

# RETAIL EVOLUTION

MICROFILM

SPRING 2022



# INTRODUCTION

**Right now, at this moment, there are significant changes afoot in the world of retail logistics.**

The Covid 19 pandemic, and subsequent lockdowns across the world, have created both challenges and opportunities to think about the way in which goods are moved through retail supply chains:

- **How** and **where** we shop
- **How** and **when** we expect the things we buy to be **where** we want them
- **How** they get there.

And in terms of total versus online retail sales, we're not necessarily consuming much more, but we're choosing to shop in different ways.

As a result, retailers are having to review how they use their real estate to meet these challenges.

In this report, we examine some of these dynamics and consider what this means for both retail and logistics property and how it may affect occupiers and landlords in the near term.



# WHY NOW?

## Why is now so important? Isn't this just a continuation of a longer trend towards consumers buying more online and shopping less in store?

It is true that it is a continuation of the trend we've seen over the past decade, but the Covid pandemic has shifted the narrative to a new level.

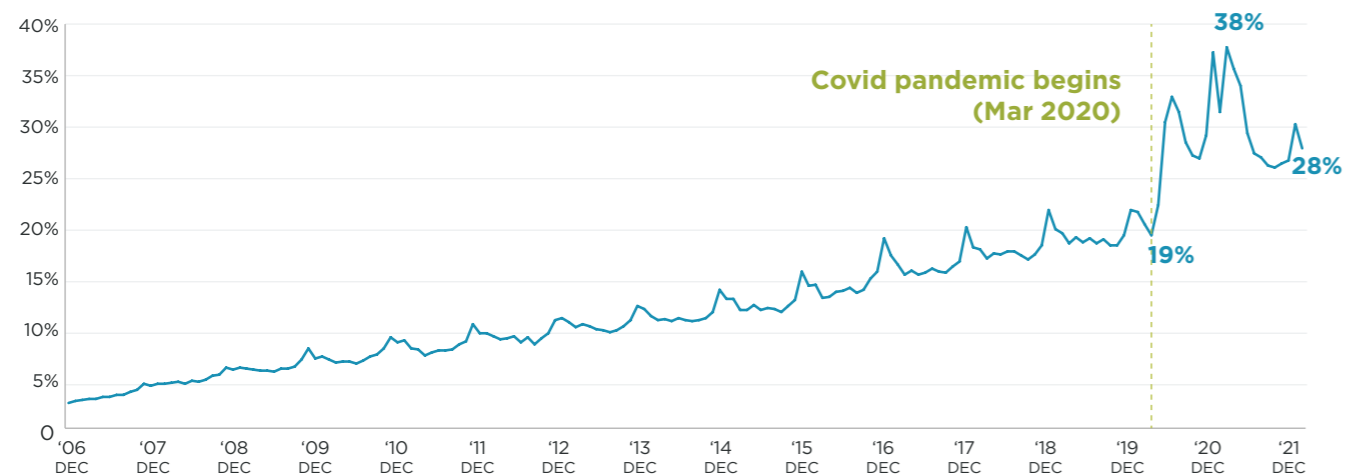
In January 2021, the proportion of retail sales in the UK that happened online hit at new record high of 37.8% compared with 19.1% in February 2020) and whilst the proportion has fallen back over the past several months (27.7% in December 2021), the amount sold online is still far higher than it was before the pandemic.

In fact, based on volumes preceding the pandemic, there has been around five years' worth of growth in online sales in 2020 alone.

The pandemic created a swifter, deeper shift in consumer activity that looks likely to continue: a recent survey by NatWest and Retail Economics, found that since the pandemic began, nearly half (46%) of UK consumers have purchased a product online that they had previously only ever purchased in store.

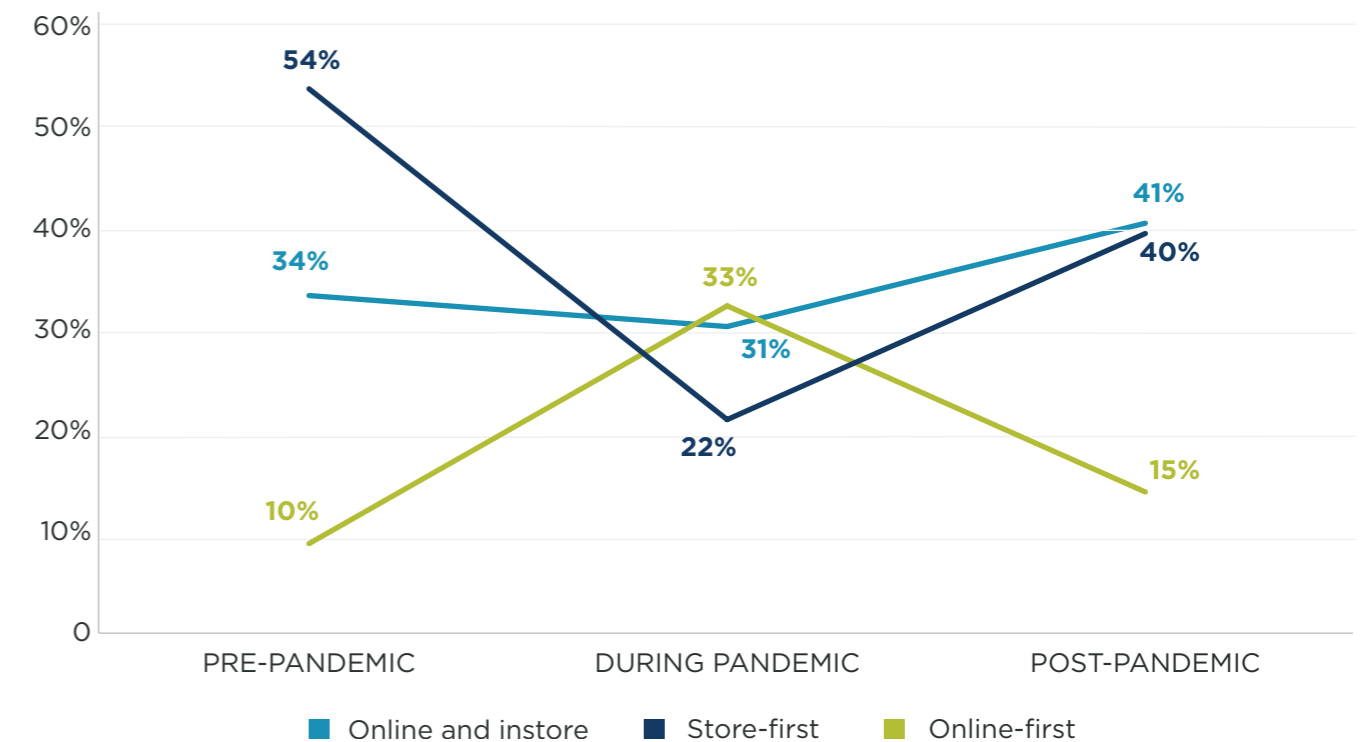
Also, a third (32%) said they expect to continue with their new ecommerce habits in the future (up to 40% in 45-54 year-olds). Another survey by Checkout.com found that 74% of consumers have no intention to significantly reduce their online shopping now that they can access the main street shops again.

