02

RETAIL

INSIDE OUT

Flagships à la carte !

(R)evolutions in the star
format of retail property

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FLAGSHIPS À LA CARTE!

(R)evolutions in the star format of retail property

From the concept associating L'Occitane en Provence with Pierre Hermé on the Champs-Élysées, to the first Urban Outfitters in France on rue de Rivoli, **the past few months have been busy ones for flagship openings in Paris**. Some left a lasting impression, such as the Louis Vuitton "Maison" on Place Vendôme. The façade was decorated for the opening with an enormous golden sun, a nod to the Sun King Louis XIV and a reminder that Louis Vuitton is the jewel in LVMH Group's crown.

FLAGSHIP \'FLÆG.ʃIP\[1]

1. (Maritime) the ship occupied by the fleet's commander
2. (Figurative) the most important element in a group
3. (Retail) (by extension) leading store

A number of iconic openings are planned for the months ahead in luxury and other sectors, in Paris and elsewhere in France. JD Sports has taken over two H&M stores, one on avenue Jean Médecin in Nice and the other on rue de la République in Lyon. Zara recently opened in the Prado shopping centre (Marseille) its largest store in the PACA region and is currently developing a 3,000 m² store in the historic centre of Lille. Another example is Uniqlo, which may have taken seven years to open its first five stores in France but has needed only three to have more than 20 sales points. Uniqlo plans to open two more soon, 2,000 m² in Toulouse and 1,200 m² in Nantes. **Megastores are definitely on a roll**, and the proliferation of large stores on high streets and in shopping centres is proof of the appeal of France's most attractive locations.

Yet megastore does not mean flagship, even though the term, one of the most overused in retail property, is generally associated with giant spaces opened by international retailers on the leading high streets of the largest cities.

The definition can seem too limiting, for the format has been profoundly affected by changes in consumer behaviour, the digital revolution and the arrival of new retailers – **so much so that the flagship now appears in an infinite variety of forms. More than its sheer size, what makes the flagship unique is the quality of the shopping experience it offers**. Retailers now open numerous flagships to provide specific emotions for their customers – from architectural details to the product offer and services provided – which are unlike those experienced in any other of their sales points.

A reflection of the retailer's values, global reputation and local roots, **the flagship is now part of a highly complex strategy**. In this second issue of Inside Out, Knight Frank deciphers this evolving format through numerous examples and retailer interviews.

[1]Wikipedia.

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In our future Madeleine store we are going to develop an entirely new approach designed specifically for Parisians.

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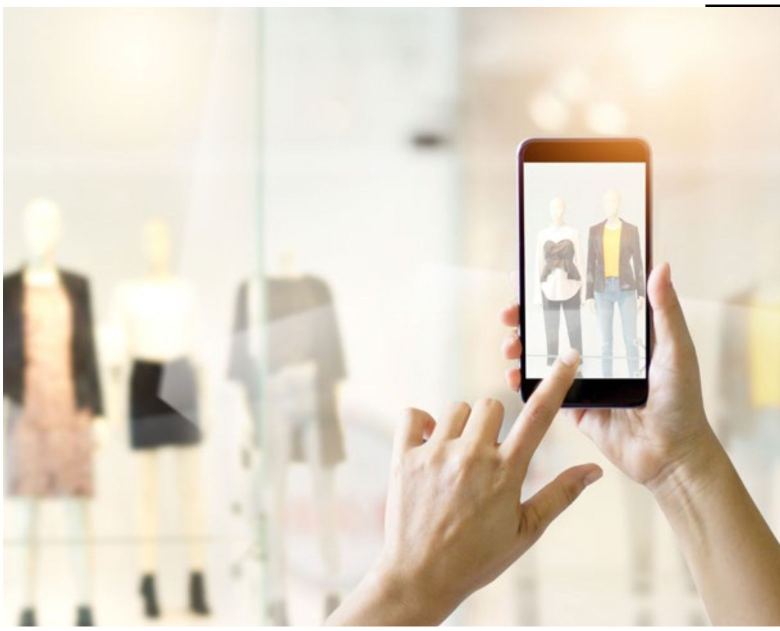
Concepts related to “well-being” continue to grow, especially in flagship form, whose format they are reinventing

Long confined to the industrial world or the internet, new types of retailers are now opening flagships, thereby contributing to the revolution in retail formats.

“Our new store in Nice is our first real flagship in France.”

The trend towards smaller stores has gained momentum in recent years. It is one of numerous consequences of the changes in consumption which, in line with growth in online sales and technological progress, had led to the redesign of sales points in terms of layout, product display – even their basic function.



04 THE NEW FACES OF THE FLAGSHIP

New technologies reconfigure customer relations and promote strategies based on the shopping experience. They shape the retail world of today and tomorrow.

Retailers adapt to lifestyles now focused on local production, local community, environmental ethics and sustainable development.

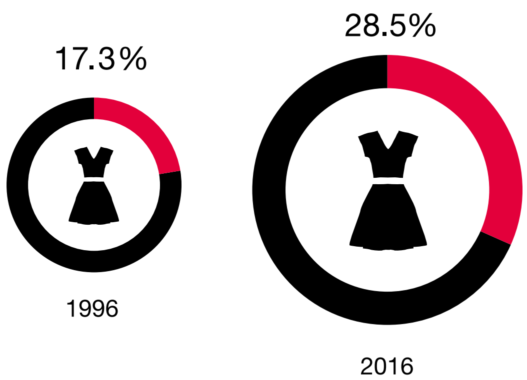
Retail space, living space? Format innovation is the order of the day. Pop-up stores, shop-in-shops, showrooms… The range of possibilities seems (nearly) infinite for inventing the retail of tomorrow.

FLAGSHIP = MEGASTORE?

FASHION AND FLAGSHIPS: A SPECIAL RELATIONSHIP

Whereas the growth and globalisation of the clothing industry had first benefitted alternative formats and distribution channels (hypermarkets, mail-order sales), **the development of megastores in the centres of large cities picked up speed as the fashion industry gradually concentrated into the hands of large specialised chains**.

Clothing sales in France
Market share of specialised chains (in %)



Source: IFM (French Fashion Institute)

C&A was a pioneer, especially in Paris where the Dutch retailer opened a 6,000 m² store on rue de Rivoli in 1974 before other retailers opened stores of various sizes (Benetton, Gap, Celio, etc.). The brand phenomenon really took off with the dazzling growth of Zara (Inditex Group) and H&M, whose French networks were launched in the 1990s and grew rapidly, with stores in Paris of up to 1,500–3,000 m² on high streets (rue de Rennes, rue de Rivoli) and in shopping centres (Forum des Halles). **It is with these two groups, which have created global networks by giving special attention to the look and product selection of their stores, that the term flagship takes on real meaning**.

With the best locations in the largest cities, **flagships provide growth and advertising of the most international fashion retailers**. The movement continued into the early 2010s, especially in Paris, where other retailers were looking for new growth outside their home base (Forever 21 on rue de Rivoli, Abercrombie & Fitch on the Champs-Élysées, Uniqlo at Opéra).

The format also had its share of closings, a global trend illustrated by New Look's recent closing of high-profile shops on Oxford Street in London, and Ralph Lauren's closing of its Polo flagship on Fifth Avenue in New York. In Paris, several retailers have abandoned major high streets, such as Benetton at 51 boulevard Haussmann in 2015, C&A at 23 boulevard de la Madeleine in 2016 and Banana Republic at 22 avenue des Champs-Élysées in 2017. Although the fashion sector lost 334 shops between 2014 and 2017 in Paris, it is still a major player in the retail property market. **This stronghold is especially visible on the major high streets of Paris**. Fashion retailers account for 38% of all locations on the Champs-Élysées, 48% on rue de Rennes, 58% on rue de Rivoli and 67% on avenue Montaigne[1].

