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Store

In an internet age, why are companies pouring so much money into brick-and-mortar shops? Because the customers are still coming.



The recently renovated home and accessories floor at the Tiffany & Co. flagship store on Fifth Avenue in New York. PHOTO: TIFFANY & CO.



By

John D. Stoll

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The famous Tiffany building on the corner of 5th Avenue and 57th Street, where Audrey Hepburn's Holly Golightly mused "nothing very bad could happen to you" in 1961, may be the most enduring example of what retailing looked like before the Internet arrived.

So it's striking that the Tiffany [TIF -0.41% ▼](#) & Co. of 2018, faced with an onslaught of online commerce, is responding by making a big bet on that old store. It's investing as much as \$250 million in the 78-year-old flagship.

It turns out that all over the ravaged retailing sector, companies are rethinking the mantra that the future is digital, and pouring money into actual brick-and-mortar stores.

Target Corp. [TGT -0.16% ▼](#), for instance, has committed \$7 billion to upgrade operations, and while the Minneapolis retailer hasn't disclosed how much of that will go to improving physical locations, a spokeswoman said stores are an "incredibly important linchpin."

Why? Because the bulk of America's retail is still done the old-fashioned way. Target has consistently increased online sales, but ecommerce represents less than 6% of its revenues. Online sales are closer to 7% at Home Depot but under 4% at Walmart.

The fading relevance of onetime icons like Kmart, RadioShack and Toys "R" Us has taught executives that starving stores of investment is a recipe for obsolescence.

Tiffany & Co. Chief Executive Alessandro Bogliolo, hired to run the jewelry giant in October, is selling investors on his store-renovation message. Representing as much as 10% of the company's \$4.2 billion in annual net sales, the flagship pulls in as much revenue as Pinterest.

He's also working on the brand's image and appeal to younger buyers. He's overseen fresh launches like the new Paper Flowers line, a high-end fine jewelry collection.



Tiffany
commissioned
rapper A\$AP Ferg
to create a new

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Audrey Hepburn and George Peppard in 'Breakfast at Tiffany's,' 1961. PHOTO: EVERETT COLLECTION

of Tiffany's at
Tiffany's."

And Mr. Bogliolo
is aiming to
improve the

company's online presence. Tiffany products are now available via Alibaba's Tmall, Net-a-porter.com and Farfetch.com, in addition to Tiffany.com.

But ultimately, Tiffany lives and dies by the performance of 320 stores that deliver more than 90% of the company's revenue. "It's a magic place where as a customer you want to have an experience that is extraordinary," Mr. Bogliolo said Wednesday, sitting beneath a portrait of Charles Lewis Tiffany at the company's flagship.

To be sure, Mr. Bogliolo is not selling paper towels, T-shirts or other commodities that can easily be grabbed at the corner store or online. But Tiffany faces the same challenge confronting any of the traditional companies trying to better appeal to customers with changing tastes and a fickle appetite when it comes to how and when they want to shop.

Executives are coming at the problem in various ways, including acting more like Amazon. Walmart Inc., for instance, has bought up a bunch of online retailers and India's biggest online marketplace. Home Depot Inc. and Target have bought companies recently that enhance their shipping or digital retailing capabilities. Still, these companies remain as tied to physical stores as Tiffany is.

PricewaterhouseCoopers' annual Consumer Insights survey indicates store investments are justified. The firm started researching online buying habits in 2010 at a time when "it seemed people were buying from physical stores less often." In 2014 only 36% of respondents said they shopped at a bricks-and-mortar store at least once a week.

That is changing. By 2015, 40% of respondents reported visiting a physical store at least weekly. In this year's survey, the number was up to 44%.

Retailers are smart to better integrate the physical shopping experience with people's online habits, but now is not the time to give up on making stores better.

For proof, look no further than a new cafe that Tiffany opened at the flagship, which is painted in the familiar blue hue that dresses jewelry boxes. It accommodates about 40 people at a time. On Wednesday, more than 1,000 people sat on a internal waiting list hoping that a reservation would open up.

Mr. Bogliolo is committing between 1% and 2% of revenues to the Fifth Avenue remake over three years. The redesign had been proposed before he joined the company, but he put the decision on ice until he found his footing.

"It was the decision that was most worrisome, because a product or campaign you can correct, but if you do something like this wrong, it's wrong," he said. He finally took the issue to the board this summer, and has now deployed designers to update the store so it can better adapt to how shoppers will behave five or 10 years from now.

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The recently opened Blue Box Cafe on the fourth floor at the Tiffany & Co. flagship store in New York. PHOTO: TIFFANY & CO.

Among the benchmarks for the redesign are airports and theaters, both of which must excel at moving large groups of people through limited spaces. As part of the renovation, Mr. Bogliolo would like to address the amount of time a visitor waits to look at an engagement ring in the store.

“Queues are not part of the dream,” he said.

Write to John D. Stoll at john.stoll@wsj.com

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