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# Expect more famous retailers to disappear

- **Services and experiences are key to retailers' survival**

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Market analyst firm Canalys predicts that many more consumer electronics (CE) retailers will follow in the footsteps of Surcouf, Best Buy Europe, CompUSA and Circuit City and disappear from the high streets of Europe and the United States. It describes this as a result of the 'strategic failure' of the CE retailing model and warns retail chains in other segments to learn quickly from the mistakes of the fallen.

'They were hit by a perfect storm of competition from the Internet and supermarkets. They lost too much business to competitors undercutting them on price and failed to respond to the many attractions of Amazon's online approach, such as its vast stock ranges, peer reviews, recommendations, free delivery and excellent returns services,' said Canalys CEO, Steve Brazier. 'Today's consumers are even willing to browse for a book in a local store then order it from Amazon at a higher price simply because they want Amazon to understand their entire library, to optimize future recommendations. This is more than "showrooming" – this signals a fundamental shift in consumer perception of value.'

As well as online competition, supermarkets have proved adept at running promotions for low-end products, and are often willing to sacrifice margins to bring customers to their stores.

'They have the locations and the parking facilities, which make them convenient for collection of heavier items,' added Alastair Edwards, Canalys Principal Analyst. 'Many have good online tools and make deliveries too. In many countries, supermarkets are the most efficient route for shipping a single product in high volumes.'

Edwards pointed out that CE retailers in Europe saw their lucrative extended warranty business undermined too, by the EU's insistence that two-year warranties be provided as standard. Their content businesses have also collapsed: most have seen their vinyl, film, film processing, CD and now DVD businesses disappear. Kindle and iPad apps are removing opportunities in books and magazines. Software applications and gaming are transferring to online and download businesses too.

'The future for multi-specialists, such as the much respected FNAC in France, looks as bleak as for the more hardware-focused companies,' Edwards continued. 'CE retailers now offer very few benefits to consumers. They appeal to the rapidly shrinking proportion of people who are unable or unwilling to shop online. They enable impulse buying and they allow somebody to pick up a product immediately, rather than the next day. But that's about all.'

The growth of Internet shopping should not have come as a surprise to the retailers; the threat has been building for 15 years or more. Yet, as a group, they failed spectacularly to respond. Most now have online stores to complement their shops, but in nearly every mature market they are the distant followers, not the leaders, of Internet retail.

'The window of opportunity has closed; they will never catch up with the Internet specialists. They started late, under-invested and could not build a culture to excite talented programmers. Their Internet businesses were held back by them not wanting to undercut in-store prices,' Edwards said. 'They wrongly assumed the benefits of "touch and feel" would continue to protect them, but a new generation of consumers has grown up with a different way of thinking. The success of online fashion retailing is a strong indicator that no category is safe from this change in behavior; other retailers should take note.'

What path, then, should the remaining CE retailers take? Some will look towards Asia, but Canalys points out that, although Internet shopping is still a niche activity in some countries, for example Thailand and Singapore, it is booming in China. It is not wise, therefore, to assume safety in emerging markets.

Canalys suggests that some may explore becoming genuine showrooms – that demonstrate but do not sell – but this will require funding from vendors. Some will no doubt look at Apple and argue that its iconic stores have redefined modern retailing. They provide a luxury setting in prestigious locations and offer a range of services from free hints and tips, to paid-for classroom training. They partner with artists and create events to attract the crowds. They offer one-to-one sales engagement to maximize accessory and upsell opportunities. They also integrate closely with the online shop by offering mixed services such as 'reserve online, collect tomorrow'.

Few can doubt the wisdom of Apple's approach while it sits on its perch as the most successful company in the world, but the attraction of the stores to Apple may be more about the company's ability to control the brand and customer experience than anything to do with retailing economics. Chris Jones, Canalys VP and Principal Analyst, raised a key question:

'Do the stores attract the customers, or do customers come simply because Apple's products are so popular? Competitors should be extremely cautious before trying to emulate Apple's approach. The product ranges of most other companies are unlikely to generate customer traffic at anything like a similar rate.'

Canalys predicts that, by 2020, many city centers will look quite different from today, with many famous retailers disappearing.

'People will seek retail premises out for a number of reasons: for experiences centered around entertainment, relaxation and education; for events, such as celebrity appearances, performances and signings; for socialization and sustenance; and where brand exclusivity or the nature of specialization or service required cannot be met by online alternatives,' said Edwards. 'A great innovator may find a way to build a next-generation outlet that can shift CE goods while offering some of these experiences, but it is more likely that the majority of CE retail chains in mature markets will simply disappear within the next five years.'

## About Canalys

Canalys delivers smart market insights to IT, channel, and service provider professionals around the world. Our customer-driven analysis and consulting services empower businesses to make informed decisions and generate sales. We stake our reputation on the quality of our data, our innovative use of technology, and our high level of customer service.

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Americas: Suite 316, 855 El Camino Real, Palo Alto, CA 94301, US | tel: +1 650 681 4488
APAC: 2532 Wheelock Square, 1717 Nanjing West Road, Jing An District, Shanghai, China, 200040 | tel: +86 21 6157 5113
APAC: 1 Pickering Street, Great Eastern Centre, #07-02, Singapore, 048659 | tel: +65 6671 9399
EMEA: Diddenham Court, Lambwood Hill, Grazeley, Reading RG7 1JQ, UK | tel: +44 118 984 0520
e-mail: inquiry@canalys.com | web: www.canalys.com