



# Brick- and- Mortar Reborn

THE FUTURE OF RETAIL IN THE ERA  
OF URBANIZATION

Developed by



in collaboration with

**QUARTZ**  
creative services



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Cover photo by Raphaël Chekroun, One New Change, St. Paul, London



## I. INTRODUCTION

For years now, analysts have predicted that the rise of mobile technologies and the ascendance of e-commerce would result in the demise of brick-and-mortar retail spaces of all sizes. As retail went digital, the idea was, physical space would become redundant. But while pivoting to a new digital paradigm hasn't been easy, the retail industry's ability to adapt has been notable and impressive. In fact, as cities grow and new hordes of consumers flock to establish themselves in urban communities, opportunities for innovation are emerging that suggest brick-and-mortar may be the pillar of a new retail era.

## II. URBANIZATION AND THE CONSUMER

Between 2014 and 2050, the number of city dwellers will increase from 54% to 66% of the world's population.<sup>1</sup> This move suggests a shifting set of preferences—away from the comforts of rural space to the accessibility of city life. The way we are choosing to live is changing and will have a significant effect on global consumption over the next few decades.



### A. RISE OF THE CITY

Part of this shift toward cities can be explained by aging demographics. For the aging generation, growing old with the convenience of walkable, accessible living is appealing. And younger generations are drawn by the opportunities and lifestyle.

Cities present the best career options for ambitious, competitive talent, as well as easy access to shops, restaurants, and cultural resources.

Consumption is rapidly rising in tandem with urban growth. By 2025, urban consumers will inject \$20 trillion per year into the world economy.<sup>2</sup> Because overall global population growth is slowing,<sup>3</sup> consumption growth in the future will be increasingly dependent upon a concentrated group of urban individuals. In the years to come, that group of urban individuals will have greater expendable income at their disposal—increasing their spending power and driving growth (figure I).

figure I

Increases in per capita spending will drive global consumption growth

1970 - 2000



2000 - 2015



2015 - 2030



### Contribution to global consumption growth

- From per capita growth
- From population growth

## II. URBANIZATION AND THE CONSUMER

This consumption will be highly concentrated. Between 2015 and 2030, analysts expect just 32 cities to generate one-quarter of the world's total urban consumption growth.<sup>4</sup>

