into a deal with Wherehouse Music Stores to showcase the latest Reebok sneakers. No Reeboks are sold; just a showcase is featured.

The right mix of categories and brands is crucial if a nu-music concept is to succeed. Simply merging the operations of two companies, say Foot Locker and Tower Records wouldn’t work. More than two categories are needed. Or, subcontracting space to other branded operations like...
Athletic Shoe Factory, Swatch, Ski-Hut wouldn’t work either. The mix has to be seamless with a uniform “look and feel” including a single name for the store.

Furthermore, it would not be cool to carry brands found in the malls like Nike, Swatch, Urban Decay, or Oakley’s. The key would be to carry brands just “bubbling under”. There are brands in transition from true cult status to big sellers. For example, a nu-music store would be the perfect transition for a Volcom before it becomes a Mossimo, or a New Rock before it becomes a Dr. Martens. But don’t be dogmatic about including only up-and-comers. I don’t care if Macy’s carries Joe Boxers. Include them. There is a danger of becoming obsessed about brands. It can turn both retail management and consumers into “label whores”.

It would be difficult to pick hot brands, and the winners inevitable would be lost as they are wooed away by bigger chains and department stores. Maybe, only the strongest independents with incredibly talented people could pull this. Music store chains pursuing a lifestyle merchandising strategy might have to settle for less hot brands like Reebok and Swatch, and just live with the fact that mall stores also carry these brands.

An alternative to settling on popular brands would be to mix items still taboo at the malls. No, I am not referring to drug paraphernalia. I am suggesting sex-positive items like lubricants, condoms, massage oils and a few innocent looking vibrators. The world is crying out for a mainstream bricks-and-mortar home for brands like Astroglide, Silky Stuff, Kama Sutra, and Wet.

Another innovation would be to include a convenience food section that I call a “Raver 7-11.” Forget about Coke and Fritos. Stock the coolers with Code Red, Red Bull, Nu-Kava, and Evian. Add stock the shelves with blowpops, gum, Sweet Tarts. And great health food snacks. And force the hip to consider just how hypocritical they are wearing New Rocks but brushing their teeth with Colgate. Showcase the complete line Tom’s of Maine body care products.
The store might have to be super-sized to accommodate the mix. And finally, consider store hours more typical of the youthful clientele---closed Monday and Tuesday, Open Wednesday and Thursday between 3 PM to Midnight, and stay open continuously from 3 PM Friday through to 6 AM Sunday. Close down Sundays to allow the shoppers (and sales personnel) to sleep or go to church.

**Merchandising “Wellness”**

After demos and dressing rooms, lifestyle merchandising is the most cost-effective weapon of nu-retail. I believe that it will be one of the most discussed trends in retailing in the 00-decade.

There have been some successes: Ralph Lauren, Ikea, and Pottery Barn. I rule out Martha Steward because I see no vision of a lifestyle. I see it as “memento” retailing: fans of Martha Stewart buying her line as “mementos” of their affection. Ralph Lauren, Pottery Barn, etc. are single label implementations. I can only think of Urban Outfitters as a multi-brand implementation. And this is centered on a lifestyle for the young, the most style-conscious sub-group in American culture.

What are the possibilities for lifestyle merchandising which isn’t a single label implementation of a youthful lifestyle organized around apparel or music? American society has plenty of well-defined sub-cultures. It is just that they all seem to be style-less. And if they have any style, it is expressed in music and apparel.

Coming up with lifestyle merchandising implementation for any large middle-class group seems both tantalizing and impossible. In the eighties, Aaron Latham first wrote about the “urban cowboy”. Although, not as strong today as then, the possibilities for an “urban cowboy” store are tantalizing, but what category do you center it on? When it comes to an “urban cowboy” implementation, I am embarrassed by my ideas.
I can envision what a “wellness” lifestyle store might look like. The desire to be “well” is a powerful one for people. Increasingly, people organize their free time around being “well”. It is a lifestyle sought by people who have achieved financial “wellness” and want more or sought by enlightened people with modest means.

