

TRENDBOOK N°04



THE FUTURE OF
RETAILLOG



**BNP PARIBAS
REAL ESTATE**

Real Estate
for a changing
world

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WELCOME TO THE ERA OF RETAILOG

By **Thierry Laroue-Pont**
Chairman & Chief Executive Officer @ BNP Paribas Real Estate



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In 2019, the Internet celebrated its 30th anniversary. In 1989, no one could have imagined how much this digital revolution would disrupt the way we communicate, but also the way we produce and consume. Digital technology is now a full part of the consumer buying experience: a way to

discover a new product, a way of expression and comparison, and above all a purchasing platform. For over-connected and stretched consumers, “anything, anywhere, at all time” becomes the rule. Faced with this race against the clock, retail and logistics are teaming up to better manage stocks and ensure orders are sent to the right place, at the right time. The two players are now joining forces. Retailog was born: a field of innovation to offer the consumer an omnichannel seamless experience. Retailog breaks down walls: “brick-and-mortar” is hosting digital technology, e-commerce pure players are opening physical stores, transit areas such as train and underground stations are seeing more shops, and stores are transforming into storage points. These interactions are reshaping commercial and logistics real estate. Each adapts to its new functions by integrating technologies. In this era of retailog, nothing is frozen. Faced with demanding consumers and quick technological change, it is time, more than ever, to embrace agility!



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“TECHNOLOGY HAS SHIFTED THE RETAIL AND LOGISTICS LANDSCAPE”

Based in New York, **Bob Phibbs** is best-known as the Retail Doctor. Over the last 25 years, he has proven himself a highly-effective business consultant, increasing sales for retailers such as Yamaha, Lego and Omega. He guides us through ongoing transformations in retail and their impact on logistics.

What have been the key trends in retail in recent years?

Technology has shifted the retail landscape. Thanks to social media, there's been a rise in micro-brands, which can now reach their audiences more easily and at lower cost. The rise of e-commerce has resulted in less traffic at brick-and-mortar stores – and this has put the onus on retailers to fulfill online orders.

What has been the impact of omnichannel commerce?

Omnichannel is a fantastic opportunity because retailers can now be anywhere the customer is – online, instore, on their smartphone, Instagram, etc. This means retailers can bring their products to the consumer rather than consumers having to go out and find them. But omnichannel has also forced retailers into high-cost initiatives like free shipping and increased returns.

How can retailers respond to this new market dynamic?

The brick-and-mortar store needs to remain central. 90% of customers still want the real-life shopping experience*. **And to remain competitive, retailers need to make hundreds of small innovations such as pick up at local stores. Most of all, retailers need to create an exceptional instore experience.**

That doesn't come from gimmicks or experiential retail but from people skills and training. That's why retailers like Ted Baker that invest in their floor staff and create a coherent, consistent brand are outperforming.



90% of customers still want the real-life shopping experience



What is the impact on real estate?

Generally, there is a trend towards smaller stores. **Thanks to just-in-time deliveries, retailers no longer need big stores to keep products in stock.** In shopping malls, vacancy rates are increasing and owners are looking to attract restaurants to get people back to shopping. Amazon is even buying up malls in America and turning them into distribution centres, which allows them to be closer to the final mile.

Why has the supply chain become so important?

As a retailer, you need to have products in stock, but you also need to avoid the huge cost of excess inventory. **Having a reactive supply chain is therefore essential for competitiveness – especially as stores become smaller. This means exploring technology like predictive ordering, machine learning, AI, blockchain.** However, the last mile is still a challenge – which is why certain leading retailers are looking at launching their own delivery fleets to cut out costly courier partners.

What is the future of real estate?

I think we'll see stores becoming smaller and rents coming down because retailers can no longer justify big investments in brick-and-mortar when alternative channels are available. I believe chain stores will have fewer outlets and focus on a few strategic locations in key areas. This means there will be great opportunities for micro-brands, especially in smaller towns. We'll also see malls transforming into mixed-use centres where shops and restaurants cohabit with libraries and medical centres. **The landscape may be changing, but there are plenty of opportunities for real estate. ■**

* European Retail Real Estate, International Council of Shopping Centers, March 2019

OUTLOOK



Where does Europe stand against the American and Chinese powers when it comes to economic growth? Has the globalised economy produced an invariable consumer whose habits form a consistent worldwide pattern? Faced with these consumer challenges, how is the European commercial and logistics real estate landscape shaping up?

RETAIL AND LOGISTICS:

NEW CHALLENGES AND OPPORTUNITIES

What are the developments and expectations for retail and logistics? We ask Samuel Duah, Head of Real Estate Economics at BNP Paribas Real Estate UK, and John Fernie, Professor at Heriot-Watt University, Scotland, and contributor to numerous textbooks and papers on retail management and retail logistics.

How has retail evolved in Europe in recent years?

Samuel Duah: From an economic perspective, European consumers have never had it so good. Consumer confidence is high, retail spending is robust and unemployment is at historical lows in key economies like Germany, UK and Poland. However, retailers face challenges in the face of changing consumer preferences and technologically induced structural change in how the sector operates. Since 2014, retail sales have grown 2% annually in Europe¹, and e-commerce has increased between 14% and 15% per year over the last 5 years.

John Fernie: Online and omni channel have created a boom in retail sales, especially in the UK. Today, even though Brexit is creating uncertainty, 30% of Europe's e-commerce is in the UK.

What has been the impact on logistics?

S.D.: Thanks to e-commerce, logistics is probably in its strongest position ever. Over the past 5 years, volume has almost doubled, with a record high of 40 billion euros of investment in logistics assets in 2017². 2018 and 2019 are following the footsteps.

In order to capitalize on the market and centralize operations, we're seeing more supersize warehouses and more automation.

J.F.: With the omni-channel model, most brands need just one major logistics hub with stores dotted around and supplied by traditional warehouses. **As a result**

¹ Oxford Economics, 2019

² BNP Paribas Real Estate, 2019



of streamlining, we're seeing the disaggregation of logistics.

So, different functions such as deliveries, returns and pick-ups are often allocated to different sites. For example, the British online retailer ASOS centralizes all its returns in Poland, which are then sent to Germany for sorting and redistribution.

What do these evolutions mean for real estate?

S.D.: Right now, logistics is the hottest sector in real estate. And, while the physical point of sale is becoming smaller, it is still very much part of the retail ecosystem. For example, IKEA has started opening smaller shops in city centres. These offer consumers a chance to touch items and order them in store or online without having to go miles out of town to traditional IKEA warehouses.

J.F.: There is still demand for brick-and-mortar but no longer for big department stores and hypermarkets. We're seeing the opening of large dark stores in highly-populated areas to fulfil online orders. But the trend is dependent on geographical and cultural factors. In France, for example, there are many standalone grocery warehouses in rural areas. Click & collect customers drive out to pick up their online orders, because it's simply too expensive for retailers to make home deliveries.

How has purchasing behaviour changed?

S.D.: We're seeing a shift from an ownership economy to an experience economy. Today, millennials are comfortable renting rather than owning houses and cars, but also music and sofas. This is partly driven by purchasing power but it's also a mind-set: people want

to be more agile. In the last 5 years, we've also seen a backlash against standardization, with consumers demanding a mix of local and global brands, partly fuelled by ethical concerns.

J.F.: What's interesting in the fashion world is that the strongest growth has been from fast fashion and luxury brands, which remain as physical stores because people want to see expensive products and have the experience of buying them.

What strategies are retailers using to attract customers to physical stores?

S.D.: Throughout Europe, we're seeing the phenomenon of placemaking, with shopping centres being reinvented as community or leisure spaces, not just places to shop.

Retailers need to provide consumers with a compelling reason to visit their stores because shopping is no longer enough.

J.F.: The key to the survival of traditional stores is experiential retail. Apple's Genius Bar was revolutionary because it allowed consumers to experience the product. And in the US, Nike lets shoppers test new shoes by playing

"THE KEY TO THE SURVIVAL OF TRADITIONAL STORES IS EXPERIENTIAL RETAIL."

John Fernie

Professor @ Heriot-Watt University, Scotland



basketball with them. Shopping centres are likely to become more multi-purpose with café and leisure activities. If you don't create this kind of differentiating experience, people will just order online.

How are retailers optimizing their supply chain?

J.F.: One of the key trends, especially in fashion, is the principle of postponement. This was pioneered by Benetton and involves manufacturing limited stock and then testing it in the market to identify demand. Zara, for example, only produces around 30% of its stock initially and then works on demand.

S.D.: Successful logistics also relies on external factors like tax laws, the infrastructure of a country and the reliability of its postal system. In the UK, for example, e-commerce benefits from significantly lower taxes.

What is the future of retail and logistics in terms of real estate?

S.D.: Physical stores will continue to exist but, as consumers demand shorter delivery times, we are likely to see increased demand for last-mile logistics, bringing environmental challenges. What's more, logistics will be in direct competition for land with residential buildings. As a result, we're likely to see intensification of warehouses and multi-storey logistics platforms.

J.F.: The model for the future is omni-channel with smaller stores acting as showrooms and customers being able to purchase from and return to different locations. Investment will increasingly be focused in big cities with large catchment areas, and retailers are likely to demand shorter leases. As China becomes more expensive, we may also see reshoring – a return of manufacturing to Europe. Companies like Prada in Italy have already begun this. ■

"FROM AN ECONOMIC PERSPECTIVE, EUROPEAN CONSUMERS HAVE NEVER HAD IT SO GOOD."

