Are You Experienced

November 2019

I recently listened to a podcast in which a retail industry consultant, Doug Stephens, argued that “retail is no longer a distribution mechanism for product but a customer acquisition strategy”. Put another way, this is the theory that physical retail locations are transitioning from being sales channels to advertising methods. We are often asked what we think about the impact of tech change on the companies we invest in, and our answer is always that we aim to seek out the best quality, most desirable and loved assets that can successfully make the jump from the analogue to the digital world. We don’t invest – and never have invested – in straightforward retail businesses such as supermarkets, so in some respects we are agnostic about the fate of physical stores. But my imagination was caught by the idea that physical retail is not dead but merely undergoing a metamorphosis to become an advertising medium, and I believe this shift holds significant opportunities for the brands and content owners that we invest in.

The internet has fundamentally changed the consumer – the average person has a wealth of information at their fingertips and is more sophisticated than ever when it comes to his or her relationship with brands. People crave authenticity and are quick to reject anything that they perceive doesn’t fit that standard. And just as the consumer has changed, so digital marketing and ecommerce has changed the retailing landscape, offering up a wealth of new distribution channels – but also making the market crowded and more difficult for brands to distinguish themselves. Merchandising, i.e. the sale of branded items, has long been a way to leverage the value of entertainment content (such as Disney’s films and characters) but increasingly I notice that brands without underlying entertainment content are attempting something similar. More and more companies are using “experiences” in physical locations to deepen consumer engagement, telling the brand’s story in a way that isn’t always possible using digital-only marketing. In the words of Mr Stephens: “Visitors to a physical store are engaged with their surroundings in a way that is far more immersive and prolonged than any sponsored content online”.

Theme parks are arguably the original “experiential” stores, attracting visitors who will go on to spend on food, beverages and merchandise – but perhaps even more importantly who will forge a deeper connection with the content underpinning those brands. Last year our portfolio holding Disney, owner of eight of the top ten global theme parks by visitor numbers, improved visitor experiences across all Disney Store locations by using digital technology to bring the “theme park experience” into the store, e.g. streaming live events from the theme parks and holding in-store birthday celebrations with interactive Disney characters. The parks themselves also benefit from the superior experience offered by technology, as highlighted by the Themed Entertainment Association in its 2018 Global Attractions Attendance Report: “The level of immersion that our industry is now able to deliver is other-worldly, thanks to digital technology.” I also note that in 2018, Disney’s “Consumer Products and Interactive Media” reporting segment was merged with “Parks and Resorts” and renamed “Disney Parks, Experiences and Products”, in recognition that as digital continues to blur the line between content and brands, it makes more sense to consider these segments together. And another of our portfolio holdings, Nintendo, is on track to open Super Nintendo World at Universal Studios Japan by 2020 – a ringing endorsement of the resonance of its video game content.

Another example of brand value underpinned by content are the football clubs in which we invest (Celtic, Juventus and Manchester United). People pay to watch games on television and travel to stadiums for live matches, but I think it’s also important that a significant number of fans are willing to pay a substantial €15 charge to visit the Juventus Museum in otherwise sleepy Turin, northern Italy. The museum saw its millionth visitor in 2018, after only 6 years of operation – to us this underscores the profound loyalty these clubs command, and the fact that fans seek out ways to engage more deeply with their history and heritage in addition to enjoying the spectacle of sport.

Disney, Nintendo and sports franchises have always been underpinned by their entertainment content and IP, but the best quality branded products can exert a similar pull on visitors. Heineken, another of our holdings, opened its old Amsterdam brewery to the public in 1991 and rebranded it as the "Heineken Experience" in 2011, at which point visitor numbers were 530,000. By 2018 it had attracted 1.14m visitors – that's an annualised growth rate of nearly 9%. Each of those visitors paid for a ticket (at the not insignificant cost of €18) and then spent roughly two hours of their time learning about the provenance, heritage and quality of the Heineken brand – certainly a more prolonged advertising opportunity than the mere seconds the eye generally lingers on an online advertisement.

The idea that the consumer has actually paid for a ticket – that he or she wants to be there, driven by an interest in a brand which can then be deepened by experiential engagement – is a key one, I think, as only the most compelling brands will be able to attract visitors at all. But when they can, the results are extraordinary: on holiday in Kentucky this summer I visited the historic Woodford Reserve distillery (owned by our holding Brown-Forman), Bulleit (owned by our holding Diageo), and Maker's Mark. At each location I was struck by people's enthusiasm to experience these brands, whose value lies in their history, heritage and provenance as well as the taste of the product – although the latter was also addressed with a generous tasting session at the end of each tour, which confirmed the wisdom of my decision to base my holiday destination on our investments. This is hardly niche tourism, either. The pull of these distillery experiences has been strong enough to transform tourism in Kentucky, growing the number of visitors to Kentucky distillers 63% between 2015 and 2018, and increasing visitor spending in the state 21% between 2013 and 2018.

