AlixPartners

Retail
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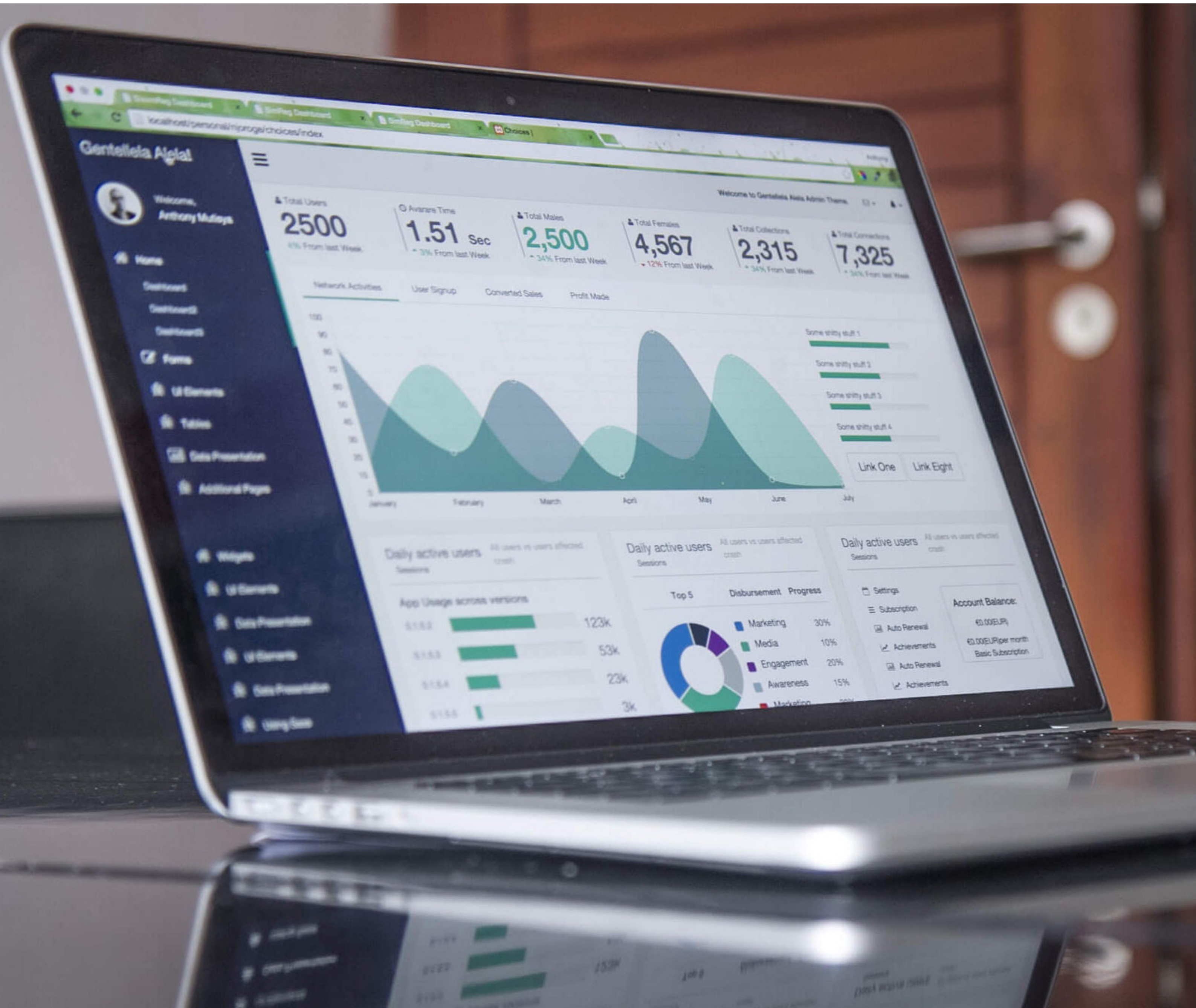
RESILIENCE IN RETAIL

How a fresh look at data could hold the key to redefining and re-engineering retail businesses



It’s a tough world for retail businesses today. Rising business rates and labour costs, the increasing power of the consumer to dictate price and demand, and digital savvy competitors are all causing major headaches for traditional retailers across Europe.

Middle-market high street retailers and department stores – particularly those without a clear value proposition or those susceptible to online pure-play due to a legacy of underperforming stores in secondary locations – are starting to face tough competition.

In the UK, the high street is going through apocalyptic changes. Historical retail powerhouses such as Homebase, New Look and Mothercare have been forced into restructuring deals and HMV has fallen into administration, while other household high street brands, from Toys R Us to Maplin, have simply disappeared.