The role of fashion retailers in the creation of flagships is still important today, as several major fashion retailers continue to expand. Besides Uniqlo and Primark, other international fast-fashion groups long present in France continue to develop their brands in order to diversify their product offer. H&M recently opened its largest Monki store (600 m² at 128 rue de Rivoli), just a few months after Inditex opened Bershka and Pull & Bear (more than 1,500 m²) on the same street. Soon & Other Stories will be opening a flagship in le Marais.

[1]Source: Codata/Fashion: clothing and shoes.

While the pace of new arrivals has considerably slowed since early 2010s (Uniqlo in 2007, Abercrombie & Fitch and Banana Republic in 2011, Primark in 2013), several more or less upmarket fashion retailers still absent from the French market will be opening here in the next few months. Projects under way (Icicle with more than 600 m² at 35 avenue George V, Suitsupply at 18 rue de la Paix, etc.) are in addition to projects of retailers whose first flagships were recently opened in other large world cities, such as Arket (H&M) in Munich, Copenhagen and London, as well as Reserved on Oxford Street and Canada Goose on Regent Street, both in London.

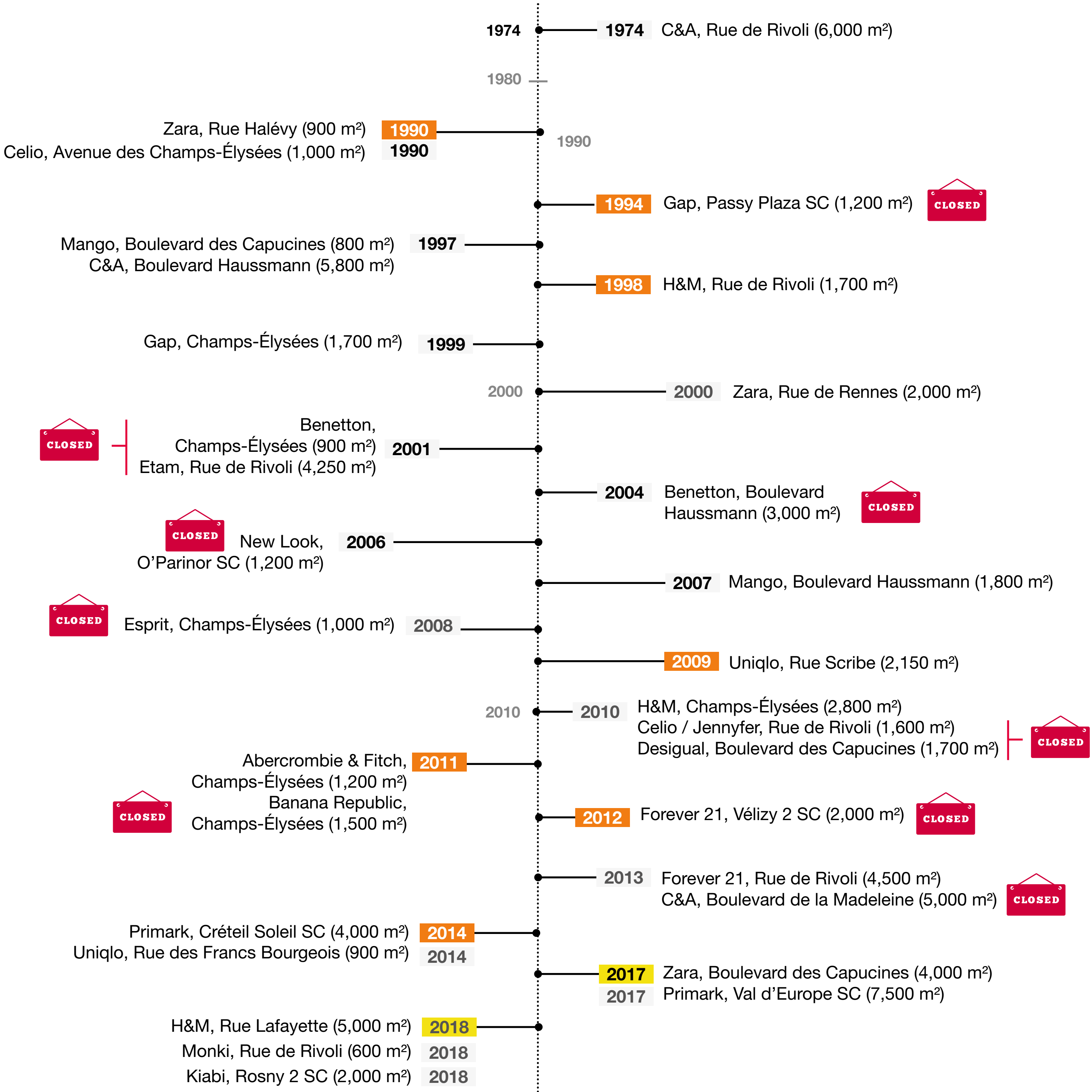
Fashion, an intensely globalised sector

SECTOR	Retail revenue from foreign operations	Average # countries	% Single-country operators
Apparel and accessories	35.1%	26.5	14.0%
Fast-moving consumer goods	21.1%	5.9	38.5%
Hardlines and leisure goods	22.4%	8.1	33.3%
Diversified	20.4%	6.7	38.1%
Top 250*	22.5%	10.0	33.2%

Source: Deloitte, *Global Powers of Retailing 2018.* *Deloitte's study covers the 250 largest retailers in the world.

Paris and fast fashion: a history of flagships

Examples of significant openings in Paris and Ile-de-France



1st store in France / Île-de-France

Expansion-refurbishment

CLOSED Store now closed

Source: Knight Frank

IN BRIEF

- **Traditional sectors** for flagship stores (Rivoli, Opéra/Haussmann, Champs-Élysées)
- A trend towards **larger flagships**
- **A proliferation of projects** since the early 2000s
- An **increased number of closings**


H&M

BIG(GER) IS BEAUTIFUL

While large retail spaces are still the trend, **expansions are increasingly popular and also contribute to the success of flagships**. Fashion retailers are still leading the way, as in the H&M project at its store at 1–3 rue Lafayette in Paris. First opened in 2009 with nearly 2,000 m², the store has reopened with space of 5,000 m². H&M is now able to display all its collections (men's, women's, children's, beauty, décor) in what is now the Swedish group's largest store in France. The store strengthens H&M's position in the Haussmann–Opéra neighbourhood, which sees 120 million visitors annually. This is just steps away from a 1,400 m² Mango store and not far from the Zara flagship on boulevard des Capucines – the Spanish retailer's largest store in France, recently expanded for full display of its collections over 4,000 m². **This focus on achieving greater size through expansion reflects the power of brands in an increasingly competitive environment** in which the number of available large, well-located spaces in major cities remains limited. Outside Paris it is in the historic centre of Lille, the northern city's most dynamic neighbourhood, that Zara is developing a space of 3,000 m² on rue de la Bourse through a combination of expansions and relocations.

> “*The number of new spaces created on high streets in the period 2014–2017 came to 520, compared with 1,045 closings. The number of closings should be put into context, however, as it includes (for 60% of the closings) annexations by retailers or nearby services. Thus the total retail sales area available to customers remains significant.*
>
> **Change in Paris Retail**[1]”

Other sectors have not stood still. On the Champs-Élysées, Adidas profited from Banana Republic's departure by taking over 1,500 m², bringing its total space to nearly 4,000 m². The “brand with three stripes” is in the starting block to confront Nike, its main adversary on the global scale. Nike plans to close its 1,700 m² store at 63 avenue des Champs-Élysées to open a larger store (4,100 m²) by the end of 2019 at 79 avenue des Champs-Élysées in the former Toyota showroom. **For it is on the world's best-known high streets, such as the Champs-Élysées, that the largest retailers compete for international consumers**. The work planned or already under way on the avenue is at the level of the stakes that drew these retailers here in the first place. Several thousand m² on the Champs-Élysées will be refurbished by 2022, one of the most profound changes in the avenue's history. The transformation of the former Gaumont movie theatre (no. 50) will create 2,800 m² of retail space. No. 150 will house, in addition to a So Sofitel, 5,000 m² of retail space, while no. 123 will have nearly 1,500 m² of brand new space. These operations create new opportunities for optimising retailer visibility on an avenue increasingly devoted to large flagships, and whose transformation will go even further upmarket.

