

The History of Shopping: Part One

When in Rome, you not only do as the Romans do, you do as the Romans *always did*. As you stroll through the ruins, you are mainly encountering the ancient agora. In other words, you visit the mall. At the height of Roman civilization, the mall was the center of culture, not just a place to complete a transaction. The agora was, after all, where Socrates taught his students. But, not only was the Socratic method born here, so too was the ability to see what was new, to meet friends, solidify relationships and do business. One could also look to the Turkish bazaar as early evidence of our love affair with shopping...the original big box experience if you will. Or was it--admittedly much later--Le Bon Marche in Paris, the retailer many ascribe as the world's first department store?

Our point is simple, there is really nothing new under the sun. Inevitably, retail formats change but the underlying consumer needs and psychic benefits remain predictably constant. Let's take a look at some of the milestones in retail formatting along with their associated benefits.

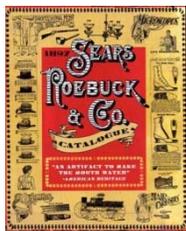
Retail Formats Through-out History

The General Store. One of the early icons of retailing was the general store. Every town, burg or hamlet had one. We knew who owned and operated it because his name was usually on the sign out front. And, perhaps more importantly, he knew us.

Back in the day, you got gussied up, hitched up the wagon and drove into town for a spell. To imagine that this was for entirely utilitarian purposes is to miss the point. There was, and of course still is, an indispensable social element. So in love are we with the curious combination of the retail transaction, mixed with social discourse, exploration of new products and simply "being seen" that we are bringing back the general store in neo-traditional formats all over the country.



The Catalog. Beginning in 1888 as a "printed mailer," the Sears catalog changed the way people bought things. Richard Sears promoted the early catalog as a "Book of Bargains: A Money Saver for Everyone" and touted the catalog as a "trade reaching around the world."



Arguably the Sears catalog ushered in the age of consumerism by allowing equal access to urban as well as rural customers who were not in close proximity to a Sears Roebuck & Company store. Over one hundred years before Steve Jobs thought of democratizing information, Sears thought of democratizing material consumption. Farmers could buy seeds, tractors and stoves. Families could buy shoes, dresses, toys and even the home they lived in from a catalog. Millions of catalogs were shipped to homes all over the country. In many homes this inch-thick publication was probably the second most important book in the home (allowing for the fact that at this time most homes kept and used a Bible. To be sure, the Sears catalog was a mighty contributor to burgeoning middle-class values, lifestyles and quality of life in America.

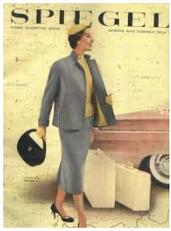


On the opposite page we illustrate a line of the materials we specify on this, our \$125.00 house.

The arrangement of this house is as follows:

FIRST FLOOR.
Parlor - 12 feet by 10 feet 6 inches
Living Room - 8 feet 6 inches by 12 feet 6 inches
Dining Room - 14 feet 10 inches by 12 feet 6 inches
Kitchen - 8 feet 2 inches by 8 feet 6 inches
Porch

SECOND FLOOR.
Front Bedroom - 8 feet 6 inches by 10 feet 6 inches
Rear Bedroom - 8 feet 6 inches by 11 feet 6 inches
Bath - 5 feet 6 inches by 7 feet 6 inches
2nd Bedroom - 8 feet 6 inches by 10 feet 6 inches
Hall, W.C., 2nd bath, length, 2nd floor, exclusive of porch.



Later, in the post-war period, the Spiegel catalog became a go-to source for fashion. In the 1970s the L. L. Bean catalog became a virtual handbook for preppie and outdoor lifestyles. In the 1980s, the Victoria’s Secret catalog became a coffee table book signifying a particular style of urban insouciance. Brands and their marketing channels were becoming badges and important signifiers of specific lifestyles.



“You’ll Love it at Levitz.” In its day, one of the catchiest jingles in retailing. But why did we love it at Levitz? Because, it was a better deal, that’s why. Started in 1911 by Sam Levitz, this retailer was the originator of the modern day warehouse store.



After years of intense competition and experimentation with different ways to reduce costs, Levitz finally located a store in what most would consider the “bad section of town.” In other words, the warehouse district. The storefront was immediately attached to the warehouse, allowing savings on logistics and consumer shipping. Customers hauled away what they bought. Virtually by accident, store personnel realized that their customers wanted to see what was back in that warehouse. Shoppers inferred that prices would be lower if they bought directly from the warehouse. Eventually, Levitz placed the warehouse in the front, forcing furniture shoppers to walk *through* the warehouse; this turned the warehouse into a showroom of sorts. The rest is history, this chain spread throughout the country with hundreds of outlets and the warehouse or big box concept was born.