UK INTERNET SALES AS A PERCENTAGE OF TOTAL RETAIL SALES



Source: Office for National Statistics

EUROPEAN CONSUMER SHOPPING HABITS PRE, DURING AND POST-PANDEMIC



Source: UPS

This shows that a new hybrid model of shopping is emerging - this chart from a series of surveys by UPS shows that across major European countries, shoppers have significantly altered their shopping habits to include more online and more combination shopping both in store and online - shoppers who pre-pandemic started their shopping journey as "store-first" now use online in at least part of the purchase journey.

What this means is that retailers have an opportunity to secure customers who are newly converted to online shopping and deepen relationships with existing ones, but they now have to find a way to do this efficiently - they have had the chance to stop reacting and start planning. Many retailers have had little choice but to serve customers in whatever way they could during the pandemic, but post the series of lockdowns in the UK, retailers have had the chance to think about what their businesses need to be able to maintain both customer satisfaction and operational efficiency.

# WHAT MAKES A GOOD RETAIL EXPERIENCE?

So firstly, what makes a good retail experience? And how is this different in store and online? And how does logistics fit into this?

**IN-STORE RETAIL** typically sits at one of two ends of a spectrum:



Experiential is where shoppers choose to immerse themselves in a **unique experience**, where they can enjoy, learn, discover and interact with products and retailer brands. The fabric of the store as a component of this experience is critical, together with the ability to find and buy chosen products easily.



Convenience, on the other hand, is far more transactional and is governed more by the need for things rather than the desire for an experience – key important features are **location, availability of product and ease of accessing and transacting**. These are often positioned for value retailing where sharp pricing or price guarantees often limit price comparison.



## Online retail

Online retail is significantly different. Important factors in an online retail experience are:

- The **availability and accessibility** of products and sometimes (but not always) the price to the individual (and ideally with lots of transparency and trackability of the delivery journey)
- The customer's ability to secure **information** they need to make a decision about a product they can't touch or feel – what's it made of, how big is it, how do I care for it?
- **Delivery and returns** as the customer wants it – not always the fastest and not always free but customisable and flexible
- **Ease of transacting** – from the ease of navigation of the retailer website to choosing delivery and payment options and finally any post-sale interaction such as returns or product feedback, particularly as consumers build trust with online retailers (especially if they don't have stores)

Retailers now face the challenging reality that consumers move **seamlessly between both digital and physical retail environments** – they choose different ways to discover, research, purchase and return and expect the retailer to meet their needs at each interaction. The customer journey is now far more complex with shoppers indiscriminately moving between channels and fascias (think browsing Next website while in Primark), adopting ways that better fulfil their immediate wants and needs.

# WHAT DOES THIS MEAN FOR RETAIL LOGISTICS?

## How does this impact on retail logistics? And how do retailers manage that? What drives their choices around how they get goods moving through their supply chains and into the hands of their customers?

With the advent of online shopping, the paths that products need to follow to reach their final destinations are now vastly more complex than when the only option was to go into a shop to buy something.

Prior to the rise of online, retail supply chains were largely arranged around feeding networks of a finite number of stores with known consignment sizes (usually pallets or master cases, racks or cages) – that is, larger unit sizes arranged in manageable, consistent volumes – moved with a regularity that was largely predictable in its frequency. This was typically done from centralised distribution centres (DCs) usually large footprint buildings in the centre of the country.

However, with the advent of online retail, not only have central DCs become even more important but so too have the links in between the DC and the end destination.

The supply chain now needs to address differences in:

- **Number:** the number of end destinations is now exponentially larger as every home, business *and* shop is a potential delivery location – consider that there are over 27 million households compared to just over 560,000 retail premises in Great Britain.
- **Distance:** the inefficiencies and higher cost to serve by moving goods across larger distances in smaller volumes means that last mile facilities offering proximity to customers' homes is essential for many retailers' online proposition
- **Size:** a single parcel is a very different logistical proposition than a pallet or master case or rack
- **Speed:** customer demands for “where and when I want it” has meant that movement of goods through retail supply chains has increased in speed. And that speed to fulfil is a strategic competitive advantage, particularly for commoditised goods (such as branded electronics or apparel).

In addition, the need to serve **growing online** does not come at the expense of store replenishment – it comes **as well!** This has put pressure on every part of the supply chain including:

- the **first mile:** from the point of production (or import) to the retailer's DC
- the **last mile:** from the DC to a fulfilment centre or last mile facility to the customer's hands
- the **return mile:** when a customer returns a product, it's imperative to get the item back into stock circulation as quickly as possible to create a new sale and ensure customers return. According to a survey by Klarna, **84%** of online shoppers say that a poor returns experience means that they will choose not to shop with that retailer again in the future

All of this complexity creates challenges and, importantly, cost – so logistics has been pushed further up the value chain for retailers. Logistics is no longer an **operational** necessity; it is a **strategic** necessity.

So how do retailers and their logistics partners achieve all of this – creating appropriate retail spaces whilst delivering goods to customers and stores in operationally and cost-efficient ways which are margin enhancing?

