

Breakfast at Tiffany's, the new world of retail

US bricks-and-mortar stores look to turn back online tide by offering customers a fuller shopping 'experience'

ANNA NICOLAOU — NEW YORK

On the fourth floor of the Tiffany flagship store overlooking Central Park, Audrey Hepburn fans can now salute her famed breakfast for \$29.

Since opening last month, tourists have flocked to the restaurant, snapping photos as they dine on truffle eggs and vegan avocado toast and sip locally sourced tea. The café is drenched in Tiffany's trademark blue, making every angle look like Instagram brought to life.

The jeweller is seeking to lure people through its doors on the back of nostalgia for the 1961 film, after "post-election traffic disruptions" deterred visitors to its flagship store on the world's most expensive shopping street during the crucial holiday shopping season last year. Sales at the Tiffany store fell 14 per cent last November and December, as heightened security and protests raged around the neighbouring Trump Tower.

The strategy stretches well beyond the marbled walls of Tiffany. After a torrid year of historic bankruptcies and store closures, retailers are getting creative to convince people to buy in store instead of on their laptops at home.

"In this new world, the word you hear nonstop is experience," says Simeon Siegel, analyst with Nomura Instinet. "In the past they didn't need to force it. The core product would be a constant traffic driver."

But as more people move online, "now there is a call to action . . . what all [property] developers and consumer-focused companies are trying to picture is: what is this going to look like behind an Instagram filter?"

Rival Saks this year unveiled a "wellness" spa at its flagship store, complete with a salt bath chamber and fitness

classes at a "prison-style boot camp". American Eagle is offering free laundry facilities to students at a new concept store. Urban Outfitters is selling pizza alongside Adidas hoodies in some shops.

Walmart is hosting 20,000 "holiday parties", offering a Santa Claus and toy simulations to lure people to its stores this holiday season. The stakes are high for the world's largest retailer: Amazon's sales may finally surpass those of Walmart's brick-and-mortar stores this year, according to Second Measure, which tracks credit card data. Bringing people out to its 5,000 stores is still important for Walmart: while the company says ecommerce sales will grow to \$11.5bn for the fiscal year to January, this remains a small slice of its nearly \$500bn in annual sales.

The focus on experiences comes as retailers, developers and brands reckon with an alternative future of shopping: a hybrid of online and physical. While five years ago some retailers feared the end of bricks and mortar altogether, they are now trying to reinvent their stores to be relevant.

"People have realised that if you combine [physical and online] and offer

something exciting in bricks and mortar that can't be experienced online, then it will be successful," says Robert Burke, the founder of an eponymous luxury brand consultancy. US malls have pumped more than \$8bn into renovations in the past three years, according to a recent study by Jones Lang LaSalle.

The problem of shrinking store traffic is felt acutely at Tiffany, whose flagship store drives about a tenth of the company's global sales. *Breakfast at Tiffany's* was an idea that had echoed through the hallways of its New York headquarters for years, but did not kick into gear until January as Reed Krakoff, former creative director at Coach, joined the company.

Mr Krakoff, the first designer to hold an executive position in Tiffany's 180-year history, worked to turn the concept into reality, as he looked to jolt the company's slowing sales.

Tiffany has been hit by many of the same problems as peers throughout US retail: disruption from online shopping and specifically Amazon, changing customer demands as millennials become the dominant consumer group and more frugal shoppers following the financial crisis. A presence on a glitzy shopping street has long been deemed a

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necessary marketing expense for many retailers. But rents have risen as much as 50 per cent in US shopping corridors in the past five years, according to Cushman & Wakefield.

Facing steeper losses to online shopping, there has been an industry-wide rethink about what to do with the space. "That's why you're seeing moves from as high-profile as creating restaurants inside luxury retailers, all the way to repurposing malls for community centres," says Mr Siegel at Nomura Instinet.

In this environment, some have opted to abandon their properties. Cushman & Wakefield estimates that up to 10,000 US stores will have shut this year, from 4,000 last year. Lord & Taylor's historic store building was sold last month to WeWork, the co-working start-up for \$850m. Sears and Macy's have been leasing space to other companies, such as Forever 21 and Aldi.

But others are opting to makeover the spaces in the hope of charming customers. Construction spending on shopping centres reached a nine-year high of \$1.6bn this June, according to US census data, even as retailers shut stores, because of investments in remodelling. Peter Lowy, chief executive of West-

field, recently spent \$1bn to transform the storied Century City shopping centre in Los Angeles into a "mall of the future", which includes a cryotherapy clinic and boxing studio alongside a supermarket.

"You need to have a whole different physical asset than what everyone is used to for a mall," he says. "The consumer is demanding more. Their ability to buy online is much greater. So you need to give them a reason to come."

He expects the remodelling to boost total sales across tenants from \$600m to \$1.25bn a year.

But one analyst notes that these efforts more often "aren't viewed as a profit generator", but rather as a complement to help sell core products.

The renewed focus on the in-store experience comes as a structural shift towards ecommerce deepens and Amazon's grip tightens. Amazon is set to make 44 cents of every dollar spent online this year, up from 38 cents last year, and an NPD survey showed that the company's website was the top destination for people to begin shopping this holiday season.

But this year has also proved that even the vanguards of online shopping are

admitting to the value of a physical presence. Ecommerce start-ups have invested offline, none louder than Amazon with its \$14bn purchase of Whole Foods. Even smaller start-ups such as Everlane, a seven-year-old brand popular with millennials, are joining, with the online clothing shop set to open its first physical store in New York next week.

While The Blue Box Cafe has become a coveted reservation in Manhattan this month, Tiffany's latest attempt to reverse its fortunes has not yet factored into income statements. The company revealed on Wednesday that global comparable store sales fell 1 per cent in its most recent quarter and have declined 2 per cent for the year so far.

But analysts say the company is smart to latch on to the drift in consumer dollars towards entertainment and experiences.

"There's been a massive shift because of how millennials want to shop and spend their money," says Chris Conlon, chief executive of Acadia Realty, a real estate investment trust. "Do they want to spend it on food or on another graphic T-shirt? Ask Abercrombie for your answer."

Reaching for the stars



\$1.6bn

The amount spent in the US in June on construction of shopping centres, a nine-year high

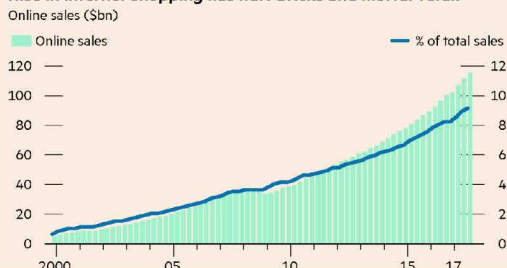
20,000

The number of 'holiday parties' Walmart is holding this year to lure people to its stores

Audrey Hepburn as Holly Golightly in the 1961 film 'Breakfast at Tiffany's'. The Fifth Avenue store is one of many US retailers adopting a creative approach to attract shoppers

Paramount Pictures

Rise in internet shopping has hurt bricks and mortar retail



US footfall traffic has been bleak