However, while e-commerce hits traditional stores hard, many already possess the tools to start the fight-back – often without realising it. While they may not have the nimble online-only infrastructure of newer competitors, they are able to harness an enviably rich set of data. This data can provide invaluable insight into a number of areas such as customer behaviour, staff and store footprint efficiency and the effectiveness of distribution channels – and could provide the starting point to reclaim the retail landscape.

In an increasingly digital retail market, the use of smart data-driven insight to inform business decisions could mean the difference between survival and failure. The good news is that most retail businesses are already sitting on a gold mine of data gleaned from transactional behaviour, customer loyalty schemes and operational analytics. They just need to learn how to use it to their advantage.

SMART USE OF BIG DATA COULD HELP RETAIL BUSINESSES:

- Negotiate better deals with branded goods suppliers
- Make smarter decisions for stock assortment and storage
- Create a full picture of staff efficiency and organisation structure
- Transform a store or network’s physical footprint for maximum impact
- Tackle the growing complex issues about online stores and distribution
- Harness the benefits of retail’s offline experience to build a strong digital presence

Improve negotiations with branded goods suppliers

Managing product lines with a large proportion of branded goods has historically been a challenge for high street retailers. And with today's online competitors such as Amazon offering reduced prices and near immediate delivery on branded products, this challenge has grown.

Suppliers of branded goods have long had the upper hand in commercial negotiations, thanks to the emotional power of their brands and customer expectations that retailers will sell these named goods at competitive prices. Shoppers are also becoming more savvy, with 82% of smartphone users[1] consulting their phones before committing to an in-store purchase. This leaves traditional retailers stuck between a rock and a hard place when it comes to pricing.

This is not a new challenge. Buying and merchandising teams have always sought to improve gross margins through category management and private label expansion. The difference today is that retail brands may actually have an ace up their sleeves. The huge amount of customer insight they possess – often gained through transactional data and loyalty card schemes – can be used as an asset in negotiations with branded suppliers.

Think of all the customer insight that brand suppliers would love to get their hands on – from what time of year, week or day their brand sells best, to what effect store location has on the item's attractiveness to buyers, and even which competitors are beating those brands on price. All of this data-driven insight is an invaluable tool when negotiating and could save buyers within retail businesses significant costs.

Quashing myths around stock ordering

In an ideal world, retailers would stock everything their customers might want. While this is of course not feasible in a bricks and mortar retail environment, online shop fronts can give the impression of doing so. So, how do retail stores compete, and cater for choice in a sustainable way?

A retailer's job requires the ability to predict what customers want, when they want it, and to negotiate a price that will attract customers while returning the maximum profit for the business. Historically, buyers within the retail organisation might have made some ranging decisions based on gut-feel judgments and what has worked for them in the past. For example, the idea that stocking particular low-profit items causes associated purchasing of higher profit items.

In this case, a store may stock a large range of low-margin items, based on the idea that when people come in specifically to buy them, they will also purchase a higher-margin item. The logic may be sound in some cases, but, with today's data-driven tools able to read the transaction data from millions of purchases, we can finally make these decisions based on hard evidence. In many instances, we've found it is usually not the case.

Many retail stores also may not fully understand the true profitability of their stock, failing to consider the costs associated with storing lower profit items, or whether items have a short shelf-life – both in terms of perishability (e.g. food, pharmaceuticals) and time-sensitive desirability (e.g. fashion, new electronics).

Understanding exactly how stock is performing – and how elements in a range perform together – is all achievable with smart statistical analysis of transactional data which retail businesses already possess. In this way, data transforms hit-and-miss guesswork of stock purchasing into an incredibly powerful, intelligent tool.

1. Bazaarvoice, ROBO Economy Study, 2018

Unlocking retail's people power

Often one of the first outward signals that a business is in financial trouble is a cut in staff numbers. In the UK, the Centre for Retail Research reported that nearly 150,000 retail jobs were lost in 2018, and predicted many more to come. While Europe isn't yet experiencing loss on the same scale, alarm bells are starting to ring as the massive German upmarket department store, Kaufhof cut 2,600 jobs as part of a merger with Karstadt, with a further 4,000 to 5,000 staff jobs threatened.

While reducing headcount is one way for companies to quickly cut costs, without adequate long-term planning, it can often result in additional strain being placed on remaining staff and fails to tackle crucial inefficiencies. It's about knowing the right solution for the business.