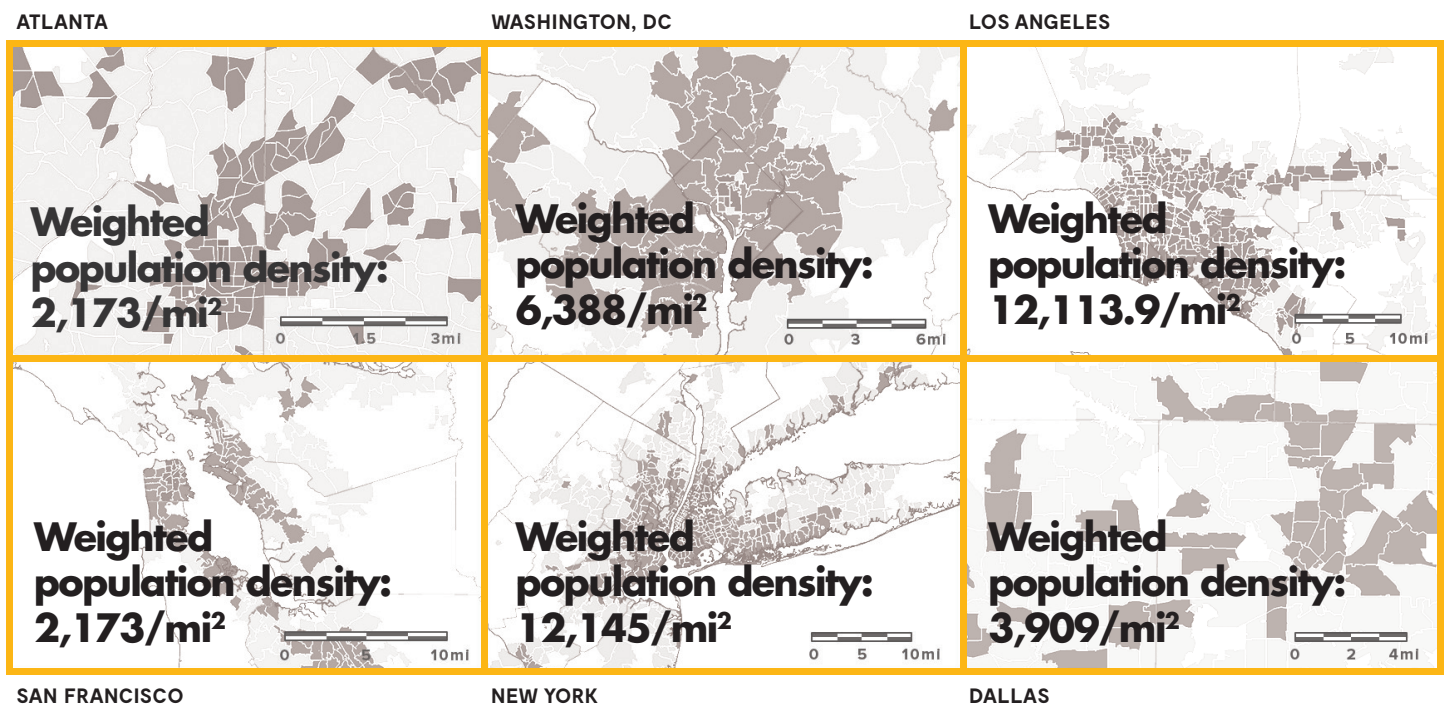
While urbanization in emerging markets—especially in Asia—will play an undeniable role in growing this new class of metropolitan consumers, retailers will need to remain focused on wealthier regions, particularly North America. By 2030, seven of the top twenty cities with the largest consumption growth will be located in the U.S. alone.<sup>5</sup> These centers range from megacities—typically defined as having over 10 million inhabitants—like New York and Los Angeles, to sprawling metro regions, like Atlanta and Dallas.

Because of the United States' expansive metro areas (figure II), the defining feature of urbanization in the U.S. is its non-conformity. A new class of tech-savvy, youthful, and cultured consumers is emerging from these varied urban environments. Those consumers' discerning expectations can offer merchants an instructive view into the future of retail in an era defined by the rise of the city.

### B. THE CONSUMERS

Because of slowing population growth, economic development in the future will depend on increased individual spending rather than population expansion. In fact, three groups—China's working class, global retirees, and the Northern American working-age population—will dictate over half of all global urban consumption growth by 2030.<sup>6</sup>

figure II



## II. URBANIZATION AND THE CONSUMER

In the U.S. alone the next few decades will see nine million 30- to 44-year-olds migrate to urban areas.<sup>7</sup> Compared to previous generations, this cohort has delayed making milestone decisions, such as purchasing a home or starting a family. Their reasons for doing so—student loan debt, wage stagnation, unemployment—are many, but over the next 15 years, at least some of those postponed purchases are likely to be made. That increased spending will translate to a bump in consumption growth: On average, freshly urban 30- to 44-year olds will be spending \$10,000 more each year than they are today.<sup>8</sup>

Even so, coming of age during a time of profound technological change and economic crisis left a considerable impression on these North American millennial consumers. If not digitally native, these late bloomers are at least digitally fluent. They are also educated, socially conscientious, and fiscally calculating (figure III). After years of immersion in ever-connected mobile devices and curated digital environments, leveraging technology to discover deals, services, and products has become second nature to this demographic. In fact, despite widely held stereotypes, millennials are discerning consumers: In the absence of burgeoning bank accounts, their time—maximally utilized and carefully doled out—is money.

