AMAZON NOW WANTS TO REINVENT THE IN-STORE SHOPPING EXPERIENCE

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The long-rumored Amazon (NASDAQ: AMZN) move into malls could be coming soon, according to a new report. The Wall Street Journal, citing "people familiar with the matter," reported on Thursday that Amazon plans to open several retail locations in Ohio and California.

The article said the locations would be about 30,000 square feet, which is a little less than one-third the size of a traditional department store and akin to a current Best Buy location.

According to the newspaper, sources said, "It is unclear what brands Amazon will offer in the stores, although the company's private-label goods are expected to feature prominently."

In recent months, Amazon has been linked to the possibility of opening or has actually opened physical pharmacy locations, grocery stores, and bookstores, and is expanding its Amazon Go convenience stores. In 2017, the e-tailer acquired Whole Foods.

Andrew Cox, senior retail and market analyst for FreightWaves, said the thought of physical stores is more evidence of the retail convergence taking place in the market. (Cox will provide a more in-depth analysis of the report on Monday in his Point of Sale newsletter. To sign up, visit Point of Sale.)

"The operating models of legacy incumbents and digital disruptors are quickly converging. While Walmart (NYSE: WMT) and Target (NYSE: TGT) have grown online sales by 100% and 200%, respectively, since 2019, Amazon is pushing forward with new physical spaces," Cox said. "Amazon has already been operating mini-department stores with its more than two dozen Amazon 4-Star stores that focus on electronics and kitchen products. The new store format is expected to be significantly larger than Amazon's other physical forays, but much smaller than traditional department stores."

The Wall Street Journal said Amazon could use the new locations as a promotional vehicle for its latest gadgets, as a way to offer consumers the opportunity to try on clothes before purchasing, and to serve as a central location for returns.

"Amazon's ability to scale beyond just cashierless tech to a full-size department store will send ripples throughout the retail industry, giving a snapshot of what the future could look like," said Joe Scioscia, vice president of sales at enterprise software provider VAI. "For both large brands and small local stores, Amazon has shown that consumers are becoming increasingly familiar with a tech-enabled and contactless shopping experience, especially during the COVID-19 pandemic. In the next few years, I expect to see other retailers ramp up their abilities to offer contactless shopping experiences in connection with both delivery services and curbside pickup."

Last summer, rumors started circulating that Amazon could be looking to acquire an existing retailer as a quick path to physical locations. At the time, Macy's (NYSE: M) and J.C. Penney (OTC: JCP) represented the possible targets. Both retailers have faced their share of struggles in recent years, and as more consumers shift to online buying, their struggles have been amplified. Both retailers often own their real estate.

In 2019, Amazon and mall operator Simon Property Group were reported to have held talks about Amazon taking over vacant anchor mall space and turning it into distribution centers.

Cox said it's likely that this foray would not be anchor stores in large malls.

"Given the rumored footprint and Amazon's move to close mall-based pop-up shops, locations will be off-mall, likely in shopping strips," he said. "With all the retail bankruptcies and store closures of the past 24 months, leases are favorable currently. In fact, retail space leases are relatively much more attractive than warehouse space, which has become sparse and expensive."

As big as Amazon is, physical locations could further enhance the branding and open up opportunities for third-party sellers, Cox added.

"A department store format can be a strong brand builder for Amazon, which can prominently display its technology offerings like Kindle, Echo, and other Alexa-enabled products, while also enabling Amazon to sell its thousands of Amazon Basics SKUs," Cox said. "Amazon is now the leading apparel retailer in the U.S. and doesn't even have a physical space to sell clothing yet. It has given no indication as to what brands it will carry in these stores, but should it invite its third-party sellers, which make up more than 55% of total units sold by Amazon, these spaces could be the first physical presence for many DTC brands."