Samuel Duah

Head of Real Estate Economics
@ BNP Paribas Real Estate



THE MODERN HOMORETAILUS: A MULTI-FACETTED CONSUMER

The development of digital technology has revolutionised consumer practices. Some routines – replaced by new behaviours – have disappeared. New consumer requirements affect the entire retail chain.

A connected consumer

Both in Europe and across the globe, electronic commerce is experiencing continuous growth. In 2019, European B2C¹ e-commerce is expected to reach €62 billion, up to 14% compared to 2018, according to the Ecommerce Foundation. This success is particularly driven by the widespread use of smartphones. Worldwide, the number of people making purchases via their mobile phones increased by 133% from 2013 to 2018. Nevertheless, online and offline use are not opposed, and the distributors are building bridges between these two worlds. Faced with the development of electronic commerce, the physical point of sale has not yet had its last word!

A consumer who seeks experience...

According to PwC², while purchases in physical stores declined from 2010 to 2015, they are now growing. Consumers are returning to the store, where they can benefit from a sensory and social experience. According to Philippe Moati, co-founder of the ObSoCo (*l'Observatoire Société et Consommation* – literally, 'the Consumer Society Observatory'), "physical commerce is restructured quantitatively as a contraction of the commercial apparatus, but

also qualitatively to create experience and thus generate attachment". According to him, "consumers have two main watchwords: what is experiential, living an experience that justifies travel; but also what is service-oriented, that which creates an empathetic relationship between sales people and customers."

...with high expectations

The new consumer is in a hurry and expects commitments from brands. **88% of global consumers are willing to pay more for same-day or faster delivery.** Buyers are also more concerned about the method and speed of delivery than about the actors who actually make the delivery happen. Another lesson of the study is that after price, trust in the brand is the most important purchasing criterion. Transparency, ethics and quality win the hearts of consumers and go beyond the mere purchase. *"Today, the paradigm is less about having or possessing, than it is about being, through one's self-realisation and the establishment of relationships with others,"* explains Philippe Moati. According to him, *"the point of sale tends to become a point of physical contact".*

There is not one but several consumers!

"Consumers are extremely heterogeneous," he adds. This plurality of demand fragments the commercial apparatus. *"Based on a detailed analysis of targets and catchment areas, commercial spaces adapt and reason in terms of precision trade."* The demassification of consumption has seen the emergence of multifaceted consumers. These expectations and behaviours represent opportunities for retail and logistics, which are more interdependent than ever. These new practices are revolutionising product and service offerings, as well as the design and management of spaces! ■



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¹ B2C: business to consumer

² PwC, Global Consumer Insights Survey, 2018

Linking offline and online

64%

of European consumers look at products online before purchasing them in a shop.

44%

of them compare product prices online while they visit a shop.



In the pursuit of new, unique products

81%

of European consumers want to find original products in stores that they will not find elsewhere.

74%

of them fear being offered less and less choice when it comes to physical stores.

RETAIL AND LOGISTICS REAL ESTATE:

MULTIPLE EUROPEAN IDENTITIES

Anita Simaza, Head of Logistics and Industrial Europe,
and Patrick Delcol, Head of Pan European Retail at BNP Paribas Real Estate,
provide an overview of the state of Logistics and Trade in Europe.

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PATRICK DELCOL

Head of Pan European Retail
@ BNP Paribas Real Estate

How have logistics and retail changed in the last few years in Europe?

Anita Simaza: Logistics is now firmly regarded as an established asset class. We have a wide depth of investors investing in the sector and looking to invest, of global origin, and this is driven by operating fundamentals. E-commerce has been a structural driver in the occupier demand for warehousing space. Demand has over-exceeded expectations and as a result the occupancy rate is at historic highs and rents are rising.

Patrick Delcol: In the retail market, we have seen three different situations of varying speed. Western Europe has emerged from the crisis and is growing relatively well. This has increased consumption. The United Kingdom is going through a very particular situation in terms of both e-commerce and Brexit, with a lot of uncertainty. Central Europe is experiencing a very strong growth, driven in particular by the Czech Republic (+3% growth in 2018) and Poland (+4% growth). Middle class consumerism is a way to adopt a new social identity.

What kind of assets are most in demand?

A. S.: Over the last years, we have seen an increase in multi-tenant XXL warehouses. We are also seeing more fulfilment centres, which incorporate multiple functions, from storing and picking, to sorting and packaging. As availability of space is a key issue, multi-level warehouses have entered the market too, for last mile delivery where trucks can access every floor and for e-commerce occupiers which are equipped with robotics.





“LOGISTICS IS NOW REGARDED AS ONE OF THE CORE ASSET CLASSES. EUROPEAN INVESTORS HAVE BEEN JOINED BY AMERICAN AND ASIAN INVESTORS.”

Anita Simaza

They are often seen in large densely populated cities in Europe, including London, Paris and Madrid where they are competing with offices and residential. Warehouses are generally seen as the workhorses of commerce and are completely essential to economies that produce goods.

Today, most big companies have one major distribution hub, their European distribution centre, distributing to different countries.

They then have regional warehouses, which are closer to cities but still a good size. And, finally, they have last mile distribution.

Location is vital! Within the overall supply chain costs, rent for real estate represents only a small percentage, and majority of costs are associated with deliveries, particularly for labor and transportation.

From an investment perspective, it is better to build a generic warehouse, keeping standard specifications, and to let occupiers install machinery necessary for their business needs. This can easily be removed, so that when the time comes for the occupier to move out, the party after them can move in easily and install internal fit out suitable for their needs.

P. D.: The retail sector has many subdivisions. It is divided into five specific segments: high street, retail parks, shopping centres, outlets, and finally what we call the big boxes or stand-alone, mainly detached hypermarkets, supermarkets, food discounters or DIY. Consumers and investors behave differently towards these five segments.

¹ Ministère de l'Economie et des Finances, Trésor international, Situation économique de la République tchèque, April 2019.

² Ministère de l'Economie et des Finances, Trésor international, Veille des Etats d'Europe centrale et baltes, March 2019



LOGISTICS IN HIGH DEMAND

With €9.3bn in 2018, the UK market for logistics and industrial investment is the biggest in Europe. Despite the uncertainty of Brexit, the warehousing market has proved robust. In 2018, annual take-up increased by 27% to reach 3.7 million m². The key driver for logistics is e-commerce. **In the UK, 21.5% of all retail sales are online, the highest in Europe.** As a result, demand for logistics has been outstripping supply. To meet this need, there has been significant speculative development, with new speculative warehouses set to represent almost 850,000 m² in 2019. Warehouse rents in London and the south-east are the highest in Europe. Many companies therefore concentrate their national distribution centres in the Midlands, historically within the UK's Golden Triangle, an area where 90% of the population can be reached within a 4-hour drive. This area has grown in recent years due to limited availability. **Logistics operators are continuing to streamline their supply chain, with some seeking to eliminate regional and local warehouses, in order to focus on national and last-mile buildings.** The parcel delivery company DPD, for example, has warehouse series of larger buildings in the Midlands and has opened a series of smaller logistics units in key UK centres, as well as a small 100% electric delivery centre in prime central London, where the high population density can justify a significantly higher rent. *"It has been widely reported that online retailer ASOS has changed its returns policy to deal with serial-returns. This has potential to become a much wider trend as retailers seek ways to cover the potential of product returns",* explains Nick Hardie, Director – National Industrial & Logistics Agency @ BNP Paribas Real Estate UK. *Rental agreements in the UK are famously rigid compared to mainland Europe, but are expected to become more flexible. And with e-commerce forecast to grow further, investment is set to continue in UK logistics, even if performance will settle down. UK logistics will continue to be a preferred asset class amongst UK and overseas investors thanks to the positive occupational dynamics, e-commerce growth and the weight of capital seeking exposure to the sector",* concludes James Fairweather, Head of Industrial and Logistics Investment @ BNP Paribas Real Estate UK.

When we talk about the retail disruption topic today, we are talking mainly about shopping centres and within shopping centres we are thinking mainly about fashion.

A shopping centre operator has to address its direct and indirect clients needs (i.e brands and consumers). This is the complexity of commercial real estate. It requires the skills of a professional operator and there are very few of them in Europe. Some institutions have only recently realised this.

Yet shopping centres yields have compressed much less than government bonds, and currently offer quite an attractive net premium compared to other asset classes or retail segments.

Concerning the high street, its luxury and premium parts have not seen a decline.

On the contrary they are experiencing an increasing demand but also face a limited offer in terms of real estate. In France and Germany, the investors are really looking for prime assets on rue Saint-Honoré or Montaigne in Paris, or Maximilien Strasse in Munich for example. But there is not so much under offer and there is a lot of competition. **The retail parks keep attracting many investors.** Their development is strong in Western Europe at the expense of the shopping centres. The reason? Lower rents and lower effort ratios in general (i.e. the ratio between the rent and the turnover performed by the retail unit). **The outlets, like retail parks, are accessible at high rates of return.** This brings margin and a welcome portfolio revaluation to the investors' portfolio.

How do the retail and logistics sectors impact one another?

A. S.: The objective of both retail and logistics is to serve the consumer. Whichever channel the consumer chooses, both sectors are

there to facilitate that choice. The specific role of logistics is to provide the space and structure to support the consumer's demands. Moreover, both are aimed to a perfect shopping experience.

P. D.: The consumer is central to both of our activities. A recent survey by *L'Observatoire Cetelem* conducted in 17 European countries highlights the close relationship between online and offline shopping, neither of them competing with the other, and this includes the young generations. Yet these ones have bigger expectations.