Today's younger generations prefer to invest in experiences and favor purchasing tailored, authentic products in a manner

figure III

No time or money to waste:

**63%**

of millennials purchase only what is on their shopping lists

**82%**

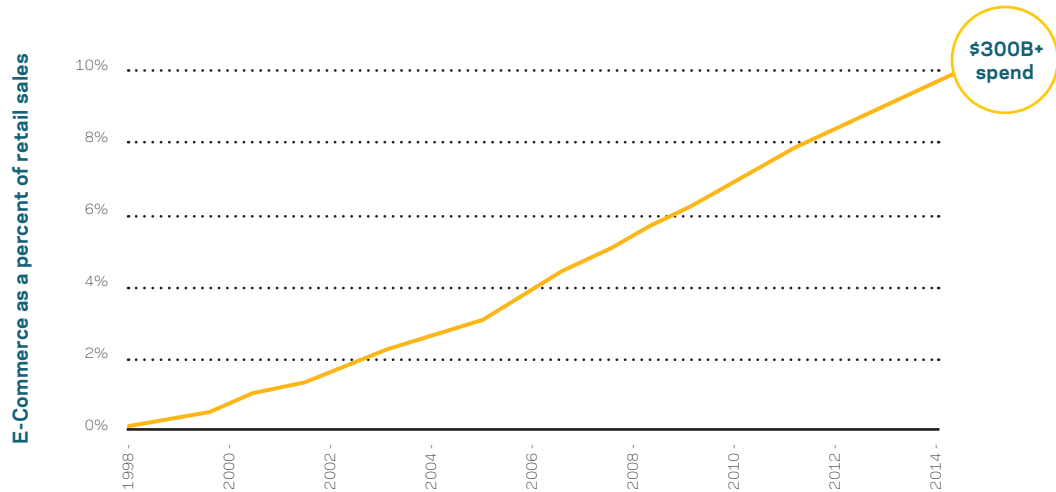
report they are confident they're spending what they can afford<sup>9</sup>

that is convenient and fast. They embrace on-demand services like car sharing and urgent care clinics, and are two to three times as likely to purchase goods and services using their mobile phones than their boomer counterparts.<sup>10</sup> But consumers across generations are broadly catching on to the notion that experiences can be more satisfying than simple purchases. And e-commerce is an increasingly integral part of their retail experience.

E-commerce has grown over the last decade: It totaled nearly 9% of retail sales in 2015 (figure IV). That growth has raised some concerns about the future of the brick-and-mortar outpost. But for all the alarm, in-store shopping remains the preferred retail channel for 82% of millennials,<sup>11</sup> even for those who also engage in online shopping.

figure IV

## E-commerce as a percent of retail sales is rising in the United States



Source: U.S. Census Bureau

With access to like-minded communities and countless boutique offerings, young urban consumers have developed a discerning consumption perspective. For these consumers, the shopping itself—from interacting with physical merchandise, to pampering from store personnel—is an experiential journey. In many ways the culminating act, purchase, is an expression of identity. In the U.S., 50% of 18- to 34-year-olds believe that the brands they endorse reflect their personal character and values.<sup>12</sup>

Being able to navigate consumers' priorities of subtlety and immediacy demands a shrewd, nuanced approach from retailers. And recent industry developments suggest that continued innovation in retail will require strategies that encompass both the digital and physical realms.

### III. THE REBIRTH OF BRICK-AND-MORTAR

#### A. THE NEXT GENERATION OF SHIPPING AND FULFILLMENT STARTS AT BRICK-AND-MORTAR OUTPOSTS

Convenience is and will continue to be paramount to urban consumers. On-demand services like Uber and Seamless have conditioned city dwellers to expect flexibility and immediacy when purchasing items online—70% believe having delivery and pickup options is important.<sup>13</sup>

