Re-imagining retail

JARMANY

Contents

Re-imagining retail
Our blueprint to help retailers thrive in a difficult climate

Introduction

In tough trading conditions and threatened by low-cost, e-commerce-only entrants, many established retailers are losing the battle for survival. Some have pinned their hopes on regulatory reform, but this won't offer a long-term fix.

For retailers to thrive, they need to rethink what customers want and remodel their business to serve them in the best way possible. This may seem daunting, but the good news is that there has never been as much data on which to base these critical decisions. However, getting hold of this data to analyse it and derive actionable insight remains a challenge.

This paper examines the reasons why retail is struggling in 2019; how some organisations are bucking the trend; what companies must do to ensure survival; and why data is a key factor to unlocking business potential.

We hope you find this paper insightful. If, after reading, you think you'd like help becoming the data-driven retailer you need to be, we'd love to hear from you.

Tom Hunt
Director

1 Where is the high street in 2019 and how did we get here?

The high street may not yet be in freefall, but it's on a downward trajectory. 2018 saw stalwarts like Maplin, Evans, Toys "R" Us, and House of Fraser entering administration or company voluntary agreements. The owners of Homebase sold the brand for a pound to a restructuring firm, while profits at John Lewis dropped by 99% in the first half of the year, and in March 2019, the firm gave out its lowest partner bonus since the 1950s. Debenhams has issued four profit warnings in the last twelve months, while Marks and Spencer has closed a further 17 stores in a bid to shed 100 locations by 2022.

The effects are clear to anyone that cares to walk down a UK high street. Empty units are a familiar sight, as are charity shops, nail bars, market-trader-style popups, and takeaways. So, what is driving this downward pressure?

The rise of online

Some of the reasons for this slump are obvious, while others are more surprising. Firstly, the rise of online shopping has hit traditional retailers hard.

According to the Guardian, one fifth of all retail spending now goes through online channels.[1] Consumers value being able to buy whatever they want from the comfort of their desk, sofa, or smartphone. This has a compound effect. We visit shops less often, which means we visit our high streets less often, so smaller retailers, cafes, and pubs see less footfall and get less custom. This continues in a vicious cycle.

Our changing habits

Several societal shifts have also contributed to the current situation. We're more aware of the effect of over-consumption, so many shoppers prefer to buy less often, or buy second-hand goods. Online portals like eBay, Gumtree and Facebook have made it easier than ever to trade used goods. Younger consumers have come to value quality over quantity [2], and are more likely to buy better clothes less often than the disposable fashion and electronic items that have dominated since the 1990s.

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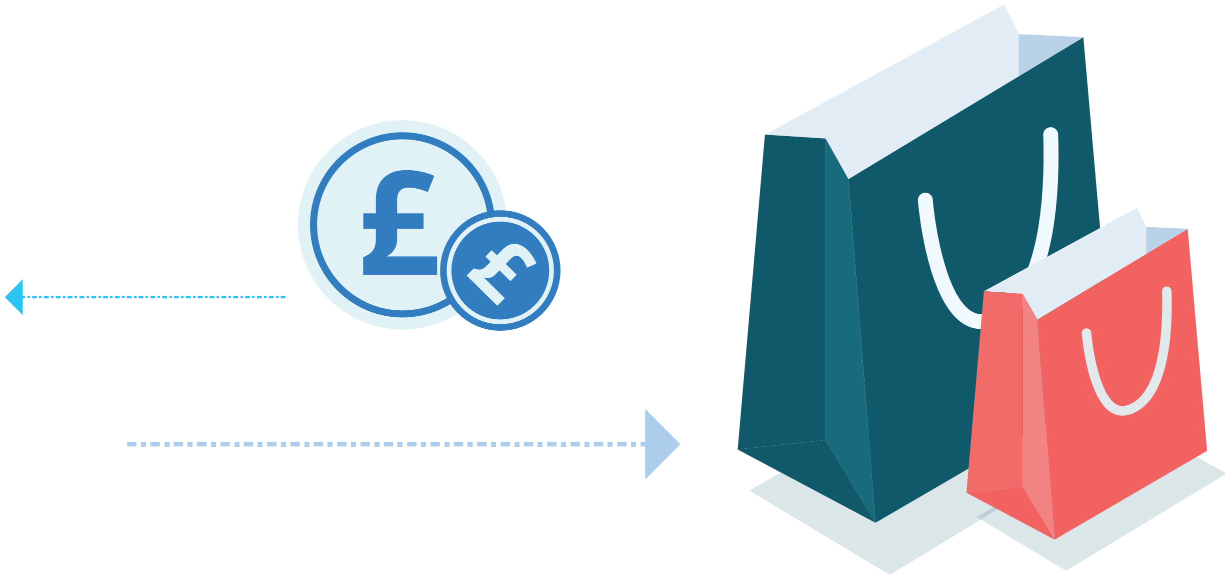
[1] https://www.theguardian.com/cities/ng-interactive/2019/jan/30/high-street-crisis-town-centres-lose-8-of-shops-in-five-years