A wellness lifestyle goes way beyond exercise. It is food, body and beauty care, music, home appliances and accessories, and health practitioners. Apparel doesn’t seem to be a well-defined component of this lifestyle, with the exception of comfort shoes like Birkenstocks and Rockports. Home furnishing is not a good category to include because it takes up a lot of retail space and is already covered well by Ikea and Pottery Barn.

I believe that a wellness lifestyle store should revolve around beauty and body-care products. Currently, this category is merchandised as an adjunct of health foods stores. The best merchandising example I have seen of this category is at the Whole Foods outlet in Palo Alto. It is the most extensive offering I have seen, occupying about 1,000 square feet at the center of the store. There is a dedicated station for a wellness counselor, which is a key piece to merchandising this category. There are established brand lines like Tom’s of Maine, Kiss My Face, Dessert Essence, and TwinLab – all just waiting to break out to a larger market.

This category should be separated from health foods and offered more floor space. Basic beauty care products like toothpaste and shampoo should be presented via no-assist grocery-style shelves. However, all vitamins, supplements, and high-end beauty care products, like natural alternatives to Botox at $78 a box, should be assist-sold like high-end cosmetics. Wellness counselors should be a key component. The store should reserve a premier location to spotlight each month the collection of a particular brand, say the Tom’s of Maine line or the TwinLab line.

Surrounding this center could include some or all of the following sections:

(1) music (new age, classical, and jazz),
(2) a new age 7-11 stocked with Odwalla, Evian, and Hansen’s
(3) a sex-positive section with Wet, Astroglide, condoms, and Hitachi massagers
(4) new age appliances like juicers, ionization machines, food dehydrators, and sushi makers
(5) selected household accessories like sleep pillows, special lighting, and indoor herb gardens.

It would be nice to have a row of offices nearby for health practitioners like an acupuncturist, massage therapist, dietitian, personal trainer, and last, but not least, a divorce mediator.

Collections merchandising for the masses

When we think of apparel collections, we think of haute couture and brands like Armani, Givenchy, and Versace. Featuring collections become a nu-retail tactic because Web stores are hierarchically arranged by function. Kmart and Target have made significant moves in this direct. This is a move to counter higher end department stores and the less creative Wal-Mart. The initiative pre-dates Internet shopping, but it is very nu-retail.

Specialty retailers should set up a prominent space in the store and each month feature an individual designer’s or label’s collection. Have a few items include in the featured space for each selection. Kmart has contracted with Martha Steward and Phillip Starck to feature their collection in their stores. The rest of the collection can be store traditionally by type. Include a little pic, bio, and personal statement.

Food and beverages stores should feature collections, too. I have seen an eye-opening display collection of the “Tom’s of Maine” line by the Whole Foods Store in Palo Alto. It gave me an insight to the breath of the line beyond its leading toothpaste product. My guess that specialty retailers can even get manufacture’s to pay for this spotlighting.

Another variation that grocery stores should pursue is presenting collections by cooking style. Again, set up a display, probably next to the deli section, and feature a group of foods and
beverages associated with a cooking style. Obviously, this includes Mexican, Asian, and Italian. Also, BBQ, picnic, and the traditional Thanksgiving, New Years, and Superbowl Sunday displays. But, these groupings are stale. Get creative and present style representing, Southern, Cajun, East Coast, West Coast, German and Polish, Scandinavian. And, last but not least, create a display that features healthy foods.

**Merchandising goes Improv**

There are only so many Martha Stewarts and Phillip Starcks who want to work with discounters. Indeed, the fact that Martha Stewart has been a success amongst Kmart’s other woes suggests that future alliances with name designers will be expensive.

More cost-effective would be to feature style collections that aren’t of the Martha Stewart stature. We envision dedicating a small section with racks and shelves presenting a style culled out of the store’s vast stock items. There would be no mannequins or fancy backdrops. There might be just placard naming the style. The idea is that discount stores have lots of styles, it just that you have to be creative and pull it together.

We envision team for this display to be one of the most creative gigs in all of merchandising. The team would be organized as an improv group much like the Drew Carry show “Whose Line Is It?” They would be presented with a word and have a few hours to pick the appropriate apparel from the racks. Obvious style categories would be hip-hop, sports, country, and preppie. Parodies of lower middle class style should be avoided like trailer trash, ghetto, red neck. Creative possibilities include styles organized around the following words and phrases: funky, righteous, slick, rain, fall, khaki, sexy, office, tropical, etc.

