IKEA's "planning studio" in central London

INVENTORY

IT'S SWEDISH FOR SHRINKING

IKEA is opening smaller stores where shoppers can test drive furniture and order for delivery. Will it be enough to lure the Amazon and Wayfair crowd off their couches? **BY MATTHEW HAGUE**

Last summer, when IKEA cut the ribbon at its latest Canadian outpost, on the edge of Quebec City, more than 4,000 people were lined up outside to buy new Billy bookcases, Malm beds and suspiciously cheap meatballs. The store didn't open until 9 a.m., but the parking lot was full at least six hours earlier. Some people started camping out the night before, even though it was pelting rain.

Such brand fervour explains how IKEA has become the world's largest furniture retailer, with global revenues of US$44.6 billion last year. That predominance, however, is far from secure, and the scene in Quebec City might not soon be repeated. Over the past few years, the increasingly challenging retail market—with its switch to online sales, and the millennial migration to the downtown core—has forced IKEA to rethink its reliance on suburban, car-centric markets.

Which is why, in 2017, after profits dropped by 26 per cent—the first such dip since 2009—the company shelved plans for new big-box stores in Tennessee, North Carolina and Arizona. Instead, "over the next three years, we will become more accessible and convenient for our customers with new store formats, city locations and a better digital offer," said Tolga Öncü, retail manager of the IKEA Group. That means smaller spaces—new stores that are one-quarter the size of its typical 300,000 square-foot locations—and better e-commerce tools. To that end the company recently acquired TaskRabbit, an on-demand, smartphone-based service that quickly matches customers with helpers to assemble furniture.

The shift is evident at one of its most recently opened stores in central London, U.K. Instead of a cavernous space with a maze-like layout that wends past just about every piece in the IKEA catalogue, the diminutive, so-called "planning studio"—just 17,530 square feet—looks more like a glass-walled Apple store and has a tight focus on kitchens and bedrooms. No items are stocked in-store. Instead, shoppers can book one-on-one sessions with salespeople to find the right products, then use one of many iPads to order what they want for home delivery. Another planning studio is set to open in downtown Manhattan in 2019, with 30 others to launch globally over the next three years. Kristin Newbigging, public relations manager for IKEA

PHOTOGRAPH BY TERI PENGILLEY/COURTESY OF IKEA

Canada, will only say the brand doesn't "have any specific expansion plans to share" yet. However, she continues, "it is still our goal to grow and expand IKEA in Canada"—so it's a reasonable guess that Canadians will be sampling a mini-IKEA before long.

The question is, can these changes revive the brand? "I think what they are doing is really smart," says Craig Patterson, editor-in-chief of *Retail Insider,* an online industry magazine. "A lot of people, including me, don't like going to the suburbs for their shopping. And I don't see the end of brick and mortar anytime soon. Retail spaces are valuable for increasing brand engagement and awareness. People like lying on the mattress and feeling the pillow before they buy." Even young people. According to a survey done by American magazine *Home Furnishings News*, 63 per cent of millennials' indoor home furnishing was purchased from a bricks-and-mortar store.


Inside IKEA's central London location

Still, online sales are growing fast, and one major challenge will be catching up to the data-mining capabilities of digital natives like Wayfair and Canadian upstart Article. Both operate in the U.S. and Canada and are beating IKEA in revenue growth. In 2018, IKEA's global sales ticked up a respectable five per cent, the majority of which came from its physical stores, not its website. Wayfair, on the other hand, saw revenues jump by 47.7 per cent. Vancouver-based Article, on the other hand, projected a doubling of its revenues. (Actuals have not been disclosed.)

