

Thinking About Tomorrow: Value Retail Draws Lessons From China

Scott Malkin, the founder of Value Retail, said agile companies are planning for post-COVID-19 growth.

By Samantha Conti on April 6, 2020

LONDON — What will physical shopping look like once the coronavirus pandemic is over? Will anyone want to step inside a shopping mall again? Will cash, once king, finally be deposed in favor of mobile payments? And what of the excess stock that's sitting on dark shop floors and in warehouses? Will the virus fundamentally change companies' values, behavior and work patterns?

This moment of pause — and enforced reflection — will not only change the fundamentals of sales, marketing and consumption, but will also reveal (and has been revealing) companies' true stripes — and in some cases they are not pretty.

Already in the U.K., high street clothing bosses are refusing to pay overseas suppliers, luxury retailers are withholding rent — and, in some cases, demanding their money back — and giant companies across all sectors, which should have cash and resources to see them through tough times, are begging the state for bailouts, despite all the government breaks on offer.

Business will never be the same again.

According to Scott Malkin, the founder of Value Retail, and Frank Blanchette, the group marketing and retail director, it's time for action, planning for post COVID-19 scenarios, and pivoting quickly — and coherently — in order to adapt to new circumstances.

Malkin and Blanchette have a rare perspective on the current state of affairs: Value Retail runs two luxury



An image of Shanghai Village taken on April 2, 2020, following the re-opening last month. Photo Courtesy of Value Retail

outlet villages in China, where the disease appears to be diminishing, and nine in Europe, where it has yet to peak. They form the Bicester Village Shopping Collection, which takes its name from the flagship site in Oxfordshire, England, that marks its 25th anniversary this year.

In addition, the Value Retail business is 100 percent physical — there is zero e-commerce — at a time when compa-

nies are relying on their online channels to help them plow through the COVID-19 storm. Also, the villages' approach is all about hospitality, and Bicester in particular is popular with the Chinese at a time when international travel is effectively frozen.

Here, Malkin and Blanchette talk about the retail recovery in China, how they see the situation in Europe evolving, and why it's important to keep thinking about tomorrow.

WWD: Shanghai Village, which was closed for six weeks, reopened for trading on March 2, while Suzhou Village, which shut for four weeks, reopened on Feb. 17. How has business been going since both reopened?

Scott Malkin: Our business in China is back and is running at equal to, or in excess of, the same time last year. However, the West will not recover in the way that China has, for a variety of reasons. Fundamentally, China has looked to eradicate the virus and is now working against the re-entry of the virus from other countries. China and Hong Kong are dealing with a lot of returning students, Chinese nationals from the West. So one of the things they're doing is monitoring those arriving to see if any of them has coronavirus. I imagine they'll keep their barriers up, most likely until a vaccine is found. In the West, the coronavirus is so widely distributed, and there are such complexities to national borders and travel patterns, that there's no way it will be eradicated.

Frank Blanchette: Things are moving so fast. The brands that we are working with are accelerating their opportunities in China. They see it emerging, awakening in a time when Europe and the U.S. are in a different stage. There's a lot of focus and energy now going into China, and making sure that the operations are working, suppliers are working. That opportunity has been given priority.

WWD: How will shopping patterns in physical spaces change as a result of the virus?

S.M.: We're trying to construct a vision of the future and design towards it. For us, that vision has to be something that in the near term is built around safe shopping, because we know a couple of things — we know that the likely defense against the virus is some combination of better testing, better treatment and awaiting a vaccine, plus embracing safe

behavior. My view is that if the commercial economy in the West doesn't restart in June, then it will have a much slower, more painful restart in September. I think that those are the two obvious points, when Western governments will have to invest resources, energy and emotion in the economy. In the end, people can't live in isolation and under lock and key for more than a short period of time anywhere, certainly not in the West.

How will the West reopen? The virus will still be out there. If the testing is better and faster, it'll be possible to know who has the virus, who has the antibodies. Presumably, if you have the virus, you're sent home. And if you've got the antibodies, or if you haven't had the virus and you're not in the at-risk group, I'm guessing you'll just go back and live your life. But life will be different. First of all, there'll be a lot of talk about safety. People are still trying to figure out what that means, but in China you can't enter our villages without being scanned for temperature, and if your temperature is too high, you're not allowed in. Everyone's required to wear a mask. There is a series of steps that the Chinese are launching around safety, and these are government dictates.

I don't think that the behavior of the Western economies in the near term will be normal. While in China things will seem familiar by the summer — minus travel — in the West, that will not be true for some time. Even if the economy in the West reopens this summer, I don't think anything will look recognizable for a year.

WWD: Will anyone want to even touch cash in the future?

S.M.: I think that cash is conclusively finished because it's seen as a way of conveying germs. Everyone will convert to plastic or touch-and-pay. In the U.K. the limit on touch-and-pay has just gone to 45 pounds from 32 pounds. The number of places that are now open, selling food and supplies, that won't take cash is rapidly growing. Another structural change might be abandoning the notion of queuing to pay. The queuing is where people breathe on each other, so it may be a "call-up" system instead.