Mid-range concepts are far from being the only ones to pursue large formats. Luxury and flagships go hand in hand. It was also on the Champs-Élysées that in 2005 Louis Vuitton opened at no. 101, still the brand's best-known flagship and today covering 3,500 m². Since then other luxury brands have opened large flagships, a sign of the focus on size that has gripped the sector. The most prestigious houses have tended to limit themselves to a small number of global cities and their most prestigious high streets, where supply of large spaces is unavoidably low. **Luxury retailers endeavour to counter this lack of available space by expanding existing stores.**

[1] Source: APUR, *Inventory of Retailers 2017 and Changes in the Period 2014–2017.*

Take, for example, well-known Italian brands in Paris. In 2012, Prada reopened a flagship on rue du Faubourg Saint-Honoré, with nearly 2,000 additional m² thanks to the acquisition of an adjacent building. Dolce & Gabbana, which recently expanded on the Faubourg by taking over the Paul Smith store, is applying the same method on avenue Montaigne by expanding its flagship at no. 54. Like the Champs-Élysées, but with a more exclusive positioning, avenue Montaigne seems to be increasingly reserved for flagships. Projects carried out by Dior provide a perfect example. After expanding its original store at no. 30, Dior took over the Caron and Fouquet shops to open at no. 34 at the end of 2016 a new shop dedicated to original jewellery and watches, displaying its entire range on this traditionally very French luxury high street.

The Champs-Élysées: increasingly dedicated to flagships

Redevelopment projects / available opportunities
Opening soon

SHOPPING CENTRES: FLAGSHIPS AND JUMBOS — SAME THING!

As for the best locations on high streets, **shopping centres are also seeing expansions of retail space to create flagships** or to enhance existing ones. This trend is seen mainly in the largest shopping centres and in fast-fashion giants, such as the expansion carried out by H&M over more than 2,000 m² in O'Parinor, and the expansion by Zara in Evry 2 with the annexation of space left unoccupied by Galeries Lafayette. Other sectors are also concerned. In the sporting goods sector, Adidas has transformed its flagship at 4 Temps in La Défense, which now totals nearly 1,500 m² – slightly larger than the flagship opened by its rival Nike in the same shopping centre in 2014!

In the beauty sector, where smaller stores are usually the norm, Sephora recently reopened its expanded store in the shopping centre of the gare Saint-Lazare. This new concept not only provides more space – the store is now the brand's second-largest in France, after the one on the Champs-Élysées – but also displays Sephora's capacity for innovation through new digital services.

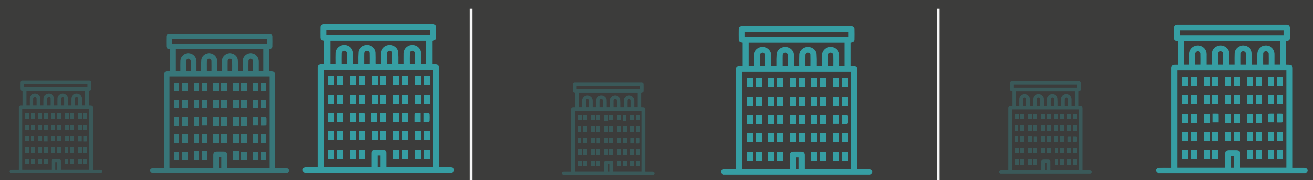
"You expand your shopping centre, I expand my flagship." In one perfectly balanced movement, **retailers benefit from expansions of the busiest shopping centres to open their most beautiful flagships**. This was the case for the 30,500 m² expansion of Carré Sénart in 2017, where Zara moved in order to double the size of its flagship. Another example is the 2017 expansion of Val d'Europe over 17,000 m², which allowed the relocation of several stores already in the centre (H&M with 3,300 m², Bershka with 1,300 m²) and the arrival of new powerhouses (Primark with 7,500 m², Uniqlo with 1,600 m²). In addition, the recent expansion of Parly 2 provided Décathlon with the opportunity to triple its size. Customers now have a more complete overview of product lines. This focus on size affects both stores and shopping centres, **which have become flagships in their own right by providing property firms with the perfect showcase for their skills and strength**. Meanwhile property firms are focusing all their efforts and marketing on a small number of jumbos. These expansion projects have been or will be carried out all over France: Cap 3000 near Nice and Part-Dieu in Lyon, and in the Paris region the Forum des Halles, Vélizy 2 and Créteil Soleil.

> *Retailers increasingly seek premium locations for the development of their flagships. The goal is to present their entire collections, communicate what is unique about the retailer, and allow customers to experience the brand […]. **A shopping centre receives millions of visitors and is the perfect address and showcase for retailers** which, by reducing their store portfolio, aim to promote both image and foot traffic all under one roof.*
>
> **Anne-Sophie Sancerre, Head of Retail France, Unibail-Rodamco[1]**

[1]Source : Knight Frank, *Paris Vision 2017.*

Jumbos at the centre of attention – examples of expansion projects

CARRÉ SÉNART (LIEUSAINT - 77) | CAP 3000 (ST-LAURENT-DU-VAR - 06) | LA PART-DIEU (LYON - 69)



CARRÉ SÉNART (LIEUSAINT - 77)			CAP 3000 (ST-LAURENT-DU-VAR - 06)		LA PART-DIEU (LYON - 69)	
82,500 M^2*	+30,500 M^2 in 2017	+3,800 M^2 by 2019	85,000 M^2	+50,000 M^2 by 2019	132,000 M^2	+31,000 M^2 by 2020

Sources : Annual reports of property firms / *Excluding "Shopping Parc" area

FROM HYPER-CONSUMPTION TO HYPER-SEGMENTATION

FROM MEGASTORE TO DEDICATED FLAGSHIP

Recent changes in large retail reflect the end of the mass consumption model. Forced to adapt to the transformation of shopping habits and to the decline of the hypermarket – the very foundation on which it prospered for more than 50 years – large retail incessantly tries out new concepts designed to promote loyalty among customers who are less homogeneous, more demanding and more connected than before. Drives and other neighbourhood formats have spread throughout France, while other types of retailers have experienced similar changes. Décathlon stitched together a network across Paris from the early 1990s (Wagram in 1993, Madeleine in 1997) until recently (Rosa Parks in 2016), but today is opening smaller formats (Décathlon City rue du Commerce and boulevard Saint-Germain) which are adapted to an urban clientele. This format is very different to the model on which the retailer built its success.

This transformation from mass consumption to more segmented ways of shopping is also revolutionizing the flagship format. Along with megastores, which provide a large clientele with the fullest product line possible, other types of flagships have also emerged. These flagships are more adapted to specific consumer profiles and can be used in specific ways. Some retailers, while already well established in peripheral zones, are diversifying by moving into city centres. Boulanger and Leroy-Merlin are good examples. Their stores on boulevard des Capucines and at La Madeleine, though far from being the largest of either of these two retailers, fully deserve to be called flagships because they were designed to showcase the groups' savoir faire. Soon IKEA will be their neighbour, since it announced the opening in summer 2019 of a new urban concept over 5,000 m² of retail space at 23 boulevard de la Madeleine. This has already created more buzz than any of its store-warehouses in peripheral zones!

This segmentation of formats can also be found in department stores. First developed in the mid-19th century by Aristide Boucicaut, founder of Bon Marché, **the theatricalisation of products continues to this day, though now it is in dedicated thematic spaces instead of all under one roof**. Printemps has opened several flagships, each like its own specific brand, from a decidedly luxury product range aimed at foreign customers at the Carrousel du Louvre, and an upmarket range of food products developed with "Le Printemps du Goût" opened in early 2018, to the trendy sport and lifestyle range of Citadium on rue de Caumartin and avenue des Champs-Élysées.