There are several factors affecting the requirements of real estate to make efficient and effective retail supply chains, namely:

- What **type of retailer** is using the space?
- What **types of products** are being handled?
- And **where are they going?**

The **type of retailer** makes a difference because it brings into consideration **what and how many different types of products** need to be handled in a warehouse including how the systems to store, pick and dispatch products. Also is it a pure play retailer or a multi-channel retailer with a store network to service as well as online customers?

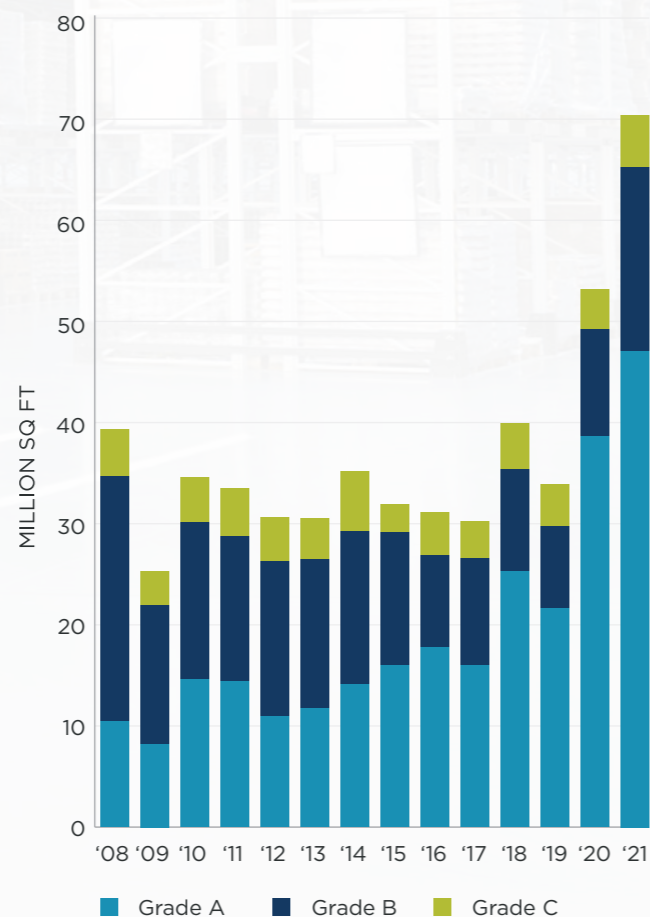
It also makes a difference **what types of products** are being handled and **where are they going**. Supply chains handling product being moved to store in bulk – as scheduled deliveries to a discrete network of stores as lorryloads of products in broadly uniform units – are vastly different to those moving goods as single items or parcels of differing sizes and shapes sent directly to customers' choice of location.

# WHAT DOES THIS MEAN FOR REAL ESTATE?

What real estate strategies do retailers need to consider when they are responding to the challenge – and opportunity – of growing online demand? What are the best ways for retailers to get goods bought online directly to consumers and what type of property do they need to do it?

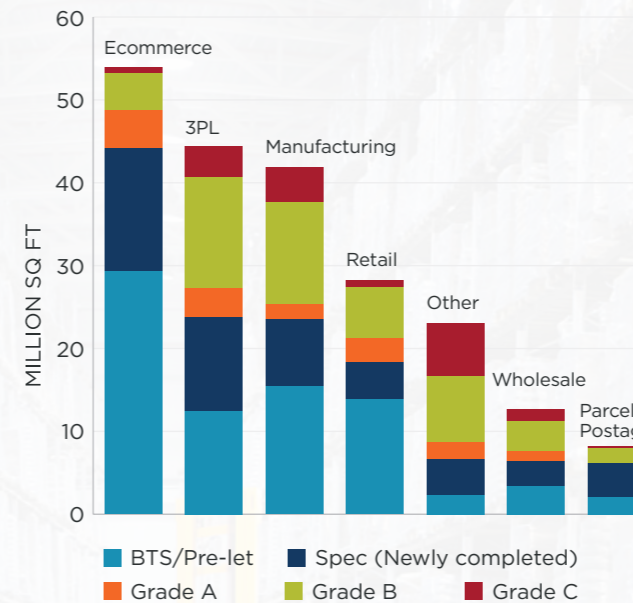
- Given a choice, a **warehouse is typically a more efficient environment from which to serve online delivery to customers:** systems employed at scale for singles picking and packing can be more optimally operated, which therefore manages cost and enhances margin.
- Also typically, **mixing operations of bulk and singles handling and deliveries is less efficient and more costly** than a dedicated network for each. So most retailers typically have separate delivery networks for their online retail and store businesses
- The current warehousing space that retailers use for store delivery may not be as **operationally appropriate** for online delivery, either due to specification or locational challenges. So, with more sales being achieved online, reorganisation or reconfiguration of existing space may only be part of the solution.
- In order to be able to deliver efficiency gains, online sales fulfilment is usually better served in **modern** warehouses, which offer higher eaves height, clearer spans, greater floor loading capacity and better loading and access.

UK TOTAL TAKE-UP OF LOGISTICS FLOORSPACE (UNITS OF 50,000 SQ FT AND ABOVE) BY QUALITY



Source: Cushman & Wakefield Research

UK TAKE-UP OF LOGISTICS FLOORSPACE (UNITS OF 50,000 SQ FT AND ABOVE) BY SECTOR AND TYPE OF BUILDING, 2017-2021

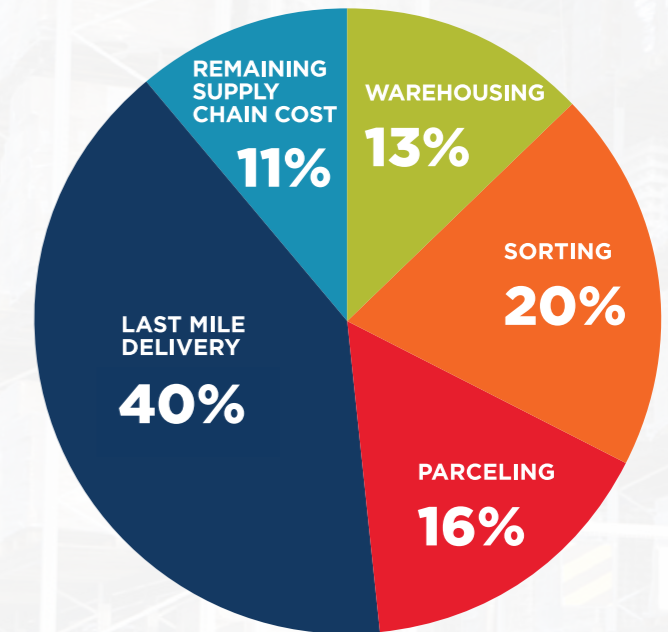


Source: Cushman & Wakefield Research

These elements together are fuelling the huge demand for warehousing space, across all building types from very large multi-storey facilities to very small ultra-urban last link fulfilment micro-depots. These charts show the scale of the growth in take-up - over 70 million sq ft of space was taken in 2021 alone - and how important high-quality space is to ecommerce businesses, retailers and parcel & postage operators in particular.