[2] https://fashionunited.uk/news/fashion/millennials-prefer-to-buy-less-buy-better-buy-authentic/2018030328471



Millennials are also reported to be less materialistic than their parents [3], and are more likely to spend their money on experiences like eating out or holidays than on things.

The cost of doing business

Running a retail business is increasingly expensive. The value of the pound has faltered since the Brexit vote and shows no sign of recovery, making imports expensive. Retailers can also blame Brexit for the lower numbers of workers in the country, as EU visitors with uncertain futures have left for the continent. Finding skilled staff to replace them is not cheap. The minimum wage continues to rise, as do pension contributions, and the apprenticeship levy. Retailers with large physical estates also have a problem that online operators don't: business rates. In April 2019, rate increases meant a gross additional cost to retailers of £186.45 million, according to Altus Group.[4]

Short-termism

Retailers operate quarter to quarter. Many can't think much beyond the end of the week's trading. Keeping up with shifting consumer demands and providing quick returns to shareholders is a tricky business, which has led to a focus on immediate results rather than on long-term trends. And decades of short-termism are starting to show.

Retail also suffers from a lack of digital experience amongst its leaders. Traditionally, many of these have worked their way up from the shop floor – or come from buying and merchandising backgrounds. While they may be talented, hard-working, and knowledgeable about their sector, not enough have wider business experience or an eye on the technological, cultural, or economic trends that will impact their business five or ten years down the line.

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[3] https://www.forbes.com/sites/gregpetro/2018/08/19/more-debt-less-stuff-the-millennial-spending-dilemma/#2e0fbb06314d
[4] https://www.retailgazette.co.uk/blog/2018/10/retailers-burdened-another-180m-business-rates-rise-april/

2 Pressure points are the catalyst for re-invention

While the transformation is rapid and the challenges are large, it's worth remembering that retailers have a culture of adapting to change. It's just that this time around, they may have to make fundamental changes to their business models, rather than what they sell, where they operate, or how they take payments. And they need to act fast.

Rather than entering trading battles with e-commerce, there are big opportunities for forward-thinking retailers to react positively and proactively change. How they do this will vary according to each organization's circumstances, but they need to differentiate themselves from e-commerce pure-players by capitalising on their physical assets, brand, and customer data to create new experiences. Here are some of the UK's success stories.

Lush: what Amazon can't do

It's impossible to walk past a Lush store without noticing it. The spaces are packed with handmade, brightly coloured and vividly scented cosmetics from floor to ceiling. And while the company markets its products as a treat, and almost never discounts its stock, it offers cosmetics at a range of price points, meaning most people can afford to buy there. It's rated as one of the top private employers in the country, according to Indeed [5], and places a strong emphasis on the hand-made, natural, and ethical heritage of its wares. It doesn't sell products made by anyone else, and you can't buy its products in any other store.

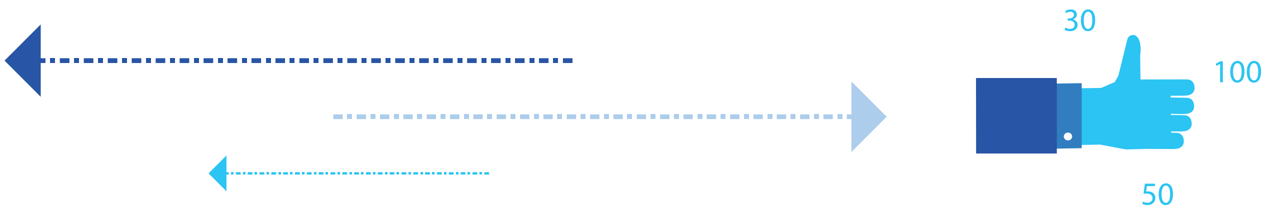
As a result, in 2018, it posted record turnover of £995 million, up from £729 million in the previous year.[6] Lucy Hooker of the BBC hit the nail on the head when she said: "A lot of retailers talk about WACD, or "what Amazon can't do". Lush is WACD." [7]

Lego: building a megabrand

Lego is not just a toy but a slick global megabrand that inspires a lot of loyalty from kids and kidults alike. It has recovered from a 90s slump by branching out beyond its traditional brick sets into licensed toys, computer games, education, robotics, direct retail, theme parks, and a series of films.

