



**Retail
Week
REPORTS**

In association with

Kurt Salmon 

Retail 2015

**Definitive intelligence on the state of the industry,
from the leaders in UK retail**

RETAIL WEEK FOREWORD



LAURA HEYWOOD
COMMERCIAL EDITOR, RETAIL WEEK

In the not too distant past it was retail entrepreneurs and start-ups that were the chief proponents of the ‘fail fast, fail often’ mantra. Admired and criticised in equal measures by the retail industry’s more traditional stalwarts, they were the giddy risk-takers that had the freedom to simply give things a go. If it didn’t work, they learned from it and swiftly moved on.

The result? A dazzling array of new products, services and retail concepts that got to the heart of what the customer wanted. But it’s no longer just entrepreneurs, unconstrained by the need for board approval or without convoluted investment cases to make, that are being granted the opportunity to fail quickly and as often as they like in their bid to bring shoppers what they want.

Just look at the digital and tech innovations coming from the likes of John Lewis, Argos, Shop Direct and Tesco – these are all traditional retailers embracing the start-up mentality and piloting something new.

Trials don’t have to cost the earth and they don’t have to involve months or even years of planning. Implement them with minimal fuss or in small numbers of stores, and if they work then that’s the strategy to seize upon. This culture of innovation and experimentation is what’s set to characterise the next 12 months. Retail businesses – whatever their size or heritage – are recognising that adopting the fail fast attitude to digital technologies is a strategy for long-term success. The more they experiment, the more chance they have of hitting on the one idea that takes off.

As the chief executive of a fashion retailer perceptively puts it during an interview for this report: “Retailers that have innovated and done different, new things will be the ones who succeed. It will not be a steady market of steady growth; there will be extreme winners and extreme losers.”

In fact, in every in-depth interview carried out with retail chiefs for *Retail 2015*, the message that long-term growth will result from being agile in their approach to innovation and open to failure is loud and clear. At the heart of this view is the desire to deliver what the customer wants, and everything retailers are prioritising – from mobile and better leveraging of big data, to achieving a single view of the customer and stock – is structured around this.

Those leading UK retail have revealed in no uncertain terms that the innovations being shown in areas such as mobile retailing, tailored marketing through social media and customer delivery underline that being customer-led and service orientated is what it takes to survive in this constantly evolving environment. The retailer mission couldn’t be clearer – innovate in these areas and consumers will keep coming back for more.

Standing at the precipice of a new year, it’s the most important time to put your customer first. As this report shows, consumer confidence is faltering as shoppers continue to harbour uncertainties about how the economy is performing. Fail to act now and it could be hard to get these shoppers back on side when that confidence returns.

Discover how those leading the sector are planning to make headway in an environment of restrained consumer confidence and make sure you’ve got the crucial knowledge to move forward in today’s rapidly evolving multichannel market. *Retail 2015* is an invaluable window into this changing and complex new realm – one where experimentation and innovation trumps all.



**Retail businesses
are recognising that
adopting the fail fast
attitude to digital
technologies is
a strategy for long-
term success**



PARTNER VIEWPOINT



HELEN MOUNTNEY

MANAGING DIRECTOR,
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The phrase plus ça change, plus c'est la même chose – the more it changes, the more it remains the same – sums up retailing in 2015.

Little has really changed in retailing for hundreds of years. In fact, the top retailers will be looking to deliver a personalised service reminiscent of that offered in Victorian times. In that era, customers could walk into their local shop, be greeted by name, shown product pre-selected to suit their preference, perhaps fabric to be made into a bespoke outfit by a knowledgeable sales person, who could organise payment and delivery with little fuss. Sound familiar?

Despite the evolution of retailing, the tenets – right goods, right price, right time, right location, focus on the customer – still hold true and the overriding challenge for retailers are still the same: to run a dynamic business that offers excellent service to customers and profitably through stores. The devil is in the detail though of how you execute or operationalise your business. And we see three key elements to operationalising omnichannel: aligning the organisational structure, investing in the right technology and ensuring the supply chain is fit for purpose.

As such, in today's complex multichannel retail environment, I'm not surprised that only 5% of respondents surveyed for *Retail 2015* have completed their reorganisation to deliver an omnichannel ideal; what is significant is that 81% have made progress during the year – and the speed by which progress can be made will determine success both in the bottom line and in meeting customer needs.

However, delivering change in a large retail group is difficult, but absolutely necessary. The traditional structure of staff working in siloed departments is not conducive to delivering in a multichannel environment – in fact with this approach, failure is almost certain. Each operational function needs to be sharing information and working in a way that aligns with how customers shop.

The second critical step towards delivering a great customer experience has to be in investment in technology, be it mobile, front-end technology or back-end infrastructure. Retailers should be taking the best of a customer's online experience and seamlessly integrating it into their store offer. Of course, how this proposition is put together depends on the store format and type. The common thread should be that customers in store have visibility of the full online offer either via screens or in consultation with a member of staff with access to a tablet or iPad, who can organise delivery and payment and, using the store's free wi-fi, interact on social media.

Finally, the supply chain: meeting the demands of customers in the UK as well as abroad, combined with greater speed to market of in-demand products, has to be addressed. Knowing and implementing the best sourcing locations, or the best position for a distribution hub, as well as mastering myriad fulfilment challenges, from click-and-collect to ship from store for same-day or next-day delivery, are important for meeting the ever-increasing expectations of customers in a cost-effective manner.

It seems clear that 2015 will be another challenging year in UK retail: consumer confidence is fragile, and technology – and consumer expectations along with it – continues to develop at breakneck speed. Winning retailers will accelerate their journey towards an omnichannel organisation with the customer at its heart – and with the whole business working in one direction to deliver a consistent and compelling customer experience, whatever the channel.



Retailers should be taking the best of a customer's online experience and seamlessly integrating it into their store offer



The Benefit of Deep Expertise

In today's digital world, consumers not only want a seamless shopping experience, they expect it. With nearly 80 years of industry experience, Kurt Salmon can help you transform your businesses to achieve **omnichannel success**.



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EXECUTIVE SUMMARY

TODAY'S OMNICHANNEL APPROACH TO RETAIL



It is an indication of how the transformation to an omnichannel retail market is progressing that *Retail Week's* annual report on the state of the retail industry and the outlook for the year ahead has featured more discussion of omnichannel than ever before.

The reflections of the 25 retail leaders interviewed for *Retail 2015* show how omnichannel issues pervade every aspect of retailing, and inform every strategic choice or management decision – whether it relates to sourcing, logistics, human resources, delivery, customer service, marketing, store management or any other area of operation.

Moreover, this definitive report shows UK retailers are adroitly and successfully adapting, while simultaneously mitigating the disruption and upheaval caused by having to service multiple channels, and capitalising on the opportunities created by today's omnichannel retail world.

CAUTIOUS OPTIMISM

Had this report been published six months ago, the consensus outlook from the 25 foremost retail bosses exclusively interviewed might have been markedly more upbeat. Some believe the recovery was “called too early” but conditions have also worsened during

the second half of 2014, primarily owing to greater geopolitical instability, the continuing crisis in the Eurozone and the uncertainty created by the upcoming general election in 2015.

Nevertheless, a large majority of the retailers forecast an increase in retail sales in 2015, even if most only expect a slight improvement. However, they express concern that GDP and employment growth in the UK is not being reflected in a substantial uplift in the consumer mood, and this will constrain growth in the retail economy over the coming 12 months.

So, although 67% of the retailers believe the consumer mood is better than this time last year, they and their customers remain cautious. The retail chiefs believe that even where consumers do begin to feel better off, they may choose to pay down debt rather than spend.

The prospect that interest rates will begin to rise at some point this year is seen as one of the key factors affecting consumer behaviour. The lack of strong growth in earnings, despite the fact that wages growth finally nudged ahead of inflation this year, means growth in disposable income is sluggish at best.

Food and energy price deflation is seen as a posi-

tive for non-food categories. Non-food is expected to grow faster than food owing to ever more intense competition among food retailers and the fact that people eat out more as economies recover after recessions.

According to a consumer survey commissioned for *Retail 2015*, featuring the views of 1,000 shoppers, only 31% of consumers are more confident in the state of the economy than a year ago, while 46% say they feel no more financially secure than last year.

LOOKING TO THE FUTURE

Investment in mobile and multichannel integration are rated as the most important business priorities for 2015 by the retailers, with value, convenience and personalisation identified as the key consumer drivers.

Adaptation to the demands of omnichannel retailing is regarded a work in progress, as only 5% of the retailers say the process of restructuring their businesses is complete, though 81% have made progress on reorganisation during the year.

The retail heads' comments show how omnichannel is changing the retailer-customer relationship and communication. Retailers hold more

RETAILER SENTIMENT

84%

of retail chiefs forecast retail sales will be slightly or much better in 2015

67%

of retailers report improved consumer mood but remain cautious

19%

of retailers have a single view of both stock and customer, while...