"TODAY, MANY PURE-PLAYERS ARE OPENING PHYSICAL STORES MAY THIS BE POP-UP STORES OR A PERMANENT SHOPS."

Patrick Delcol



In the last few years, the number of deliveries has grown dramatically, especially those focused on the last mile. This raises the question of the environmental impact. What solutions are being developed?

A. S.: E-commerce companies generally compete with each other on delivery times rather than the cost. In continental Europe, we're concerned about the environmental impact of cars and different modes of transport. **DHL for example have already rented shops in Amsterdam to act as their last mile distribution centres and where you can pick up your parcel if you are not at home when they deliver.** It also functions as a returns facility. Last mile is more about the use of the building rather than the building itself. It will be up to each city to decide what suits them best. I believe we will see more of these mixed-use developments because we simply don't have enough light-industrial in cities. And this means retail rents need to come down and logistics rents will go up.



P. D.: Brands are developing a new concept called *ship from store* where the shop turns into a warehouse. Retailers use stock from their store to fulfil orders no matter if they come from their website or their shop. For instance, Zara uses its distribution network to turn it into

a competitive logistics channel. But awareness must also be raised and the consumers should ask themselves: do I absolutely have to receive my item at home in 2 hours? If yes, is it really free of charge? This causes financial losses to both retailers and e-retailers, even for the biggest of them, and many negative environmental effects. **There is the delivery aspect, but also the return aspect that are growing considerably and are not sustainable economically and environmentally.**

I think there will be a stabilisation of the situation online and offline with the integration of digital in the store and on the other hand less dumping on online sales. This situation heralds a return to the store that will benefit the environment, consumers and investors.

How much do you think new technologies will transform these two sectors?

P. D.: Brands need to invest in digital but for this to happen, they need resources (CAPEX – Capital

"FROM AN INVESTMENT PERSPECTIVE, IT'S BEST TO KEEP WAREHOUSES AS GENERIC AS POSSIBLE. (...) TENANTS CAN THEN CUSTOMIZE THE INTERIOR WITH THEIR OWN MACHINERY."

Anita Simaza

THE SECRETS OF THE WORLD'S LOGISTICS LEADER

While Germany is at the top of the global Logistics Performance Index (LPI)*, what are the strengths of the "made in Germany" supply chain? *"Its geographical location, between Western and Eastern Europe, is its first asset"* explains Christopher Raabe, Head of Industrial Services & Investment, BNP Paribas Real Estate Germany. The country also relies on complementary infrastructure, as well as on a diversified and balanced logistics market, which was built around 3 main players: manufacturers, transport and storage services, but also 3PL (third party logistics). 3PL offers a global supply of logistics by providing their means of transport, warehouses and also services, such as planning and coordination with other chain links. All of these features contribute to the dynamism of German logistics, which registered a record year in 2018: *"The German warehouse und logistics market achieved a new record with take-up of 7.7 million m²",* adds Christopher Raabe. According to him, this trend should continue in 2019: *"investment in German logistics is very high with a wide variety of investors and capital."* In the future, the world's logistics leader should maintain its lead!

* World Bank, 2018



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Expenditures – money spent on acquiring or maintaining fixed assets, such as land, buildings and equipment. *Editor's Note*) and rents that return to responsible levels to enable them to invest. Retailers must get to a point where they offer the consumer the ability to do at home, on their computer, what they could do in the store. Still according to l'Observatoire Cetelem, Millennials should not be interpreted as systematically taking more digital and more online orders. They consume more than their parents but at the same time are aware of environmental issues. They must be given the opportunity to experience a real in-store shopping experience. Today, many e-commerce pure-players are opening physical stores which could be pop-up stores or a permanent shops.

A. S.: Operations in warehouses have already become more automated and we expect this trend to continue. It is particularly evident in facilities which are used to service online retailing. Parcel delivery is a complex process and occupiers are striving for efficiencies and cost effective ways to deliver as many parcels

"I THINK THERE WILL BE A STABILISATION OF THE SITUATION ONLINE AND OFFLINE WITH THE INTEGRATION OF DIGITAL IN THE STORE AND ON THE OTHER HAND LESS DUMPING ON ONLINE SALES."

Patrick Delcol

to customers as quickly as possible. Typically automation includes conveyer belt systems and also increasingly robotics. Considering that unemployment is currently at historical low, automation also solves another very practical issue which is how to find sufficient labour force to work in the warehouses. ● ● ●

THRIVING LOGISTICS

Due to an increase in its consumers' buying power and the allure of lower costs for Western companies, Poland is enjoying a logistics boom. In 2018, €2 bn were transacted in industrial investment, representing 63% growth on 2017. Retail consumption in Poland grew 7% annually last year as a result of increased spending by locals and incoming immigrants, mainly from the Ukraine. But **the growth in logistics was largely fuelled by the rise in west Poland of fulfilment centres for e-commerce companies delivering to Western countries, notably Germany.** "Poland's logistics market has young stock, with 37% of space delivered in the last 3 years", explains Patrycja Dzikowska, Head of Research and Consultancy CEE, BNP Paribas Real Estate Poland. In the city of Szczecin, for example, both Amazon and Zalando established new logistics centres, with Amazon investing in further sites along the German border. The relative cost of land, rent and labour in Poland is extremely attractive for companies looking to serve Western Europe. Amazon does not yet have a Polish version of its website, and the country's main e-commerce player is Allegro. While e-commerce remains low, representing 5% of overall sales, it is still growing faster than traditional retail and is expected to reach 8-9% in the next 5 years. The outlook for the future is extremely positive. The growth in logistics warehouses on the western border is set to continue, with companies such as Zalando now investing in reverse logistic centres. "Poland has become an important fulfilment hub for Western Europe and the trend is set to continue", specifies Igor Roguski, Head of Industrial Agency, BNP Paribas Real Estate Poland. And trust in the market is high, with speculative investment fueled by a new wave of Asian investors.

● ● ●

How do you see the future in retail and logistics real estate?

A. S.: Both retail and logistics aim to serve the customer and there will be an increasing blurring of the real estate asset class' boundaries. **Within logistics, e-commerce is clearly continuing to shape the occupational landscape. But we are also paying close attention to new transport corridors emerging in global trade,** particularly with China through the New Silk Road.

P. D.: While nowadays some retailers might blame online retail for their closure, **the fact is that the online dimension has been either a boost to their business or a cause for change that they potentially did not adjust to early enough.** They should no longer use this argument as a scapegoat. Many retail brands have adapted their traditional response to new client habits in order to include online channelling in-house. The retail sector has historically been used to transforming its offer in order to adjust to new customer needs. I am optimistic about it. ■



"BRANDS ARE DEVELOPING A NEW CONCEPT CALLED SHIP FROM STORE (...). RETAILERS USE STOCK FROM THEIR STORE TO FULFIL ORDERS NO MATTER IF THEY COME FROM THEIR WEBSITE OR THEIR SHOP."

Patrick Delcol

A NEW ERA OF RETAILLOG...



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Challenged by increasingly demanding consumers, retailers are rethinking the way they address their customers and manage their supply chain. This includes new formats of shops and warehouses, new store and delivery concepts, but also the use of technology in order to enhance customer experience and ensure better logistics.

... WITH EMERGING FORMATS

To meet new consumer expectations and organisational constraints, trade and logistics are either revising their traditional formats or inventing new ones. While the flagship on the most beautiful European avenues remains a must, the shopping centre is modernising and revising its location, as the retail park sector explodes. As for logistics, in the face of increasingly scarce land, the sector is now (re)exploring new warehouse formats.

HIGH STREET AND PRIME ASSETS A TENSE MARKET

Brands are waging a merciless war in order to be present on the major European commercial streets. Beyond the financial benefits, it is their entire national and international visibility that is at stake. Prestigious brands are struggling to occupy high streets, whose value lie in their location in relation to monuments and their accessibility for pedestrians. It must be said that the high street has become a tourist destination in itself, supported by an increasing flow of international travellers with increasing purchasing power. Faced with this demand, the rental offer is structurally limited, resulting in a shortage. As a result, rental values rise for new entrants, even though brands that have been in business for several years are not moving out. ■



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COMMUNITIES FACILITATING AN UPGRADED HIGHSTREET BUSINESS

Faced with the commercial vacancy that affects many small and medium-sized cities, communities have decided to fight to upgrade their city centres

In Europe, it is time for mobilisation. The Germans reacted as early as the late 1960s with a drastic federal law: "For everyday consumer products, establishment projects are only admissible if they are located in a central commercial zone and if they do not harm the proper functioning of the central zones (...) or the local trade in their catchment area."* Ipso facto, existing trade is protected. In the United Kingdom, the National Planning Policy Framework requires the Sequential Test for each implementation project to ensure that it does not challenge the pre-existing commercial fabric. In Belgium and France, where deregulation has long been the watchword, the

reaction has been slower. And the observation made by the 'Federation of Specialised Retailers' (Procos) at the beginning of 2018* is revealing: "62% of the city centres observed have a vacancy rate (commercial) of more than 10%, a symbolic limit considered critical. In the light of these European successes, local authorities are developing global strategies. Indeed, the vitality of a city centre depends on its businesses, housing, land, transport... All these elements must be considered, not forgetting the new uses of its citizens, both inhabitants and consumers." ■

* Excerpt from French Parliamentary Report No. 2566 on commercial urban planning by Michel Piron, 2010

UNIQLO WEAVES ITS



The Japanese brand UNIQLO endeavors to dress all the members of a family with essentials and quality clothes. After opening its first store in Japan in 1984, the brand has expanded to incorporate over 2,000 stores worldwide, among which 85 are in Europe today.