It is important to recognise that retail logistics is a **sum of incremental gains** - especially where there is opportunity to reduce the cost to serve and therefore enhance margin. And when consider the components of cost in logistics, the **last mile is by far the largest cost** in the journey of goods through the supply chain, accounting for as much **40%** of total cost of delivery.

OVERALL SUPPLY CHAIN COSTS



Source: Capgemini Research Institute

So when it comes to property used to distribute goods bought online to their final destination, **location** is also a significant factor for both retailers and their logistics partners. The inefficiencies in time and cost to move goods across longer distances to get to the customer's delivery point have fuelled the need for last link delivery hubs, particularly those near or within densely populated towns and cities where speed can be a key differentiator in both service level and cost to serve.

Location also makes an important difference to another key factor for retailers, logistics providers and consumers alike: **carbon emissions**. Recent research by MIT shows that using urban last-mile facilities can mean a **50%** decrease in all emissions coming from transportation of parcels for online retail fulfilment. The "location improvement" of being closer to the end destination means that overall carbon footprint per parcel can be **10%** lower than other ecommerce deliveries. So location closer to consumers means lower environmental impact as well as lower cost.

# MICROFULFILMENT FROM STORE

**One way in which multi-channel retailers have considered how best to meet their customers' needs is to explore the opportunity to use their physical stores as microfulfilment points – places where product can be picked, packed and delivered directly to customers**

The massive boost in online sales driven by the pandemic – but the challenge of how to cost-effectively deliver them – has meant that retailers are now considering how to adopt ship-from-store as an effective model, alongside the need to preserve in-store retail offering as shoppers return to the high street.

## What opportunities does store-based fulfilment offer?



OPTIMISATION OF STOCK HOLDINGS

Customers can be assured that products across the entire stock holding of a retailer as available to them to purchase online – not just the inventory that is in the online warehouse. And retailers can ensure that they are utilising their entire inventory efficiently, not disappointing their customers and missing out on sales. It also represents the opportunity for improved inventory optimisation to achieve higher conversion rates particularly for more full-price sales: because stock is being deployed when it is demanded, products are less likely to be left on shelves and then discounted in end-of-season sales. This does require significant investment in inventory data systems but could create such significant improvement to efficiencies and conversion rates as to make the investment worthwhile.



CLOSE PROXIMITY TO CUSTOMERS

Utilising stores that have been deliberately put in places close to where consumers live means that retailers can make incremental cost savings on deliveries being across a shorter distance. This can also mean environmental benefits – moving goods over a shorter distance potentially means reduced emissions, pollution and congestion – all of which are becoming increasingly important to consumers.



BROADER DELIVERY OPTIONS

Retailers are potentially able to offer customers a wider choice of delivery options – including faster delivery if products are in stores in close proximity to shoppers – which further creates opportunities for customer satisfaction and engagement



CASE STUDY  
**TED BAKER**

In 2019, Ted Baker worked with omnichannel order management specialist OneStock on an initiative to fulfil a proportion of online orders by packing and shipping from stores.

In September 2020, Ted Baker and OneStock reported that an extra 101,000 online orders had been fulfilled in one year following the implementation of the new ship-from-store initiative. These extra orders represented an 8% increase in UK ecommerce turnover, with just

30 of its stores activated. The company also said that Ted Baker now sees fewer stockouts, an increase in the number of items sold at full price, and a reduction in seasonal markdowns, while logistical costs relating to order fulfillment are also lower.

Director of operations at Ted Baker, Clare Harrison-Empson said in a statement on the initiative that “OneStock’s capabilities are enabling us to broaden the ecommerce offering in our stores, driving margin through extra sales along with the improved management of our total inventory.”

## What about the challenges of store-based fulfilment?



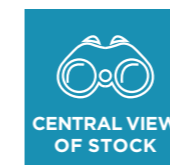
IN STORE EXPERIENCE

Much of the counter argument to using stores for fulfilment in recent years has been around the compromise that store-based picking of online orders means for the in-store experience for customers (particularly around availability of product). But with the challenge of Covid and the lack of shoppers in actual stores, this was less of an issue for some retailers and may pave the way for greater adoption by retailers. However, it remains critical to ensure that the two are integrated in a way that means that they don't threaten one another – an in-store picking and shipping operation may compromise an experience-based offer to in-store shoppers which will be detrimental to a retailer's brand despite being able to service online demand so planning and implementing carefully is essential.



COST PROFILE

There are also challenges in the cost profile of ship-from-store – again, distributing from warehouses is more cost efficient not only because operations are more efficient within the warehouse but because the large volume of parcels being moved from warehouses means that retailers can negotiate bulk rates with parcel companies, whereas the smaller volumes moved from individual stores means that couriers can be more expensive on a per-delivery basis. However, if it means the difference between a sale (and a full-price one at that) and a satisfied customer, and not, then it's an opportunity.



CENTRAL VIEW OF STOCK

A big challenge will be around the ability to achieve a central view of stock which requires significant investment for some retailers for whom their online and in-store stock management systems are completely separate. So investment in RFID and other stock management technology will be important to their ability to be able to service online demand from stores.

# WHAT DOES SHIP-FROM-STORE MEAN FOR DIFFERENT TYPES OF RETAILERS?

## Where is the use of stores as micro distribution points most appropriate and likely to be adopted?

The opportunity for store-based fulfilment of online sales is not the same for every retailer type: the value proposition of merchandise (that is, what products the retailer is offering the customer) and the property portfolio configuration of a retailer affect the choices for the most efficient way to fulfil online sales delivery.