57%

have a single view of their stock but not the customer

CONSUMER SENTIMENT

5%

of the 1,000 consumers polled say they are significantly more confident in the state of the economy than this time last year, while...

48%

feel the same

45%

feel the same level of financial security than this time last year, while...

17%

feel significantly less financially secure

INVESTMENT IN MULTICHANNEL

Voted as the most important business priority for the coming year

MOBILE

Ranks as the top omnichannel priority for 67% of retail bosses

OVERSEAS GROWTH

50%

say international sales have increased as a share of revenue over the past year

CLOTHES SHOPPING ONLINE

The top three most important factors are convenience, selected by 40% of consumers, cheaper prices (38%) and good photographs (32%)

FOOD SHOPPING ONLINE

The top three most important factors are convenience, voted by 34% of consumers, speed of navigation (30%) and lower prices (28%)

FREE DELIVERY IS A MUST

57% voted it top priority when shopping for clothes and 45% when shopping for food

information on their customers than ever before and utilising this effectively is seen as another key omnichannel challenge. The potential for targeted advertising, notably using social media, is an enticing prospect for the retailers, and recruitment of personnel with relevant technical expertise has increased as a result.

Customer delivery has become a dynamic area of the retail market thanks to the omnichannel revolution. Choice in delivery options for customers is broadening, both in terms of the 'when' and the 'where', as retailers seek to leverage their delivery service for competitive advantage.

In addition to targeted advertising and social media, retailers are also prioritising investment in

search engine optimisation, while the *Retail 2015* consumer survey confirms that speed of navigation is indeed perceived as a critical factor for customers when shopping online.

Half of the retailers report that international business has increased as a share of revenue over the past year, with rising online sales considered to be the primary catalyst.

Meanwhile, retailers are seeking to optimise their supply chains for the omnichannel environment. Delivery is by no means the only facet of supply chain management to be affected by a more demanding customer base. Speed and flexibility are viewed as critical in meeting raised consumer service expectations, while the *Retail 2015* consum-

er research shows that a large majority of consumers see sustainable sourcing as important.

The growth in click-and-collect underlines the evolving role for stores in the omnichannel retail world. Notwithstanding a prevailing view that retail space will further contract in 2015, the comments of the industry leaders concerning their retail estates are more positive than might be expected given the continued growth in online and mobile retailing.

In particular, they see good prospects for the regeneration of the high street as shopping behaviour and patterns change. Stores are seen as a vital part of the new omnichannel world, not the old order.

EXECUTIVE SUMMARY

CONCISE CONCLUSIONS

CHAPTER ONE THE OUTLOOK FOR RETAIL IN 2015

"There is growth in the economy but it is fragile growth"

- Outlook among the retailers brighter but concerns over economy remain
- 84% forecast retail sales will be slightly or much better in 2015
- Non-food sectors expected to be more buoyant than food
- Consumers seeking value and convenience
- Multichannel and mobile top investment priorities
- Personalisation and customer service seen as critical

CHAPTER TWO THE CONSUMER MOOD

"Confidence is slowly coming back"

- 67% of retailers see improved consumer mood but remain cautious
- 31% of consumers more confident in the state of the economy than a year ago
- 46% of consumers feel no more financially secure than last year
- Interest rates and low wages growth are key factors influencing consumer behaviour
- Frugal shopping habits die hard but consumers also demand value in broader sense

CHAPTER THREE PROGRESS TOWARDS THE OMNICHANNEL IDEAL

"I'm not fussed about knowing whether online is more profitable than stores; all I'm interested in is the business growing"

- Most retailers feel omnichannel is a work in progress
- 19% of retailers have a single view of their stock and customer
- Mobile is the number one omnichannel priority for retailers
- Better leveraging of big data is identified as an area of development

CHAPTER FOUR OMNICHANNEL AND THE CONSUMER

"The world is increasingly impersonal and customers are looking for businesses that treat them individually because that builds trust"

- Customer-centric approach seen as crucial
- Increased data allows for targeted marketing
- Social media increasingly valued
- Retailers prioritise search engine optimisation
- Consumer research confirms speed of navigation as critical factor

CHAPTER FIVE DELIVERING GOODS

"Whether it is about same-day delivery, next-day delivery, evening delivery, overseas delivery, you've got to offer what the customer wants and expects"

- Free delivery top priority for consumers
- Retailers compete on delivery choices
- Convenience more crucial than pure speed in delivery
- 'Where' often just as important to consumers as 'when'

CHAPTER SIX MANAGING STORE ESTATES

"The death of the high street has been called many times but I don't think that is really happening"

- Retailers expect contraction of retail space
- Trend towards smaller food outlets to continue
- Supermarket operators facing over capacity challenge
- Call for landlords to be realistic on rents
- Good prospects for high street 're-boot'
- Stores seen as part of the new omnichannel world, not the old order

CHAPTER SEVEN EXPANDING HORIZONS

"I think what we have seen is a breakthrough for retailers in terms of their ability to take their brands overseas"

- Half of retailers report rising proportion of international business
- Only 5% report diminishing share of revenue from international sales
- Online boosting international presence for UK retailers

CHAPTER EIGHT OPTIMISING THE SUPPLY CHAIN

"We are seeing the need for a supply chain to be adaptable and flexible to the speed that customers want to get products in"

- Retailers seek to optimise supply chains for multiple channels
- Costs in China remain a concern
- Speed and flexibility viewed as critical
- Large majority of consumers see sustainable sourcing as important

CHAPTER ONE

THE OUTLOOK FOR
RETAIL IN 2015

- Outlook among the retailers brighter but concerns over economy remain
- 84% forecast retail sales will be slightly or much better in 2015
- Non-food sectors expected to be more buoyant than food
- Consumers seeking value and convenience
- Multichannel and mobile top investment priorities
- Personalisation and customer service seen as critical

At the beginning of 2014, almost all of the retailers interviewed for last year's edition of this report predicted that retail sales in the coming year would be flat or slightly up at best, foreseeing a sluggish and faltering recovery with the consumer mood failing to be ignited by more promising macroeconomic indicators.

As the year progressed, however, with the UK's economic performance considerably exceeding expectations, the housing market recovering to the point of almost overheating in some areas and unemployment falling consistently, some may have begun to wonder if the executives interviewed for *Retail 2014* had been a tad pessimistic.

However, the projections for the coming year from the 25 executives interviewed for this year's report suggest retailers still remain unconvinced that positive economic indicators will translate into a strong retail market in 2015. While almost three quarters expect modest retail sales growth in 2015, the mood is far from upbeat. Indeed, for some the outlook is bleaker than earlier in the year.

FALSE DAWN

The chief executive of a fashion retailer is not alone in believing that "people called the recovery a tiny bit early" and the picture is far from certain. "If you'd asked me a couple of months ago I'd have said we would see modest, possibly a single digit, growth," he says. "But there seems to be quite a lot of fragility in the market right now, a lot of uncertainty, and that is not going to be helped by the fact that we've got an election. I

"Retailers that have innovated and done different, new things will be the ones who succeed. It will not be a steady market of steady growth; there will be extreme winners and extreme losers"

Chief executive of a fashion retailer

think there is a lack of financial confidence in the markets; they're quite jittery at the moment and for a little while. Earlier in the year there seemed to be quite a lot of optimism, a lot of buoyancy."

Ostensibly, the economic conditions are considerably more favourable than a year ago, even if the global outlook has worsened during the second half of the year. The Bank of England's Monetary Policy Committee GDP forecasts are for growth of 3.5% for 2014, 2.9% for 2015 and 2.6% in both 2016 and 2017. Unemployment, meanwhile, fell to 6% in June, the lowest rate since 2008, and continued to fall in the latter half of the year. According to the Office of National Statistics (ONS), retail sales were up by 6.4% in November against the same month in 2013.

However, in spite of the positive economic news, the lack of strong growth in wages and, therefore, in real disposable income, remains a major concern. Although ONS figures confirmed in April that earnings growth had finally risen to match inflation for the first time since 2010, sluggish growth in earnings, coupled with political and economic uncertainty, notably concern over what will happen to interest rates, is tempering any tendency towards optimism among retailers. "We have more people in employment but they haven't had any salary increases that they would have traditionally been used to," says the managing director of a grocery retailer.

"A lot of our customers are on a budget and I think their disposable income was really hit post-2008 and it has still not really recovered to those levels," says the chief executive of a major retail group. "I think the general picture for retail will be very, very tough," the chief executive of a discount chain adds, also citing low growth in wages as a critical factor.

The bywords therefore appear to be fragility, volatility and caution. There may be fundamen-

tal reasons to be optimistic about the UK consumer economy, but there are external factors at play and unknowns. In particular what will happen in the Eurozone, the impact of the UK general election in May 2015 and the pervasive expectation on the part of retailers and their consumers that at some point interest rates will rise, all to offset that optimism.