Interview with Valérie Stern, UNIQLO Strategic Global Alliance Director (FAST RETAILING GROUP), on the brand's location strategy.



Paris, the Marais district

How does UNIQLO determine the location of its new stores in Europe?

After agreeing on a country, the choice of the first city is strategic. In the case of Spain, for instance, Barcelona seemed to be the right place for a number of reasons including its substantial influx of tourists or its accessibility in terms of supply chain. Each opening of the first store in a new country is the outcome of a custom-built approach that will be pivotal for the future of our brand in that area.

Do you favour premium assets locations on worldwide high streets?

UNIQLO has to be present on fashion-savvy cities' high streets like New York, Paris, London and Tokyo in order to grow our brand image. A store must primarily build interactivity with our customers, be profitable and generate traffic. Our formats are very diverse in terms of space and set-up. For example, the 5th Avenue point of sale in New York is spread over 8,000 m²; the one in the Ginza district in Tokyo is 12 stories high.

How does UNIQLO determine the location of the store?

The ideal store location must be incorporated in the customer's daily routine. Unusual spaces are of particular interest to us: for our flagship in the Marais district in Paris we repurposed an old factory. This is the unique case of a UNIQLO point of sale with

SUCCESS ACROSS EUROPE

no window display, which at the end attracts attention and customers inside. Another example is the first store we opened in Sweden in August 2018. We chose a historical modernist building designed by the famous Swedish architect Sven Markelius in 1969. In Milan, we chose for our first store in Italy an exquisite building designed in the early 1900s. All these new stores are housed in traditional historic buildings in prime urban locations. We enjoy creating stores that embrace and complement the buildings they are housed in.

How does UNIQLO imagine the in-store customers' experience?

To UNIQLO, everyone in the world could be one of our customers. So we aim to provide an outstanding physical shopping experience. It includes well-trained and attentive employees, and the use of technology. Our stores reflect the values with which we create our clothes ie. innovation, quality and simplicity. For example, our well-organised displays make it easy for customers to find what they want. The in-store environment – wide aisles and bright lights – help to create an atmosphere of simplicity and plenitude.

Has your strategy evolved with digital?

Nowadays, with social media, a brand can make a name for itself beyond the physical point of sale and use customer feedback to improve its products. In 2017, FAST RETAILING

launched the Ariake Project in order to create what we call a “digital consumer retail company”. The idea is to create and deliver only what our customers want. This concept means we have to rethink our way of designing, planning, producing and distributing. The company is accordingly reviewing its entire structure, from sales through the supply chain. Online or offline, for us it's important to create relevant points of sale that meet our customers' needs.



Paris, the Marais district

©Hufton+Crow

“WE HAVE TO RETHINK OUR WAY OF DESIGNING, PLANNING, PRODUCING AND DISTRIBUTING.”

What are your objectives in Europe in the future?

UNIQLO has generated significant revenue in 2018 especially in France and the United Kingdom. We plan to open more stores in major European cities to increase visibility and brand awareness among this market. Our specific aim is to build a European presence by focusing on opening new stores in prime urban locations. ■



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URBAN LOGISTICS BATTLES FOR SPACE

Logistics real estate is doing well, to say the least. In Europe, it represents 13% of investments in commercial real estate and has its highest investment volumes over the past three years¹. Behind these figures, the supply is far from uniform. On the contrary, the logistics real estate landscape is multi-faceted and constantly changing.

The explosion of e-commerce and the evolution of consumption patterns diluted over time and space have had an impact on logistics real estate. *There is no longer one model but a multitude of complementary solutions for a better territorial network in terms of efficiency and profitability.* Delivery is at the heart of the issue, crystallising economic, land, environmental and human issues. The challenge for the profession is to monitor both the quantitative and qualitative explosion. Therefore, there is not only one right answer.

Giant and small, central and peripheral

Upstream of the supply chain, warehouses are growing to manage ever-increasing flows of goods. It is time for the XXL warehouses located in the suburbs, like the future 142,000 m² Amazon site near Paris, France. Its Chinese competitor Alibaba will build its first European logistics hub with a surface area of 380,000 m² in Liège, Belgium³.

This horizontal gigantism is accompanied by vertical gigantism, as in Poland, where BNP Paribas Real Estate Investment Management recently acquired the second largest e-commerce logistics centre in Europe. With a surface area of 161,500 m², spread over three floors, it optimises land⁴. Mega logistics hubs are also being set up in order to take up the last mile delivery challenge. One of their strengths is the ability to speed up goods management. This is demonstrated by the 100,000 m² UPS hub in Cologne, Germany, which can handle 190,000 parcels per hour⁵.

At the same time, the last mile delivery challenge is forcing retailers to move their logistics facilities closer to city centres, while considering environmental and financial constraints. These units are much smaller and are the final stage before the consumer. Therefore, when investors or users compare an XXL, 200,000 m² warehouse with a small 2,000 m² parcel distribution centre to find out which is best, the answer is "both".

Hybrid locations for new uses

The porosity between retail and logistics is at the origin of "retail warehouse clubs". This American concept where customers shop in a warehouse offers lower, wholesale prices. Costco Wholesale is a members-only service that was born in the United States and now has many wholesale warehouses around the world. SNCF Immobilier is working on a city distribution centre called Chapelle International in Paris, France. This multi-purpose project aims to make logistics and service activities, professional schools, a data centre and public equipment work together. The

goods will arrive by train and then be redistributed via clean vehicles⁷.

Finding other solutions

Oscaro.com is using cross docking or a warehouse without stock! This logistics procedure enables goods to be distributed directly to a customer or retail chain with minimal to no storage time. Another emerging solution is shared warehousing which offers more flexibility and lower costs.

At the heart of this logistics war, joint ventures appear to be a solution that will optimise fixed land costs. ■

¹ Property report, European Logistics Market, February 2019

² Le Parisien, Brétigny-sur-Orge: "the mayor visiting an Amazon warehouse", 13/05/2019

³ LSA, "Alibaba will open a European distribution centre in Liège", 01/06/2018

⁴ BNP Paribas REIM, press release, 20/06/2018

⁵ Le Monde, "Behind the scenes of UPS's mega hub in Cologne", 16/10/2016

⁶ Costco.com, 2019

⁷ Chapelleinternational.sncf.com, 2018



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THE WAREHOUSE THAT CANNOT BE BOXED IN

The warehouse is smart. In the guise of a simple box, it reveals multiple forms and uses, surprising those who would like to put it in a box. **Because above all, a warehouse primarily meets the needs expressed by a manufacturer, distributor or e-retailer.** The box will adapt to different characteristics: type of products stored, identified logistics strategy (storage, distribution, last mile) and expected location. These criteria imply specific equipment (refrigeration, robotisation, etc.) and European and national environmental and regulatory standards that also shape the building.

The warehouse is at the heart of retailers challenges. Essential for the production of their products and their shipping, it is also strategic, in terms of location, in the conquest or development of new markets. The evolution of purchasing behaviour and the fight to meet delivery deadlines have also made it a competitive advantage in the face of the last mile challenges.

The high demand for warehouses at the entrance and in the heart of urban areas is confronted with a rare and expensive land. The warehouse then becomes multi-level and gigantic in peri-urban areas (Amazon in Torazza - Italy, Ikea and Leroy Merlin in Gennevilliers - France). It takes the form of multi-tenant logistics hotels (G Park in London Docklands - the UK's first three-storey warehouse) and spreads out the cities underground spaces (logistics platform under the Place de la Concorde in Paris - France). Here are the main categories. ■



Multi-level warehouses can be one of two kinds:

- Equipped with a ramp allowing access to each floor and use of the warehouse by several occupants in a separate and partitioned manner.
- Without ramp and very robotised to fetch products from substantial heights.



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• **Distribution centres**

National or regional, located on the outskirts of cities or near transport connections such as lines, roads, ports and airports, the building surface area is generally more than 10,000 m². The stored goods have often already been purchased by a retailer and are shipped depending on the state of stocks in the latter's stores. Building specifications are relatively standard and include, for example, free height of 10+ meters or floor load capacity of 5 tonnes / m². Depending on the customer's expectations, the distribution centre can be composed of several levels.

• **Fulfilment centres**

Differently from distribution centres, fulfilment centres usually perform additional operations such as sorting, processing, mixing, storing, packaging and shipping. These facilities are larger and typically occupied by e-commerce companies, hence can be highly automated to increase efficiencies for example with conveyer belt systems and robotics.

• **Cross-dock facilities**

Located at the entrance of urban areas, these buildings store products which are unloaded to be immediately picked up, sorted and repackaged in order to leave as quickly as possible to a logistics hub or their final delivery location (store, home). Often used by parcel delivery companies, these warehouses are rather narrow in order to maximise the number of truck entry docks and have a lower height.

• **City distribution**

Located in the heart of urban areas where land is scarce, these buildings can be multi-level. Entirely dedicated to the distribution of goods, they are an element of the last mile logistics.

• **Cold storage warehouses**

These buildings are built like distribution centres but have thermal insulation and specific equipment to store fresh (positive cold) or frozen (negative cold) products. As this equipment is an integral part of the building, it involves higher construction costs than for a traditional warehouse and is generally sold or rented only for this purpose.