If this is over-the-top for discounters, it should be considered by vintage clothing stores. They should invite the community to witness the improv merchandising.
Cultivate Personality

Before the dot.com era, I believe that independent specialty retailers had three real competitive advantages. First, and foremost, they stocked items “hard to find” locally. Second, their employees were both personable and superior salespeople. And third, their décor could be quirky. Now, because of the likes of Amazon and Ebay, locals literally have access to anything in the world.

Specialty stores can no longer survive by claiming that they are the only source of items. Small specialty store needs to cultivate personality. Personality should be the primary consideration in employment searches. There are other ways to cultivate personality. All salespeople should be provided with monogrammed shirts and business cards. Attracting personable, productive salespeople certainly means some sort of commission system based on sales. And finally, progressive forms of ownership, like co-ops, should be considered.

Returns Policy

Returns policy is a classic example of a feature that becomes a competitive advantage when going up against Internet shopping. Recently, I saw a national TV ad by The Good Guys that was solely about its return policy. It depicted a fickle couple who bought a TV that was “slightly” small for their wall cabinet. It showed how easy it was for this fickle couple to get a “slightly” larger replacement with "no questions asked". It closed with a clear statement about no restocking charges. The fact that a retailer would devote a national TV ad featuring its return policy is pure nu-retail. The only missing element would have been some remark by the couple, that “Gee, the folks at Amazon would not have done that for us!”

Stimulate all the senses

Nu-retail is all about presenting itself as real. The Internet is a two dimensional visual experience (with sound from 6" speakers sometimes). Nu-retail should stimulate all of the senses of consumers. The experience should be “unmediated”.

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A signature experience for Nordstrom’s is a person playing classical music on a grand piano at its entrance. This is a nu-retail shopping experience at its best. It is real and “unmediated”. Shoppers clearly sense that they are not in the world of TV and computers. Of course, it is too expensive for most stores to copy Nordstrom’s. But, they could consider placing a big bouquet of fragrant flowers along side the cashier’s stand as a gesture of their commitment to a real shopping experience. (Other ideas are presented in the section entitled “Video Free Environment”)

Nu-retail should invest in technology that facilitates frequent changes of the store layout and décor. Racks should be mobile, lighting on tracks, and wall de-mountable. For example, the new Prada flagship store in SoHo has scheduled a complete makeover of wall colors every 8 months. Rather than investing in more information technology of questionable value, we believe that nu-retailers are better off investing in a “technology of freshness”.

**The “look and feel” of nu-retail.**

Webmasters are fond of talking about the “look and feel” of their sites. As a competitive tactic, nu-retail stores should have a different “look and feel”. The store should look real, alive, disjointed, and unpredictable. This is opposed to a Web store that is abstract, ordered, technical, and clean. If there ever was a store that had the “look and feel” of the Web, it is the GAP.

Nu-retail is early Frank Gehry. Entertainment retail is late Frank Gehry. Urban Outfitters has adopted a “deconstructed” look that comes from the early Frank Gehry Santa Monica house. Literally, it is a clash of bricks and mortar and chain-link fence and exposed pipes with “bombed out” holes in the floors. It is the opposite of order. The Issey Miyake store in SoHo is late Frank Gehry featuring metallic tornado sculptures.
For small independent stores, interior design is all about “no rules”--- the kind of raging liberation a teenage room exhibits. The cashier stand should be dotted with pictures and newspapers cutouts. The entrance alcove should have a cork bulletin board littered with PSAs and notes from the community that patronized the store. For high-end specialty stores, this “look and feel” is inappropriate. A minimalist look of all showroom and no storeroom, discussed earlier, might be the way to go. This look is so elitist and high concept that it would not be equated with the Internet.

Nu-retail does not need to look to the Las Vegas of Venetian canals, Manhattan skylines, and Roman fountains. That is entertainment retail, an attack on TV, not the Internet. It is a tactic designed to draw traffic to the malls, not to improve consumer choice. Still, nu-retail supports its allies. It appreciates the efforts of entertainment retail (as long as it doesn’t have to pay for it)

And now on to a look at the competitive disadvantages of traditional retailing vis-à-vis Internet shopping.