Store-based fulfilment is being used or considered where it makes sense for the types of retailer, the types of journey and the types of products, notably in:



### GROCERY

Grocery has arguably the greatest opportunity, particularly with the increase in demand for online grocery delivery through the pandemic and beyond. Supermarket retailers have a real advantage of being able to utilise existing portfolios for store based fulfilment.

In UK, we are already seeing this with Tesco leading the market by rolling out their urban

fulfilment centre model that it trialled in 2020 in its West Bromwich store to at least 25 sites across the country, citing that UFCs represent “a scalable, efficient option to fulfil ongoing online demand”. Additionally, Asda and Sainsburys are closing dark stores in London in order to pick and deliver directly from their store networks.

Other grocery retailers such as Co-op and Waitrose are also using their store network in partnership with rapid fulfilment partners such as Deliveroo and Uber Eats to be able to capitalise on consumer demand for groceries quickly.



## CASE STUDY SAINSBURY'S AND ARGOS

Over the past several years Sainsbury's has engaged in a transformation of its portfolio to be able to better serve its customers with both existing property and new fit-for-purpose space.

In March 2021, Sainsbury's announced it would be closing its 185,000 sq ft Bromley-by-Bow online grocery fulfilment centre in order to fulfil grocery orders from stores and drive online efficiency and profitability. Sainsbury's chief executive Simon Roberts said that more than 20 stores in and around London would have their online departments expanded as part of Sainsbury's plans to grow its Groceries Online business and that “investment in London stores will enable more customers in the capital

to access more home delivery and click and collect slots.”

In November 2020, Sainsbury's announced that it would close standalone Argos stores by March 2024 but that it would open Argos outlets in Sainsbury's supermarkets, utilising the space their retail property offers. To 8 January 2022, a total of 338 Argos stores had been closed but 398 Argos outlets within Sainsbury's supermarkets had been opened. In addition, Sainsbury's plans to open 32 “high-volume Local Fulfilment Centres” for its Argos brand - several of which are now operational - to offer customers “improved availability and quicker delivery and collection options.







## BULKY GOODS

Bulky goods is another area where retailers have an opportunity to utilise stores more effectively to deliver over the last mile – products that are typically set up to be delivered to store in larger sizes (such as pallets and master cases) and can then be picked from shelves as singles by staff in store.

For example, home improvement/DIY products were particularly in demand during the pandemic – indeed it was one of the few product areas where total sales actually grew in 2020 and its

online share also grew significantly, up from 8% in 2016 to 16% in 2020 – and the way in which retailers have responded to consumer demand has been to more widely utilise their stores for last mile delivery.

Retailers such as B&Q, Screwfix, Matalan and Decathlon have all employed ship-from-store and are planning to adopt it more widely in the coming years.





CASE STUDY  
**SCREWFIX SPRINT**

Following a trial in Bristol which saw thousands of orders fulfilled from store and delivered by delivery partner Gophr. Screwfix launched its Screwfix Sprint service in August 2021 and shoppers in more than 30 cities can have products delivered from branch within 60 minutes.

The service is available for a £5 charge and goods are delivered from the store closest to the customer.

John Mewett, CEO of Screwfix, said the service was a natural extension to the company's delivery options. "We understand how busy the nation's tradespeople are and we are always looking for ways to provide our customers with even greater convenience, meaning they can get what they need, when they need it .... For many time is money and this means not having to leave site to collect a part, tool or other key essential needed for the job."



## FASHION, ELECTRONICS AND BEAUTY & HEALTH

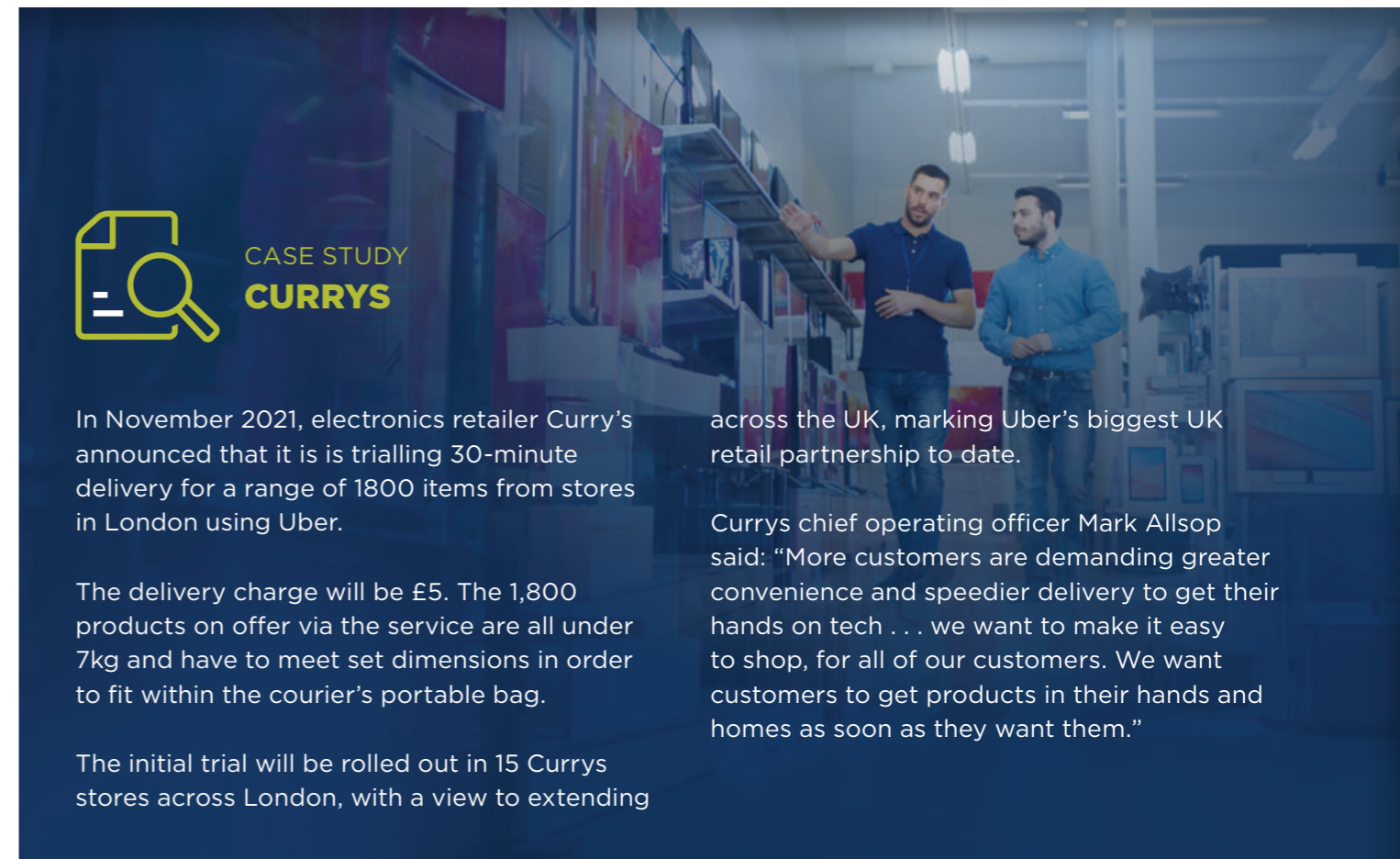
There are opportunities for retailers to utilise their store networks as microfulfilment points for products such as fashion and technology but this poses particular challenges to the in-store experience, which can be impacted by lack of products availability or reduced service levels.