Digital retailers have followed suit, even upped the ante: Clothing retailer Everlane partnered with on-demand delivery service Postmates to bring one-hour delivery to metropolitan centers like San Francisco and New York City. And nimble startups aren't the only businesses gearing to respond to urban demand. With free same-day shipping in 27 metro areas for its Prime subscription members, Amazon was one of the first retailers to cheaply deliver goods to consumers quickly.

figure V

**75%** of U.S. consumers state that they would switch to a retailer that offers free shipping <sup>14</sup>



Companies like these have set a new shipping standard for e-commerce and urban retail. Customers now expect fast, and sometimes free, deliveries. Smaller retailers working to keep up have been forced to subsidize online shipping costs. As e-commerce expands, so does overhead. Interestingly, brick-and-mortar infrastructure offers retailers a chance to avoid these costs, and it's shaping the next wave of retail shipping and fulfillment innovation.

#### **CLICK ONLINE, COLLECT IN-STORE**

The click-and-collect strategy allows customers to purchase items online, with the option of collecting or returning goods in store. Though it requires investment in store staff and server storage, it eliminates the need to subsidize shipping costs.

Research suggests that nearly 70% of shoppers live within the vicinity of a retailer's brick-and-mortar location.<sup>16</sup> Click-and-collect facilitates consumers' desire for flexibility and



figure VI

Up to **20%** of consumers who return an online purchase in-store make an additional purchase <sup>15</sup>

convenience, removes the burden of shipping costs, and drives consumers back to the brand for repeat engagement. This approach is quickly becoming standard practice for large retailers, like Walmart and Lowes, with pre-existing physical infrastructure and significant financial assets.

#### **REAL TIME INVENTORY TRACKING AND SHIP-FROM-STORE**

Ship-from-store allows customers to purchase items online and receive their orders directly from a store rather than a distribution center. To source items and balance inventory demands from online and physical channels requires a centralized tracking system. But the approach can create gains by shifting unsold inventory to areas where demand is highest.

Technology helps: RFID tags allow retailers to accurately track merchandise across stores and warehouses. Coordination not only gives stores a holistic view of goods, it also allows them to inform online shoppers when items are back in stock.

#### **STORE AS SHOWROOM**

This strategy treats stores as showrooms, allowing customers to engage with personnel, place orders, and then ship merchandise to the location of their choice. No inventory is held at the outpost. This way, retailers can remain competitive by offering a wider variety of items without needing to maintain excess inventory.

figure VII

**71%** of consumers surveyed would choose to purchase the product in-store, if told online the item was in stock <sup>17</sup>

One significant challenge for smaller businesses is overhead—things like inventory, rent, and floor staff. These retailers may find success in combining the showroom and ship-from-store model, like men's clothing retailer Bonobos has done. Bonobos customers can sample inventory in small physical showrooms where orders are placed and shipped to the location of their choice. Both the consumer and retailer benefit: Shoppers enjoy a personalized experience, and Bonobos is able to offer differentiated products without wasting inventory overhead on less desirable products or extraneous personnel costs.

#### **ON-DEMAND SHIPPING**

On-demand shipping strategies partner retailers with local couriers to deliver products immediately. This strategy is most effectively deployed in dense, large cities with shorter distances to travel.

figure VIII

**56%** of consumers believe it is important to receive their purchases within three days <sup>18</sup>

These partnerships could eliminate the need to build out back-end shipping infrastructure. Here, Whole Foods' partnership with Instacart to deliver on-demand groceries in metro areas across 16 states is instructive. The strategy can scale up for larger chains like Whole Foods, and down for mom-and-pop establishments seeking to rapidly serve their community.

**B. EXPERIENCE-DRIVEN RETAIL: THE RISE OF FLAGSHIPS, CURATED SATELLITES, POP-UPS, AND CONCEPT SHOPS**

Urban consumers strongly favor the in-store shopping experience—with an emphasis on the experience. Eighteen percent of urban millennials expect to shop more in stores in the coming year than they did the last. When they do, they expect more than just a transaction. They want a unique experience that differentiates their spending and are willing to pay, on average, 31.6% more for it.<sup>19</sup>

From flagship stores to short-lived, curated experiences, the future of retail involves meeting shoppers on their own terms—in the physical spaces they prefer.