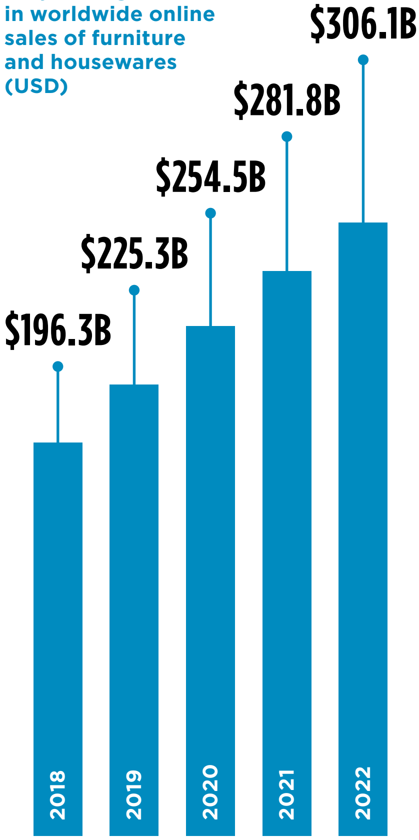
A big reason for the success of both companies is how they track and target potential customers using the granular data that comes from every click, like, share and order online. "We are constantly collecting information," says Article CEO Aamir Baig. "We are always looking for insights that will help us answer our customers' questions before they even have to ask, and provide an amazing shopping experience even without physical stores. I definitely see the future being this way." Article makes it easier to buy furniture sight unseen with simple exchange and return policies: it will coordinate pickup of most items with its delivery partners, while Wayfair will issue a return label for most purchases, good for 30 days.

The biggest threat of all, however, might be Amazon. It's one of the world's savviest data miners, and although it only recently launched two in-house furniture lines manufactured exclusively for the company—Rivet for modern pieces, and Stone & Beam for more traditional—it's been aggressive as usual. While IKEA, which often wins customers with affordable prices, retails sofas for an average of US$800 (less than Article), Amazon is beating that by nearly US$500. It's also offering free delivery on its furniture, which IKEA has yet to do.

Bob McMahon, CPA, BDO Canada's national retail and consumer business leader, sees strengths on both sides. Amazon, he says, is "the most competitive on price and convenience, both things that shoppers value very highly. That said, consumers still want choice and brands they know. Which gives IKEA some runway to test and implement this strategy." Challenging its old way of doing retail is critical, he says. "[IKEA] is still the biggest in their area, which is a huge asset, but they can't take that for granted. Look at Sears. They were the biggest, they didn't innovate, and now where are they?" ◆

BUYING A COUCH FROM YOUR COUCH

Projected growth in worldwide online sales of furniture and housewares (USD)



Online sales growth of the industry giants

PHOTOGRAPHS BY ISTOCK

SOURCES: STATISTA DIGITAL MARKET OUTLOOK; REUTERS; ONE CLICK RETAIL

LAST OUT

EXTRAORDINARY ITEMS

DOLLAR DAZE

Is novelty enough to lure shoppers from Canadian bargain giants to a stylish new Japanese-inspired discount store? **BY MATTHEW HAGUE**

Oomomo, a Tokyo-style dollar store named after the Japanese word for big peach, looks anything but cheap. Its most recent outpost, in Toronto's Don Mills neighbourhood, is an airy, sun-lit space dotted with blond-wood display shelves. J-pop beats fill the bustling store as clusters of students and young families peruse each department—crafts, toiletries, snacks, housewares—hunting as much for novelties as for discounts. The wares themselves—pastel-coloured ceramics (tea sets, decorative bowls), Asian snacks (like Pejoy, which are inverse Pocky sticks with chocolate on the inside), and a wide array of crafting supplies (erasers shaped like sushi)—are a step up from what you'd find at an ordinary dollar store.

But "dollar store" is a bit of a misnomer. Oomomo's average price per item is closer to three dollars, since 90 per cent of the products are imported from Japan, where manufacturing is more expensive than in China. Some items cost as much as $15. This has retail watchers wondering whether this Vancouver-based chain, which launched in the summer of 2017 and already has five Canadian outlets—it also has two in Edmonton and two more in B.C.'s Lower Mainland—will survive in Canada's increasingly crowded discount market.

Low-cost shopping is big business. Between 2012 and 2017, sales at stores such as Giant Tiger and A Buck or Two grew at twice the national average. Through 2022, that growth will continue to outpace other retailers by as much as 50 per cent, according to management consulting firm Kantar.

But it's highly competitive and increasingly international. Canada's largest homegrown dollar store, Dollarama, plans to open 60 to 70 stores per year, to take their count from 1,203 today to 1,700 by 2027. At the same time, China-based Miniso plans to expand its 50 Canadian locations to 500 stores in the coming years, and U.S.-based Dollar Tree is considering quadrupling its 220 locations to close to 1,000.