Higher price point-product retailers have the opportunity to make expensive stock work harder by being available to be deployed from warehouse or store to fulfil demand from any channel; retailers such as Anthropologie and L'Occitane have adopted ship-from-store as part of their online distribution model.

Fast fashion retailers with a swift cycle of product have the opportunity to use stores

to fulfil the customer demand (which doesn't distinguish between channels) to ensure that inventory is efficiently moved from wherever it may be held to wherever the customer wants it delivered to be able to capture consumer demand, especially at full price.

Retailers such as Ted Baker, Hobbs, Whistles, Monsoon and Zara have been able to capture online sales through using their stores for microfulfilment, and major retailers such as Marks & Spencer and Next have signalled that they will start to use their stores more as their online demand grows. With online sales expected to pull level, or in some segments, overtake in-store sales in the near term, utilising all the tools in the box will be crucial to success.





CASE STUDY  
**CURRYS**

In November 2021, electronics retailer Curry's announced that it is trialling 30-minute delivery for a range of 1800 items from stores in London using Uber.

The delivery charge will be £5. The 1,800 products on offer via the service are all under 7kg and have to meet set dimensions in order to fit within the courier's portable bag.

The initial trial will be rolled out in 15 Currys stores across London, with a view to extending

across the UK, marking Uber's biggest UK retail partnership to date.

Currys chief operating officer Mark Allsop said: "More customers are demanding greater convenience and speedier delivery to get their hands on tech . . . we want to make it easy to shop, for all of our customers. We want customers to get products in their hands and homes as soon as they want them."

# WHAT DOES MICROFULFILMENT MEAN FOR DIFFERENT TYPES OF RETAIL PROPERTY?

Just as with different product types, different types of retail property have different advantages to adapt to microfulfilment operations:



## SUPERMARKETS

Growth on online sales of grocery could mean some reconfiguration of supermarket properties- particularly to ensure that in-store operations are not compromised. Retailers have the opportunity to implement microfulfilment ASRS (automatic storage and retrieval systems) in store to drive efficiency and cost savings. This is most appropriately achieved in a designated area not accessible to shoppers which means that the retail floorspace is not compromised and - crucially - that online order picking, packing and dispatch is achieved at optimal efficiency. These will be best achieved in hypermarket or superstore formats where there is the space, height and parking capacity to accommodate these types of operations. Tesco has already secured planning permission for this repurposing of space to create a dedicated area in its Thurrock store to the east of London and have also converted customer car parking spaces to dedicated dot.com delivery van packing areas.



## RETAIL WAREHOUSES

Again, these larger format stores lend themselves to efficiencies by picking and delivering directly from store, particularly because of the increased height, size and loading provision of these types of buildings. The typical location of retail warehouses - in edge of urban/suburban areas with good transport links - also lends themselves well to act as microdistribution points. Some of the challenges around retail warehouses may be the interruption to the shopping experience in a wider park environment, in particular for parks positioning as leisure destinations. But with careful management and "zoning" of areas of delivery/dispatch organisation versus consumer experience space, retail warehouses offer significant potential for microfulfilment opportunities.



## SHOPPING CENTRES

Similarly, there are challenges with utilising shopping centre units for microfulfilment, particularly as the customer experience factor is fundamental to store performance, both within stores themselves and within the greater shopping centre environment. Also there are operational challenges with moving "singles" out of shopping centres: as retail logistics and particularly the last mile journey is about incremental cost, the extra time and challenges represented by a courier negotiating the journey from curb side or parking garage to retail unit to pick up a parcel and back out again represents additional time and cost. However, there are opportunities for shopping centre landlords to consider how to work with tenants to create in-centre synergies such as combined delivery services and marshalling/consolidation points.



## HIGH STREET SHOPS

High street shops are perhaps the most challenged retail asset class to be utilised for microfulfilment as they have typically smaller stock holdings areas (and therefore taking products out of store could disrupt or compromise store-based sales) and are potentially less well configured, both internally and externally, especially when considering access for couriers both at curb side and in store.