SHOPPING CENTRES A MAJOR



© Klépierre Netherlands



THE MULTI-USE SHOPPING CENTRE

Built in the 1970s, the Hoog Catharijne shopping centres has always benefited from its location between Utrecht's city centre and its station, the N.1 travel hub in the Netherlands. Now a major overhaul has improved the customer journey and further increased footfall.



© Klépierre Netherlands

"HOOG CATHARIJNE IS A PLACE WHERE WORKERS STEP OUT OF THEIR OFFICES AND COME TO EAT, BUY GIFTS, OR SHOP AFTER WORK."

Menno Overtoom

Director Hoog Catharijne @ Klépierre

The revamping of Hoog Catharijne has been overseen by Klépierre Nederland, and is part of a major redevelopment of the local area.

The project focuses on expanding Utrecht's busy station to accommodate the 90 million passengers a year, and has seen the creation of a new city hall and a 6,000-capacity concert hall. Since 2009, Hoog Catharijne has also been undergoing gradual redevelopment. "The mall has always performed well thanks to its great location and high footfall", explains Menno Overtoom Director Hoog Catharijne at Klépierre, "but the concept was worn out". The design was internal-oriented with little natural light, so the renewal has focused on introducing more daylight, adding height to shop fronts, and improving the mall's physical connection with the city.

Construction events

Work has been carried out gradually to respect the needs of the 130 retailers. Klépierre has found innovative ways to offset the negative impact of the work by transforming it into consumer-friendly events.

"We set up a Construction Theatre", details Menno Overtoom, "with chairs lined up so the public could watch the work in real time." The presence of fossils in the old floor provided another opportunity for an event: consumers were invited to help dig up fossils and take out the old floor and take them home.

Different uses

Hoog Catharijne was the first multi-use shopping mall in the Netherlands, combining retail with residential and business.

S AND RETAIL PARKS: RCHANGE

The area around the mall has been strengthened further by the latest developments. An additional 600,000 m² of offices will be created, plus a cinema and a casino in the surrounding area. "Hoog Catharijne is a place where workers step out of their offices and come to eat, buy gifts, or shop after work", explains Menno Overtoom. The proximity of the new concert hall also attracts

Customer journey

Organised into two main avenues and featuring interactive signage, the mall is designed for easy, intuitive navigation. The central City Square is its commercial heart. Lined with restaurants, it is a venue for events such as concerts and fashion shows to enhance the customer journey. By mid-2020, customers will be able to arrive in City Square by boat thanks to moorings installed on a canal directly below. Customers will even be able to see the canal through glass-bottomed sections of floor. In 2012, Zara moved out of its city centre location to set up here, increasing its floor space by a factor of 4. The move has proved such a success that mother company Inditex has decided to move its other retail brands to Hoog Catharijne as well, these shops were opened in 2017.

Future expansion

When the work is completed by the end of 2021, Hoog Catharijne will provide 100,000 m² of retail space. Footfall is now reaching 27 million annually and makes it the most visited shopping centre of the Netherlands. ■



RETAIL PARKS: FROM SHOPPING TO LIFESTYLE

In line with consumer expectations, retail parks have evolved to become convenient proximity centres for a range of activities, cementing their positioning as a distinct investment asset.

Traditionally, retail parks have offered a collection of value-for-money brands, anchored by a supermarket for shoppers' daily needs. But, in recent years, the concept has included an additional range of leisure and business facilities, such as restaurants, fitness centres, SME business units, pharmacies, petrol stations and car washes. "Retail parks no longer simply cater for consumers' shopping habits, but also for lifestyle habits", explains Sylvie Geuten-Carpentier, CEO of Europe's leading retail park investor, MITISKA Reim.

Customer convenience

The retail park has two additional competitive advantages over shopping centres and high street shops: ample free parking and convenient situations. The location of retail parks is a key factor in their success. Over the years, they have moved ever closer to city centres on highly-visible sites, but they still offer relatively

low occupancy costs. For new developments, the precise situation is carefully studied in terms of area and population, potential competition from other retail outlets, transport routes and ease of access from major roads.

Optimal diversity

Ensuring an optimal mix of tenants is also essential to make the parks attractive. While established brands offer value for the consumer and reliability for investors, there is often room for some smaller, local brands. "Retail parks are a good choice for non-specialists investors looking to diversify their portfolio and whose experience in retail creates confidence in the asset class", explains Sylvie Geuten-Carpentier. "Retail parks have their own positioning relative to malls and high-street shops. Their convenience and competitive rents means they are a resilient and sustainable asset class, now and in the future". ■

... WITH EMERGING CONCEPTS

The future of retail stores is less about purchases and all about experiences. Digital is invading shops and digitally native brands, eager to sell IRL*, are investing in physical retail. Last mile logistics solutions are settling into every nook and cranny of the city centres.

**IRL: in real life*



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URBAN LOGISTICS

GOING THE LAST MILE

In city centres, last mile logistics faces several challenges. In addition to being the most expensive part of the supply chain, it causes road congestion and therefore pollution. How do new urban logistics models meet these challenges? Interview with Dimitri Mezinis, Director of Urban Logistics and Messaging at Logikor, and Grégoire Tripon, Director of European Development at BNP Paribas Real Estate Property Management.

What is the nature of your business?

Dimitri Mezinis: Logikor is a major European logistics investor, with a total of more than 13.6 million m² in Europe, including 2.4 million in France, with 550,000 m² dedicated to urban logistics. We are seeing an increasing demand for last mile cross-dock buildings. Our business unit was created at the beginning of 2018 in order to meet this need. We develop for e-retailers, logistics providers and companies of all sizes an operational and flexible offer of warehouse space (cross-docking, parcel services, etc) and logistics buildings with partial storage. Located 12 km from Paris, our GARONOR park of approximately 300,000 m² is a good illustration of this.

Grégoire Tripon: Within BNP Paribas Real Estate, Property Management works on enhancing the assets we are in charge of. Specialised in logistics assets, our team has a double mission: to guarantee the owners

that the rented building preserves all its qualities, for example that no damage is caused to its structure, but also to ensure that the tenant has an operational and optimised building so that they can focus on their business. Urban logistics has its own specificities. Its reduced surfaces must be quickly scalable according to needs.



© Logikor

How does Property Management ensure that the warehouse addresses security standards?

G.T.: By developing a strong expertise in risk management. It is essential to have health, safety and environmental specialists in charge of inspecting the buildings on a regular basis to ensure that operators comply with regulations. When this is not the case, it's sometimes necessary to know how to use pedagogy to ensure compliance in the short term.

Are there differences between countries regarding the formats of cross-dock services?

G.T.: It's more a question of cities than countries. Logistics knows no borders, but some large cities such as Paris and London don't have the same accessibility constraints to the city centre as other European capitals such as Budapest.



"THE QUALITY OF LOCATION, SUCH AS THE PROXIMITY TO A CITY CENTRE, IS THE NUMBER ONE CRITERIA."

Dimitri Mezinis

Director of Urban Logistics and Messaging @ Logikor

Retailog reinvents itself ESTABLISHING NEW CONCEPTS



© Logictor

Garonor by Logictor



Yet the trend for miniaturising the large warehouse on the outskirts of cities varies from country to country.

D.M.: The concentration of French urban areas leads to a high demand for “pure” cross-docks on the outskirts while in Spain, for example, a large proportion of buildings are mixed, combining cross-docking and small logistics.

Last mile solutions have to mix demands of speed and profitability, how to meet these needs?

D.M.: The quality of location, such as the proximity to a city centre, is the number one criteria. The other criteria include the density of the number of doors at the quayside, the quality of the exterior spaces (HGV/ V parking areas), and the building’s depth (whether or not they are mechanised).

G.T.: On our side, we ensure that the warehouse is functional in the best possible way and for the longest possible time because in the event of a malfunction, the entire chain is delayed and there is an immediate impact on

the business and the satisfaction of the end customer.

Should we expect the emergence of new models for last mile logistics?

D.M.: Increasing needs for urban logistics implies new rules, particularly in terms of traffic regulation and noise reduction, which have an impact on the logistics real estate offer. For example, the locations closest to city centres are in high demand and industrial sites near cities are being converted.

G.T.: Urban logistics is now part of major urban development projects and will result in mixed buildings in the future. For example, we are supporting a major French group in the renovation of a 35,000 m² historic building in the heart of Paris. This illustrative project, composed of offices, shops, services and hotels, will also host a logistics hub in the basement. As urban logistics is growing rapidly, environmental issues will reshape its formats: co-storage, based on shared micro-storage, will develop in particular. ■



© Bruno des Gayets-Nikolaj

“URBAN LOGISTICS IS NOW PART OF MAJOR URBAN DEVELOPMENT PROJECTS AND WILL RESULT IN MIXED BUILDINGS IN THE FUTURE.”

Grégoire Tripon

Director of European Development
@ BNP Paribas Real Estate Property Management

THE MYTH OF FREE SHIPPING



Free delivery does not exist, as the Wharton School University of Pennsylvania demonstrated in one of its studies published in 2017. Over the past few years, free shipping has boomed to become a standard for consumers. But reality does not work that way. Free and instantaneous services have a cost that someone must bear. So what are the solutions? Taking a step back while running the risk of losing customers? Temporary free delivery on a limited range of products? And why not ask customers to adhere to a membership service? Today, many brands offer, for a monthly or annual fee, a subscription to a “privilege” offer where the consumer no longer has to pay the postage costs for each purchase. Is this merely a sleight of hand or a real value-added service for both parties? Only the future will tell.