The Department Store. The “Miracle on 34th Street” didn’t just happen at Macy’s in New York. It happened even earlier at Wannamaker’s in Philadelphia and Marshall Field’s in Chicago. These turn-of-the-century (the 19th that is) retailers were the giants of their era. They created retail



Mecca for excitement, elegance, fashion and culture. And, as the 20th century wore on, dozens of department stores sprang up creating a virtual *war of the stores* from different regions. These stores were the venues where the brands could really flex their muscles

and ultimately, as families migrated from the cities to the suburbs, these stores became the anchors of the suburban and regional malls.

The Mall. We came back from World War II, married, got jobs, bought homes, created a baby-boom, traded the city for the suburbs, bought cars (and second cars), created fast food and guess what? We needed a new way to



shop that was convenient, exciting, social and, perhaps above all, fit with our mid-century “modern” aesthetic sensibilities. The outdoor mall, the regional mall and eventually the mega-mall were inevitable. The image shown to the left is the Oak Brook mall in suburban Chicago. It was first opened in 1962 and was for decades the largest outdoor mall in the country. Malls were even more likely of course to



be indoors, particularly in cold weather climates. Mall of America, the country’s largest mall, boasts 30 to 45

million annual visitors, 400 stores and 12,000 employees. On any given day, it is nothing short of a mid-sized city. Its current tagline reads: "More Ways to be You." I'll say.



In the 1980s we discovered these people we dubbed "mall walkers." They were mostly elderly citizens who discovered that it was more comfortable (and safer) to do their morning walk indoors. In the 1990's we encountered a different set of people called "mall rats."



They were mostly younger citizens who discovered that the mall was a good place to spend their adolescence save the hours they spent in school, in front of TV or, if you can imagine, with their parents. Sometime in the early '90's it was discovered that there were more malls in our country than schools (we will leave the socio-political consequences of this finding to our readers).



The upshot is: the retail format is no longer just about shopping and buying. A recent headline in the Wall Street Journal "Marketplace" section read: "Goodbye to Circuit City and Old Navy; Hello to gun ranges, aquariums and go-carts." The *shopping* mall is morphing into an *experience* mall. They come not just for the purchase but for the combination of experiences and activities that entertain them. Moreover, as demand softens and purchase transactions shift to the internet, this is the logical play left for the bricks & mortar world of the regional mall.



The Warehouse Club. If we give Wal-Mart short shrift in favor of Levitz in our discussion of warehouse retailing, they have to be given full credit for their innovation of the warehouse club format with their Sam's Club concept. Starting in the early 1980's retailers began offering better prices in exchange for membership. Sam's club was started in 1983 and now has 47 million card-carrying members.



As we've been taught, "membership has its advantages"...and not just for the member. The retailer offering membership gains access to household address and demographic information, consumption behavior and shopping history. Membership also creates loyalty, for lack of a better term. Simply put, membership involves upfront, "skin in the game" which incentivizes purchase from the store in which you have an investment. Finally, because we purchase in warehouse sizes, we often buy more than we need or can use in a short period of time. In retailer terminology, we've been "loaded." You gotta love that five pound box of goldfish pretzels.

Numerous concepts sprung up and are still thriving including: Costco (now the largest competitor in dollar sales), Warehouse Club and BJ's.



The Lifestyle Mall. If by definition, malls are for the masses, then the lifestyle center is for that “cut above” demographic that seeks a more premium experience. The good brands, a bit of panache, upscale consumers and a restaurant instead of a food court. We all get it. Lifestyle malls succeed to the extent they are well located and attract a critical mass of brands that complement each other. They become, like their brethren in the mall business, destinations...only they do it with less footprint and more charm.

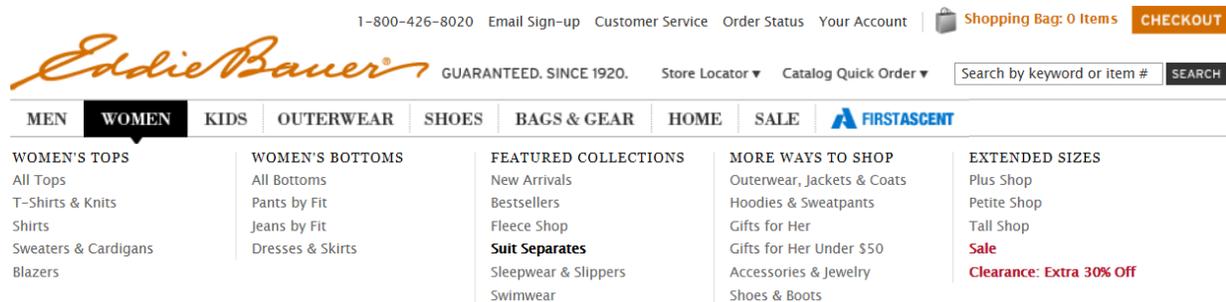


The On-Line Retailing World

Of course the biggest trend of all, and the one that threatens to change each and every previous format, is on-line shopping. For our purposes here, we will highlight five different concepts: 1) the brand site, 2) the parametric search site, 3) Amazon.com, 4) e-Bay and 5) iTunes. Each exploits unique technology-based features that appeal to some of us most of the time and most of us some of the time.