"I think the whole market, whether that is the consumer market or the stock market, is still very volatile," a senior executive at a supermarket chain says. "I think everybody is cautious, certainly about the overall, macro-effect of the Eurozone," adds the chief operating officer of a discount chain. "I think the fear over there is translating itself into here, for Carney [Mark Carney, governor of the Bank of England] to be far more cautious about our upturn. There is growth in the economy but I still think it is fragile growth."

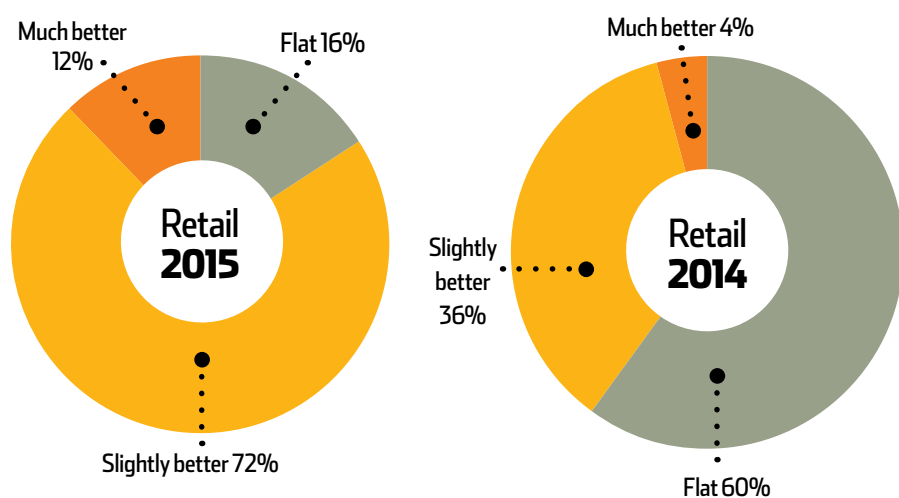
This is by no means the only retail executive keeping an eye on Mark Carney. The managing director of a major specialist retail chain believes interest rates have been pivotal in the recovery seen to date, effecting the cost of living and overall consumer confidence. "The continued deferment on interest rates is definitely good news for the sector because we are definitely seeing higher disposable income coming into the market where retailers can deliver for customers as a result of low interest rates. Some of the indirect costs and taxes, things like petrol prices, are important, things like car parking and anything that costs customers to shop."

GUARDED OPTIMISM

Concerns over the robustness of the recovery notwithstanding, the overall outlook for 2015 is brighter than a year ago, as would be expected ▶



1.1 Forecast for retail sales over the next year compared with 2014



SOURCE: RETAILER INTERVIEWS BASE: ALL RESPONDENTS

"I think the migration of customers to online and particularly mobile will continue next year"

Chief executive of a fashion retailer

"Convenience has been growing ahead of the rest of the market anyway and there is no sign of that trend easing off. It will continue to see quite buoyant market growth"

Chief executive of a grocer

given the improved economic picture in the UK. Only 16% of the retailers interviewed for this report are forecasting flat retail sales in the coming year, versus 60% in last year's report. Some 72% of this year's group expect retail sales to be slightly better, against 36% last year. This means that the proportion forecasting retail sales to be either slightly or much better in the coming year has leapt to 84% from just 40% last year (see chart 1.1).

However, while the proportion of retailers forecasting retail sales will be much better in the coming year has increased threefold, it still only represents 12% of the executives interviewed. Optimism, such that it is, remains guarded.

The chief executive of a major retail group predicts "a steady, slow recovery rather than anything fabulous, but definitely slightly better", on the back primarily of falling unemployment and the recovery in the housing market. "We are seeing increased housing activity in terms of transactions and construction and continued improvement in employment numbers, and so I think those factors are underpinning consumer spending in the home." The chief executive of a specialist retail chain adds: "I'm expecting to see steady increases in real disposable income feeding into the economy."

"We're forecasting things to be slightly better than they have been which is really good news," says the managing director of a specialist chain. "Generally, from what I'm hearing around retail it is the same sort of message." The chief

executive of a fashion chain adds: "Overall, I would say across clothing retail the outlook is slightly better."

Also forecasting slightly better retail sales, the chief executive of another fashion retail group says: "I do think the economy has established a certain momentum that will continue into next year." However, the continued economic improvement "will be subject to the uncertainties of economic policy and a general election".

SEEKING VALUE AND CONVENIENCE

The struggle between discounters and the major grocers has been one of the critical retail battlegrounds for some years and there is a strong consensus among the retail chiefs that this will remain the case in 2015.

"If you look at food in particular it is a very, very competitive market and the cake is getting cut into much smaller chunks," says the chief operating officer of a discount chain. "Over the last six years I think the temperature has changed. People are far more used to going into discount stores. I think the market itself and how we perceive it has changed."

A senior director at a supermarket operator believes the UK market will mirror the evolution in Germany in this regard. "If you look at what happened in Germany and the way the discounters grabbed a huge share of the market, even in a comparatively powerful and successful economy like Germany, they are still cost-conscious and I think the UK is going to stay like that for the

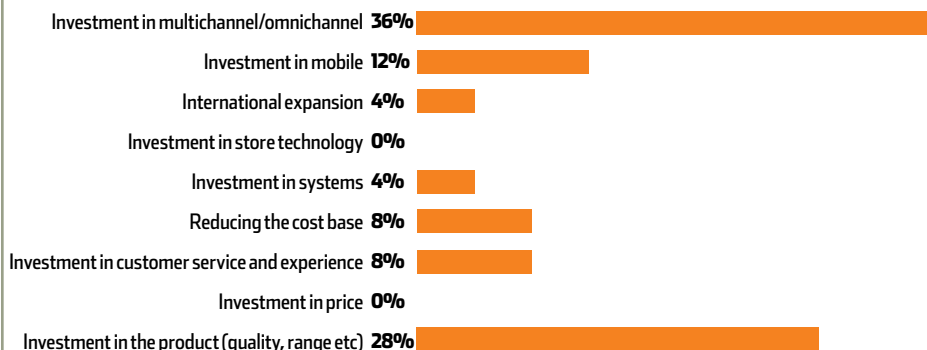
foreseeable future."

He adds: "We are very much looking at the discounters, we monitor them very carefully. They account for 8% of the overall food market now and are growing very rapidly, so yes, we cannot ignore them. I think there will be continued food deflation next year which will be a further challenge to the business and I think there will be more migration of merchandise to online channels. And the clothing market should improve a little."

The chief executive of a major supermarket operator identifies a third dynamic in play in the food sector. In addition to food price deflation and the counter-cyclical post-recessionary trend (see box), he points to "a structural change driven by customers shopping more frequently". This is of course not a new trend, but something the major supermarket operators have been responding to for some time.

The convenience store sector is therefore widely tipped for further growth. Changing consumer habits to shopping little and often and keeping it local "obviously suits convenience stores", the chief executive of another grocer says. He believes "convenience retail will continue to be very solid", adding: "It has been growing ahead of the rest of the market anyway and there is no sign of that trend easing off, so I think the convenience business will continue to see quite buoyant market growth. Among our competitors we are all seeing the convenience channel doing rather well."

1.2 Retailers' top business priority for the year ahead



SOURCE: RETAILER INTERVIEWS BASE: ALL RESPONDENTS

“The stores that will be successful will be the stores that continue to deliver an outstanding customer experience – so over and above just product”

Managing director of a department store

The chief executive of a discount chain also expects “the convenience sector will do well”. “Convenience remains a very strong message,” adds the chief executive of a major retail group.

The chief operating officer of another discount chain believes the increasing focus on click-and-collect and delivery by the major supermarkets is amplifying the convenience trend. “As the big four drive more and more online traffic and click-and-collect or home delivery, the consumer is only shopping in smaller chunks in the week and they’re not going to drive to the 100,000 sq ft megastore just to get a couple of pints of milk and some bread.”

ONLINE AND MOBILE GROWTH

As would be expected, when speaking in terms of channels there is a strong consensus among the retailers that the online and in particular the mobile sectors will grow in popularity in 2015.

The chief executive of a major multi-sector retailer says: “We’ll see growth coming from mobile and tablets.” A senior director at a major supermarket operator adds: “Obviously online will continue to go from strength to strength.”

The chief executive of a fashion retailer states: “I think the migration of customers to online and particularly mobile will continue next year, so I think that still offers growth, and multichannel is still an area where retailers are innovating and customers are liking those innovations. So mobile, multichannel and ecommerce are still strong opportunities.”

The chief executive of another fashion retailer adds: “If you look at it by channel there is no question that things will continue to move online, and ‘online’ is increasingly coming to mean on mobile and on tablet not PCs. The growth is in mobile and tablet, that I think will carry on next year, if not speed up, actually.”