In the sporting goods sector, Adidas opened nearly 300 m² in 2017 near the Forum des Halles, its first store dedicated to football. Though not especially large, the store provides a showcase for the "brand with three stripes" in a market segment where the financial stakes are huge. The store even has a space for printing jerseys and a patch of artificial grass for testing cleats. A truly "100% football" showcase that Adidas made the most of during the 2018 World Cup! Opened by Adidas at the same time it was expanding its more general flagship on the Champs-Élysées, this 100% football store is a good example of the trend of flagships. Large size and prestigious location are no longer enough for a flagship to be exceptional. More and more flagships succeed on the basis of their unique qualities and the experiences they provide consumers. Through architectural details and a wide array of products and services, each retailer designs its flagships as unique places which give customers experiences they can find nowhere else.

INTANGIBLE HERITAGE, A DISTINGUISHING FACTOR

The term "sales point" has become inadequate for describing such places, **which are no longer dedicated exclusively to sales but rather to promoting the retailer's values, telling its story and sharing its universe**. These spaces have flourished in the worlds of sport and lifestyle, but many other sectors have also gotten involved: fashion, cosmetics and even accessories. The new concept of Moleskine Cafés can be found in Hamburg, Milan, Geneva and Peking. "*Mixing elements of the café, art gallery and retail store, it provides a creative and inspiring space which brings together the idea of a gathering place from the past and the core values of the Moleskine brand, which embrace and foster creativity in all its facets*"[1]. But it is luxury groups which for several years have been the masters of retail-as-theatre – hardly surprising given the high costs they invest in such spaces, and above all the history and skill with which they showcase their brands.

> *Repetition leads to boredom. The definition of luxury is 'custom made'. For 30 years each of our stores has reflected its time and place. We are aware of our surroundings and never repeat a concept. That is how after 163 years we are still able to surprise ourselves.*[2]
>
> **Michael Burke,**
> **CEO of Louis Vuitton**

The best examples are no doubt Louis Vuitton, whose new "Maison" on place Vendôme is discussed above, and Prada, who hired several architectural stars (Rem Koolhaas, Herzog & de Meuron) to design the interiors of its "epicentres". The case of Shang Xia, the Chinese brand owned by Hermès, is no less remarkable for how luxury groups use their intangible assets to set themselves apart. Its flagship in Shanghai features work by local artisans. By using tea ceremonies and incense, the brand distances itself from the global luxury universe, which is generally associated with western cultural benchmarks, and instead focuses on the authenticity of Chinese culture. **We are a far cry from the globalised, soulless cookie-cutter megastores which can be found in every city in the world!**

[1] https://fr.moleskine.com/moleskine-cafe
[2] Le Figaro Madame, 3 octobre 2017.

Emma Recco
Director of Property/
Expansion for IKEA France

IKEA

From store-warehouse to urban flagship

"We are going to be able to develop an entirely new approach designed specifically for Parisians"

Knight Frank: IKEA has just signed a lease for 5,000 m² of sales area at 23 boulevard de la Madeleine. Why Paris, and why this specific location?

Several times in recent years we have expressed and reaffirmed our desire to grow closer to Parisians. As lifestyles change, with the use of personal cars declining and e-commerce growing, our customers still want to be able to touch and test our products.

We examined various options and possibilities before deciding on the most appropriate approach and location for meeting our customers' needs. Today we are excited and eager to move to 23 boulevard de la Madeleine, an address which provides us with both a central location and a sales area of 5,000 m² where we can develop an entirely new approach designed specifically for Parisians.

The Madeleine neighbourhood is being transformed by numerous openings of hotels (Fauchon) and stores (Leroy-Merlin, Tesla, etc.). Did these changes influence your choice of location, and in your view how does IKEA's arrival fit in this dynamic?

The Madeleine neighbourhood is coming back to life, led by the best-known large retailers. Our arrival is going to further enhance this trend. We hope that the new store will encourage the French passion for home decorating and furnishing, and that we will improve the daily lives of as many people as possible.

This isn't the first time IKEA has opened in a city centre. In 2014 you opened a store in central Hamburg. Should the future Madeleine store be considered an extension of that first experiment? Or is it an exceptional format, never before tried?

Our future Paris IKEA store is positioned very differently to the one in Hamburg, which remains a standard store in terms of its location, size and facilities (combined collection point and parking). The opening of the new format in the centre of Paris is part of our convenience strategy, and an extension of our multi-channel sales offer. It complements the existing IKEA store in the Paris region. The new store is designed specifically with Parisians in mind, and to meet their need to furnish small spaces.

How will the Paris store be different, especially from the other stores in peripheral zones? What products will be on offer? What kind of clientele are you targeting?

We are going to focus on three main points in designing our approach to this new store. First, we are incredibly well served by public transport. The new store will be accessible in less than 20 minutes for nearly two million Parisians. We aim to encourage the use of soft modes of transport by our customers.

To best use the modular capacity of its total area of 6,000 m² spread over two levels, the store will not have an on-site warehouse. We want customers to be able to carry home the accessories of their choice. However, furniture and other large items will be available for delivery, for which we are developing a special warehouse in Gennevilliers scheduled to open in January 2019. This will allow us to optimise our delivery services in terms of time slots, speed and flexibility.

Moreover, we are working on presentations of both digital and physical solutions for interior furnishings and accessories, to better offer our entire range to Parisians.

Will this store format be duplicated in other countries or elsewhere in France? If yes, what kind of cities will you target, and what is the long-term potential of this new concept in terms of number of stores?

IKEA Group wants to accelerate its multi-channel offer and work more closely with city-dwellers by developing new formats. Various projects for city-centre stores are under consideration in other countries. In France, our priority for now is to finalise the approach of our Paris store so that it can open in the summer of 2019, while continuing to develop our stores in Vénissieux and Nice.

How do you plan to integrate digital into products and services offered in the future Paris store? Do you intend to make the store a showcase for IKEA's digital capacities?

We aim to make the future store a place where customers will have entirely new experiences. Digital plays a very large part in this approach and will allow us to display our entire range of products over 5,000 m² of sales area. However, the store will retain the traditional role of providing customers with contact with the products. All five senses come into play, enticing a maximum number of customers to touch, smell, test and taste. Customer relations remain vital to our success! IKEA employees will be there to help customers enjoy these experiences and assist them in imagining the possibilities of our product range.

Sustainable development is also a major concern. We are currently looking at alternative, clean delivery systems (100% electric deliveries, bicycle, boat, etc.) and meeting with various partners to develop this new concept.

Future IKEA store, 23 boulevard de la Madeleine, Paris (75001).

EXPANSION OF THE FLAGSHIP MODEL

A RESPONSE TO THE NEW ASPIRATIONS OF CONSUMERS

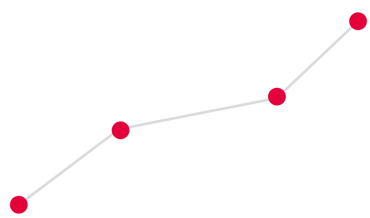
While the flagship is often the reflection of the strength of large specialised chains, its format has changed significantly. No longer limited to an oversized scale, the flagship is also breaking out of the restricted circle of a small number of retailers and sectors (e.g. clothing). **Most retailers today aim to have one or more flagships**.

The use of flagships by most retailers reflects foremost the new aspirations of consumers. These new "active consumers" focus on the value of certain functions or activities such as leisure, sports and food, which can no longer be reduced to the simple act of purchasing. More generally the concepts related to well-being continue to grow, especially in flagship form whose format they are reinventing.

This is the case for sporting goods retailers now riding the wave of popularity of sports among women, and the athleisure[1] boom. Such retailers are expanding rapidly and opening new stores on the best high streets and in the busiest regional shopping centres. Recent deals involved Nike and Adidas, (re)opening (or planning to do so) on the Champs-Élysées and in the 4 Temps shopping centre. JD Sports, which first arrived in France in 2010, has just taken over former H&Ms at 54 avenue Jean Médecin in Nice and at 62 rue de la République in Lyon, while making its first forays into the retail park market (Shopping Promenade Cœur Picardie in Amiens).