A different approach to headcount reduction is a 'return on invested labour' (ROIL) approach, when a company assesses its in-store staffing levels using detailed customer transactional data to provide insights into optimal resourcing levels. These insights can be fine-tuned all the way down to department level, and for different parts of the day. This approach doesn't look simply at reducing staffing, but precisely pinpoints sub-optimal labour resourcing, and where significant sales are being lost, enabling smarter resourcing decisions to be made.

We use ROIL to make sure labour is correctly 'invested' in areas and times of the day where there are customers to serve. This approach provides greater visibility of where a retailer can put on more staff and cut back in areas or times of day where footfall does not justify the investment.

This is also true when applied to corporate management, using tools to effectively map out how a large retail business is structured and rapidly identify inefficiencies, which can be tackled swiftly and smoothly.

Transforming the retail footprint

Today's successful multi-channel retailers require agile organisation coupled with a lean footprint. However, most retailers find it difficult to even begin evaluating their network, which often involves the integration of operational, financial and strategic factors, as well as an understanding of country-specific legal constraints.

The main challenge for retailers is getting full value from their store portfolio. Stores will not go away completely – they just have to work in concert with the wider offering. The aim is to make stores more of a destination for customers and a means to fulfil orders that come in from other channels. For businesses, the challenge is to decide which stores to keep and what their role is.

Insights from network-wide transactional data can help redefine a retailer's footprint - from the number of stores needed to maximise purchasing power, to their location and even the most effective store layout.

Rethinking distribution challenges

According to a recent Nielsen report, e-commerce is growing four times faster than traditional sales channels, prompting a transformation for legacy retail businesses as they attempt to broaden their customer base to digital platforms. However, it is not simply the online presence of a brand that matters – it is the full shopping experience, from product selection to the all-important distribution.

Omni-channel retail has raised the bar in operational complexity. Many non-digitally native retail businesses are struggling with the need for on-time, cost-effective order fulfilment as part of their ecommerce platforms.

A key factor that retailers must consider is cost transparency. For example, what each delivery costs per item, what is variable and what is fixed; the relevant KPIs in understanding cost drivers; and automation and scale. Most retailers do not have the resources to both manage this effectively and have agreements with outsource providers.

Through ecommerce, retailers are also seeing a dramatic increase in micro-orders in particular – often pushing for same or next-day delivery – and an influx of returns, necessitating a higher volume of reverse logistics.

Reverse logistics are also a major consideration, particularly for apparel retailers, where as a rule, customers order several sizes or colours and send back what they don't want. The logistics set-up has to reflect this fact and to be organised to allow customers to make returns seamlessly. Any system must also be scaleable, so as volumes go up, logistics costs go down as a percentage of sales.

Analytics can be used to run multiple scenarios to provide the best bespoke distribution solution for any retail business.

THIS COULD RESULT IN A COMPLETE OVERHAUL OF A RETAIL NETWORK'S DISTRIBUTION FOOTPRINT, INCLUDING:

- Using logistics hubs with smaller 'infill' urban warehouses
- Leveraging shared logistics synergies
- Pooling last mile concepts
- Improving in-store picking processes

GDPR could be retail's best friend...

In a post-GDPR world, many digital-only businesses may be hitting their first stumbling block as their marketing channels go from being 'opt-out' to 'opt-in'. While the jury is still out on the long-term effect the regulation has had on digital businesses, many may find that they have fewer opportunities to reach new customers.

But this change to the use of customer data is opening a window of opportunity to traditional retailers, who suddenly have an advantage over their online competitors. They don't rely only on digital marketing but have a physical high street presence that can be used to attract new business.

Many retail businesses are waking up to the wider value of experiential shopping, through the use of in-store promotions, unique experiences and perks. Something as simple as free Wi-Fi or coffee, in-store experiences, or loyalty programmes, can attract customers' attention, bring them into stores and build brand advocacy.

According to the Nielsen Global Retail Loyalty-Sentiment Report, nearly two-thirds of respondents in Europe say they belong to one or more loyalty programmes, with 67% stating that they shop more frequently and spend more at retailers with loyalty programmes.

Luxury French make-up brand Sephora has long reaped the benefits of this, launching its tiered rewards programme – Beauty Insider – in 2007. Today, it boasts more than 17 million loyal members, who contribute around 80% of Sephora's annual sales. As well as earning redeemable rewards, members can also claim free beauty classes, makeovers and consultations, offering shoppers a huge incentive to visit stores in person.

Programmes like these not only work as a means of increasing footfall, they also enable the capture of GDPR-compliant data that can then be fed back into digital marketing campaigns.