MULTICHANNEL INVESTMENT

It is therefore no surprise that investment

in multichannel and investment in mobile feature strongly among the retailers’ investment priorities for 2015. Investment in multichannel was once more identified as the most important business priority for the coming year, with 36% of the retailers nominating this as their number one priority (see chart 1.2) for the coming year. Some 60% of the group nominated investment in multichannel/omnichannel as either their first, second or third most important priority (see chart 1.3).

Investment in multichannel/omnichannel also had the highest aggregate score (37), calculated from the number of times it was nominated as the first, second or third priority and allocating a score of 3, 2 or 1 respectively, followed by customer service and experience (26), product (26) and investment in mobile (16).

Investment in product also features strongly. “Investment in product is number one, always, always,” says the chief executive of a fashion retailer. And, from a contrasting area of the market, ▶

COUNTER-CYCLICAL TREND IN FOOD SECTOR

Overall, there is a strong feeling that non-food retailers are likely to reap a more handsome dividend from whatever improvement in market conditions there may be in 2015 than food retailers, though many point to further growth in discount retailing. Indeed, some retailers see a correlation between food price deflation and heightened competition in the food sector and an uptick for non-food categories.

“If you believe the cyclical nature of markets then, generally speaking, the more non-consumable the product is, the more discretionary it is, the more likely it is to be bought in an upturn,” says the chief executive of a major supermarket chain. “So you would expect the sectors that are very heavily cyclical – things like white goods or non-food products – would do comparatively better.” The chief executive of a discount chain agrees: “I think the supermarkets are suffering, I think people are being careful, they’re eating less at home, eating out more.”

The chief executive of a major retail group with no food interests describes food price and energy deflation as the “bonus prize” which will bolster non-food sectors. “There’s just a bit more room in the family budget. I think this does look like a year for non-food to outperform food. If you take the broad categories I’d expect home-related to do better than food-related.”

A senior director at a grocery retailer adds: “Grocery, I suspect, will be flat to negative and general retail will be up a little bit.”

However, the chief executive of a fashion retailer expects the clothing market will also be affected by the continued rise of value



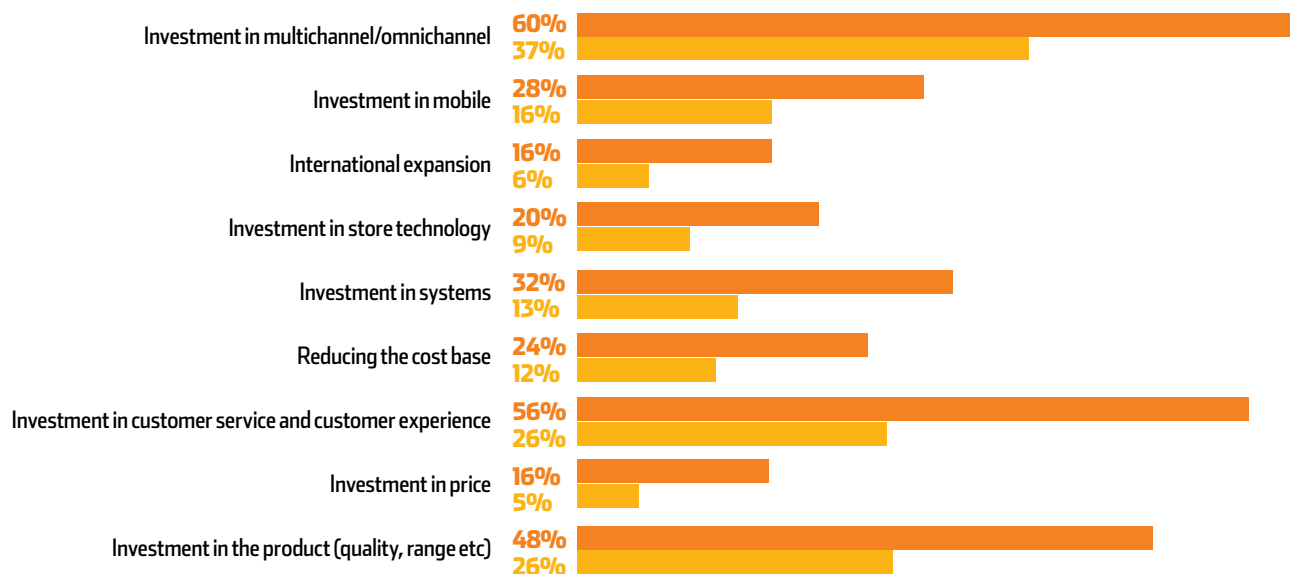
retailers as is being seen in food. “I think you’ll see the supermarkets continuing to be challenged, and I think with the value players in the market people are expecting to see more not less for their money in terms of things like clothing, so I don’t expect the clothing sector or the food sector to march forward the way that white goods and other investment purchases might do.”

Consumers’ readiness to make more investment purchases will result in “some buoyancy” in categories such as furniture and white goods, he continues. “In terms of categories I do think people are making more investment purchases than they are discretionary purchases at the minute, or everyday purchases. So I think cars will continue to do well, white goods will continue to do well, furniture will continue to do well and possibly DIY might continue to do reasonably well.”

1.3 Top three priorities for 2015

Percentage of retailers nominating this as
first, second or third priority

Aggregate



SOURCE: RETAILER INTERVIEWS BASE: ALL RESPONDENTS

the chief executive of a discount merchandise chain concurs: "First of all is investment in the product – in quality, range and value." Another fashion retailer adds: "Investment in product is number one, it is a constant, always in the top three but not necessarily first."

Investment in customer service and the customer experience is nominated among the top three priorities by 56% of the retailers. While online retail "undeniably" offers the best opportunities for growth, the managing director of a department store operator says "the stores that will be successful will be the stores that continue to deliver an outstanding customer experience – so over and above just product".

"Customer experience, getting that experience right across all channels, has to be very important and is an area of real focus for us," a senior director at a specialist retail chain says.

RETAILER VIEW ON INVESTMENT

Overall, regarding the balance the retailers are seeking between reducing cost and driving growth in order to drive profitability, the responses are broadly in line with last year, possibly reflecting the view that the recovery remains relatively fragile.

In fact, fewer retailers (40%) opt for 'mostly growth' than last year (48%) when it comes to reducing cost or driving growth, though 40% of the retailers interviewed say they would be aiming for a 50/50 balance, the same proportion as last year. The proportion aiming for 'mostly cost reduction' actually increases from 4% to 12% (see chart 1.4).

Given the relatively cautious growth projections in 2015, a degree of circumspection is perhaps not surprising, as the chief executive of a furniture retailer explains: "When I talk about a gentle recovery we are not talking a stellar recovery, I think it is still all pretty fragile. If you're a business that is betting the house on being able to invest in growth and that is going to overcome all your cost issues then you're probably being too optimistic. I think probably keeping that sort of 50/50 balance between growth and just keeping your cost-base under control is probably the right balance in my book."

The chief executive of a fashion retailer, who is aiming for around a 50/50 balance, has actually grown more cautious as the year has progressed. "We'll definitely be running a tight ship next year. We'll be looking for growth but it will be modest and we'll manage our costs very tightly. I have to say that while I entered this year feeling a bit more optimistic and 'released the cost valve' a little bit and started to look at investing in different things, I actually think I'll be tightening everything back down again."

However, a number of retailers point to a false distinction between cost reduction and driving growth. "I don't like thinking of reducing costs

because it sounds like a real negative," says the chief executive of a major clothing retailer. "I would say we are driving growth aggressively whilst always being obsessed with our cost base."

The managing director of a major specialist retail chain adds: "Any good retail business is looking to save costs each year and has got to do the best job it can with inflationary cost pressure through cost efficiency. I wouldn't say it is 50/50: I would call it cost efficiency

to invest in growth. It is certainly more towards growth than it has been before and the challenge is to reinvent the operating model to make savings so you can invest more rapidly in growth."

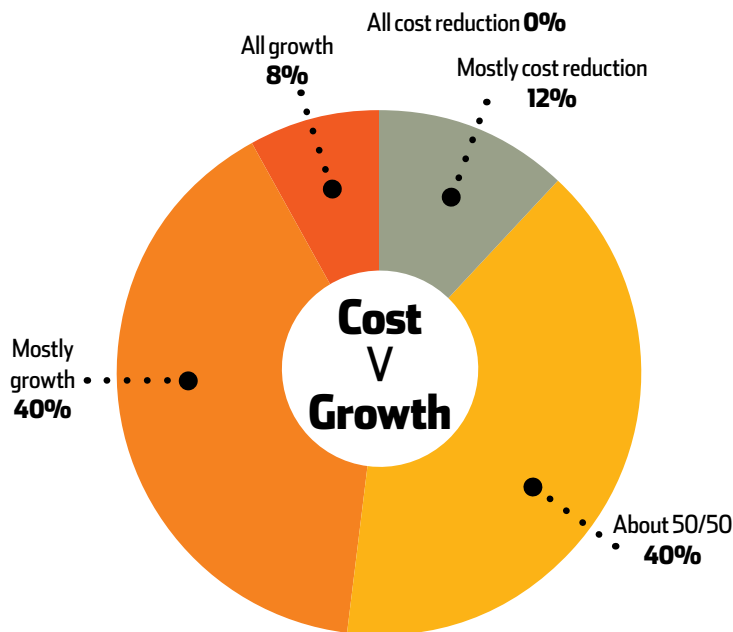
In a similar vein, the chief executive of a fashion retail group says: "Costs obviously have to be managed but businesses don't succeed by just managing costs, you've got to be seeking growth."