**Sometimes it is best to join rather than fight**

The Internet has taken away the availability advantage that smaller, independent stores used to have. No longer can a store claim that it has the best selection of comic books, or art glass, or Oriental rugs, or posters, or 80s punk albums in the area. Without compelling merchandising, demos, knowledgeable staff, and a strong connection to the local community of aficionados, it may be best to become a “clicks and mortar” or even a “clicks-only” operation. Even though the Internet might have done a store a favor by knocking out a few weaker local competitors, that still doesn’t guarantee its long-term survival.

Actually, some back-of-envelope calculations of average revenue earned by “Ebay Stores” suggest that small specialists cannot make it as a “clicks only” operation. However, a “clicks and day job” strategy seems viable. Ebay quickly has evolved beyond its collectables auction model.
Within one year, they have estimated that $1.4 billion in gross revenue out of a total $9 billion comes from fixed-price, “buy it now” offerings from 31,000 registered “Ebay Stores”. Assuming about $4 billion in gross revenue is generated by “Ebay Stores” means that an average of about $130,000 in gross revenue is earned per store.

An estimate of the gross margin is needed. This could be an eye-opener to wannabe Ebay stores. Economic theory and fact says, the more the competition, the lower the margin. Here is the trade-off. Bricks-and-mortar operations have less local competition permitting higher margins, which are offset by the infrastructure costs of operating a real store. An Ebay store has a lot more competition coupled with consumers having unparalleled technology supporting price comparisons. There is a small fee that needs to be paid Ebay, but there are no other significant infrastructure costs like rent. I estimate that the margins for “buy-it-now” products that actually sell to be no more than 20-25%, whereas these products command 40-50% when sold locally. So, the result is that a yearly gross revenue of $130,000 yields only about $26,000 to $32,500 in gross profit. As a sole source of income, this is not enough to sustain an Ebay seller. That is, unless you are a semi-retired, or a farmer, or a person who has another day job. It is not surprising to see vignettes in the media about successful Ebay entrepreneurs who turn out to be farmers or retirees. Ebay should be credited with saving the family farm. No futurist could have predicted this development.

**Bricks and Mortar, but not cookies**

The Internet has dazzled us with information technology relevant to making consumer choices. They invented search engines to narrow quickly the possibilities. They have empowered consumers with technology to capture their own reviews and ratings. They have offered best seller lists segmented by location and business. Based on “cookies” and other intelligence gathering technology, they have suggested related purchases. Their technology has saved lives by providing information about potential side effects of prescriptions and the prudent conditions for usage.
Traditional retailing is definitely at a competition disadvantage to the Net when it comes to providing the consumer with information. There have been some attempts to match the Internet. Pharmacies keep a database on all prescription drugs used by its patrons and issues warning about potential conflicts. Other efforts, like tacking NY Times Best Seller lists to the wall, seem pathetic in comparison to the Internet. Are there Web-based technologies that traditional retailers should adopt?

Before I look at that, I want to state what it shouldn’t do. It should not invest big dollars in technologies that attempt to mimic the Net’s intelligence gathering apparatus. There is a large technology-media complex trying to convince retailers that this is the next big thing. Ideas include adapting the “cookie” concept, some suggest using biometrics, to the retail sphere by collecting minute information on consumer “views”, let alone purchases. This data feeds into “one-to-one” marketing technology, where mailers and handouts (the equivalent to banner ads) are customized on what an individual “views”.

Still, certain retail segments should consider introducing search and information technology into the store space. Such technology will be expensive so the prime candidates are those segments with a relatively large number of SKUs that are difficult to distinguish. The building material and hardware is a prime candidate as it certainly would be ranked first by consumers as the place it is most difficult to locate a desired item.

