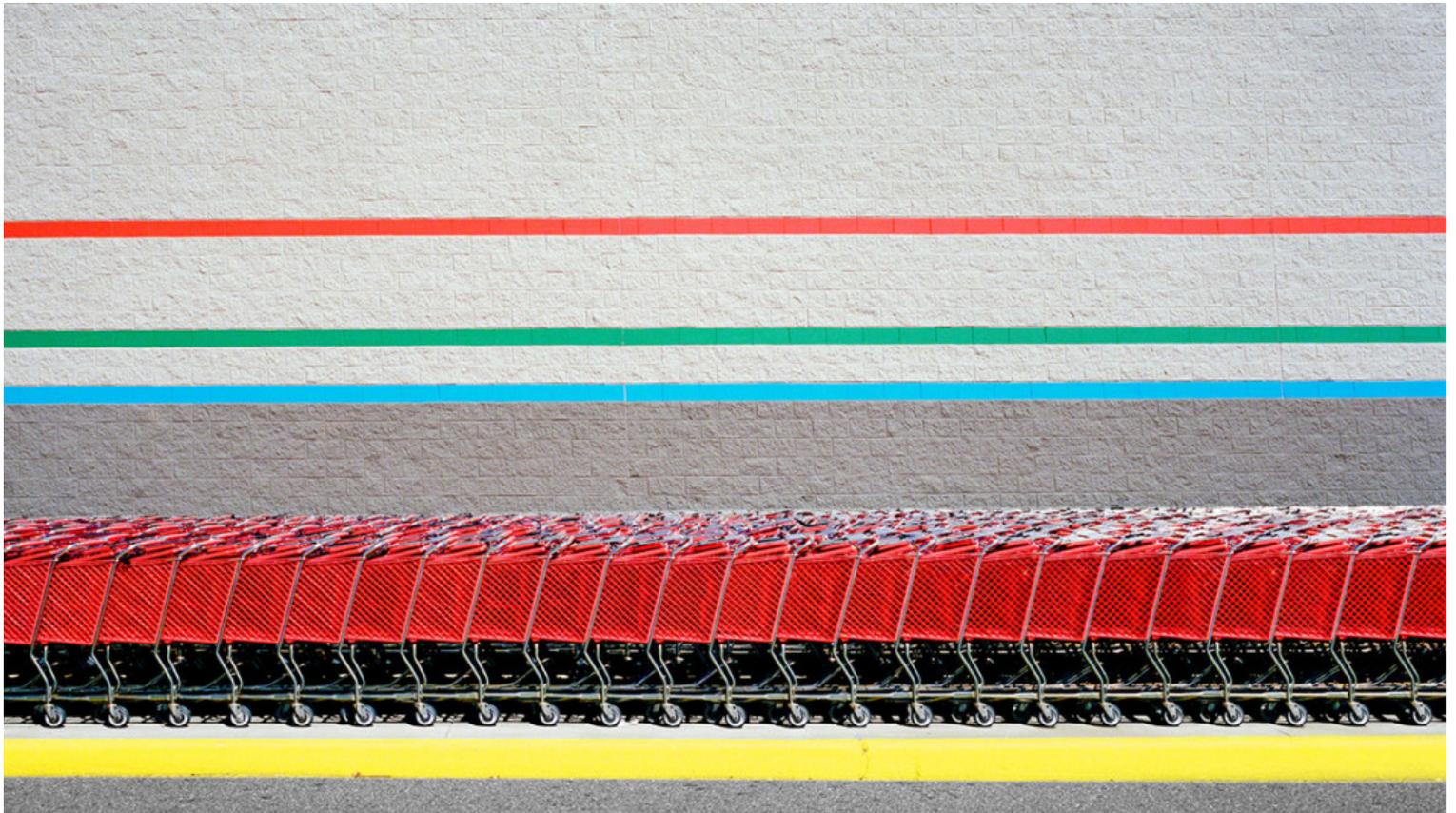


CUSTOMERS

Big-Box Retailers Have Two Options If They Want to Survive

by Denise Lee Yohn

JUNE 22, 2016



Big box retail stores are losing relevance, while e-commerce and specialty stores grow in appeal. People no longer want – or need – to shop as anonymous customers in large stores with shelves stocked high in aisle after aisle. As a result, big box retail must shift its strategy – from competing on access and selection to staging big experiences and providing big discounts.

The shrinking demand for big box retail can be seen in the numerous store and company closures across several categories over the last decade. Linens ‘n Things went bankrupt, as did Circuit City, Sports Authority, and Borders. Office Depot/Office Max announced it would close 400 stores this year and attempted a merger with Staples. Barnes & Noble has struggled to stabilize, and former darlings of their categories including Kohl’s and Old Navy are posting negative comparable store sales.