"You always start with the objective of driving sales growth – that is what we are paid to do – but you have to be mindful of the fact that in a very tough consumer environment managing costs has a part to play," says the chief executive of a major supermarket operator. "So I would always start with the objective of driving growth, because it makes life a lot easier if you've got top-line sales growth,

56%
The percentage of retailers
who rank customer service and the
customer experience among
their top three priorities

Source: Retailer interviews

1.4 Balance between reducing cost and driving growth



SOURCE: RETAILER INTERVIEWS BASE: ALL RESPONDENTS

but [in the current environment] you have to be cognisant of the fact that you have to keep a very tight rein on costs."

The chief executive of a fashion retailer adds: "The easiest way to cut costs is to sell more. It's stupid chasing extreme cost reduction without any sense of where your growth is going to come from."

A supermarket chief executive, meanwhile, anticipates growth but says: "This is not going to be roaring so cost control is still going to be very important. The proceeds from those cost reductions can then be put straight back in to invest in price and customer service."

PERSONALISATION AND SERVICE

Indeed, some of the retail executives reflect on the question of which areas of retail are likely to prosper in the coming year in a different way, not in terms of sectors or channels but in terms of proposition and points of difference. In other words, the winners and losers across the different channels will be determined by how they service their markets, as the chief executive

"The key points of difference from our perspective would be personalisation, convenience and value. We believe that if we are able to deliver against those then we can expect the forecast to be slightly better"

Managing director of a major specialist retailer

of a major clothing chain explains: "I think in terms of their retail proposition the ones that offer a real point of difference will continue to succeed. For some of the retail concepts that just blend into each other it is going to be more difficult because they are then only competing on one aspect and that is price."

The managing director of a major specialist retailer says: "I think the conditions are definitely heading towards customers returning to the market." Retailers need to give customers what they want, "the key points of difference, which from our perspective would be personalisation, convenience and value", he continues. "We believe that if we are able to deliver against those then we can expect the forecast to be slightly better."

The chief executive of a fashion retailer describes the current environment as "an economy of winners and losers", adding that "retailers that have innovated and done different, new things will be the ones who succeed. It will not be a steady market of steady growth; there will be extreme winners and extreme losers".

Interestingly, there is very little reference among the retailers to further consolidation in 2015, though the senior executive of a major supermarket retailer does believe this could be a factor in the coming year. "I think there will be something around consolidation. It will be very interesting to see what happens there and, of course, there are some retailers who have been going through some 'troubled times', shall we say, and it is by no means certain how that will pan out for them in the next 12 months."

The chief executive of a fashion retailer, participating in *Retail Week's* annual report on the state of retail for the third consecutive year, concludes: "This is the third year I've done this and I'd say that my overriding concerns are broadly the same, in that I think that the strong are getting stronger, the weak are getting weaker and I think there is no place left in the industry for mediocrity. You need to have an offer that is distinctive, no matter what sector you are in, and it needs to offer real value."

KURT SALMON PERSPECTIVE

Kurt Salmon

We are increasingly seeing a split in outlook between grocery and fashion, and between high end, discount and the middle ground. Food retail had a dramatic and difficult 2014, with clear winners at the discount end (Aldi/Lidl) and the premium end (Waitrose), while players in the middle ground struggled.

2015 looks set to be another challenging year for food retailers, as they adapt to a new world of customer behaviour. Fashion looks set to benefit somewhat more from any improvement in economic conditions, but here too we see the value players continuing to disrupt the market.

CHAPTER TWO

THE CONSUMER MOOD



- **67% of retailers see improved consumer mood but remain cautious**
- **31% of consumers more confident in the state of the economy than a year ago**
- **46% of consumers feel no more financially secure than last year**
- **Interest rates and low wages growth are key factors influencing consumer behaviour**
- **Frugal shopping habits die hard but consumers also demand value in broader sense**

The prevailing view among the retailers interviewed for this report is that the UK's improved economic performance is still failing to translate into a correspondingly vigorous retail recovery. This is further reflected in their assessment of the consumer mood. For a variety of reasons, examined later in this chapter, many consumers are failing to see the upturn in the economy as a signal to begin spending. The consumer mood remains cautious and watchful, and thus so do the nation's retailers.

When asked to gauge the mood of their consumers in comparison with this time last year, 63% say the mood is a little better, while 25% say it is the same. Only 4% say it is much better, while 8% say it is a little worse (see chart 2.1).

Although this means a large majority (92%) believe the consumer mood is at least as good or better than this time last year, the economic and political uncertainties outlined in the previous chapter are all factors weighing directly on consumer confidence which, as with the retailers' overall market forecasts, tempers any tendency towards optimism.

Indeed, many of the retailers' comments point to the same themes as those interviewed for *Retail 2014* a year ago. Consumer sentiment appears most influenced by a residual recessionary frugality and a fear of rising interest rates, possible political change and instability and the continuing woes of the Eurozone.

Even those who believe the consumer mood is brightening are at pains to rule out a substantial uplift in consumer sentiment. In fact, several of the retailers point to the perceived relapse in UK consumer mood in the second half of this year as evidence of the fragility of consumer confidence. "It is still very vulnerable and it doesn't take much to blow customer sentiment back and I think that is what we are seeing at the moment, actually," says a senior executive at a major grocer.

"If we went back five or six months I'd have said a lot better but I think there is a bit of nervousness about now," says the chief executive of a discount chain. "Overall people aren't feeling as good as they were," says a fashion retailer observing the same trend.

Nevertheless, there are upbeat comments on the current consumer mood and forecasts of further improvement during the year. The chief executive of a

major specialist chain says: "Unemployment is at an all-time low so that is feeding into a steady increase in consumer confidence which is why I'd say things will be slightly better."

"I can see things improving through 2015," adds the managing director of a specialist chain, who believes the current mood is unchanged from this time last year. Consumer confidence has been "very weak for a while and we've not seen much change in that", says the chief executive of a supermarket operator. "I think there might be a slight improvement going into 2015."

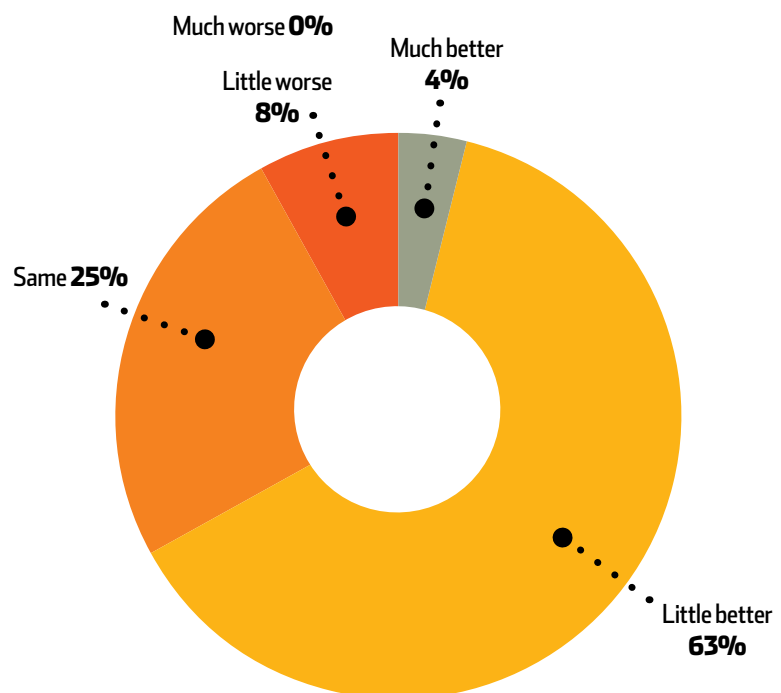
The chief executive of a furniture retailer says consumer confidence is "the big driver", and "that,

after a long period of being in the doldrums, is probably at better levels than it has been for a while".

"I think there is a slight, underlying optimism, despite the last couple of months," comments the chief executive of a fashion chain. For this retailer, the reversal in the second half of 2014 stemmed from a number of negative factors – he cites the geo-political issues around Ukraine and ISIS, Ebola and the uncertainty caused by the Scottish Referendum as examples – hitting consumers at once. "If they seem to be all coming at once then it tends to undermine economic confidence."