# WHAT DOES ALL THIS MEAN?

## What does this mean for retail logistics?

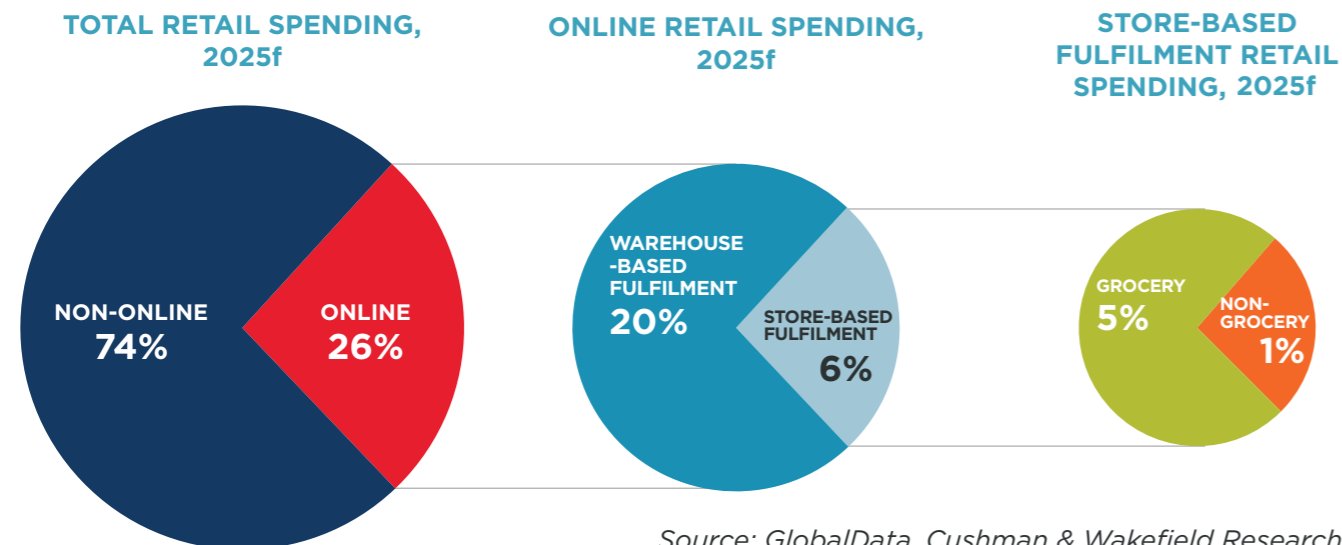
During and post the pandemic, retailers have been considering what roles stores and warehouses can play in delivering what customers want, when and where they want it, as well as optimising stock holdings of inventory across their entire supply chain and in their entire property portfolio.

And more sales are expected to move online: GlobalData forecasts that following the boost as a result of the Covid pandemic, online sales are expected to continue to grow and by 2025, **over £100 billion - over 26%** - of retail sales will be online.

So, how much of the online retail sales increase could be distributed direct from stores? In the US, UBS estimates just **10%** of online orders are fulfilled by stores in 2020, but this share is predicted to double to **20%** by 2026. In the UK, we estimate that **22%** of the sales that GlobalData forecast will be made online in 2025 could be fulfilled from store, the majority of which will be grocery.

This is partly because grocery is the single largest area of retail spending, accounting for almost half of all UK retail spending. Following the boost during the pandemic, online grocery sales are expected to continue to grow to reach **16%** of total grocery spending in 2025 according to GlobalData. Supermarket retailers are actively changing their delivery models to utilise their store networks more effectively meaning more deliveries direct from store. Other retailers are embracing the microfulfilment opportunity but are likely to continue to move most of their online retail sales deliveries from warehouses in the near term with microfulfilment creating additional options to serve customers and turn stock.

Microfulfilment not only puts emphasis on the ability to manage stores effectively for both in-store and online shopping but also on the logistics networks to ensure the right product is in the right place at the right time. This means that the **entire logistics property portfolio** will continue to be exceptionally important to retailers' prospects for success.



Source: GlobalData, Cushman & Wakefield Research



## CASE STUDY BATTERSEA POWER STATION

The transformation of the iconic Battersea Power Station into a major retail, leisure, living and office destination has attracted an exciting range of businesses as occupiers. As well as creating engaging in-house dining experiences, many of the food & beverage occupiers also offer online order and delivery options to their customers, a part of the dining market which has grown dramatically during the global pandemic.

As a new development within single-owner control over a large environment, Battersea

Power Station has recognised the opportunity for its tenants to maximise off-site sales opportunities, whilst not compromising on site experience. One of these is a consolidation area to which restaurants bring their orders for couriers from services like Deliveroo and Uber Eats to collect and deliver to customers off the estate. For deliveries on the estate, Battersea Power Station are working with a number of operators to ensure seamless door to door delivery experience for residents and office workers.





## What does it mean for property?

Will more online shopping mean more warehousing space will be needed, especially because although the channel shift toward online retail is expected to continue, overall retail sales of goods is not expected to increase dramatically (GlobalData expects that total UK retail sales will increase by just 2.9% per annum for the next five years). So we're not necessarily consuming much more, we're choosing to shop in different ways. So, if total retail sales aren't going up by much, doesn't that just mean a displacement or reorganisation of warehouses for online delivery versus store based?



### LOGISTICS PROPERTY

Even though there will be some reorganisation of warehouses to serve different channels, on balance there will **continue to be more demand for more warehousing space** as a result of online shift because:

- For many retailers, warehouses are the most **operationally and cost-efficient** way of being able to serve most of their online customers
- The current warehousing space in occupation by retailers for store delivery may not be as **operationally appropriate** for online delivery. And so reorganisation or reconfiguration may only be part of the solution.
- This is particularly because, in order to be able to deliver the efficiency gains, online sales fulfilment is more often better served in **modern** buildings, especially for larger operations.

- For last mile and even last metre facilities, the most important factor is the **location**: operators may make a compromise on the type or quality of buildings in the right locations but not the other way around. Some of this demand for last mile space (particularly for rapid delivery options) may shift to ship-from-store models. However, this doesn't mean that demand for last-mile logistics space will fall away but it means that in an environment of scarcity of appropriate logistics space that retailers may look to their existing retail portfolios to work them harder to get more from them.
- Also, even as retailers use their stores more to deliver directly to customers, the role of the **central distribution centre** will be even more crucial to make sure that stock is in the right place at the right time. This could make tenants more "sticky" to their existing supply chain networks to ensure that they can well serve their sales requirements – store based and online. And could indeed drive demand for more DC space if the demands can't be absorbed into existing facilities.



