

Brick-And-Mortar's Unlikely Champion

Ever since Amazon.com launched the online revolution, business commentators have been churning out obituaries for the brick-and-mortar store with metronomic regularity. On just one day in mid-March, the first three stories in the LexisNexis news database that included the phrase “brick-and-mortar,” were “Brick and Mortar Is Dead,” “Showrooming Curtails Brick & Mortar Profits,” and “Cloudy Future For Brick & Mortar.” The text accompanying the gloomy headlines reiterates points that are now familiar to everyone, namely the combination of convenience, lower costs, an absence of sales tax, and vast selection tilt the balance in favor of direct response merchants. Ironically, the most compelling argument for the continued relevance of the traditional retail store today is coming from a most unlikely source: Tim Cook, CEO of Apple.

As a pioneer of the personal computer, the smart phone, and the tablet, Apple has been at the forefront of the internet revolution. Absent Apple's many innovations, far fewer consumers would be surfing the net today and the online/brick-and-mortar dynamic would be different. So when Apple's top executive starts talking up the unique benefits of a storefront, it's a genuine “man bites dog story.”

Apple opened its first retail store in 2001 as a defensive measure because at the time its personal computers were being shunned by big box retailers like Best Buy and Circuit City. Since then, the company has added more than 400 locations that Cook now calls “a critical competitive advantage.” Apple's chain of stores accounts for close to 18% of the company's total revenues, but he says their importance goes far beyond just immediate sales.

Cook devoted nearly a third of a 35-minute presentation to key investors, to discussing Apple retail stores, which he said were the single most effective means for introducing consumers to new products. While it took 25 years for Apple computer sales to top the 100 million unit mark, iPad sales breached the 100 million unit mark in just two years, thanks to the exposure they received in brick-and-mortar company stores. Prior to the iPad, Cook said people's view of a tablet was “a heavy thing that no one wanted.” It took an in-store introduction to change that perception and jump-start sales.

The success of the Apple stores, which gross an average of \$50 million per location, according to Cook, is due to a combination of inspired products and an exceptional in-store experience. He told investors, “It's a retail experience where you walk in and you instantly realize the store is not here for the purpose of selling; it's here for the purpose of serving. [The Store] helps you not only with an issue, but it helps you get more out of your Apple products over the life of them.” In addition to selling and serving, the Apple stores also burnish the brand by, in Cook's words, “playing an important role in

the community.” He elaborated, “If you look at an agenda at an Apple Store for any given day, you might find that there's a youth program going on where the kids from a local elementary school are coming in the store as a part of their field trip. You might find that there's a local musician who's entertaining people in that store on that night. It's incredibly exciting what these stores do.”



The Apple retail experience offers direct parallels with the music products industry. The expansion of the industry's product offerings—thousands of guitar models, hundreds of different options for setting up a recording studio, and a sea of accessory items that defy tabulation—has created consumer confusion, and in many cases, mistaken perceptions. Real-world case studies that we have chronicled

demonstrate that customers will bypass their computer and patronize those stores that, in Cook's words, exist “for the purpose of serving,” and “help you get more out of” the products you buy. Apple's emphasis on “playing a role in the community” is hardly new advice—successful music stores have been doing it since we began publishing in 1890—but it's also worth re-emphasizing. M.I. suppliers should also take note of Apple's experience in launching the iPad. There's a lot to be said for “webinars” and online reviews, but as Cook explained, nothing is as compelling as a face-to-face presentation when dealing with a complex product. Among those who are taking Cook's words seriously are Microsoft and Google, two hi-tech companies that are currently experimenting with store concepts.

The big box stores that began transforming the retail landscape two decades ago were dubbed “category killers” because of their impact on small local stores. Operations like Best Buy, Toys R Us, Staples, and Guitar Center were viewed as unstoppable forces, destined to seize entire markets. The forecasts didn't quite play out according to script, and today each of these companies faces challenges that were unforeseen not very long ago. Similarly, expect the supposedly unstoppable online merchants to encounter a few obstacles before too long. In the meantime, though, it's worth keeping Tim Cook's observations in mind. Retail formats continually evolve, but genuine service, effectively showcasing products, and contributing to community are timeless values that underpin all good retailers. Perhaps that's why Apple is planning to continue opening stores at a rapid pace.

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