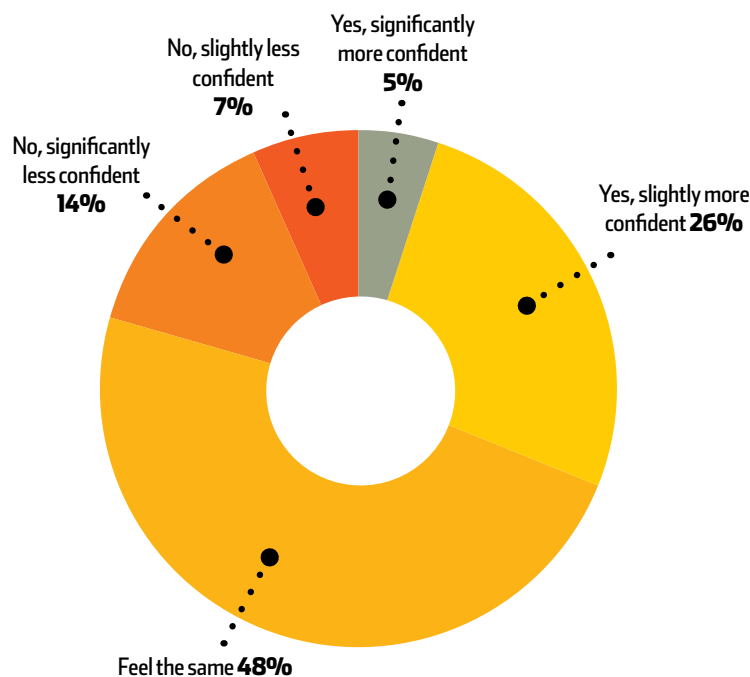
It is perhaps because most of those factors, and others, remain, with the political uncertainty of the

2.1 What's the mood among your consumers compared with last year?



SOURCE: RETAILER INTERVIEWS BASE: ALL RESPONDENTS

2.2 Do consumers feel more confident in the state of the economy than this time last year?



SOURCE: CONSUMER RESEARCH BASE: ALL RESPONDENTS

Scottish referendum being replaced by the uncertainty of the general election, that the outlook on the retailers' consumer mood remains so guarded.

CONSUMER ANXIETY CONFIRMED

The results of consumer research commissioned for *Retail 2015*, and conducted in November 2014, appear to vindicate that cautious outlook. In fact, it suggests that the retailers' outlook has, if anything, overestimated current levels of consumer confidence.

When asked if they feel more confident in the state of the economy than this time last year, only 5% of the 1,000 consumers polled say they are significantly more confident, and 26% say they are slightly more confident. While 48% of respondents say they feel the same, 7% are slightly less confident and as many as 14% are significantly less confident (see chart 2.2).

When asked whether they feel more financially secure than this time last year, 46% of consumers say they feel the same, while 8% say they feel slightly less secure. More worryingly, as many as 17% feel significantly less secure.

The retailers were asked which external factors

"It is still very vulnerable and it doesn't take much to blow customer sentiment back and I think that is what we are seeing at the moment, actually"

Senior executive at a major grocer

from a list of eight they expect to have most impact on consumer behaviour in the coming year. Not surprisingly, as many as 60% of the retailers place inflation and the cost of living as either the first, second or third most influential factor, while 55% more specifically identify what will happen with interest rates as one of the top three factors weighing on consumer behaviour.

RATES AND DISPOSABLE INCOME

With disposable income such a critical metric, it is no surprise that interest rates are given such prominence by the retailers.

For the chief executive of a major supermarket chain, rising interests are the primary factor likely to weigh on consumer behaviour. "I would suggest that rising interest rates will squeeze confidence and add to the cost of living," he says, adding that this is "by far and away the single biggest factor".

However, another chief executive takes a contrary, and it must be said a minority, view: "Realistically I think most people are expecting some sort of rise in interest rates – but I don't think that a 1% or 2% rate of interest will fundamentally hammer us. Most people are pretty sensible and realise that things can't continue at the existing level and that is factored in." This remark is in marked contrast to the prevailing tenor of the retailers' comments. If anything, there is a sense from some retailers that the sustained period of low interest rates has lulled some consumers into a complete sense of false security.

The longstanding gap between earnings growth

60%

of retailers place inflation and the cost of living in their top three most influential factors affecting consumer behaviour

Source: Retailer interviews

46%

of consumers feel no more financially secure than last year

Source: Consumer research

67%

of retailers see an improved consumer mood but remain cautious

Source: Retailer interviews

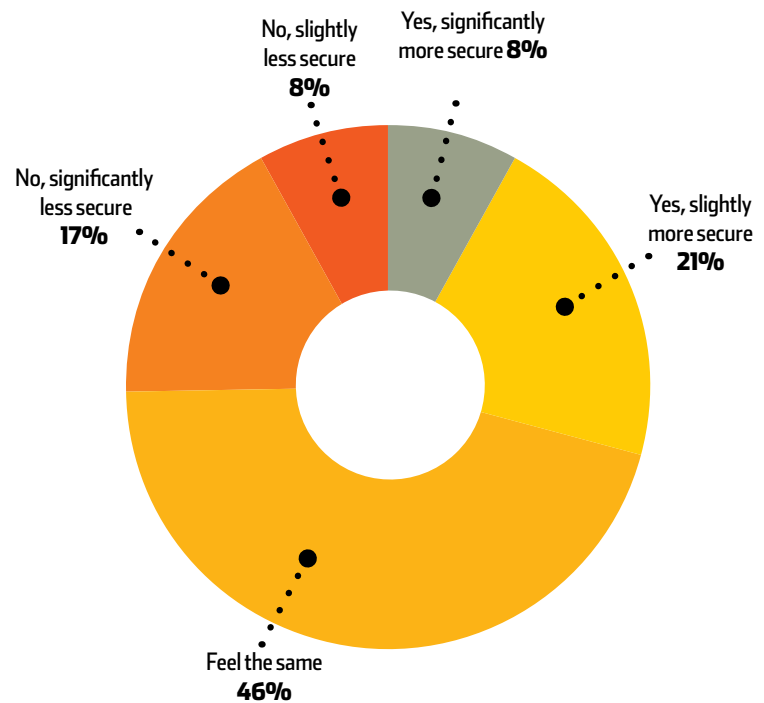
and inflation, only just beginning to correct itself this year, is perhaps the principal reason why consumers are not buying into what they are being told about the economy.

"I think confidence is slowly coming back," says the managing director of a speciality retailer. "We're starting to see a slight improvement in performance and therefore it must be better, but I think customers are, on the one hand, being told things are getting better without feeling any of that benefit yet in their pocket."

The chief executive of a retail group, who points to wage inflation as a critical factor, concurs: "A lot of our customers are really on a budget and I think their disposable income was really hit post 2008 and it has still not really recovered to those levels."

A senior director of a specialist retailer also sees the relationship between earnings growth and inflation as pivotal, though he places more emphasis on the positive impact of wages growth moving ahead of inflation for the first time earlier this year. "There is clearly a little bit more cash in people's pockets, household cash flows are slowly improving, the economy is getting better with earnings starting to

2.3 Do consumers feel more financially secure than this time last year?



SOURCE: CONSUMER RESEARCH BASE: ALL RESPONDENTS

grow ahead of inflation. So generally speaking the backdrop is healthier for all retailers.”

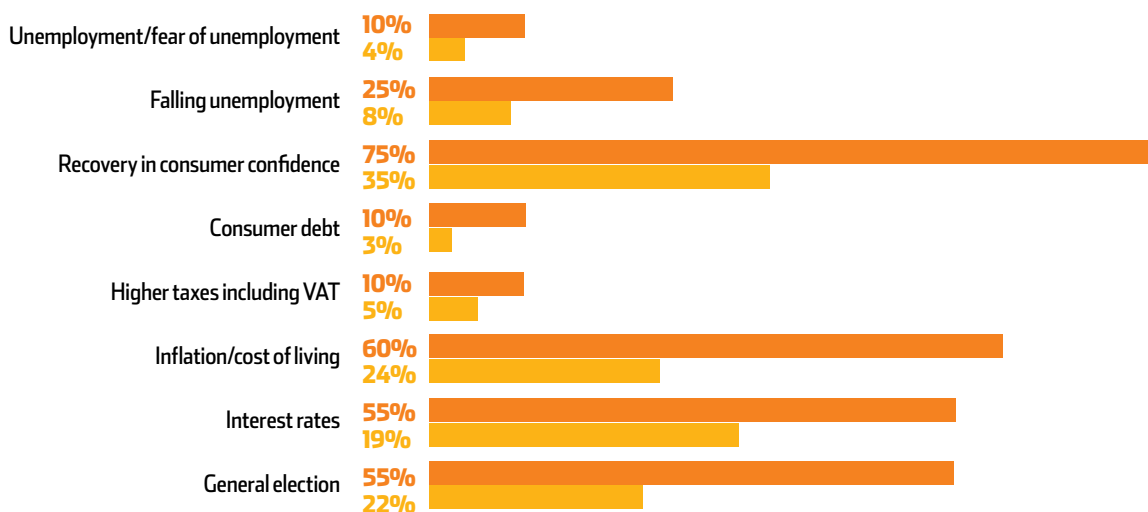
On the issue of low wages growth, only one retail chief alludes to levels of retail pay, though his remark is arguably a poignant one. “We are certainly guilty, and I expect many of our peers are guilty, of keeping pay very low. You cannot forever expect people to work harder and do more and still expect not to pay any more. That is a challenge that all of us retailers need to have in our sights next year.”