ZALANDO USES SHIP FROM STORE AND REVERSE LOGISTICS FOR A SEAMLESS CUSTOMER EXPERIENCE

Zalando, Europe’s major online fashion platform, uses its supply chain to gain the upper hand. In 2018, the German company created a platform dedicated to physical shops that aims at sharing stock and warehouses with one another. If a purchase is made online and corresponds to the stock in a store located near the customer, the point of sale may decide to execute the order and ship it directly. Thanks to this “ship from store” concept,

first launched in Germany in 2019, partner brands have an additional sales channel and Zalando guarantees shorter delivery times. Many other retailers, like Zara, have adopted “ship from store” organisation in deciding to no longer separate their stocks for online and in-store purchases and to proceed with a complete integration of the two. The store network is optimised to its highest level, stock shortages are minimised and customers’ satisfaction is increased. Another

challenge of competitiveness is reverse logistics that includes high costs and a heavy supply chain. In 2019, Zalando announced a partnership with Poste Italiane so items purchased on Zalando, it can be returned at post offices, tobacconists and affiliated stores. In Denmark, customers can even drop-off their returns at service points operated by private individuals who spend much of the day at home such as stay-at-home parents, entrepreneurs or retirees!

POP-UP STORE

FLEETING APPEARENCE, LASTING ENDURANCE

Coming from across the Atlantic in the early 2000s, the pop-up store, an ephemeral store, is flourishing in our city centres and beyond. Unpicking what some consider to be the new winning formula for retail.



The concept of the pop-up store is mainly based on an event, unexpected and fleeting, designed to provoke astonishment and entertain. From there, it arouses curiosity, a “wow” effect, nourishes the feeling of being privileged by enjoying something extraordinary, modernises the image of a brand or enhances its notoriety. Local communities are fond of it because it also contributes to revitalising city-centres, even if the phenomenon mainly affects large capitals. The pop-up store’s objective is beyond selling goods, it is selling emotions and creating customer engagement.

To test a new product or market

With its Berlin pop-up store launched in 2017 and named Knit for you, Adidas is rethinking



J.M. Weston's pop-up store in Paris, France.

© Massimo PESSINA

their production and supply chain. The German sports equipment manufacturer offered visitors the opportunity to design their own sweater. Customers could have a laser body scan in order for it to be custom fitted. The sweater was then knitted on machines right in the store. In a sector where it takes between 12 and 18 months for a garment to reach the store, here a sweater was ready four hours after starting the process.

To reduce vacancy costs during construction work

When J.M. Weston closed its boutique on the Champs-Élysées in Paris to open a new, more modern one, the luxury shoemaker chose to launch a pop-up store on the same avenue so as not to lose its customers during the construction work. It requisitioned an old cinema, while revamping vacant premises. Shoe fitting now

takes place in the large projection room, offering customers a unique experience. **The theatrical aspect of pop-up stores is crucial.**

To be in contact with customers

Some brands have little contact with their end customers because their products are sold by distributors. This is the case for Danone, which tried to sell directly to its customers a few years ago with the installation of a "Yoghourteria" in Madrid and Barcelona in shopping centres and various chains. Recently, Amazon has continued its conquest of offline, this time without a partnership with a physical brand, but alone. In 2018, the American giant opened several Christmas stores named Amazon Loft for Christmas in Amsterdam, Berlin, Madrid, Madrid, Milan and Paris. The point of sale was completely scripted to reproduce Father

Christmas' grotto which, in addition to offering products usually sold on their website, offered events such as signing sessions or creative workshops. For even more magic, no prices were displayed: purchases were made online on terminals or by flashing a QR code with a mobile phone.

The pop-up store paradox? May these ephemeral shops continue to exist! ■



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FOOD RETAIL IS HUNGRY FOR INNOVATION

The food sector is flexible, integrating the evolution of our lifestyles, our gastronomic expectations, and even our cultural and social models. This ability to adapt stimulates a new relationship with restaurants and commercial real estate.



The Food & Beverage sector has experienced strong growth over the past ten years. It is competing with the clothing and household appliance sectors in shopping centres, retail parks and major shopping centres and currently occupies an average of 10 to 15% of the real estate market. By 2025, it could reach 20% by 2025 in some European countries*. Brands open kiosks with macaroons and organic juices in shopping centres and train stations, contributing, to the greater satisfaction of investors, to boost footfall, the time spent on premises and ultimately the average basket.

Local first, global next

With the democratisation of tourism, consumers are travelling more and want to rediscover their culinary treasures when they return home. Food courts are a good example of this. Conceived in the United States and widely used in some European countries, these dining areas now offer more than they originally set out to. They are inspired by the typical atmosphere of European covered markets such as Barcelona's Boqueria and offer fresh, seasonal and/or



© Fabrice Labit

Michel Roth's restaurant in Metz train station

organic produce. Time Out in Lisbon and Foodhallen in Amsterdam have chosen to settle in the heart of the city in existing locations: the halls of the Ribeira Mercado for the former and a former tram depot converted for the latter.

Great chefs venture out of their kitchens

A number of chefs are investing in more accessible and popular places. For example, media chef Gino d'Acampo has moved to the retail park The Springs in Leeds, England. The "Chefs de Gares" operation brings together Michelin starred chefs and local producers in 19 French stations. **The keywords of these food experiences are authenticity and proximity.**

Restaurants become hybrid

Different types of places are opening up and cross-pollinating with food. Restaurants and cafés are creating co-working areas. This is the case with Ziferblat, a pay per minute meeting room, coworking and café. Following its first success in Moscow, its founder opened branches in England, Slovenia and Ukraine. ■

* ICSC, *The successful integration of Food & Beverage within retail real estate*, 2017



© Lucas Muller

A TASTE OF METZ STATION



Michel Roth is a renowned French chef when it comes to his job. After heading up the kitchens of the Ritz and starring in TV shows, he now works at Bayview in Geneva and has opened a restaurant in Metz train station, France.

Why did you choose to settle in a train station?

When the SNCF (via its subsidiary Retail & Connexions - ed.) offered to take over the restaurant at Metz station, I did not hesitate for a second. Having grown up in Metz, I have many memories in this station and I wanted to offer quality dishes to both travellers and locals. My restaurant "Terroirs de Lorraine" opened in early 2018. I created the restaurant menu and set up a team focused on good, fast and accessible dishes. The main challenge was to offer my cuisine to as many people as possible over a wide time slot, from 9am to 10pm.

How to adapt a catering space to the constraints of a station?

A station is an atypical place, with a lot of footfall but also safety issues. For the moment, we have decided not to set up a security guard or a valet. With its one hundred seats, the restaurant's space is open to the outside world. It is fully glazed and modular, with the possibility of converting part of the restaurant into a terrace, for example.

How do you feel one year after the opening?

One year after the opening of the restaurant, the results are positive with an increase in attendance and customer loyalty. Based on the fact that the restaurant is on a thoroughfare, we have observed two types of customers: some of them, especially among travellers, want to eat well and quickly, spending around 40 minutes at the restaurant, other customers have more time and sit down for a complete menu that can go up to four courses. The challenge is to find the right balance to present an enjoyable culinary experience to these two types of customers! ■

TRAVELLERS ARE CONSUMERS

Constantly moving and eager to engage in an immersive experience Today's passengers have changed a lot. So are train stations, airports and underground stations. Transit zones are turning into consumer spaces leading travel retail to profitability.



Continuously changing needs and behaviours imply the emergence of offers and services. Travel retail has gone beyond traditional duty-free shops – once reserved only for airports – and is now being seen in train stations and, to a lesser extent, motorway service stations. **This global phenomenon is mainly due to the new ways in which we travel. This is reflected in the exponential increase of travellers and time spent in transit areas.** The economic potential is thus considerable only if brands are willing to adapt and offer a new range of services to the consumer traveller. Transit zones do not escape the omnipresence of digital technology, and are integrating it for a better consumer experience within an allotted space of time. **Travel retail is a source of economic development, with an average annual growth rate of +6% since 1995*.**

Less square metres, more profitability

Transit points expand their commercial offer. Large brands such as Hema, Decathlon or Marks & Spencers are setting up in train stations by adapting their format to the limited land area – stores of less than 300 m² – and by offering a reduced selection of products in order to satisfy very diverse customer profiles. Once again, digital technology seems to be one of the solutions: for example, with a click and collect service in stores or directly at home. Kiosks are also flourishing, especially in terms of gastronomic offerings. **The reduced surface area of these spaces is even becoming a positive element: a less significant land investment for maximum profitability.** Regarding the leases contract,

they are short and flexible which ensures a great business rotation. **Highlighting the success of this business model is the fact that retail specialists and transport professionals are now working together.** In Italy, the Antin Infrastructure Partners – Icamap – Borletti



FROM PASSENGER TO CUSTOMER: RETHINKING ROME AIRPORT

Group consortium acquired in 2015 the retail subsidiary of Grandi Stazioni, the company managing the largest Italian stations. Lagardère Travel Retail invests in food service and fashion (Victoria's Secret Beauty and Accessories at Schiphol- Netherlands airport).

In airports, brands must adapt to new audiences: Millennials, retirees who travel more and customers of low-cost airlines. Here too, this could involve more digital in the purchasing experience or the development of a Food & Beverage offer and everyday products in addition to traditional luxury stores.

Hairdressers, sports clubs, medical laboratories: the travel retail offering is constantly expanding. Additional services are also multiplying such as lockers in train stations. On the principle of retailtainment, cultural spaces (open access piano, art exhibition) are invading transit areas and more recently, co-working spaces are flourishing.