Change in sales revenue from sporting goods retailers in France (€ billions)

2009	9.1
2010	9.1
2011	9.3
2012	9.6
2013	9.7
2014	10.1
2015	10.7
2016	11.0
2017	11.3



+2,9%

AVERAGE GROWTH OVER PAST FIVE YEARS

Source: Union Sport & Cycle

[1] Contraction of the words athletic and leisure. Trend promoting a healthier lifestyle that combines style and comfort.

Other sectors are also enjoying rapid growth, such as food and restaurants. Owners of shopping centres increasingly use them to diversify their product offer and to increase the time spent by customers. In city centres, where food hall projects are beginning to spread as they have in other large European cities (Time Out Market in Lisbon, Foodhallen in Amsterdam, etc.), several large retailers are opening large spaces, thereby **driving business much more than before**. Five Guys is a good example. It first opened in France with 1,200 m² on the Champs-Élysées. This is now the retailer's largest restaurant in the world and one of its most profitable. It is easy to see how the 2,400 m² of the future Eataly in Le Marais, the first flagship in France of this upmarket Italian food emporium, will also open up the neighbourhood and increase foot traffic on rue Sainte-Croix-de-la-Bretonnerie.

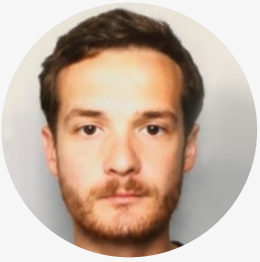
> *Our goal is to accelerate expansion, similar to what we did in the UK. We aim to eventually open 80 restaurants in France, mainly located in the best areas.*
>
> **Philippe Cebral,**
> **Head of Development in France,**
> **Five Guys**[2]

A NEW CLASS OF RETAILERS

Other retailers long confined to the industrial world and to the internet are now opening flagships. This incursion into the field of brick-and-mortar retailing links the growing interactions between online retail and physical networks. This development combining real and virtual is reflected in the increased digital presence in sales points. It also explains why **more and more online retailers are rushing to open brick-and-mortar stores**. Recent examples include Spartoo's purchase of André, the opening of a first Birchbox store on rue Montmartre, and the opening of a 550 m² AMPM at 49 rue Étienne Marcel. But online retail model has its limitations. Technological progress has not yet overcome the fundamental obstacle of sensory deprivation. On the internet the consumer cannot touch, small or see as in real life. Human contact and advice from experience salespeople are also missing. Consumers are alone and up against an overwhelming choice. They order, and then often they return the product they had ordered. This habit involves logistics costs and complicates management for online specialists which invest in **shops that are not necessarily large but that bring them both visibility and efficiency**.

[2] Knight Frank, *Paris Vision 2018.*

The breakthrough of single-brand stores – opened by industrial groups to sell their products directly to the public **– also contributes to the revolution of the retail world and sales formats**. These stores enhance the brand's image. Their size is highly variable and provides contact with urban, international customers. The brand's history can be fully displayed, a "story" told, without interference by third-party retailers. Since the luxury sector's pioneering movement, many other sectors have adopted this strategy. There are numerous examples in sporting goods: Asics, New Balance, Fusalp, Le Coq Sportif and Salomon, which recently opened at 129 boulevard Saint-Germain. In 2017 in the cosmetics sector, Marius Fabre and Nuxe opened stores, while L'Oréal continued to develop its own brands. Two of these will open soon, one on the Champs-Élysées (Lancôme) and another in Le Marais (Atelier Cologne). Tesla recently opened its first Paris flagship, with 330 m² in the Madeleine district, after opening in several shopping centres. In addition to the automotive sector, household appliance and electronics brands are also active, as seen with Vorwerk, Dyson and Xiaomi, following in the footsteps of Apple and Orange.



Olivier Benon
Head of Development,
Europe, for JD Sports

JD SPORTS

The athleisure flagships

“Our new store in Nice
is our first real flagship in France”

Knight Frank: With 65 sales points in France, your network may have more than 150 by 2020. Does France have a special place in your international growth strategy? If so, for what reasons?

France does play a special role in our growth strategy. Not only is it one of the most populous countries in Europe, but also it represents a market where the athleisure sector is undergoing exponential growth. And it was in France that JD Sports first launched its international expansion campaign! Back in 2010, the retailer began testing the waters by opening simultaneously four stores in four different regions: one on Place Rihour in the centre of Lille, and three others in the shopping centres Évry 2, Part Dieu in Lyon and Grand Littoral in Marseille. Since then our success has never faltered. In addition to JD Sports, our group has opened two other retailers in France: Size?, with four stores today, and Foot Patrol, which just opened its first shop outside London, in Le Marais.

JD Sports has announced the opening of two large flagships in Nice and Lyon. What can you tell us about these two projects?

Our strategy for opening flagships began three years ago in the UK and has been an unqualified success, with flagships on Oxford Street in London, Argyle Street in Glasgow, Northumberland Street in Newcastle, and at Manchester Arndale and Manchester Trafford Centre. We plan to open on Jervis Street in Dublin in the space previously occupied by Forever 21.

In France our two biggest and most recent projects were in Nice and Lyon. Our Nice flagship opened at the end of May and so far has exceeded targets. This gives us confidence for the upcoming opening in late September of our store in Lyon. In both cities our flagships are located on the leading high street, avenue Jean Médecin in Nice and rue de la République in Lyon, where we have taken over two former H&M stores.

In Nice, JD Sports has two floors totalling more than 1,200 m². We haven’t changed the original layout of the store because the escalators were already ideally located in the centre of the space linking the ground floor to the first floor. We can use the basement of the store if we ever need to expand. In Lyon, we have 850 m², again on two floors. There the work carried out by the landlord was more complicated, because the stair cavities had to be put in for the escalators, which did not exist but which are vital for us.

Despite the recent opening of large stores such as the one in Val d’Europe, you have called the new store in Nice your “first real flagship” in France. How is it different from other stores already opened? In addition to its large size and excellent location, do services and products on display make the flagship unique?

Our store in Val d’Europe – the only one of our stores in shopping centres in Europe to have two floors connected by escalators – was our largest store in France, with retail space of approx. 650 m². Yet we consider our projects in Nice and Lyon to be our first real flagships in France because of their size and showcase capacity, and above all because of their exceptional locations on the leading high streets in two major French cities. Though the services on offer in these two new flagships are not significantly different from those in our more classic stores in shopping centres, the size of the flagships allows us to offer our full sneakers range, and especially all of our clothing brands – Nike and Adidas, of course, but also Fila, Ellesse, Champion, The North Face, Napapijri, Patagonia, Hugo Boss, Emporio Armani 7, Polo Ralph Lauren, Lacoste, Superdry Sport and more.

Is this format based on concepts already opened in other European countries, or is it specific to the French market?

These stores duplicate the model already opened in other European cities such as Brussels (rue Neuve), Copenhagen (Stroget), Cologne (Hohestrasse), Amsterdam (Nieuwendijk) and Val d'Europe in France.

Flagships today are designed as actual living spaces focused on the customer experience. The goal is to deepen relations between a brand and its customers. How is this strategy applied in your own sales points?

As the multi-brand "King of Trainers", it is important for us to offer the range of brands mentioned above, while retaining our specific qualities and identity. After all, we are JD Group and not Nike or Adidas. It is important that our logos and internet links are visible both outside and inside our sales points. Today all sportswear, athleisure, lifestyle and streetwear brands want to be at JD – a far cry from several years ago when JD was an ageing concept. We now offer brands the kind of space and merchandising which they cannot find elsewhere.

The digital revolution has changed all sectors, and retail is no exception. How do you integrate new technologies in your distribution strategy, and what importance do you give digital in the design of your sales points and the management of customer relations?

We use mainly social networks, especially Instagram and Facebook, which are used by our core segment of customers 18–25 years old.

You recently moved into your first retail park, the newly opened Shopping Promenade in Amiens, and you have also opened a Foot Patrol store in Le Marais, the very first in France. What are your ambitions for these two specific market segments?