The same chief executive makes another perceptive remark on the consumer mood, not highlighted by his peers. “The mood among our customers is very much better. Also I think our shops have improved enormously and there is a much more upbeat mood among our staff. Those two things are reinforcing each other.”

2.4 Factors likely to have an impact on consumer behaviour

Percentage of retailers nominating this as first, second or third in order of influence

Aggregate



SOURCE: RETAILER INTERVIEWS BASE: ALL RESPONDENTS

"There is clearly a little bit more cash in people's pockets, household cash flows are slowly improving, and the economy is getting better with earnings starting to grow ahead of inflation. So generally speaking the backdrop is healthier for all retailers"

Senior director of a specialist retailer

"I think the austerity that everyone has been through in the last four or five years is still there, they are still very canny customers and they look for bargains, they look for value"

Chief operating officer of a discount chain

"When we get it right customers are commenting about that less, and when we get it wrong they are very quick to tell us they expect more. They are looking for more innovation than I've ever seen before"

Managing director of a major specialist retailer

POLITICAL UNCERTAINTY INFLUENCING CONSUMER BEHAVIOUR

One important influential factor in the eyes of the retail chiefs is the upcoming UK general election in May 2015. Some 55% nominate the general election among the top three factors. Many of the retailers make the point that the economic imponderables are linked to the outcome of the election, while some fear the impact of political uncertainty caused by the build-up to the election, which has already begun.

"The election always adds a period of uncertainty," says the chief executive of a furniture retailer, while the chief executive of a major specialist chain adds: "I think people have adjusted to the Government at the moment – and having two parties in power – to the extent that the next election throws up significantly more political uncertainty and I don't think that is helpful at all."

The chief executive of a fashion chain provides an idea of what that uncertainty might mean. "The Scottish referendum had an incredible effect on consumers in the week leading up to it in Britain. It was released almost straight away post vote. You could say 'Is Scottish independence really going to affect people in Tunbridge Wells?' but they all stopped spending."

Like a number of others, the chief operating officer of a fashion retailer points to more impact if there is a change of government. "How quickly things change after the election I suppose depends on which government we end up with. If we end up with a change of Government then there'll be a longer period of disruption."

However, the chief executive of a specialist retailer plays down the impact the general election might have. "There'll be a period of uncertainty in the run up to the election and just after – whichever side, or multiple sides, may win. But I think it'll come back pretty quickly afterwards."

The chief executive of a major supermarket group is also unconvinced. "I don't think the general election is really that big a factor," he says, adding that he has "some scepticism" about the idea of "consumer confidence" as a whole. "I'm a very firm believer, and I think there's a lot of evidence to support me, that the key driver is how much money people have in their pockets – discretionary disposable income – and consumer confidence is a function of that. It goes that way round not the other."

CONSUMER DEBT PLAYS A PART

Although consumer debt per se does not feature strongly as a factor, it is clearly an issue in the debate over the economic revival, and levels of debt have a key bearing on just how influential any rise in interest rates will be. The managing director of a specialist retailer catering to ABC1 consumers says: "The middle classes are probably more leveraged than they've ever been so if interest rates go up that is going to cut deeply."

While levels of consumer debt make the impact of rising interest rates that much more punitive for consumers and retailers alike, consumer debt and in particular consumer attitudes to being in debt are, in themselves, important indicators of consumer confidence.

"The indices are pointing to a reducing debt burden, from an individual perspective, and I think that is what we'll see for the first half of the year – people will sit on their hands," says the chief executive of a clothing chain. "They will have money to spend but it will be a little worse because they won't be spending it. That is my point, they won't be spending it with us, they'll be spending it on investment purchases or paying down debt."

This view is shared by the chief executive of a major supermarket chain. "I think there have been a few hard lessons learned and certainly customers have de-gearred and reduced their personal debts quite substantially over the last period of time and there's no reason to believe that 'prudence' is likely to change in the foreseeable future."

Another chief executive sees the level of arrears among his own customers as "one of the really good indicators of how consumers are feeling". He continues: "We have an embedded credit facility. We can see that people are really paying down debts, and I see that as a real indicator of how financially stable they're feeling compared with where they were."

DEMAND FOR VALUE REMAINS

Given the findings of the consumer research on financial security, and the retailer views on the influence of inflation and the cost of living on the consumer mood, it is not surprising to find that the consumer frugality learned during the recession has been retained.

"People generally are shopping for value," says

the chief executive of a discount chain. "They've acquired those behaviours." The chief operating officer of another discount chain adds: "I think the austerity that everyone has been through the last four or five years is still there, they are still very canny customers and they look for bargains, they look for value."

It's not just price consumers are being demanding about in today's competitive retail marketplace. The managing director of a major specialist retailer says the mood among his company's consumers is a "little better", but says they are also "more discerning and with higher levels of expectation. When we get it right customers are commenting about that less, and when we get it wrong they are very quick to tell us they expect more. They are looking for more innovation than I've ever seen before."

This speaks to a widely held view that not only have consumers acquired and since retained a greater sense of frugality during the downturn, but also that they have become more conscious of obtaining value in a broader sense. The chief executive of a clothing chain expects this pursuit of value to be "an ongoing trend" which will become more pronounced as consumers grow more "savvy".

KURT SALMON PERSPECTIVE

Kurt Salmon 

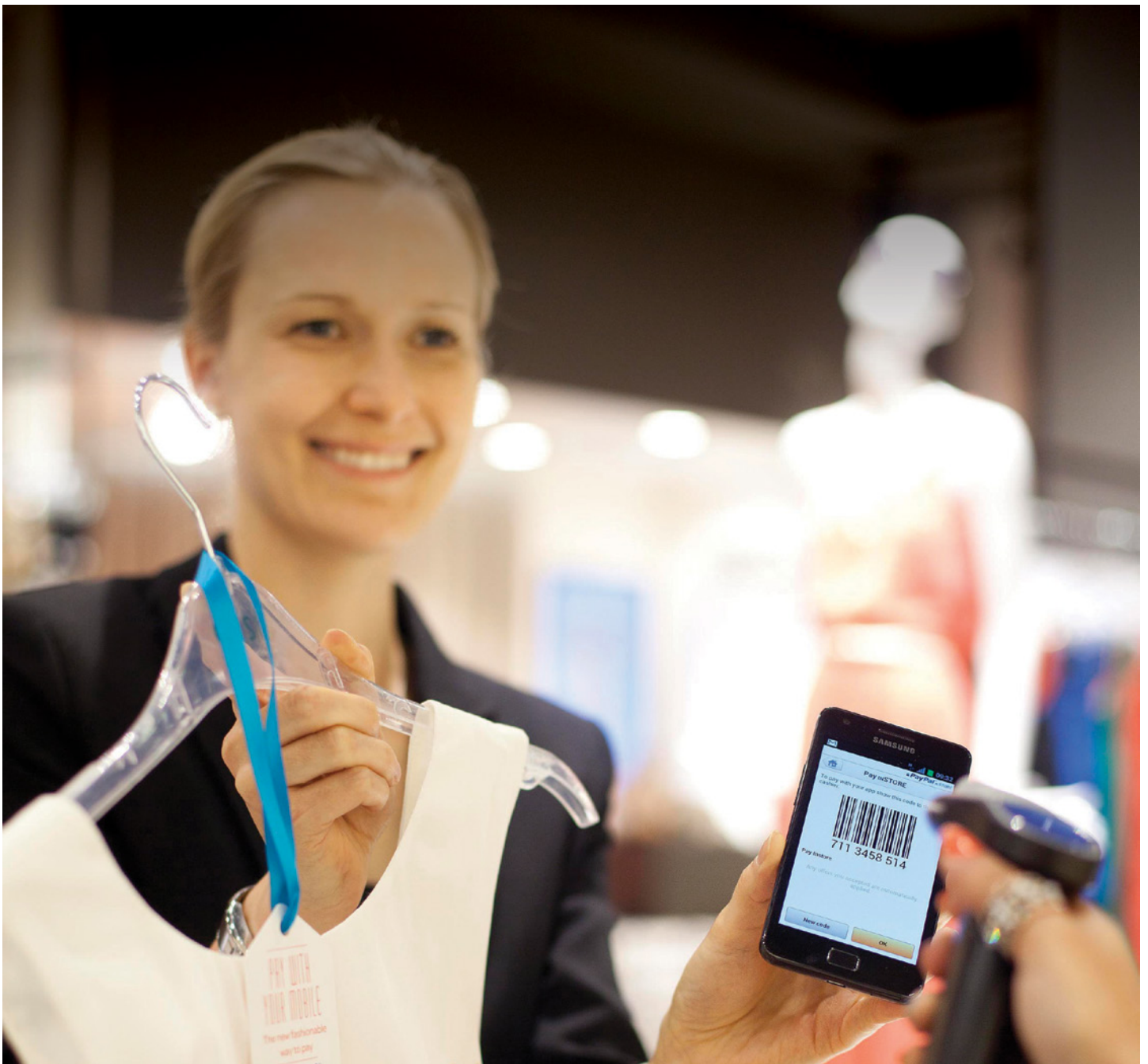
Macroeconomic indicators for 2015 are mildly positive, with modest GDP growth and with low petrol and commodity prices driving food deflation but potentially freeing up consumer disposable income to spend in other retail sectors.