On the subject of other premium beverage experiences, I recently wrote about Diageo opening its very first "experiential flagship Johnnie Walker store" in Madrid. I won't dwell on this again other than to add that as of May this year, approval has been granted for a brand new seven-floor Johnnie Walker "visitor experience" in the heart of Edinburgh, which will connect with Diageo's 12 existing Scottish distillery visitor attractions, plus the upcoming re-openings of Port Ellen and Brora distilleries following a £35m investment. And Diageo's CEO, Ivan Menezes, told us that a key piece of marketing for Guinness in the USA is the opening of an "experiential brewery" in Maryland, much like the Guinness Storehouse in Dublin (itself the most visited attraction in Ireland with 1.7m visitors in 2018). This will hopefully capitalise on the fact that, in Mr Menezes' words, "people are willing to drive 6 hours to go to beer experiences"!

But what about brands which lack this history and heritage? Launched only in 1989, Unilever's premium ice cream brand Magnum can't boast the 154 year pedigree of Johnnie Walker, yet it has still translated incredibly well into a physical brand experience in the form of pop-up Pleasure Stores, which give consumers the chance to customise their own super-premium Magnum. These pop-ups have become something of a global phenomenon: since the 2012 opening of the first Pleasure Store in Paris there have been temporary locations in major global cities including London, Rome, Seoul, Istanbul, Sydney and Singapore. Clearly these present an opportunity to sell Magnums – London's 2016 location took the crown of "most successful Pleasure Store" with 23,600 Magnums sold during the 4 month campaign – but this is a drop in the ocean given that Magnum is a brand with €1bn+ revenues per year. (Unilever don't disclose exactly how many Magnums they sell per year, but with a retail price of around £1.24 each, one can work out that the figure must be north of 600 million!)

Really, these Pleasure Stores are also interactive, real-world advertising media which arguably do much more to instil the brand in the minds of consumers than a brief digital advertisement. And customers are encouraged to feed back into the advertising loop with their own photographs and social media content: on a personal visit to London's 2019 store in Piccadilly (between the bourbon and the ice cream it's a hard life investigating our investments) I discovered built in booths for customers to photograph and Instagram their Magnum creation, a clever way to digitalise a physical brand and once again cement the association between brand and content. It has to be acknowledged that running experiential locations is more capital intensive than digital marketing – in total, Diageo is initially investing over £150m in its Scotch whisky destinations – and that only brands with a high enough selling price, or those which can increase sales sufficiently in volume terms from the "brand halo" of premiumisation, can realistically benefit from this approach.

The beauty and cosmetics industry has plenty of these brands and is in many ways the most interesting melding of digital, physical, content and brand. In ecommerce's infancy naysayers argued that women would never want to buy new cosmetics before being able to try them, but growth statistics for beauty ecommerce have proven this untrue: in 2017 the US online beauty category grew 23.6%, outpacing the overall 15.6% growth rate in the broader US ecommerce market. Ecommerce represents an enormous opportunity for cosmetics companies as their products are small, light and easily shippable, and colour cosmetics are perfectly suited for showing off on social media and digital marketing. But cosmetics resembles luxury fashion in that consumers still seek a tactile, physical experience. (Again, I've written about this recently but it's worth reiterating – even as Burberry reduces its physical store footprint in response to ecommerce growth potential and a need to improve brand image in the USA, CEO Marco Gobbetti has stated that the brand will never be digital only, as the flagship stores retain their power as a marketing tool and a beautiful showcase.) I find it telling that Piper Jaffray's recent survey of 8000 teenagers with an average age of 16 showed that 80% of teens surveyed said they get their beauty tips from influencers, but 90% of female teens preferred shopping for beauty in-store vs. online.

Take Glossier, a US digital native skincare and makeup brand founded in 2013 that enjoyed a 275% growth in internet sales between 2017 and 2018. It's a private company, but I think a very interesting demonstration of the need for cosmetics brands to marry the on and offline worlds. After opening numerous pop-up locations, the brand opened its first permanent store in New York in 2017, reporting monthly visitor numbers of 50,000. Its first London pop-up store saw in excess of 10,000 visitors in a single week and queues forming at the door (perhaps reminding one of a Disney theme park!). Women certainly will buy a mascara online. But there is clearly still a demand for physical, tangible experience within beauty – Glossier CEO Emily Weiss describes the business as "an experience company. We create digital experiences, we create physical product experiences, and we create offline experiences."