It is less expensive to open in retail parks than in shopping centres or city centres, so retail parks will become a new development axis on the basis of the initial results of the new Amiens store. Foot Patrol has just opened in Paris, in the very trendy "Haut Marais" neighbourhood, only its second sales point after the store opened in London 20 years ago. Why Paris? Because over the years the city has become one of the world capitals of streetwear, as reflected by the recent openings of Supreme, Bape and Sneakersnstuff. Other Foot Patrol stores may be opened in Europe in the next few years, though nothing is definitive yet.

JD Sports, 54 avenue Jean Médecin, Nice (06).

SMALL BUT POWERFUL!

While for many retailers the opening of large flagships remains the preferred approach to expansion and new markets, **the trend towards smaller stores has been increasingly visible in the retail property market in the past few years**. Large retail provides one of the best examples of this phenomenon. Several property firms have decreased the size of hypers to create new boutiques and corners, thereby breathing new life into their shopping malls.

However, this trend towards smaller stores is not just a response to problems facing certain retailers. It can also be interpreted as a sign of the profound transformation that consumption is undergoing. Rapid growth of online sales and technological progress require that sales points be rethought in terms of their layout and product display – even their basic sales function. **Digital provides format flexibility without diluting the customer experience**, a strategy that has breathed new life into retailers in sectors which a few years ago were seriously threatened by the growth of online sales. Take the example of the FNAC–Darty Group, whose priority is to open stores everywhere to be close to the e-clients of the two retailers. The group is now focusing on franchises and smaller stores in peripheral zones. Gone are the days of urban giants that FNAC opened in Paris starting in 1974 with its 7,000 m² store at 136 rue de Rennes, then in 1991 with more than 10,000 m² at 26–30 avenue des Ternes. FNAC adapted these flagships by sharing them with other retailers such as rue de Rennes, or by opening concept stores as it did inside the Ternes flagship.

Several clothing retailers have also opted for neighbourhood stores, viewing them as contact points likely to strengthen customers' ties with the retailer's other sales channels. Elisabeth Cunin, Chairperson of the Management Board of Camaïeu, recently explained her omnichannel strategy, which has 650 sales points and relies on improved "last mile" delivery for customers who live on average 15 minutes from one of the retailer's stores[1]. **This policy runs counter to many other retailers which, to the contrary, are closing their smaller stores in favour of a few large stores** located preferably on the leading high streets of large cities or in large shopping centres. Grain de Malice, whose network is much smaller than Camaïeu's, is following roughly the same strategy. After restructuring in 2016, the retailer now focuses on medium-sized cities and on spaces smaller than 150 m² in order to support its relaunching, rather than focusing on large unprofitable stores in large shopping centres. The retailer's national coordinator explains that "it was decided to focus on stores with strong neighbourhood ties and a local vision of customer relations"[2].

Other fashion retailers have reduced their activity whilst retaining their enthusiasm for flagships, in a "showcase" logic. One example outside France is Abercrombie & Fitch, which closed its 2,400 m² flagship at Causeway Bay in Hong Kong, only to open another, smaller flagship of 630 m² in the heart of the Harbour City mall. This arbitrage provides greater profitability while preserving high visibility and improving the customer experience.

"

While we continue to invest in our omnichannel capabilities, enabling our customers to engage with us whenever, wherever and however they choose, our stores remain an important gateway to our brands. In this new space, we expect to deliver greater productivity on a significantly smaller footprint than our previous Hong Kong store.

Fran Horowitz,
CEO of Abercrombie & Fitch Co[3]

"

[1] Lesechos.fr, 8 May 2018
[2] fr.fashionnetwork.com, 15 March 2018
[3] Retailnews.asia

A proliferation of sales points
Networks and store formats of Fnac–Darty Group

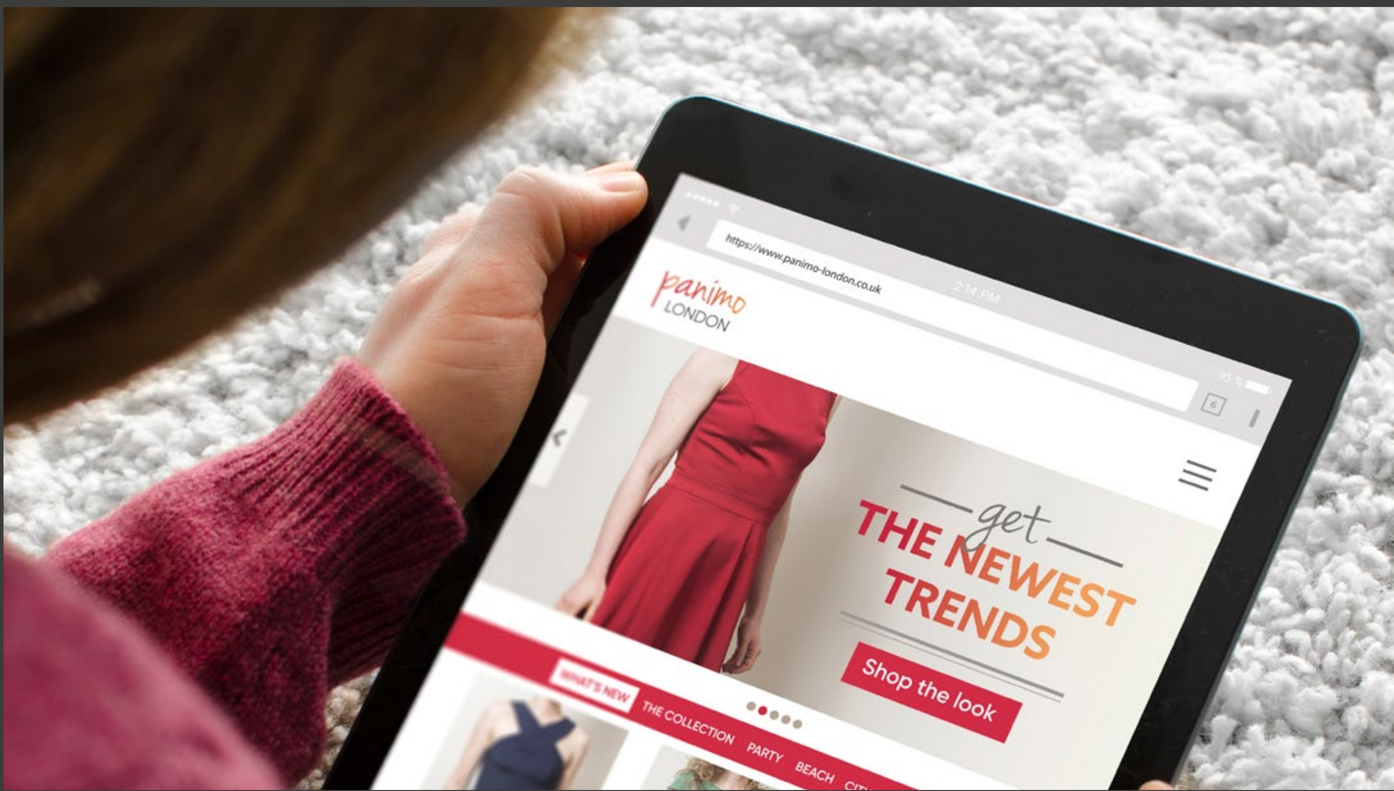
FNAC NETWORK

FORMAT	CLASSIC	PERIPHERAL ZONE	NEIGHBOURHOOD	TRAVEL	CONNECT
CONCEPT DATE	1974	2006	2012	2015	2015
AVERAGE AREA	2,400 m²	2,000 m²	1,000 to 3,000 m²	60 to 300 m²	80 to 100 m²
LOCATION	Centre of large city – Shopping district	Peripheral zones	Mid-sized city – Large city to complete the network	Airports and train stations	City centre Shop-in shops

DARTY NETWORK

FORMAT	INTEGRATED	FRANCHISE
CONCEPT DATE	1968	2006
AVERAGE AREA	1,500 m²	2,000 m²
LOCATION	Neighbourhood, large cities – Shopping centres	Neighbourhood mid-sized cities