Brand Sites. Let’s start with the brand site. These are the sites dedicated to individual brands. At their best, they are complements to the bricks & mortar experience; at their worst, they are merely afterthoughts often lacking in brand feel, relevance and functionality. If you want to preview the season’s fashion, take measurements or do a quick price-check, these sites are indispensable. And if you have to buy forty Christmas presents for twenty people, they can provide precious time savings...especially if the brand is a good fit with your friends and family.

The best brand sites are lifestyle oriented with the most contemporary marketers using “content plays” and “brand networking” strategies to increase the relevance of their brands. They associate with the issues that matter, include social functionality and create brand-specific currency to reward purchase or social continuity. Other brand sites emphasize functionality, ease of navigation and the pure shopping experience.



Parametric Search Sites. These are the sites that allow you to search many sites or sources simultaneously for a particular item. CARMAX employs parametric search functionality. They are essentially about efficiency as they aspire to create a more perfect economic market by allowing side-by-side price and feature comparison. Brands and the lifestyles associated with them are secondary. Browsing, comparison and efficiency are the main benefits. Wow, I can get a Mini-Cooper for less than \$20k.



Amazon.com. The mother ship. At first, just a book site with a funny name...an idea that made sense because books would be a good thing to buy on the internet. You don't have to try it on. They are easy to ship. It turned out, you *could* judge a book by its cover. But founder Jeff Bezos had a few other things in mind even as early as 1984. He named it after the Amazon River because it was the largest river in the world (what does that tell you?). The company is now the world's largest e-commerce retailer, has a market cap exceeding \$100 billion, has stores and warehouses on five continents and offers a lot more than books. You can buy DVDs, garden equipment, even "scientific supplies" on Amazon. If you wanted to make a dirty bomb, you could probably source the materials on Amazon.com.

Ten years ago, Barnes & Noble, one of the two contenders for national dominance in book retailing, bet on bricks & mortar (oops) and Amazon expanded its product categories. This fall they declared bankruptcy. Back in the '80s when the Ma's & Pa's and even chains began calling the big box merchants "category killers," they really had no idea what was in store... just ask Borders or Barnes & Nobles (who just closed two more stores in my home town).

e-Bay. Started in 1995 by a guy who wanted to help his girlfriend collect Pez candy dispensers, e-Bay has become a multi-billion dollar, international enterprise. While the on-line auction site sprang from humble beginnings in San Jose, California, a number of features combined to insure its success. This site: pioneered real-time, on-line auctioning, incorporated seller ratings (where buyers could rate sellers), incorporated Pay-Pal (an SSL encrypted format providing buyer security) and eventually allowed manufacturers and retailers to sell both used and new products.



The competitive nature of e-Bay struck an early cord and captured the public's

Let's Review

Learning from History. Retail history proves couple of points. First, retail formats constantly evolve. They do not so much replace each other as they supplement each other, thereby adding to the complexity of the retail landscape. While the timeline to the right acknowledges the various eras for each format, today's retail environment includes most of the formats discussed here. Even the time-honored, general store concept still exists and is in fact making something of a come-back.

Needs and Benefit Sets. Second, retail formats work for specific reasons and those reasons are primarily related to consumer benefits. To the extent the format addresses fundamental, enduring consumer needs, the retail concept can be quite enduring and capture large market share. Levitz lasted over eighty years; iTunes currently has over 80% market share.



The table below highlights some of those benefits and suggests areas of focus for future retail formats.

Format	Benefits/Success Factors
General Store	Friendly advice, exposure to what's new, social opportunity, convenient (one-stop)
Catalogs	Exposure to what's new, convenient (home medium that eliminates travel)
Big Box	Exciting, exposure to what's new, lower prices/better value
Department Store	Current fashion, social opportunity, expert advice
Malls	Destination experience, something for everyone, convenient (one park if not one stop)
Warehouse Clubs	Bulk stock up, lower prices
Lifestyle Center	Cut above, "birds of a feather" convenient parking and store access
On-Line Retail	Efficient, savings, sometimes social

Variable Role of Branding. While in the early days of the general store many items were sold in bulk, brands such as Ivory Soap, Coca Cola and Wrigley Gum were beginning to emerge. The first catalogs were brand-specific which of course highlighted store brands but did not allow competing brands. Big box concepts often limited brands to reduce carrying costs or focused on private label brands. Department Stores, Malls and Lifestyle Centers are, of course, all about brands. Some big box concepts and on-line sites, for instance parametric search sites, can actually downplay or undermine brands. So the role and importance of brands has varied.