We've written before about our admiration for Shiseido's ongoing digital transition (8% of global sales and 26% of Chinese sales originate from ecommerce; the company has a target of 15% overall by 2020). But I am pleased to see that, like Glossier, the company recognises its consumers' appetite for fresh, modern and digital physical experiences and has followed in the footsteps of many luxury fashion companies – including Prada, which toured China in 2018 with a series of "Prada Spirit" pop-up experiences, and Burberry, which has just announced a collaboration with Tencent to open a fully digitised Burberry store using Tencent's technology to connect customers' social and online lives with the physical store – and launched two pop-up stores in Singapore's Changi Airport. Both of these, the Shiseido Sense Beauty Pop-up and Shiseido Forest Valley experiences, feature "augmented reality" technology, and this May a three-day NARS (a colour cosmetics brand owned by Shiseido) event was held in London, allowing visitors to tap in and out of each room with a digital card which collected images of the user, then sent all the pictures to them at the end of the tour ready for uploading onto social media. On a permanent basis the recently revamped Shiseido Tokyo flagship store is carefully laid out as an "immersive loop" showcasing the brand, with products on the ground and first floor only and other floors devoted to offline-only experiences such as a skin care and makeup salon, a photo studio, a hairdresser and a café.

Physical locations won't replace digital marketing, but as an element of a wider marketing strategy they're an interesting development for many brands. The luxury industry has long recognised the importance of tangibility in building brand image, and this approach may now also bear fruit in many other industries. Heritage and history, a compelling brand story, a premium experience or even just that elusive sense of "authenticity" that people seek is more valuable than ever because it lends itself to experiential retail that dovetails into digital. At Lindsell Train we like brands and we like content, and with the advent of digital distribution I believe these two categories are starting to overlap. Managed carefully, bricks-and-mortar locations can be arguably more powerful advertising mediums than digital because the experience is drawn out over time. But in order for this to be possible at all, the brand has to be valuable enough to attract people to begin with, and have a selling price which makes the increased capital intensity worthwhile. On and offline, as always, only the strongest brands and content will win. And whether it's Heineken, Magnum, Johnnie Walker, Burberry or Shiseido, we are happy to be invested in the top class brands and content we think will thrive and grow in this new paradigm.

Madeline Wright, Deputy Portfolio Manager

Lindsell Train Ltd

Sources:

The Retail Prophet Doug Stephens on the Most Important Store Metric, Business of Fashion Podcast, 30 Aug 2019

Themed Entertainment Association Global Attractions Attendance Report 2018, TEA.org

Number of visitors to the Heineken Experience in the Netherlands 2011 to 2018, Statista, 7 November 2019

Kentucky Bourbon Tourist Numbers Continue Their Astronomical Climb, Tourism Economics and The Whisky Wash, 14 February 2019

The Guinness Storehouse is still the most popular tourist attraction in Ireland, The Journal, 1 January 2018

Diageo submits plans for flagship Johnnie Walker visitor attraction in Edinburgh, Diageo, 12 Feb 2019

Winner of No. 1 Magnum Pleasure Store in the world!, McCurrach 2016

Beauty retailers grown US online sales 24%, Digital Commerce 360, 26 December 2018

Burberry

Piper Jaffray “Taking Stock with Teens” survey Spring 2019 (gathers input from 8,000 teens with an average age of 16 years), Business Wire, 8 April 2019

Glossier’s Emily Weiss: We’re creating the Estee Lauder of the Future, Financial Times, 7 August 2019

The Essence of Experience At Shiseido The Store, INDESIGNLIVE.HK, 16 October 2018

Risk Warning

This document is provided for information purposes only and is intended solely for use by professional investors and advisors. Specifically, it is not intended for, and is not suitable for, those who would be categorised as Retail Clients, and it should not be relied upon by private investors.

Past performance is not a guide or guarantee to future performance. Investments are subject to risks and may also be affected by exchange rate variations. The investment value and income may go down as well as up. Investors may not get back the amount they originally invested.

The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).

"FTSE ®" is a trademark jointly owned by the London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under licence. "All Share" is a trademark of FTSE. FTSE does not sponsor, endorse or promote the content of this communication.

Opinions expressed whether in general or both on the performance of individual securities or funds and in a wider economic context represents the view of the fund manager at the time of preparation and may be subject to change without notice. It should not be interpreted as giving investment advice or an investment recommendation. No part of this document may be copied, reproduced or distributed to any other person without prior express written permission from Lindsell Train Limited.

Lindsell Train Limited
66 Buckingham Gate
London
SW1E 6AU
UNITED KINGDOM

Tel. 020 7808 1210
Fax. 020 7808 1229
www.LindsellTrain.comInfo@lindselltrain.com

Please refer to Lindsell Train's Glossary of Investment terms here.