Are these areas traditionally associated with movement going to become more static? ■

** Wavestone, Travel retail: what are the prospects and what strategies should brands and retailers adopt?, 2016*



With 43 million passengers in 2018, Rome Airport is the first in Italy one of the biggest in Europe. In 2016, its non-Schengen retail area was reopened after a major overhaul. Today, the focus is on creating the right conditions to transform passengers into customers.

"The passenger experience was at the heart of the transformation", explains Francesco Lancia, Head of Retail Development at Rome's Fiumicino Airport, "and that means delivering the highest standards for the touchpoints into the customer journey of travellers". Security checks were a key focus, designed with wide spaces and always well-staffed to avoid queues; some approach for toilettes, baggage claim and many other systems.

Overall, the renovation work focused on 5 key areas: providing cutting-edge infrastructure; offering a taste of the Italian high-street experience; exploiting passengers' limited time through a call-to-gate approach; communicating the advantages of VAT-free shopping and introducing new services for key targets, such as providing personal shoppers to Chinese and Korean customers.

"We increased footfall by creating a central area where all passengers must pass"; according to Francesco Lancia, "the idea was to benefit from the natural flow of people at the airport and build the offer around them. Unlike traditional retail, people's primary intention is not to shop. Stores were therefore designed to be open with no doors, inviting them in. Luxury stores in particular were equipped with attractive, quality lighting and bigger spaces to entice customers in". In addition, the airport's Food & Beverage offer was diversified, spanning everything from fast food to high-class dining. Future plans include similar renovations for the Schengen area, plus the development of a major new business district. Ever the innovator, the airport is looking at home deliveries for customers in Europe. Passengers could, for example, sample wine and then get a case sent to their home. Alternatively, they could pre-order luxury goods to inspect them at the airport. ■

IN-STORE VS ONLINE

THE END OF A DILEMMA

Until recently, offline and online shopping felt like they were worlds apart. Now however, the two universes have reconciled and become almost inseparable when it comes to retail chains.

The ATADAWAC concept – *any time, any device, anywhere, any content* – has provoked this.

Phygital: a bridge between the physical and digital worlds

“Everything, everywhere and all the time” has become the consumer’s rule of thumb, forcing retail players to rethink their offers and distribution channels. **The time of the store as a single point of sale is well and truly over, just as the all-digital approach seems to have shown its limits.** The solution would be a mix of both: the **phygital**, which is based on an omni-channel consumer experience. The phenomenon began with traditional retailers who, aware of the Internet upheavals, invested in online sales, adopting the nickname “*click and mortar*” – in reference to the physical commerce referred to as “*brick and mortar*”.

They have developed digital technologies within their stores by offering, for example, indoor geo-location. Just like an indoor GPS, it guides consumers through the departments of a shopping centre or a supermarket. Finally, retailers have created a link between the two channels thanks to web to store services. Online consumers can either collect their online purchases in store (click and collect service) or book their favourite product in the store of their choice. These two solutions have the advantage of saving retailers the hassle of last mile delivery. In addition to improving logistics efficiency, retailers attract new customers and make the purchasing process smoother.



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SEPHORA'S E-BEAUTY FACELIFT

Present in 34 countries, Sephora (LVMH group) launched the "New Sephora Experience" in 2017, a new concept of connected stores. In these pioneering points of sale, the customer journey is punctuated by digital encounters that promote more than 14,000 cosmetics and perfume references*. The challenge: to bring added value to the visit in the store by offering advice, product tests and immersing the customer in the brand's universe. As the central element of these 3.0 points of sale, the "Beauty Hub" allows, via touch pads, the customer to access a virtual lookbook,

to simulate makeup products on a user's face in real time thanks to augmented reality mirrors and to share your favourite looks with the beauty community on the Internet. This concept, first installed on the Rambla de Catalunya in Barcelona, is now being extended to other European countries such as France, Denmark and Germany. Pushing the boundaries of the multi-channel experience ever further, Sephora also equips all its stores with "Sephora Plus" connected terminals. The latter compensate for the absence of a product in stock through the possibility of ordering it online and delivering it

free of charge to your home within 48 hours. The objective of this ever-increasing digitalisation of the shop is never to have to say "no" to the customer! In 2019, Sephora presented several innovative digital solutions. It will soon be possible to access beauty tutorials in store and at home using only voice commands, but also to use a scan-and-go solution that will allow the customer to instantly buy a product. By simplifying all customer journey stages, Sephora ensures a complementarity between its online and offline offer, and removes all potential obstacles to purchase. ■

* lvmh.fr, 2019

Retailog reinvents itself ESTABLISHING NEW CONCEPTS



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Giant partnerships

We are seeing digitally native brands conquering the physical world. Cdiscount, France's leading online retailer, has taken advantage of its integration into the Casino retail group, installing its own spaces into its parent company's stores. For some Internet companies, this is an occasion to test new products and expand their offer. The German Zalando.com inaugurated its first beauty station in Berlin in 2018.

As for the GAFAs¹ and their Chinese counterparts, the BATXs², Alibaba, Google and Amazon have signed partnerships with major retailers. The first one with Auchan in 2017, the second with Carrefour in 2018 (including the deployment of voice commands), and the third with Monoprix the same year. The challenge is always the same: to access huge markets and reduce delivery times.

Unified trade

After the multi-channel and then the omni-channel, the time has come for unified commerce,

The ultimate objective is to break down borders so that consumers move from one channel to another in the most fluid and least noticeable way possible.

whose ultimate objective is to break down borders so that consumers move from one channel to another in the most fluid and least noticeable way possible. All this takes place within a single retail software system that integrates all customer relationship contact points (store, mobile, Web, social networks, call centre) to manage the entire customer journey, from the search for the product to its shipment until its possible exchange or return. In the United States, the powerful Walmart had taken the plunge in 2016, by partnering with the start-up Jet.com. Today, to reduce delivery costs, it offers lower prices if the products purchased online are collected in store. Yet in 2018, only 7% of the American retailers surveyed by Boston Retail Partners offered a truly unified shopping experience, but 81% of them planned to implement a unified trading software within the next three years³. The story is just beginning... ■

¹ Google, Apple, Facebook, Amazon, Microsoft

² Baidu, Alibaba, Tencent, Xiaomi

³ Boston Retail Partners, Unified Commerce Survey carried out with 500 U.S. retailers in 2017

WHEN PRIMARK SAID NO TO ONLINE SALES

The Irish discount fashion giant stands out from its competitors in its sales strategy. Primark's stores are predominately located on prime locations, but the group invests little in advertising and turns its back on online commerce. Still, the company is continuing its development with more than 350 stores, mainly located in Europe, and profits reaching €490 million at the end of 2018, an increase of 25% compared to the previous year. In 2013, Primark tried its hand at e-commerce by stocking some of its products on ASOS's website, before

backing out. "The margins are so small that it can be difficult to sell a £3 t-shirt when you are spending the same amount just to ship it," said George Weston, Chief Executive of Associated British Foods (Primark's parent company), in 2017. On the current website, customers can only browse items and have to go to a physical store to make a purchase. Yet, a section named Primania works as a fashion lookbook and offers them the chance to post pictures of their outfits, turning them into real brand ambassadors. The company has announced that it plans to launch a click & collect offer

in store by 2021, with no delivery service. This timid progress in e-commerce aims to limit logistics costs and preserve the profitability of this heavyweight clothing company. Primark believes in the future of the physical point of sale: customers are encouraged to visit the store regularly to discover new products whose low prices increase the average basket. A successful business model that goes against the retail current. ■

¹ www.abf.co.uk

² Le Figaro Economy, How Primark downgrades its ambitions in e-commerce, 04/17/19

³ "We finally know why Primark doesn't sell online" in Marieclaire.co.uk, 28/07/2017



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...WITH TECHNOLOGY

For logistics and retail players, technology is a key driver for improving performance. Logistics is gaining in productivity through robotisation and artificial intelligence. Retail offers a multi-dimensional customer experience and, at the same time, relies on an in-depth knowledge of consumers. New technology is changing commercial and logistical space.



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LOGISTICS OF THE FUTURE

FOR INCREASED SUPPLY CHAIN PERFORMANCE

Warehouses, and also logistical real estate, are undergoing a revolution that is increasingly integrating technological innovation into their operations.

Digital technology for a supply chain 4.0

More than three million robots are expected to be in use in warehouses by 2020¹. A figure that illustrates the increasing implementation of automated and connected solutions, in line with e-commerce growth. A whole ecosystem of start-ups is supporting these innovations. In 2018, the French company Cdiscount inaugurated its incubator, The Warehouse, whose objective is to create the supply chain 4.0 and improve working conditions. This ranges from product picking by

a super agile articulated arm to an autonomous trolley, including a collaborative robot (Cobot) which helps to transport heavy loads, to the identification of MSDs (musculoskeletal disorders) and to the return of oversized packages.

Using mobile robotic

In the same spirit, Nestlé and XPO Logistics have joined forces to create a joint "distribution centre for the future" located in the East Midlands Gateway Logistics Park in England. Nearly 60,000 m² will be managed with the help of the A.I. and in-

¹ International Federation of Robotics, Robots and the Workplace of the Future, March 2018





telligent machines. Delivery planned for 2020. “The centre will operate as both a think tank and launch pad for XPO innovations”, according to Richard Cawston, its General Manager Supply Chain Europe². With the start-up Exotec, the robots they have developed to move goods save employees about fifteen kilometres a day³! It is all about robotic mobility, or robomobility. The rupture is fundamental: from now on, it is the goods that come to humans and no longer the other way around.