Social Factors. So too has the role and importance of the social experience. Retail formats that promise efficiency and cost savings often sacrifice social benefits. On-line retail sites attempt to create social experiences by linking to social platforms such as facebook, Twitter, Four Square and Pinterest. Some brands engage in sophisticated "content plays" and "brand networking" strategies to create relevance. If you want to sell a soccer shoe, launch a site about kid's soccer or engage in any number of off-line strategies to boost brand relevancy.

It is our belief that the strongest retail formats going forward are ones that provide efficient transaction, lead with brands and incorporate social experience. We have in fact identified five drivers that we believe are the enduring foundations of retailing, even as--or especially as--formats continue to evolve.

The Five Enduring Drivers

Formats change dramatically because they are based on, and derivative of, the technology available at any moment in history. But the underlying, fundamental consumer need-states evolve only about as fast as the human race evolves. We have categorized the above list of benefits and success factors into five themes:

- Curiosity & Exposure
- Service & Advice
- Social Experience
- Convenience
- “The Deal”

Curiosity & Exposure. Irrespective of the era or format, humans are innately curious. We seek what is new, novel and better. And we do it not just to satisfy our curiosity but to improve our lives. Thousands of product categories are included from the addition of yet another pair of shoes to the fashionista’s closet to the automotive aftermarket to the home improvement store to the iPhone application. For better or worse, embedded in our consumer culture is the belief that products, particularly new products, can improve our lives.

Service & Advice. Without question, one of the advantages to going to a store, especially a small store or a department within a store, is the personal attention conferred on customers. Are these shoes comfortable? Will this color work? Will this fishing line get the job done with a 200 pound marlin? Can you deliver on Tuesday morning? Obviously, the need remains; many however doubt or have noticed in their own shopping experiences that the retail industry’s ability to deliver on that benefit has curtailed.

Transaction Utility. Different retail channels offer different means by which the transaction is completed. In other words: Paper or plastic, new or used, debit or credit, free shipping, pay-pal, on-line auction, personal shopper—you get the picture. When shopping became a “destination,” people began arriving on tour buses. Or you can drive and park in “Lot A,” or you can drive and park in front of the store at the strip center or you can not drive at all because you are doing all of your Christmas shopping on-line this year.

Social Experience. The General Store manager offered advice and even this dated format was often a center for social activity in the late 18th and early 19th century. “I’m going into town” was as much about the need to socialize as it was a buy a bag of flour. But these experiences pale in comparison to the social, and entertainment experiences at a contemporary department store, mall or lifestyle center. They are essentially and fundamentally social experiences. If you don’t believe this to be true, count the people who are in a mall by themselves compared to those with family or friends.

Convenience. As time compression, stress, anxiety and fuel costs continue to increase, marketers seek to make the experience they confer on their consumer more convenient. Not coincidentally, consumers demand convenience and have expanded both the definition and requirements of convenience in a retail setting. As individual stores and the malls and lifestyle centers that contain them have become larger, stress usually

increases. So, retailers have added tactics to decrease stress. The Wal-Mart greeter is a conspicuous example but so too are in-mall concierges, directional signage, mall shuttle services, and more service-intensive associate training models (did you find everything you were looking for today?).

The Deal. Perhaps no other retail tactic is as enduring and transcending as “the deal.” The sale, The trunk sale, the tent sale, the back to school sale, the Labor Day sale, the Washington’s Birthday sale, the BOGO, the BOGO ½ Off, the limited time offer, the rebate, the coupon, the discount, VIP program, There are too many deals to count. In short, American consumers have been well-trained to not pay full price... “is this the best you can do?”

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These are the enduring and transcendent drivers that support successful retail concepts. As retailing continues to transition away from the familiar bricks & mortar concepts of the past to greater percentages of purchases being executed on-line, brand managers must adopt a more integrated approach to retailing that includes a combination of traditional bricks & mortar, dedicated brand sites and participation in brand networking sites and social activity.

The “History of Shopping: Part Two,” that is up to you but we believe this white paper has revealed, or reminded us, of the following:

- 1) That human needs and benefits do not change that rapidly and in fact are fundamentally the same. What does change is the format by which needs are satisfied. With each new format idea or technology, the fundamental need is satisfied in new and often exciting ways.
- 2) That the rate of change continues to increase, suggesting that brand managers need to be in constant search for new avenues to their marketplace and new means of remaining relevant. Finally,
- 3) Despite the occasional of often frustrating soft economy, many of the costs associated with the construction and operation of bricks & mortar stores continue to increase making ROI difficult to achieve. Online environments, on the other hand, can offer many benefits to brands and their consumer at a fraction of the cost and therefore can improve the ROI equation in a number of ways.

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