WWD: Value Retail's villages are built around a physical, experiential model with no online channels. Do you think this period will accelerate the shift from physical retail to online retail? What will it mean for physical real estate?



Scott Malkin



Value Retail's Bicester Village.

S.M.: I think that the trends that are in place already will accelerate. The shift towards online, in terms of efficiency and the share of spend, will carry on. We're seeing age groups that didn't used to think about buying online now doing so, owing to the coronavirus. Looking ahead, I think that consumer expectations will be more demanding, which will be frustrating for the retailers, but that was coming anyway.

From today, there is an opportunity to create something new. Look at the brands that are shutting down right now. How many will reopen? How will they reopen? Why will new ones appear, and how? How will digitally native brands fare? Will they fill gaps? There will certainly be a lot of really affordable real estate. Good real estate — not the bad stuff. Will digitally native brands move in to take those spaces and grow their footprint? Clearly, their position is, "We can't grow affordably online."

WWD: How do you see other businesses and industries being impacted?

S.M.: If the West stays closed until September instead of June, it will be logical to assume that the hospitality industry will be comprehensively gone. Many hotel and restaurant groups won't come back, or they won't come back with the same ownership. They'll have to be recapitalized and reinvented, as will anything tourism based — cruise ship companies, airlines. Will people fly to the same degree as before? I don't think so anytime soon. International travel is going to be cut way back, and we're going to be guarding the borders against the virus.

Business travel will cease as we are familiar with it. I think drive-to versus fly-to locations, hub cities serving national markets, are what will come back first. Bicester

Village was storming (until the shutdown last month) and there are a lot of people who are not leaving London who are natural Bicester shoppers. They would usually have been going off to ski on the Continent or to a beach somewhere, but they stayed in Britain. Our locations all serve capital cities, and I think that's a very attractive argument for how we get restarted.

Chinese guests, interestingly, are part of that audience. We have plenty of expats from all over the world, including all parts of Asia, living in cities like London and Paris. In fact, Bicester Village had exceeded footfall and sales densities against last year through the 8th of March.

WWD: How are you preparing for business after the lockdowns are lifted in Europe?

S.M.: We're raising our game in terms of the service we will provide to our brands. We are making it as easy as possible for them to sell their surplus stock, so as to get their money back into the business, while driving their brand equity and acquiring new customers. For example, we're starting to work with the more forward-looking brands on what they're going to do with their surplus once the economy reopens. Their entire vision of the year has shifted, and therefore ours shifts, because we serve them. A number of initiatives that we were going to launch are being put on hold in order to support the brands.

WWD: Can you be more specific about how you're working with the brands?

S.M.: The key for us is going to be which brands can figure out their stock position — where their stock is, how to price it and how to get it to us. We're clearing the way, so that our people in our villages are ready do what the brands are asking us to do. The evolution of our original business plan will be delayed by a year, as there's going to be more to do with the brands that are operating coherently. They're saying to us, "Let's get right down to it — staff, storage, pricing, strategy. How do we manage to get the volumes we need while still having safe shopping practices?" They're actually talking to us in real time about how they would do things if we could reopen together tomorrow.

WWD: How will this crisis change the way the brands do business?

S.M.: Darwin declared that the future would belong to those species that adapt the best. So, if I were trying to think about which brands would be the ones to back, as

a business partner or as an investor, I'd be focused on the leadership's ability to adapt, and the organization's ability to respond to a plan that's changing in real time to address a new world. One of the reasons some companies can be agile is that they can agree on a direction, set a course, and delegate responsibility for execution. That's why certain companies come back stronger, versus other retail and fashion companies that will come back weaker — or won't come back at all. Companies that are not thinking in a joined-up way cannot qualify as agile, because they're not. How do they actually get anything done when different parts of the company are competing with one another in determining strategy?

WWD: Last week you waived all the second-quarter charges for the brands operating in your European villages, which are now shut. You did the same for Shanghai and Suzhou, which have since reopened. Why?

S.M.: We know that everyone, including Value Retail, is suffering. And we're trying to help our brand partners find

a way forward. We believe that this is the right thing to do. We always take the view that we are long-term partners of the brands and that our interests are aligned. We don't charge traditional rents, we're royalty-based and we don't have traditional leases. We have licensing agreements, like one would have in a department store.

WWD: Scott and Frank, is this the most challenging period that you have lived through so far in your careers?

F.B.: It's certainly is one of, if not the most, challenging. When I look back to 9/11 or 2008, when I look back to the time we started the business, we had enormous challenges, but I think we just pursued the course of focus, resilience, determination and innovation in what we do. The creativity and dedication from our colleagues and team have been fantastic, and what we're seeing from our villages in China adds a silver lining. We're looking closely at the shopping practices emerging there, and for sure we'll adapt them for what we will do in the West.