That makes Oomomo, which wants to expand to 30 stores by 2022, seem almost timid. But it's bucking the conventional approach of opening as many shops as possible and using that scale to keep prices low and drive market share. Instead, it's carving out a specific niche. It wants to be a destination discount store, appealing to consumers with its stable of Japanese items that aren't available anywhere else.

That could be its secret weapon. "Culturally, Canadians are very accepting of diverse brands from around the world," says Daniel Baer, an FCPA and partner at EY who specializes in retail. "And when a retailer can focus in on a specific marketplace and specific demographics, with specific products, it can do very well." The go-slow approach may help, too, he adds: "It's always good when a retailer takes the time to make the best decisions. We've seen a lot of high-profile entrants and expansions over the past few years. But not all of them have been successful."

Because Oomomo is privately owned, there are no financials available. There are, however, other indicators that consumers are buying. When the Toronto store opened in December 2018, there were long lines snaking out the door—not something you'd see at a typical dollar store opening. ◆

BIG IN JAPAN

Here's what they're lining up for at Oomomo

It's hard to make tofu exciting for kids, but the **Tofu Decostamp** allows young ones to stamp cute faces into their soy protein before it's tossed into a stir-fry. $3 for four stamps.

Sakura ceramics are painted with delicate cherry blossoms—perfect for serving Japanese green-tea cookies and other little confections. $1 to $5 each.

Oomomo's line of beauty products includes $1 DIY face masks with aloe, rice or rose extracts, and $5 "**hair mascara**" wands that give locks streaks of temporary colour.

The snack options are truly special, including matcha-flavoured **Kit Kats** for $2 and Striking Popping candy (50 cents per pack)—mouth-puckeringly sour confections that, like Pop Rocks, sizzle when they touch your tongue.

PHOTOGRAPHS BY **KAYLA ROCCA**

INVENTORY

WHAT'S IN STORE FOR BRICKS AND MORTAR?

More and more brands are treating their retail locations as places to experience products, not just purchase them. And, so far, it's driving sales.

BY COURTNEY SHEA

The cold room at Canada Goose's Montreal store

At first glance, Lululemon's new 20,000-square-foot, three-floor flagship store in Chicago's trendy Lincoln Park neighbourhood looks pretty familiar: racks of rainbow-coloured yoga pants, hoodies and sports bras as far as the eye can see. Up the escalator, though, are a few things you might not expect: the brand's first restaurant, Fuel, a serene eatery that looks like Gwyneth Paltrow's living room; a meditation studio outfitted with beanbag chairs; and two workout spaces—one for yoga, one for high-intensity fitness. Forgot your workout gear? Not a problem. Visitors can borrow a set of Lulus and return them when they're finished. Handing back a pair of sweaty stretch pants seems like a notable transgression of the old "you try it, you buy it" business model. But these days, giving customers the chance to experience a product before purchase has emerged as a strategy for driving sales, both in-store and online, and building all-important brand loyalty.

According to retail analytics firm Brightpearl, up to a quarter of retailers are planning to implement some form of "try before you buy." Many have already started. At the Dyson demo store in Toronto's Yorkdale Mall, you can scatter Cheerios on the floor and then clean up the mess with their vacuums. (You can also book an appointment for a free blowout with their Supersonic—because if you're going to drop $500 on a hair dryer, you want to be sure it's worth it.) Last winter, Canada Goose turned change rooms at several of its major retail locations—including Montreal, New York and Beijing—into "cold rooms," winter wonderlands where customers can put the brand's "warmest parka on the planet" claim to the test at -33° C. And Mountain Equipment Co-op's new flagship location in downtown Toronto features an in-store climbing wall where experts and would-be adventurers can experiment with equipment.

Seeing brands invest heavily in physical locations seems, at first glance, out of step with broader industry trends. Thanks to the online retail revolution, experts have long predicted that physical retail would go the way of the rotary phone. For the most part, they were right: last year smashed 2017's previous record for retail closures in the U.S. with brands like The Gap, Victoria's Secret, Payless and Tesla announcing significant closings. "We used to hear all the time, 'physical retail is dead,'" says Craig Patterson, editor in chief of *Retail Insider.* "But what we're seeing now is it's not dead, it's just different."