Few other in-store experiences tap into such a wide range of emotions. Lego appeals to everyone from the nerdy dad who wants a £650 Millennium Falcon kit

[5] https://www.independent.co.uk/life-style/best-uk-retailers-2018-john-lewis-employer-work-for-indeed-lush-a8245751.html
[6] https://www.insidermedia.com/insider/southwest/Lush-hails-record-turnover
[7] https://www.bbc.co.uk/news/business-43823810



to his four-year-old daughter who just wants a Hermione minifigure. In February 2019, the company announced 4% incr-eases in both sales and profits, with plans to open another 80 stores in China. [8]

Zara: integrated fast fashion

The Spanish outfitter consistently finds its way onto lists of retailers that are defying the downturn. It stays on top thanks to its vertically integrated model, meaning it makes many of its own clothes rather than buying them in. This means it can react faster to market changes – both in terms of style and volume. Retail analyst Kate Hardcastle told the BBC that Zara's speed to market lets it compete with the likes of ASOS not only on price, but on product, too.

Screwfix: tricks for the trade

This is a classic case of "know your audience". Screwfix has concentrated on its core market of tradespeople and tailored its in-store experience to match. Builders, plumbers and electricians need the right product as quickly as possible, and they're often on the move or on site, so being able to browse and buy easily on mobile is a must. Similarly, Screwfix has made an effort to get its click-and-collect times down to as little as five minutes – perfect for busy builders. Like-for-like sales were up 10.1% in 2018, with mobile sales up by 86% and click and collect by 38%.[9] Screwfix is opening new stores as a ferocious pace, and the company's IT system is also serving as a benchmark for the wider Kingfisher group, which includes B&Q.

Loaf and Made: a more relaxing way to furnish your home

These two furniture retailers both started out online and have since expanded onto the high street. Made.com's edge comes from its sourcing model, where it groups orders before ordering in bulk from overseas. Loaf simply offers high-quality furniture at a sensible price, marketed creatively. In 2017, Loaf's turnover was £33 million, a 28% increase on the year before. Made.com's sales grew 48% in the same period, while profits increased 58%. Both emphasise an innovative experience in-store, where customers are encouraged to enjoy the products in a natural way. They also foster popular online communities that share interior, design, and lifestyle ideas. And both firms make the shopping experience as simple and hassle-free as possible with user-focused channels and connected back-end systems designed from the ground up for 21st century shoppers.

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[8] https://www.bbc.co.uk/news/business-47388085
[9] https://internetretailing.net/themes/themes/mobile-and-click-and-collect-drive-strong-growth-at-screwfix-bampq-sales-decline-despite-online-growth-17458

3 Reimagine your retail business

In its rundown of the UK's 30 fastest growing retailers [10], PA consulting pointed out that successful businesses prioritise prosperity over profitability. We agree. They need to think beyond daily trading and sacrifice immediate return over long-term value.

But transformation won't come overnight, and there's no magic formula. Success will be based on hard work and an end to end strategy that considers all current and future pressure points while addressing the real needs of your customers.

We've identified six areas of focus. Not all of these will apply to everyone, but if retailers concentrate on nailing the ones that do matter, they will be in a better place to come out of this current downturn with a stronger business.

1. Develop a deeper understanding of your shopper

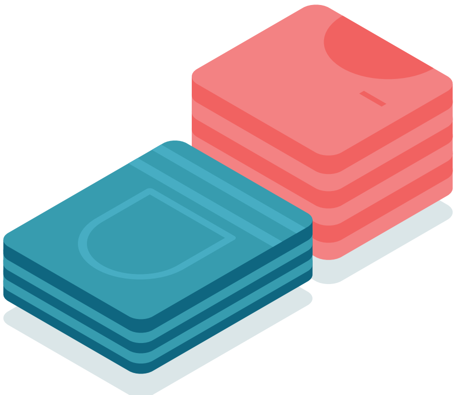
Think beyond what products your customers want and try to understand them as people. What are their long-term goals and what type of person do they want to be? What motivates them and what do they need to succeed?

Acquiring this knowledge means looking outside your daily operation where you may only interact with people on a transactional basis. You can use the wealth of data you do hold as a starting point to derive some insight about people through their shopping habits and test out some hypotheses. To take just one example, if people are buying less meat, is that because your prices are too high or because your customers are more aware of the environmental impact of the meat industry? And if so, what can you do to meet those customers' needs?

