

## amazon **PLANNING EXPANSION INTO BRICK-AND-MORTAR STORES**



- Industry sources stated that Amazon intends to open as many as 400 stores.
- Amazon has experimented with physical stores before. It opened its first brick-and-mortar bookstore, called Amazon Books, in Seattle in November 2015.
- Other online retailers, such as Warby Parker, Blue Nile, Bonobos, Birchbox and Casper, have also opened brick-and-mortar stores.
- E-tailers open physical stores to better market their wares, forge closer customer relations, and boost online traffic and sales.

### COMMENT BY GENERAL GROWTH PROPERTIES CEO FUELS SPECULATION

Amazon, the company that in many ways destroyed the physical bookstore industry, plans to open as many as 400 bookstores, according to Sandeep Mathrani, CEO of mall operator General Growth Properties, who made the remark on an earnings call on Tuesday.

"You've got Amazon opening brick-and-mortar bookstores and their goal is to open, as I understand, 300 to 400," said Mathrani in response to a question about mall traffic. It was not clear where he got Amazon's store figure, but an anonymous source with knowledge of the matter told *The New York Times* that Amazon's plans for physical stores are "modest," especially compared to the 300–400 figure mentioned by Mathrani.

Amazon opened its first and, so far, only brick-and-mortar store in November 2015. Called Amazon Books, the bookstore is in Seattle's University Village, an upscale outdoor mall north of the University of Washington that is already home to thriving Apple and Microsoft stores.

The store sells books and Amazon's Kindle and Fire devices. Amazon says it stocks the location using data it collects from its website. The store stocks about 5,000 titles at any one time, compared with millions on the Amazon website.



Amazon's Seattle bookstore has no apparent delivery component, though people familiar with its operations have said the retailer is using it to experiment with stocking shelves quickly using nearby warehouses and with collecting other types of data.



The Seattle bookstore's prices are the same as on Amazon.com, and are generally lower than other retailers' prices. The store showcases customers' online book reviews for some titles and, like many independent stores, has curated sections featuring selections from employees, including CEO Jeff Bezos.

Amazon had experimented with physical retail before. In October 2014 the company installed permanent kiosks in Westfield malls that sold devices, apparel and cases.

When the company announced that it would open the Seattle bookstore, *The Washington Post* asked if it was planning to open more stores. Spokeswoman Deborah Bass was quoted as saying, "We'll see. We're certainly excited about this one."

#### OTHER E-COMMERCE RETAILERS ARE EXPLORING BRICK-AND-MORTAR FORMAT

Amazon is not the only e-commerce retailer to experiment with traditional retail. In the last few years, some 20 online companies in the US have launched a physical presence to better market their wares, forge closer customer relations, and boost online traffic and sales. Besides Amazon, online retailers such as Warby Parker, Bonobos, Birchbox and Casper have opened brick-and-mortar stores.

The trend also reflects the broader industry imperative regarding omni-channel retailing, where merchants aim to provide customers with a seamless experience, whether those customers are shopping online via desktop or mobile device or at a traditional store.

Such stores also can serve as mini warehouses for home delivery in urban centers, a concept that Walmart, Target and others have explored.

It's typical for online retailers to enter the brick-and-mortar world with a trial pop-up shop before launching flagship stores in upscale shopping areas such as New York's SoHo neighborhood or Chicago's Michigan Avenue. If the results are encouraging, quick expansion follows.

"The big benefit of the flagship stores is that they're terrific marketing vehicles," said Jason Goldberg, SVP of Commerce and Content at digital agency Razorfish. "Not only do those stores tend to be economically successful on their own, but they generate a huge lift in incremental shopping to the online store."

Other e-tailers have opened what are essentially showrooms, which allow them to minimize real estate and other costs while giving customers a place to try on and sample products.



Menswear shop Bonobos opened 20 stores where customers can try on clothing and place orders online for home delivery. The company's premise is that men want to shop in stores, but do not necessarily want to leave carrying shopping bags. "This supported our idea of using Bonobos.com as the place to fulfill orders, so we didn't have to worry about stocking inventory in a

location and we could focus more on the customer experience," said Bonobos Chief Revenue Officer Erin Ersenkai.

The average order size in Bonobos' stores has proven to be twice that of the average online order, and a higher proportion of new customers visit the company's physical stores.

Jewelry e-tailer Blue Nile opened its first store in the Roosevelt Field mall on Long Island in June 2015 for similar reasons. "Consumers' number one objection to buying [jewelry] online is not being able to see and touch and feel the product," said CEO Harvey Kanter. Customers still make their purchases on the Blue Nile website, where the company says prices are typically 20%–40% lower than those of its traditional competitors. Since the store opened, Blue Nile has seen a lift in traffic and sales in the region around the store. In response, it plans to open three or four "webrooms" in the first six months of 2016.



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### RETURNS ARE CHEAPER FOR PHYSICAL STORES

The cost of returns is another reason for Amazon to open a chain of physical stores. Mathrani said that 38% of online purchases of soft goods, such as clothing, are returned to brick-and-mortar locations.

Accordingly, many retailers with physical stores offer buy-online, return-in-store service. Processing returns is typically cheaper for brick-and-mortar retailers than it is for e-retailers, who face shipping costs and higher handling and restocking costs when dealing with returns.



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