### RETAIL PROPERTY

- **Retail as a physical space** for shoppers to experience and immerse themselves, or find convenience and ease remains vitally important. As a whole, more than 70% of retail sales happen in store and making sure that shoppers can get what they want will rely heavily on physical stores. And this is especially true for younger shoppers who highly value the in-store experience.
- But retail space that doesn't deliver what is needed – be it experience or convenience – will continue to struggle to perform and there will be more **rightsizing or "right spec'ing"** of retail space to come, particularly as online grows and becomes even more embedded in shoppers' retail journey. Many large retailers have signalled further store closures but have also announced investment in their key stores (particularly flagship or showcase stores) as well as in their online operations, including investment in digitalisation and supply chain initiatives such as RFID.
- As part of this, many retailers are considering **what role their stores can play** as places for

fulfilling the online distribution function. But it's important to remember that:

- Ship-from-store is **not the same for all product and retailer types** and not all retail property types are appropriate
- Also, it is vital to ensure that the two are integrated in a way that doesn't threaten the other – an in-store picking and shipping operation may compromise an experience-based offer. So, **planning and implementing** carefully is crucial.
- Retailers also need to consider the **cost** of the real estate – stores typically cost more as real estate than warehouses, and so any store floor format needs to be careful considered to maximise the benefits to the business. Giving over space to microfulfilment operations (such as packing and sortation/dispatch areas or pick-up/touch points for couriers) within an expensive store at the expense of selling space may be counterproductive, so the considering the value of each store and the operations each performs is vital.



## What does this mean to occupiers?



### RETAIL PROPERTY

- Store-based online fulfilment represents **opportunities** for stock optimisation and higher conversion rate potential but needs to be carefully implemented to preserve the in-store retail experience and create cost inefficiencies. It will likely require investment in stock management and data management systems but could position you ahead of competitors to be able to serve your customers better.
- **Some retail property is better than others** for this type of operation so carefully consider what your current and future portfolio could look like and whether and how you might be able to use it for microfulfilment.
- **Talk to your landlords** about how you could alter your buildings and how to measure the value that microfulfilment represents (especially when your properties are contracted on turnover rents). It's also an opportunity to talk to landlords about collaborative relationships for microfulfilment, particularly in shopping centres/retail warehouse parks, and how working together with landlords and other retailers can create value for all, not least in cutting costs and cutting carbon emissions.



### LOGISTICS PROPERTY

- Given the current market challenges securing new property – particularly modern space – you and your logistics partners will need **start conversations early**, especially if you expect your online businesses to grow. This applies to both new and existing space.
- Consider that your **logistics property costs are going up** – rents are growing dramatically so reducing your cost to serve through efficiency gains in logistics is even more important.
- Think about how your existing portfolio of warehouses **best fits for now and the future** and what opportunities you have to work with what you already have, including engaging with landlords for alterations and improvements or even relocations.

## What does it mean to landlords and developers?



### RETAIL PROPERTY

- Consider the **value creation** that microfulfilment could represent – if tenants have an even greater reliance on their retail stores in order to be able to achieve fulfilment of sales, then the risk of void could be reduced, and lease lengths improved. Also consider if the store is sufficiently reconfigured, what does that do to the overall value of the asset? When is a shop not a shop? When does it become a more hybrid asset of logistics and retail which carries with it, value uplift and retention potential?
- Consider **what you can offer to tenants** to make sure that your retail property remains relevant and appropriate for them and their businesses as they evolve – for example, working together to offer consolidated delivery services in shopping centres/ estates, utilising delivery areas or even vacant space or land in appropriate areas to create marshalling areas for parcels to be dropped off by retailers and for couriers to come to collect could differentiate your schemes.



### LOGISTICS PROPERTY

- It's crucially important to understand the **value of the warehouse in the supply chain** of your tenant. Retail logistics is all about incremental gains to improve operational efficiency, reduce cost to serve and preserve or improve margin. If your asset represents a critical part of their supply chain – which with the use of stores as microfulfilment points may become even more important – then you are likely to have a higher probability of tenant retention face and face less void risk.
- It's also important to consider the **appropriateness** of your assets as retailers' needs evolve – poorer quality space may not be operationally appropriate for what the retailer will need it to do in the future but may represent opportunities for discussions regarding refurbishment or redevelopment for the current tenant or for their relocation (which also represents an opportunity to take back an asset for refurbishment or redevelopment and reletting)

# CONCLUSION

**The journey of getting products from the start of their retail journey to their final destination in the hands of the consumer have become more and more complex with the advent of online retail.**

Retailers have been challenged to adapt and evolve their supply chains – and the way in which they use property of all types – to help reduce cost-to-serve, maintain or enhance margin and continue to engage and retain their (increasingly demanding) customers.

Retail property and logistics property both have a part to play in the future of retail operations as online retail grows. Whilst logistics property remains both cost and operationally more efficient from which to deliver online orders, stores offer opportunities to leverage existing retail portfolios for more and faster delivery service offering, higher levels of stock holding optimisation and online order conversion, cost benefits though the shorter distance to serve customers and even environmental benefits by reducing journey distances to fulfil customers' needs and wants.

But, as this report has shown, this is not without complexity and is not for every retailer type, every product type or every retail property type. Careful implementation is essential to ensure in-store experience is preserved to continue to delight customers as well as maintaining and enhancing customer satisfaction online and also keep hold of costs.

What, where, how and how much to utilise stores for fulfilment will depend on a range of factors but one thing is certain: goods are physical objects and need property in which to store and display them. How and what type of property that may be will continue to evolve as our online and in-store retail evolution continues, and making sure that real estate is in the right places to do the right things will be a crucial factor of success.



# CONTACTS



## SALLY BRUER

Head of EMEA Logistics & Industrial  
Research & Insight

[sally.bruer@cushwake.com](mailto:sally.bruer@cushwake.com)

+44 (0) 7786 967 622



## PAUL DURKIN

Head of UK&I Retail, Logistics  
& Industrial

[paul.durkin@cushwake.com](mailto:paul.durkin@cushwake.com)

+44 (0) 7767 864 047



## DOMINIC BOUVET

Head of UK Retail & Leisure

[dominic.bouvet@cushwake.com](mailto:dominic.bouvet@cushwake.com)

+44 (0) 7970 380 025



## RICHARD EVANS

Head of UK Logistics & Industrial

[richard.evans@cushwake.com](mailto:richard.evans@cushwake.com)

+44 (0) 7907 094 646



## TIM CRIGHTON

Head of Logistics & Industrial EMEA

[tim.crighton@cushwake.com](mailto:tim.crighton@cushwake.com)

+44 (0) 7740 424 792