**FLAGSHIP STORES**

Flagships are large retail outposts meant to serve not only as shopping centers, but as destinations. From outsized selection to special events and community spaces, these stores represent the ultimate tangible embodiment of their brands.

Flagships can offer the chance to indulge in the experience of the space. At Samsung's New York "cultural hub"—Samsung 837—nothing is for sale. Instead, the space boasts an auditorium for impromptu events and concerts, art galleries, and rooms of interactive media and product demos.

figure IX

If not in store, where does the inventory sit?

<b>Central hub</b>	Retailers use one main warehouse to store, distribute, and ship inventory
<b>Dual hubs</b>	Retailers maintain two warehouses—one for online inventory and one for in-store inventory
<b>Distributed hubs</b>	Retailers utilize a number of distributed warehousing sites spread throughout the suburbs to serve urban stores in close proximity. These warehouses may be large or small. Some retailers even opt to rent space within multi-tenant warehouses to save on costs.
<b>Direct</b>	Retailers do not hold extra inventory, but "pull" items directly from the supplier as required.

This is not a phenomenon restricted to megacities such as New York or LA. In Atlanta, for example, The Frye Company flagship store partners with local celebrities and online personalities to promote “insider favorites”—Atlanta-specific events and places—in a bid to tie the brand to the urban community and associate with Atlanta’s unique identity.

Flagships also present a way to enter the North American market in style. At its first U.S. outpost in Boston, Irish fast-fashion retailer Primark preserved elements of the space’s former occupant, the iconic Filene’s Basement, in a nod to longtime customers.

#### **CURATED AND CONCEPT SHOPS**

Highly curated physical spaces are an approach that smaller retailers—or those targeting a narrow demographic—can use to differentiate themselves. Think: storefront as brand microcosm.

Consider Adidas’s “high-concept” lifestyle venues, such as the one set up in partnership with Footaction in Houston. The shop-within-a-shop houses select items for the street-style set in a venue garnished with textured, craftsman-style wood surfaces and urban-inspired art by local artists. Interactive digital lookbooks and unique one-off events complete the space.

Another example, The Bearded Bastard, in Austin, takes curation to a new level. Founded with a single beard-care product, the company has grown into a local lifestyle brand, offering a range of locally developed, natural grooming products for Austin’s hirsute. The brand boasts a popular Instagram feed covering developments in the world of facial hair.

Some spaces have gone so far as to take the idea of the “concept shop” literally. At Story, in New York City, the merchandise is presented thematically and refreshed every few months. Part exhibition, part shop, the space marries events and products that inspire commentary and community around each new iteration. Unusual themes like “have fun” and “love” create a unique experience for visitors.

figure X

**69%** of millennials believe attending live events and experiences make them more connected to other people, the community, and the world<sup>20</sup>

#### POP-UP SHOPS

A favorite of small brands and large retailers alike, the pop-up allows companies to experiment and to engage urban consumers without an onerous long-term investment in physical space. Typically placed in prime urban locations, one-offs like these enable retailers to take advantage of the high visibility of urban centers and major cultural events. At Art Basel Miami 2015, sustainable digital retailer Ethikal offered an “all good” themed pop-up highlighting four eco-conscious fashion brands.

#### C. PURE DIGITAL PLAYS ARE MOVING FROM CLICK TO BRICK

Even as digital commerce grows, almost 90% of commerce is still conducted through traditional brick-and-mortar channels.<sup>21</sup> And at least two-thirds of online customers engage with a store at some point during their digital transaction. Companies are taking note: Even pure-play digital companies are opening physical outposts to complement their core digital commerce business.

#### PHYSICAL SHOWROOMS AS SERVICE CENTERS

For a time, the consumer practice of “showrooming”—visiting a store to examine products before completing a final purchase at a different online venue—was expected to doom brick-and-mortar retail. But while some large retailers have found it hard to compete against such practices, click-to-brick companies have embraced and even expanded the model.