These large-store format companies are losing share to Amazon and other e-commerce sellers and to specialty retailers. The former are able to offer a wider selection than even the largest brick-and-mortar store can and their digital tools make it easy to navigate an otherwise overwhelming number of choices with ease, speed, and precision.

The appeal of the latter is an edited, or even curated, selection of goods targeted to specific customers who self-select into shopping at the store – and these smaller stores often provide superior, personalized service. Not all specialty stores are thriving, but as a whole, the specialty segment of retail is growing while most other sectors have been on the decline.

Several dynamics have produced this trend:

- **The U.S. is over-retailed.** There are close to 50 square feet of retail space per person in this country compared to 2.5 in Europe, according to The Robin Report. Over the last decade, retailers, motivated by the pursuit of growth traditionally measured in square footage, over-expanded even as consumer demand was moving online.
- **Consumers are spending less on goods and more on experiences.** Last holiday season, PwC reported that Millennials were spending a larger proportion on travel and entertainment than were their older counterparts. But the shift is not happening solely with younger shoppers. Mintel’s 2015 American Lifestyles report projects that vacations, dining out, and other experiential categories will drive the growth in total consumer spending.
- **Personalization is expected.** The use of technology by leading companies from Apple to Uber to personalize their offerings have raised people’s expectations. Customers no longer want anything that is mass-marketed. PwC has observed that niche products, experiences, and services uniquely suited to individual tastes, interests, and aspirations have become “the new consumer indulgence.”

All this adds up to people placing less value on having access to a wide selection – the very advantage that big box stores used to leverage. If big boxes want to avoid becoming ghost-boxes, they need to change their value proposition. They need to leverage their scale to offer what e-tailers and specialty players can't – big experiences, big discounts, or both.

Big boxes can shift from being places to stock and sell goods and become venues to stage immersive, memorable, share-worthy experiences. While specialty stores might create an intimate or personal experience, large stores are conducive to experiential retailing that is communal and physical. Consider how Bass Pro Shops fills the 100,000 or so square footage at its locations with wildlife displays, archery ranges, oversized aquariums, and marine centers so customers can try out its products and sample the lifestyle it promotes. Ikea uses its warehouses to stage fully furnished rooms where people can experience its products *in situ* and get decorating ideas. Outdoor retailer REI goes even further by holding events, classes, and service projects to engage with the local communities around its stores. More big box retailers should design their stores to deliver big experiences like these. They may require a significant investment, but they generate more sustainable store traffic and greater brand differentiation and appeal.

An alternate route for big box retailers is to offer big discounts, using well-honed supply chain and analytics capabilities to offer high-demand products at low margins – with the immediacy and interactivity that e-commerce players can't. Volume and velocity are required to make this model work and retailers like TJ Maxx and Marshalls are thriving because of it. Unlike mass merchants which provide basic goods at everyday low prices, these big box players leverage the novelty of their constantly changing products and discounts. They offer the “thrill of the hunt” for shoppers who enjoy discovering trending products at prices well below market.

Costco combines both strategies, leveraging a unique experience and great deals to produce raving customer fans and ultimately one of retail's best financial performances. The sampling stations throughout Costco stores create a renown shopping experience and its food concessions and gas stations make the locations a regular destination for many. Customers are thrilled by the prices it offers given the quality of its merchandise. Although the warehouse club model may inherently give the company an advantage of over other retailers, the combined approach of big experience and big discount might be a viable option for some big boxes.

Big box is only one aspect of the retail landscape that has been disrupted. Many other companies and sectors are also being challenged to rethink their reasons for being. Fortunately, big box retailers still have viable, valuable means to compete – if they're willing to change.



Denise Lee Yohn has been inspiring and teaching companies how to operationalize their brands to grow their businesses for 25 years. World-class brands including Sony, Frito-Lay, Oakley, and Nautica have called on Denise, a brand-building expert, speaker, and author of *What Great Brands Do: The Seven Brand-Building Principles that Separate the Best from the Rest* and the new book *Extraordinary Experiences: What Great Retail and Restaurant Brands Do*.

This article is about CUSTOMERS

 FOLLOW THIS TOPIC

Related Topics: [COMPETITIVE STRATEGY](#) | [RETAIL & CONSUMER GOODS](#)

Comments

Leave a Comment

POST

2 COMMENTS

fred testa 27 minutes ago

We find that we are buying more from Amazon and less from Costco/Sams; I can sit at home and order from Amazon on my phone when I realize that I need something

REPLY



 [JOIN THE CONVERSATION](#)