Source: Groupe Fnac - Darty



THE NEW FACES OF THE FLAGSHIP

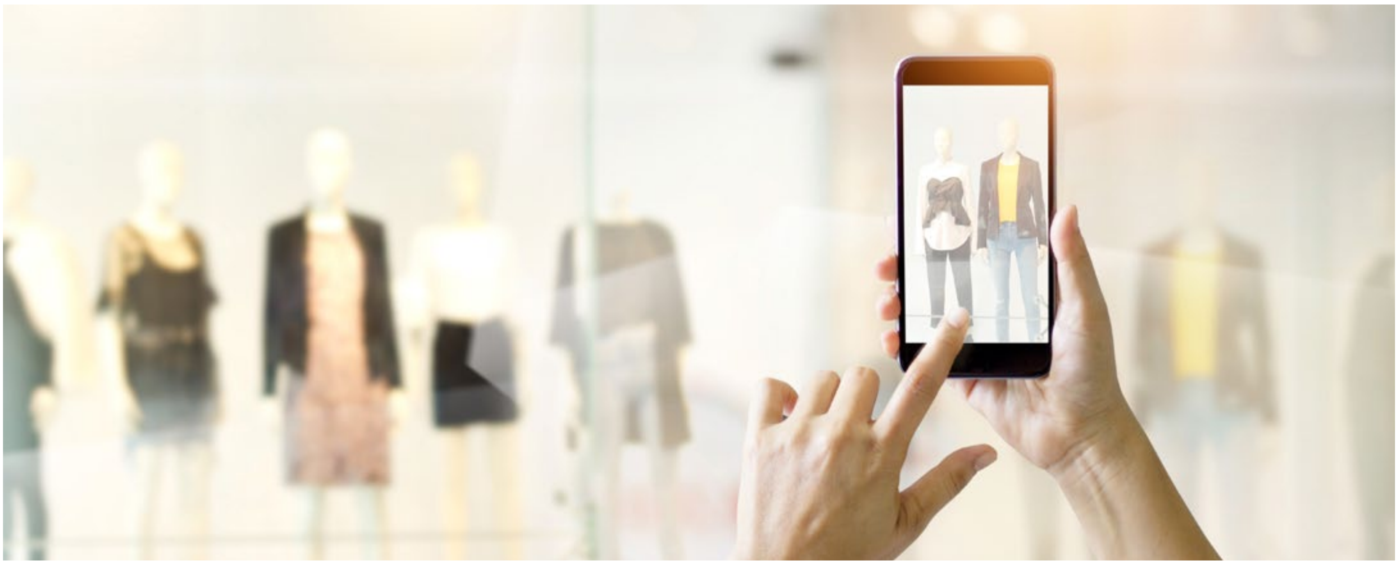
CONNECTED

New technologies reconfigure retailer/ customer relations and promote strategies based on the shopping experience. They shape the retail world of today and tomorrow.

The digital revolution has revolutionised every sector, and retail and flagships are no exception. Quite the opposite, for to compare the flagship of today with what we imagine will be the flagship of tomorrow involves first thinking of new technologies and the change in paradigm they entail. Digital technology now underlies the shopping experience and requires that flagships remake themselves by placing the customer at the heart of their strategy. This trend is analysed in the Deloitte research note, The New Digital Divide[1], which states that digital technology was responsible for 56 cents of every dollar spent in stores in 2016. This proportion continues to rise, signaling that a flagship's reputation will be highly correlated to its capacity to take full advantage of the digital revolution.

Some retailers have clearly understood this. Deals are being made between pure players and traditional retailers, **whose aim is to provide a seamless shopping experience among the various channels**, and to reposition their stores and employees within the new landscape of connected consumers. At the same time that Hermès is launching is "digital flagship" to boost its brand image and to move into new markets through online sales, physical flagships are being used by a number of pure players to improve efficiency and enhance customer relations. The Missguided flagship of Westfield Stratford, in London, is the perfect example of the web-to-store model, as is the new 550 m² space which AMPM opened in July 2018 at 49 rue Étienne Marcel in Paris. The flagship is both a marketing tool and a direct source of sales revenue.

By attracting a large number of visitors, flagships also provide retailers with the big data needed to analyse the shopping habits of their customers, to understand their needs, to build ties, and to personalize relations by means of increasingly sophisticated CRM strategies.



[1] Source: Deloitte, *The New Digital Divide*, 2016.

The digital revolution is most visible inside flagships, where aesthetics combine with technological innovations and clearly reflect the transformation of traditional consumerism to a digital shopping experience. Robotisation and RFID form a recurring theme, especially in prêt-à-porter. For example, the Undiz Machine is a concept of air-propelled capsules in tubes. After first being launched in Toulouse, the concept has since been duplicated in other stores and as a pop-up on the Champs-Élysées. The luxury sector has also been a pioneer in the digital revolution. The iconic Burberry flagship on Regent Street in London is the perfect example. In addition to the largest screen ever installed in a retail store, the flagship features RFID tags which tell how consumers how the clothes were made while the touch-screens can be transformed into mirrors.

> *While we don't map our customers, we do endeavour to provide them with whatever they want whenever they choose to tell us what it is they desire.*
>
> **Bruno Pavlosky, Head of Fashion Activities, Chanel, speaking about the partnership with Farftech[2]**

Designer sales points are like stage sets. How things look, their shapes and what they're made of form a sensory marketing experience. **The flagship becomes the theatre of an experience both real and virtual**, which reinforces the consumer's attachment to a product or a brand.

TOP 10 prêt-à-porter retailers on Instagram in 2017

Brands	Number of Instagram followers (millions)
1. Nike	72.2
2. H&M	21.2
3. Zara	19.6
4. Adidas	14.5
5. Forever 21	13.2
6. Michael Kors	10.1
7. Topshop	8.8
8. Urban Outfitters	7.1
9. Mango	6.8
10. Asos	6.1

Sources: Instagram/FashionNetwork

[2] Source: Reuters

100%

In 2018, digital is the only media 100% present in every retailer's marketing strategy *(Source: Ubiq/LSA)*

Digital generated 56 cents of each dollar spent in stores in 2016

60% of retailers allocate more than 10% of their digital budget to social networks

Individuals now have unlimited, real-time communication power, which disrupts traditional values

Sources: Deloitte, Ubiq/LSA

RESPONSIBLE

Transition from unconscious consumption to conscious, even responsible consumption. Retailers adapt to lifestyles now focused on environmental ethics, local production and community.

In a post-recession context, consumers have changed their priorities. They now want to see themselves reflected in the choices available to them. This is a clear break from past mass consumer behaviour, perhaps a coming of age from what was previously a more passive role. Consumers are aware of – even committed to – the environment, a product's origins and even moral principles. This means spending on products which correspond to the consumer's personal values and which highlight adherence to a local place and community, whether real or imagined. Retailers have fully understood this and now use new strategies which reflect these values. The result is greater attention to corporate and environmental ethics.

The flagship then becomes the showcase and even proof of these new commitments: environmental harmony, physical and virtual harmony, even global and local harmony! The flagship takes on a *glocale*[1] dimension comprising both a worldwide profile and deep local roots which reflect **the retailer's positive contribution to its immediate environment**.

> *I don't need to talk about a nice colour or a look on the runway. We have something else to offer. Today sustainability is in our DNA as a fashion house and business.*
>
> **Stella McCartney in *Le Monde***

At the same time, and somewhat paradoxically, low-cost retailers such as Primark and Action are gaining traction. The challenge, especially inside their stores, is to meet the apparently contradictory expectations of consumers who always want good deals but insist on more meaningfulness and quality.

83%

Retailers and companies acknowledge that ethical fashion can improve their image.

6

More than 6 out of 10 French consumers say they are willing to pay more for ethical products.

3-10%

Fast fashion is responsible for 3%–10% of total greenhouse gas emissions worldwide.

Sources: Harris Interactive, FashionNetwork, IFM.