Optimising logistics flows with 3D printing

3D printing offers another way forward by ultimately influencing the supply of raw materials – in this case, balls and plastic reels – and the management of stock. Belgian company Mate-

rialise has been developing this technology for years and has become one of the leaders in this sector. It built the largest 3D printing plant in Poland in 2017. These are still only small products, but experience illustrates the upheavals in logistics.

Leveraging predictive data

Another milestone has been reached with Vekia. Founded in 2008, this French start-up has decided to position itself upstream of the supply chain: its prediction algorithms based on *machine learning* make it possible to forecast sales while better managing stock and the supply chain. Thanks to these predictive purchasing trends, products are transported to the right place (lower transport costs), in the right quantity (lower storage costs) and at the right time

(better management of peak activity). Nevertheless, the number of logistics players involved in artificial intelligence is still small.

Optimising delivery routes

One of the challenges of logistics is the optimisation of transport. The German company PTV Group develops software that optimises routes and parking space search functions for trucks. In addition, there is fleet management and distribution route planning. To do this, it uses geocoding, enriched by the specific carriers' constraints of carriers. By providing them with the most accurate information possible, quality of flows (meeting deadlines, optimising time) is improved.

² Interview of Richard Cawston, in Voxlog, 19/06/2018

³ “Exotec robotizes the logistics of e-merchants” in Les Echos, 28/08/2018

A.I. BREATHES NEW LIFE INTO PHYSICAL COMMERCE



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From augmented reality to interactive robots and holograms, artificial intelligence is powering customer journeys. The customer journey in a shop will soon look like this: a virtual showcase window that comes to life as one passes by it (Kiabi), then an interactive robot based on the model of Spoon or Paper (which has already appeared in Group Renault's ads) greets you. They can actually determine the customer's tastes based on a quick questionnaire. Here, one is directed to the right department. Then one can start a fitting session in front of an intelligent mirror (patent by Amazon in 2018). In interior design stores, a virtual coach works from the photos sent by the customer (Leroy Merlin app launched in 2018). A virtual reality headset allows you to visualise an event (Dior show in 2017) or a location. These innovations face two challenges: to offer the customer a tailor-made experience and to free staff from time-consuming tasks in favour of human support!



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OCADO, PIONEER OF ROBOTIC WAREHOUSES

Ocado is one of the world's largest food trading pure players. In order to overcome the logistical constraints of selling food online, it has launched its own (mostly robotic) platform. Its technology is now patented and licensed to international retailers such as Casino and Marks & Spencer¹. With a surface area of 20 to 25,000 m², this type of warehouse is able to prepare 65,000 orders per week from an assortment of more than 50,000 references². This technology allows Ocado to prepare an order in a record time of 5 minutes for 50 items. ■

¹ Linéaires, "Order picking: Ocado's amazing technology", 25/05/2018

² Ocado Technology YouTube channel, 2018

IOT AT THE SERVICE OF DELIVERY

55% of e-shoppers will not purchase on a site again if they had shipping problems¹. When you know that last

mile delivery is the most expensive part of the supply chain, the stakes are high for retailers.

Will the Internet of Things (IoT) be the solution for a faster and more eco-responsible delivery? Here is a selection of some innovations in the pipeline.

• **Amazon Prime Air:** Convinced of the potential of drones, Amazon has created an R&D centre to design air traffic management software. Some points still need to be ironed out, such as the ban on flying over cities, the accuracy of landing and the risk of falls.

• **Autonomous cars and trucks:** Tesla already has 250 pre-orders for its brand new autonomous electric truck. Waymo, a Google subsidiary, uses autonomous trucks (Peterbilt Class 8). The advantage? Reducing labour costs.

• **Starship Technologies:** The autonomous delivery robots of the American start-up are dedicated to an urban environment and have a range of 5 km for small packages.

• **Fibaro:** With the technology of the Polish domotics specialist, you no longer wonder where your package is or when it will arrive. The geolocation system allows you to track it in real time and manage your time better. On arrival, the customer will receive a text.

¹ e-commerce nation - 02/05/2018

² automobile-propre.com/breves

"THE LOGISTICS OF TOMORROW WILL BE FULLY INCORPORATED INTO EVERY CORPORATE STRATEGY"



© Bruno des Gayets

"Beyond the question of technology, retailers have to see logistics as a core element of their corporate strategy" explains René Jeannenot, France Logistics Director at BNP Paribas Real Estate. "A retailer or a distributor faces different questions and the answers to those will directly impact their development: do I need to relocate my distribution centres? Would it be more profitable if I internalise my e-commerce business? What kind of robotisation should I implement? Finding the right solution may require the help of a supply chain management consultant in order to make the supply chain a driver for competitive advantage." This is why in 2019 BNP Paribas Real Estate created a new department with the integration of Traker, an operations consulting firm. ■

HOW DATA IMPROVES CUSTOMER KNOWLEDGE

Because of customer diversity, it is essential to know who the clients are. Smart stores are emerging. They implement technology to get consumer insights in order to refine their business proposal. CRM is central to this ambition as it aggregates data. And data is disrupting brick and mortar shops.

Implementing data for improved customer understanding

Today, there are many ways and different types of softwares to collect data on buying behaviour (Wi-Fi, website traffic, sensors to track pedestrian traffic, interaction with advertisements, etc.). This data provides reliable indicators on the purchasing environment and consumer expectations that will help to better manage sales and the supply chain. But what is the real potential of this data? Spanish jewellery brand UNOde50 has installed frequency sensors in its stores. Customer behaviour is analysed from



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THREE QUESTIONS FOR LAURENT PAVILLON

Head of Business Marketing
and Communications
@ BNP Paribas Real Estate



© Thomas Gogny

THE DATA-DRIVEN CUSTOMER'S KNOWLEDGE HAS A DIRECT IMPACT ON THE PHYSICAL POINT OF SALE.

the showcase window to the cash register. From the entrance right up to the final point of sale, a sensor counts the entries and exits to know the number of customers and the average time they spend in store. Another module identifies the visitor's gender and age group, as well as the time spent in front of the window and shelves. It also analyses the customer's emotional reaction to the products. Furthermore, these tools determine the densest areas within the point of sale and the corresponding time slots. The challenge is to decode user experience in order to rethink the point of sale's organisation, all the while to increase profitability, sales efficiency and customer service.

Delivering more targeted advertising

Data analysis also makes it possible to send the right advertisement, to the right person, at the right time. Since 2014, JCDecaux UK has been distributing data-driven campaigns for Tesco, the country's leading supermarket chain³. The digital screens at the entrance of the points of sale broadcast, in real time, advertisements targeted according to the time and products purchased by the customer. The screens display breakfast products in the morning and soup when it's cold⁴.

Predicting purchasing behaviour

With multifaceted consumers, commercial offers and spaces are becoming more precise. The CRM¹ is at the heart of these evolutions because it aggregates, analyses and turns the collected data into sales opportunities. Predictive marketing anticipates behaviour rather than analysing it downstream. With a clever mix of data and artificial intelligence, it allows the brands to offer ever more personalised and precise targeting. They gain in agility and optimise both their sales and supply chain. ■

The web provides tools to better understand customers (use of cookies, online user journey analysis). Is such a detailed consumer knowledge possible in store?

Retailers will focus on facilitating the physical customer journey between the different digital, physical and in-store channels. This means contactless mobile payment, facial recognition payment, smart shopping carts, etc. The performance of these services can be measured in different ways: with digital in-store tools, how the click and collect and click and reserve services are effective, with the deployment of a customer feedback solution connected to a common analysis platform with the performance of the e-commerce site. This will allow a comparison of the two channels. The loyalty card also provides valuable information on the customer's shopping frequency, average shopping basket and favourite items. Wi-Fi – mostly free of charge in many shopping centres – allows one to know the visit time, the route within the aisles and the time spent in the fitting room and at the till.

How analysing customers' behaviour can change the points of sale?

Drawing on this data, retailers can rethink the layout of their stores. Reducing queuing time will avoid losing customers who are too impatient, and maximise revenue per point of sale. Brands pay particular attention to the checkout process: a single queue line allows customers to be served in the order they arrive and to promote low-cost items. Retailtainment is also a way to seduce the younger generation. Some brands offer experiences (workshops, cultural events) and Instagrammable spaces to be shared on social media platforms.

What are the upcoming innovations?

Driven by disrupting start-ups, the "digital in store" concept is starting to yield encouraging results. RFID (Radio-Frequency Identification) and NFC (Near-Field Communication) tags are particularly promising. Products are getting smarter as they have a unique and secure identification number that also allows retailers to better track their stock. The relationship between the retailer and the customer continues beyond the store by offering, for instance, access to tutorial videos or warranty monitoring. This digitalisation of products transforms them into genuine online platforms for an ever closer relationship with the customer.

¹ Customer relationship management

² Tcgroupsolutions.com 2019

³ Jcdecaux.com 2016

⁴ Vimeo.com/105222549

ABOUT BNP PARIBAS REAL ESTATE

BNP Paribas Real Estate, one of the leading international real estate providers, offers its clients a comprehensive range of services that span the entire real estate lifecycle: Property Development, Transaction, Consulting, Valuation, Property Management and Investment Management. With 5,400 employees, BNP Paribas Real Estate supports owners, leaseholders, investors and communities thanks to its local expertise across 32 countries (through its facilities and its Alliance network) in Europe, the Middle-East and Asia. BNP Paribas Real Estate, as part of the BNP Paribas Group, generated € 968 M of revenues in 2018.

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