CLEVER DIGITAL MARKETERS CAN USE THE DATA GATHERED TO FORM INSIGHTS AND DRIVE TARGETED DIGITAL ADVERTISING, RESULTING IN:

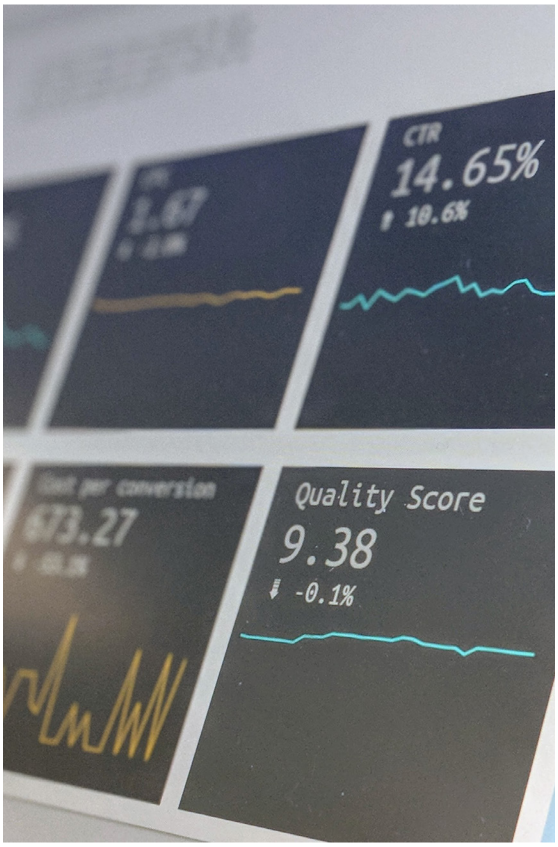
- Increased return on advertising and promotional spend
- Uplift of revenue on digital platforms
- Improved allocation of marketing spend across channels and promotion spend across sites
- Improved online and in-store traffic
- Enhanced user experience and personalisation
- Developed pricing strategies suited for omni-channel requirements

Supermarket chain Tesco, for example, which was one of the front-runners of the reward card programme, has been running its Clubcard reward scheme since 1995. Today, the company reports having over 16 million members, which is an enormous set of demographic and transactional data the company is using to its advantage. Four years after an accounting scandal hit the company, it recently announced a 28% jump in profits despite an 'uncertain' market.

Moving forward

As the retail landscape continues to change, businesses must increasingly use the power of the information that they already own to stay ahead. From a deeper understanding of customers' shopping needs to reorganisation of the business structure, unlocking transaction and operational data offers invaluable insight to help retailers stay relevant in a rapidly evolving environment.

While the business landscape is undoubtedly tough, there are many opportunities for retail businesses to harness the power of the data they already have to make significant improvements and savings - to not only survive, but to flourish.



HOW ALIXPARTNERS CAN HELP

We use a combination of experience, expertise and industry-leading tools to advise retail businesses on the best way to use data to drive operational and commercial advantage:

- Our Merchant Workbench™ tool ingests billions of rows of transaction data to generate the insights needed for brand supplier negotiations. These insights can then help formulate win-win negotiation strategies, potentially saving between 5 to 12% on net Cost of Goods sold in categories with heavy brand penetration.
- To find the true profitability of retail stock, our team of experts delve into transaction level Big Data, helping clients to deploy their inventory in a strategic way. Our toolkit includes GMROI (Gross Margin Return on Investment) analysis by category, choice level analysis, performance comparisons by product attribute, breadth/depth of product choice by store group and tailored Buy Calculators by product rank and store group.
- When it comes to harnessing people power, our proprietary Organisation X-Ray Tool (OXR™) provides visual insights into the structure of a whole corporate organisation. The tool rapidly identifies any efficiency improvement opportunities across the whole business structure and comes up with possible solutions in days rather than weeks.
- Our dynamic evaluation and forecasting model platform – or Store Rationalisation Model (SROM™) – provides pragmatic recommendations to retailers with diverse store footprints, even those exceeding the 1,000-store and €6 billion revenue mark.
- When facing the complex challenge of multi-channel distribution, our GenLO™ Cloud Logistics Optimisation platform and Supply Chain Diagnostic Benchmarking tool quickly identify key areas, potentially cutting up to 25% on distribution costs and 30% of inventory.
- We blend pricing, promotion and marketing expertise with advanced decision sciences and cutting-edge tools to create and execute effective pricing strategies across all digital marketing channels and promotion programmes, increasing return on advertising spend by up to 20%.

AlixPartners

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.