2. Integrate sales channels

The silos that exist between online and physical need to be destroyed. The two channels must help each other rather than compete. Some of the most successful online retailers have added bricks-and-mortar to complement their existing business, and conversely many traditional high-street brands have booming e-commerce businesses. Consumers shouldn't have to make a distinction between these channels when they shop, but they do – and it's usually down to cost and convenience. Either

[10] https://www.paconsulting.com/insights/who-are-the-uks-top-30-growth-retailers/



they want a specific thing they can only get online, or they need an object *right now* which they can only get in town. And buying online is usually cheaper, unless postage costs make it prohibitive.

Retailers need to put the effort in to smooth the transition between their channels so consumers don't have to make those choices.

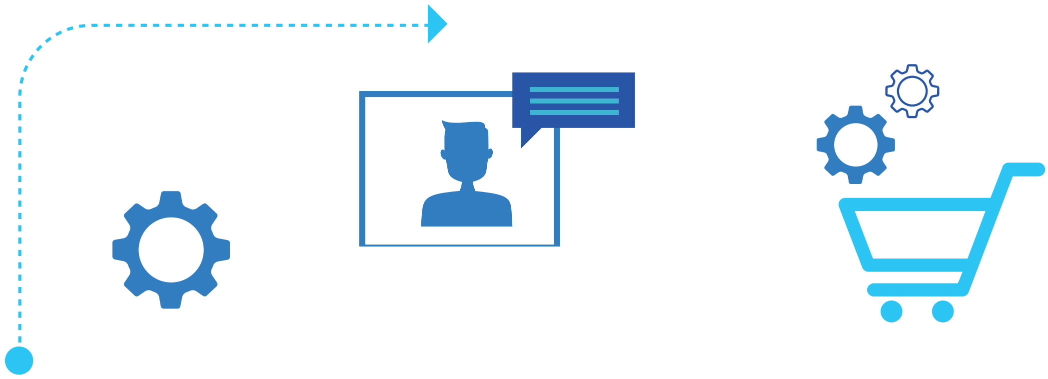
3. Establish a 21st century organisational structure

Too many traditional retailers are still managed and led much as they were last century. Decisions are dominated by sales, buying and merchandising, with eyes firmly on weekly and year-on-year figures. This approach means organisations rarely take the time to look around them at the wider issues we've discussed in this paper. Monitoring sales figures is useful, of course, but tracking them as they slowly dwindle won't help any organisation turn a declining business around.

Retailers need to shift the power dynamic of their organisation to give customer experience and technology decision-makers more influence over direction. When we talk about innovations that will help physical stores differentiate over e-commerce, most are enabled by emerging technology and serve to deliver a customer experience that online shopping can't replicate.

Smart mirrors, for example – which show shoppers how they would look in any item – deliver a rich, immersive, and convenient experience to the consumer. But they also mean that stores have to carry far less stock, so orders can be fulfilled from a distribution centre once the shopper has chosen what they want.

Or take smartphone-enabled grocery shopping, where our devices act as a personal assistant to help us scan, pay, and search as we browse. Supermarkets can use these new streams to personalise the experience to make it more convenient, as well as making their operation more efficient. Speaking



to Retail Week, former Asda boss Andy Clarke predicted a service where staple items like toilet rolls, beans and washing powder won't have to be on display [11]. These can be bagged up based on the customer's predicted need and handed over as the shopper leaves the store, or delivered from a distribution centre, leaving more space in store to showcase fresh items, run a cafe, or for experiential space like cooking demonstrations or classes.

Ideas like these come from people with the time, freedom and know-how to dedicate to innovation, not from people tied to product lines, spreadsheets and distribution systems.

4. Create seamless supplier relationships

Transactional relationships with suppliers have to become open-book partnerships that look to unlock consumer wallets whilst managing costs together.

In a 2016 report [12], KPMG predicted that retailers will move away from a forecast-led supply chain to a demand-driven one.

As consumers become better informed, their needs are becoming more niche, and therefore more difficult for supply chains to fulfil. On top of this, consumers have come to expect to have their chosen items in their hands quickly – whether that's through online delivery or by having the right stock in stores.

Transparency and trust between retailers and suppliers is paramount, and the first step to this is sharing data. By integrating suppliers into your management information systems, you can better manage the flow of goods together to meet customer needs and ensure that both businesses are mutually profitable.

5. Improve planning and forecasting

Having too much or too little stock in the wrong places will destroy traditional retail. Online pure-play operators have a distinct advantage – they only fulfil an order once a customer has placed it. But, as we've already covered, new technology is providing ways for retailers to drastically reduce the need to carry stock in store.