The technology in mind has been successfully introduced by museums. The application is the use of wireless, interactive audio guides. The question is how well does the technology scale. The ones used by museums are limited to 10 to 20 short narratives about the art (SKUs). A typical home improvement big box might require the audio guide to be capable of informing the consumer about 5,000 SKUs --- 500 times the number of SKUs in a museum tour. Furthermore, the information would have to be updated weekly. It could be a very costly initiative.
Even more advanced would be a module that a consumer could wear with voice recognition capability. The consumer would “Ask Jeeves” questions like, “what brand of glue is best for bonding rubber to metal?” Hopefully, the technology would answer intelligently. And, hopefully, the retailer wouldn’t resort to favoring certain manufacturers based on fees, like Internet search engines do now.

There are powerful forces dedicated to financing, selling, and writing about of new information technology applications. Now that the dot.com bubble has burst, they are desperate to create “the next big thing” for information technology. Traditional retailing is a target. There now exists “clicks” divisions within retailing companies who are biased toward new technology initiatives of any sort over nu-retail initiatives like demos and dressing rooms and lifestyle merchandising. Nu-retailer should not underestimate the forces favoring more technology in retailing.

**A video-free environment.**

Entertainment retail love video. Retail stores seem to have more monitors than sports bars. They show Madonna gyrating in Dolce & Gabbana, Tommy Curran ripping in an O’Neill wetsuit, and Martin Yan can cook. Retailing should be more critical about using video in stores. They should recognize that using video is counterproductive to the desire to lure consumers away from their TV.

Nu-retail must take the lead in limiting the use of video in stores. That includes videos for entertainment, videos for demonstrations, videos for online ordering, even touch screens used in kiosks. Also, introducing videos in store windows should be challenged. Use mannequins not manic vids. Nu-retail should encourage its allies in entertainment retailing to produce “unmediated” entertainment.
For laughs, nu-retail should put up signs in stores proclaiming, "This store is a video-free environment". Excluding video in traditional stores fights the tendency to access life through a video monitor. Some say that it is a lost cause. If so, then traditional retailing is doomed.

Is there an alternative to using video in stores? There is. Go live. Create live demos instead of video presentations. Hire live entertainers instead of renting MTV-like clips. Specifically, hire mimes, bubble blowers, jugglers like the Flying Karamozov’s, face painters, and clowns. Install dance floors in the teen apparel departments and hire instructors to teach the latest “thang”. Also, go analog. Install big fish tanks, Rube Goldberg’s constructs, or model railroads.

**Negative Advertising is OK**

Negative ads are all about creating “FUD” – fear, uncertainty, and doubt – in the minds of the consumer regarding the competition. In the nineties, the opponents of Internet shopping raised the fear of credit card fraud. Next came horror stories regarding late shipments by e-tailers during the Christmas season. The media spread these negative stories, but they never became the basis for negative advertising by traditional retail.

The glow surrounding Internet shopping is gone. Consumers are looking for someone to a counterbalance the hype. It is now time for negative ads. It seems reasonable for major department stores to fight back. Put out print and media ads during the Christmas season explicitly warning customers about the poor delivery performance of Web stores.

Also, train personnel to put down Internet shopping and play up traditional retailing. For example, when a customer discovers that one M-sized pants fits and another M-size doesn’t, the sales person should remark, “I am glad your tried them on. You can’t do that on the Internet”. Have an ad agency come up with a good phrase that becomes the basis of a button that sales people wear periodically. Something like ”Retail is real…Net is not”.

©Larry Abrams, 2002 Nu-Retail: A Counter to the Net
Nu-retailers should also raise the “misrepresentation” issue. You really can’t be sure what you get when you buy by computer. You need to try it out at your local retail store. A good example would be the variability in the size categories: S-M-L-XL. Show how variable the size M can be. You just can’t rely on sizes, and that goes for staples like towels. Show how variable the thickness of towels can be.

Creating an effective negative ad campaign should be easy. Ad agencies should have a field day poking fun at an over-hyped target. The problem is that there are now powerful forces within ad agencies and within retail itself that are motivated by self-interest to protect Internet shopping. Ad agencies have high tech clients. Retail now has “clicks” divisions. The first retailer to sponsor negative advertising will be noticed.

Did I mention parking?

When I first mentioned to my 25 year-old daughter that I was doing a think piece on nu-retail initiatives, she answered, “Did you mention parking?”

Conclusion: Kick ‘em when they’re down