Experiential retail is the surprising next chapter in the story of bricks and mortar. The millennial desire for instant gratification was easily fulfilled by clicking "buy" on a smartphone, but with Gen Z (between the ages of seven and 22 and making up a quarter of the global population), the pendulum has swung back. "This demographic is looking to form relationships with brands they spend their money on," Patterson says. And if those experiences happen to be Instagrammable—the Canada Goose cold rooms turned into last winter's hottest selfie location—all the better. "With big box retail, it was about getting in and getting out," says Ryan Dostie, CPA and head of the retail and service group at Welch LLP. "Today, younger consumers know they can do that online, so with retail they want an experience."

According to Lululemon's growth plan, the Chicago store is part of the "omni guest experience" strategy—a buzzy retail term that describes how contemporary brands are using e-commerce to leverage in-store visits and vice versa. The company's ultimate goal is to enhance customer

PHOTOGRAPH COURTESY OF CANADA GOOSE


Yoga class at a Lululemon in Chicago


Dyson's demo store offers free blowouts

"WE USED TO HEAR ALL THE TIME, 'PHYSICAL RETAIL IS DEAD.' BUT IT'S NOT DEAD. IT'S JUST DIFFERENT."

engagement, in part to double digital traffic by 2023. "It's almost like a hybrid marketing and retail play," says Patterson. "Yes, they're happy to sell you a pair of yoga pants, but the larger focus is engaging with core customers and potential new customers."

It's a strategy with sound numbers behind it. A 2018 report from the International Council of Shopping Centres, a group that represents malls, reveals that opening a physical location leads to a 27 per cent hike in web traffic for established brands. For digital brands opening their first brick-and-mortar store, the spike (37 per cent) is even more dramatic.

One such venture, the Canadian mattress company Endy, opened the Endy Lodge in Toronto earlier this year after launching as a digital-only brand in 2015. The pop-up location has a cozy Canadiana cabin vibe, and customers are encouraged to not just try out the mattresses, but take a nap. That makes sense, given that statistics from NPD Group show 55 per cent of shoppers see the opportunity to touch and try merchandise as the No. 1 reason to visit a retail location. Meanwhile, 65 per cent of Gen Z shoppers say they prefer feeling something before buying it.

These stats also explain why e-commerce sites are getting in on the try-before-you-buy trend. The Canadian clothing brand Frank and Oak offers a subscription service. Customers pay a $25 "styling fee," receive a monthly delivery of multiple wardrobe pieces and keep (and pay for) only the items they want. The eyewear company Warby Parker ships multiple frames to customers before they have to make a commitment. "There is a cost associated with the shipping involved," says Patterson. "But a lot of companies are finding that it's worth it."

At bricks-and-mortar locations, providing an opportunity to test drive means returns are a lot less likely. "If you're in a Nike store and you're actually trying running shoes on a basketball court, you're a lot less likely to want to return them," says Dostie. "That can lead to a significant cost savings." Perhaps that's why another study, conducted in 2018 by CPA Canada, found that despite the December rush, shoppers planned to spend 46 per cent of their holiday shopping budgets in-store.

Kate White, a professor of marketing and behavioural science at the Sauder School of Business at the University of British Columbia, explains that there is an added psychological component to try-before-you-buy. "Whether you're letting customers try your product in the comfort of their own home or in-store, the point is you're getting your product in front of them," says White, who consulted on Lululemon's Lincoln Park project. It's the endowment effect at play—a phenomenon wherein we assign greater value to the things we own or have a chance to interact with, compared with identical products that we don't have that attachment to. Translation: you'll want that sweaty pair of post-workout yoga pants more than a pair with the tags still on. ◆

Companies With Purpose

SIGHT FOR SORE EYES

Since it was founded in 2010, the American eyewear company Warby Parker has built a reputation for giving back. For every pair of glasses it sells, it ensures another pair finds its way to one of the 2.5 billion people in the world who need glasses but can't access or afford them. Through partners in more than 50 countries, the business donates pairs directly to schoolchildren and trains social entrepreneurs to conduct basic eye exams and sell glasses to their communities at affordable prices.

PHOTOGRAPHS: YOGA COURTESY OF **LULULEMON;** BLOWOUT COURTESY OF **DYSON**