These smaller outposts aim to provide value through customized services that can only be delivered in person or through differentiated product offerings that are sourced based on insights surfaced via digital channels. Amazon used the latter approach at its bookstore in Seattle.

Refined online subscription clothing retailer, Hall & Madden, adopted the former approach to appeal to urban, male professionals seeking quality clothes and expertise. They opened a complementary brick-and-mortar company, Proper Suit, that offers bespoke suiting services (as well as Hall & Madden basics) by appointment in several cities, such as Chicago, DC, and Dallas.

#### LIFESTYLE LEADERS

For other click-to-brick companies, moving into the physical realm is a function of harnessing a synergy between their product and the lifestyle brand they’ve cultivated online. This was the strategy adopted by retailer Athleta—one of the early movers on the “Athleisure” trend.

figure XI

**59%** of consumers would schedule an in-store appointment (from any device) with a store associate <sup>22</sup>

Athleisure apparel is fashion for the fitness buff, clothing intended to signal that the wearer ascribes to an “active” lifestyle, even when worn outside of purely athletic circumstances. Athleta stores allow customers to test goods and forge connections with equally passionate peers. Select locations also offer free exercise classes, a way to build community and inspire brand loyalty.

#### **D. BRICK-AND-MORTAR AND THE INFORMED CONSUMER EXPERIENCE**

For retailers, the ability to collect and synthesize on-premise information and shopper behavior and preferences represents a huge opportunity to extend personalization and customization. Over the past few years, businesses have tested strategies that both gather intelligence and facilitate the consumer journey, and already, some of these efforts are bearing fruit. In fact, 60% of shoppers report opening and engaging with beacon-triggered content while shopping in-store.<sup>23</sup>

Maya Mikhailov, co-founder of GPSopper, notes that using this information effectively requires some detective work: Retailers should decide on customer engagement goals first, then identify the systems they'll need to achieve them. GPSopper maps and integrates those data sources and helps brands to build mobile shopping apps that are useful, engaging, and seamlessly dovetail with in-store offerings.

figure XII

**73%** of shoppers surveyed said that beacon-triggered content and offers increased their likelihood to purchase during their store visit <sup>24</sup>

Mikhailov emphasizes that developing these apps should ultimately serve the customer experience, and notes that the modern shopper's purchasing journey is complex and multifaceted. The most successful brands she's worked with—brands like Steve Madden and Lane Bryant—understand this.

These retailers are maximizing customer engagement by building personalized and content-filled shopping experiences that provide utility through the fusion of technology and data. Consumer device capabilities and information about location, consumer profiles, and preferences are considered in tandem to deliver services that best align with consumers' needs and expectations of the brand.



## IV: CONCLUSION

Ultimately, the trend toward urbanization is inspiring retailers to focus on the holistic customer experience. In doing so, companies are adopting innovative approaches to physical space and cultivating personalized technological services for consumers. The spread of city culture and denser living means customers are willing to pay more for brands that sell experiences—that sell a lifestyle—as well as provide on-demand convenience. When purchasing data is required to tailor their product to urban, tech-savvy, and discerning consumers, brands will need to use that information responsibly and create the engagement and offers that resonate with consumers.

Looking to the future, the savviest retailers will be able to seamlessly and deftly leverage their physical spaces and advanced analytics to complement a mobile-first digital strategy. In a world driven by mobile on-demand purchasing, stores will function largely as brand centers and information hubs, attracting customers by providing a sophisticated outlet for experiential consumption. Informed by a deep understanding of consumers' needs and behaviors, these centers will be optimized for efficiency, speed, and taste—a welcome prospect for retailers of all sizes who, only recently, were warned of the demise of their beloved storefronts.

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\*Source: The Nilson Report (May 2016, Issue # 1087) - based on 2015 data.

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