NEW CONSUMER EXPECTATIONS

- COMMITTED CONSUMERISM
- COMMUNITY
- CREATIVITY
- ENVIRONMENTAL AWARENESS
- QUALITY

[1] «*Glocal*»: neologism formed from "global" and "local" which expresses the link between the two scales.

> *Our first commitment will be to offer in all our stores and in all categories fairer, more sustainable products, without compromising the creative energy which drives us.*
>
> **Guillaume Houzé,**
> **Head of Image and Communication for Galeries Lafayette**

THE RESPONSE OF RETAILERS

- TRACEABILITY
- CORPORATE ETHICS
- ALTERNATIVE PRODUCTION
- ENVIRONMENTAL AWARENESS

ZOOM ON THE H&M CONSCIOUS EXCLUSIVE PROJECT

THE VIRTUOUS MODEL FOR FAST FASHION

35%

of products made from recycled or sustainable textiles

17,700

tons of textiles collected in 2017

4%

Sales up 4% (+23.7 billion euros) in 2017

Source: H&M

HYBRID

Retail space, living space? Format innovation is the order of the day. Pop-up stores, shop-in-shops, showrooms… The range of possibilities seems (nearly) infinite for inventing the retail of tomorrow.

In order to bring consumers into the stores and to increase the time they spend there, original partnerships and new formats are being developed. The current trend takes on ever-changing forms: regroupings, retail innovations, shop-in-shops, retailer partnerships, pop-up stores, showrooms, collection capsules and more. Innumerable catch-phrases and formats have profoundly reshaped the retail landscape: visibility, enhanced territorial networks, new retail programming – the goals are numerous.

FROM HYBRID OFFERS…

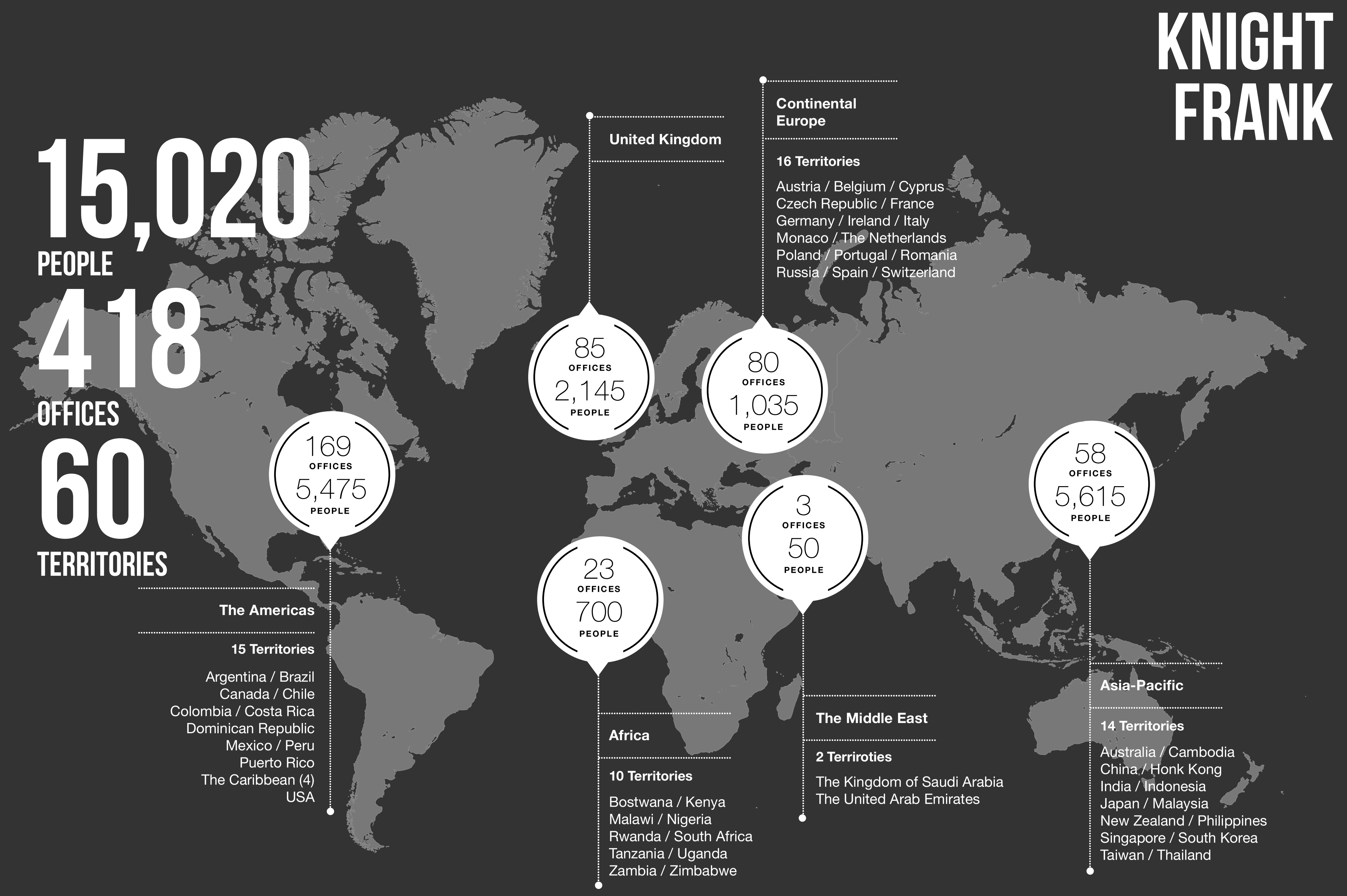
While a decade or so ago they would have been rare, retailer partnerships are now common and form an integral part of the coopetition concept. The presence of a brand in a host store should bring success to both parties, with each retailer optimising customer flow while enhancing its network and territorial presence at the lowest cost possible. For example, the Uniqlo shop-in-shop inside the Fnac on rue de Rennes succeeded in combining under the same roof the French group's books, music and film with the clothing of the Japanese brand. Fine foods can be found today in retailer flagships of other sectors, a reflection of a diversified product offer. The new Muji flagships in Osaka and Tokyo offer customers fresh, local products and, even more surprising, seafood.

…TO HYBRID USES

"All department stores will become museums, and all museums will become department stores." Visionary artist Andy Warhol predicted the museumification of stores. The flagship has become a place where anything is possible and unusual combinations the norm. From a gastronomic restaurant (Cristal Room, Baccarat in Paris) to a museum (Fragonard in Paris) or public space (Prada and Apple in New York): these new types of flagships overturn the paradigm of the traditional flagship and redefine the act of shopping.

> *We actually don't call them stores anymore. We call them town squares because they're gathering places where everyone is welcome.*
>
> **Angela Ahrendts, Head of Apple's Retail operations[1].**

[1] Source: Washingtonpost.com


KNIGHT FRANK
15,020 PEOPLE
418 OFFICES
60 TERRITORIES
United Kingdom
85 OFFICES 2,145 PEOPLE
Continental Europe
16 Territories
Austria / Belgium / Cyprus
Czech Republic / France
Germany / Ireland / Italy
Monaco / The Netherlands
Poland / Portugal / Romania
Russia / Spain / Switzerland
80 OFFICES 1,035 PEOPLE
169 OFFICES 5,475 PEOPLE
The Americas
15 Territories
Argentina / Brazil
Canada / Chile
Colombia / Costa Rica
Dominican Republic
Mexico / Peru
Puerto Rico
The Caribbean (4)
USA
23 OFFICES 700 PEOPLE
Africa
10 Territories
Bostwana / Kenya
Malawi / Nigeria
Rwanda / South Africa
Tanzania / Uganda
Zambia / Zimbabwe
3 OFFICES 50 PEOPLE
The Middle East
2 Terrioties
The Kingdom of Saudi Arabia
The United Arab Emirates
58 OFFICES 5,615 PEOPLE
Asia-Pacific
14 Territories
Australia / Cambodia
China / Honk Kong
India / Indonesia
Japan / Malaysia
New Zealand / Philippines
Singapore / South Korea
Taiwan / Thailand