[11] https://www.retail-week.com/analysis/retail-reimagined-welcome-to-the-supermarket-20/7029477.article?authent=1
[12] https://assets.kpmg/content/dam/kpmg/pdf/2016/06/The-future-of-retail-supply-chains.pdf

If, as some predict, retailers will reallocate space away from displaying stock and towards experiential marketing, the need to have items available to deliver from a distribution centre takes on critical importance.

KPMG estimates that demand-driven supply chains can boost sales by up to 4%, lower operating costs by up to 10%, and reduce the amount of inventory by up to 30%.

However, retailers will have to get better at gathering and analysing big data to predict and fulfil customer needs. KPMG found out that this has helped improve planning accuracy for new stores by 93% at leading retailers.

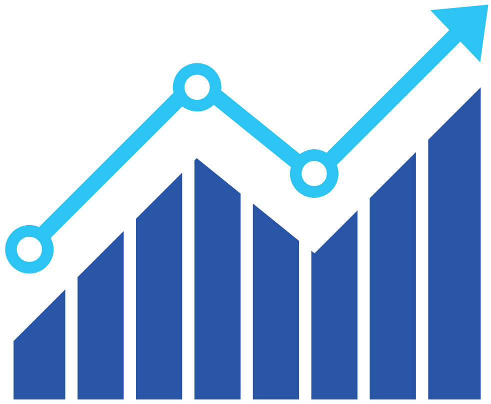
6. Deliver continuous improvement at speed

Online-only retailers have the advantage of agility. They lack the legacy of physical branches, as well as the legacy of embedded thinking, processes, and IT systems. Most of them were born in the web era, and many were born in the cloud, meaning they have a culture of innovation and change. Their businesses exist as code on a collection of servers, and that code is tweaked every day to eke out the best performance for the business.

They can make changes instantly if campaigns don’t work. Continuous testing and improvement means these companies are never satisfied with business as usual. And they make sure that their data is accessible, analysable, and up-to-date across the organisation.

Getting on top of data across the organisation to drive timely and effective changes through multiple channels will be more important than ever.

4 Data is the key



This is all very easy to talk about but much harder to make happen. But there is one consistent key enabler across all these transformative opportunities – data and its effective use.

The retail industry is unrecognisable from ten years ago, but the way companies manage and use data has not changed much. Making advances in this area is vital if brands are to beat the slump and develop a deeper understanding of their shopper, integrate their sales channels and deliver continuous improvement at speed.

Everything must start with data

At Jarmany, we believe that retailers like any business, must start from the beginning. Data shouldn't simply be an add-on once strategies have been developed and plans are in place, it should be central to the development of a business strategy and designed to drive its successful execution.

Ask yourself: To understand your shoppers better, what data should you collect? How can you configure a data architecture to allow seamless integration between online and offline? How can you automate or digitise activities to drive efficiencies, minimise errors and optimise decision making at speed?

Drive change from the top

These are the sorts of challenges the successful retailers described earlier have managed to tackle. Granted, they are big, difficult challenges, but they must not be ignored in favour of quick fixes. Trying to do this piecemeal, within functional areas, is impossible. It has to be driven from the top, with C-level decision makers taking accountability.

Deliver value little and often

But this doesn't mean embarking on a long multi-year change programme that doesn't deliver any immediate benefits. Given the pace of change and short-term commercial pressures, few retailers can stomach that kind of delayed result. Success requires an agile approach, delivering short term benefits as soon as possible without forgetting the more strategic longer-term re-positioning of data in the business – something our four-week 'Retail Data Ready' assessment programme can help with.

5 What next?

Retailers may feel bombarded by challenges from all sides: online competition, changing consumer habits and tough economic conditions. But there are businesses trading successfully today that can serve as role models for the sector.

To turn the corner, retailers must re-think what consumers need, how they can provide that, and where they can find efficiencies. Data is the common thread running through these transformative steps, and an ambitious data strategy will be the difference between success and failure.

Our proven structured approach, using the 'Retail Data Ready' framework, is a great way to quickly identify what current issues are, define the root causes and identify how to deliver the necessary changes over time with a view to delivering both the short and longer term wins. We're data experts, so we can help you look above the day-to-day and identify how the more effective use of data can help your business re-imagine itself and deliver success over the next five years.

You can see for yourself how we do it. Whether it's **predicting sales by channel**, **driving online conversions**, **consolidating siloed data sources**, or **understanding customer preferences**, we've helped companies in all industries make better sense and use of their data.

Get in touch to discuss how to become the data-driven business you need to be.

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