The customer mood continues to be cautiously positive, but underlying consumer behaviours and attitudes, especially those to value versus indulgence, have been fundamentally – and we believe permanently – altered.

The most successful retailers are those that manage to really understand who their customer is and what he/she wants, to anticipate the trends and changes of those customer needs, and to tailor their proposition to resonate with those customers. This is arguably more challenging now than at any time in the history of retail.

CHAPTER THREE

PROGRESS TOWARDS THE OMNICHANNEL IDEAL



- Most retailers feel omnichannel is a work in progress
- 19% of retailers have a single view of their stock and customer
- Mobile is the number one omnichannel priority for retailers
- Better leveraging of big data is identified as an area of development

The last five years may have been far from dynamic in terms of retail growth but they have nonetheless been dynamic in terms of retail development, thanks to the ongoing transition to an omnichannel environment.

As detailed in chapter 1, investment in omnichannel is nominated as the number one business priority for the coming year by 36% of the retailers, and appears among the top three most important priorities of 60% of the group. Investment in omnichannel is also rated as the top priority in

an index derived from the number of times it was nominated as the first, second or third priority and allocating a score of 3, 2 or 1 respectively.

Moreover, in addressing questions related to trading, consumer behaviour, supply chain, stores, fulfilment and international expansion, the retail chiefs' responses are replete with references to the impact of the growth in online and mobile retailing and the continued progress towards a business model, which optimally integrates all channels.

In a sense, the frequent references to multichan-

nel and omnichannel speak to the interconnectedness and mutual relevance of the diverse channels and the critical importance of effective multichannel integration to modern retailers.

For this year's report, the retailers were asked a number of questions specifically related to the development of an omnichannel business model and management structure, which provide an illuminating insight into how leading retailers are seeking to meet the multichannel challenge and the degree of progress they feel they have made.

THE OPTIMAL OMNICHANNEL VIEW

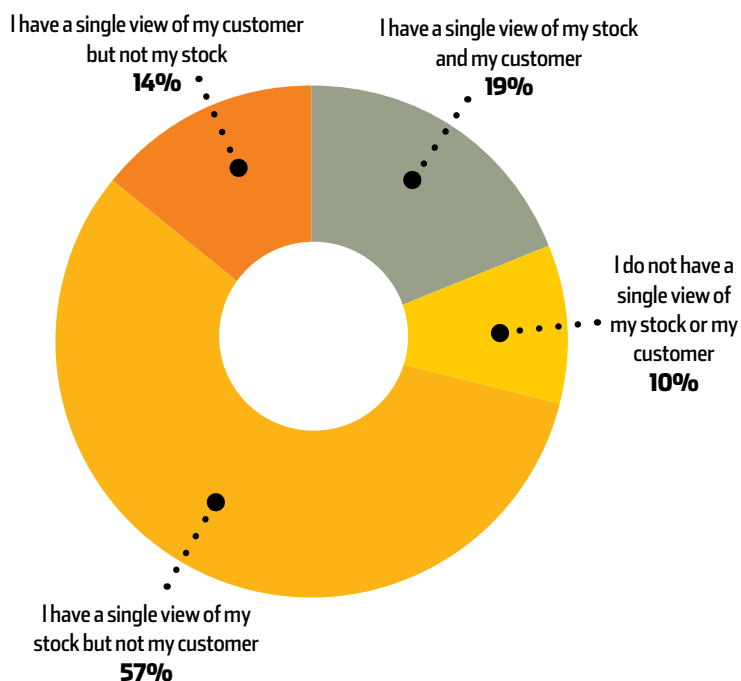
One definition of omnichannel retail is that while operating through more than one channel, the retailer nevertheless should have a single view of both its customer and its stock. When the retailers were asked where their companies currently stood in relation to that goal, only 19% say they had a single view of both stock and customer (see chart 3.1). More than half (57%) have a single view of their stock but not the customer, while 14% say they have a single view of the customer but not of their stock. However, only 10% have a single view of neither their customer nor their stock. Meanwhile, 19% expect to achieve this goal within the next 12 months.

While this is without question a useful way of looking at omnichannel development and assessing progress, some comments suggest that a degree of interpretation comes into play when a retailer assesses where it is in these terms. There is also a sense coming through in the comments that "the single view" idea is being considered as a relative rather than an absolute term.

For instance, the chief executive of a major supermarket operator says his company has a single view of both stock and customer, but adds: "Out of the options I suppose it would be the first [single view of stock and customer]. I mean, I'd like a better view of my customer but I have a pretty good view and probably a better view than virtually any other retailer."

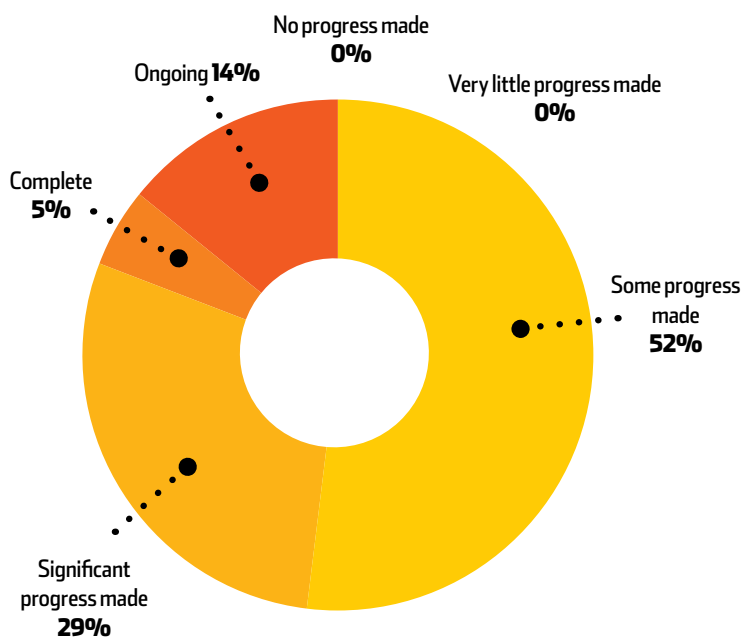
Furthermore, not all the retailers agree that this was a measure of omnichannel readiness. "I really wouldn't define omnichannel as that at all," says the chief executive of a fashion retailer. "To

3.1 The omnichannel 'view'



SOURCE: RETAILER INTERVIEWS BASE: ALL RESPONDENTS

3.2 Progress on restructuring to meet multichannel/omnichannel challenge



SOURCE: RETAILER INTERVIEWS BASE: ALL RESPONDENTS

my way of thinking omnichannel is allowing the customer to buy what they want, when they want, where they want. It is as simple as that for me. It is customer-driven."

He continues: "We have a brilliant omnichannel business because the customer can access our stock very easily in pretty much every way that is commercially useful to them, be it click-and-collect, call centres, catalogue, third-party retailers. So from a customer's point of view we have a next to perfect omnichannel business. From the retailer point of view, as you define it, we're a long way off. We do have a single view of stock, but not customer, but I don't necessarily need that single view of the customer to deliver an omnichannel business."

57%
The percentage of retailers that have a single view of their stock but not of their customer

Source: Retailer interviews

On the other hand, the chief executive of a specialist retailer sees the single view of the customer as critical, even though his company is yet to achieve this. "We're not close to it [single view of the customer] because we don't have a view of what our customers do in stores, so we don't have a single view of that at the moment. We have no idea what our customers are doing which is why a big focus of this year is going to be CRM [Customer Relationship Management] and actually starting to track what our customers are doing in store, like we can online. We can't tally what they are looking at online with what they do in store."

The chief executive of a fashion retailer says the fact that his company is still about a year away from having a single view of the customer "ir-

OMNICHANNEL PRIORITIES

The adaptation of a retail organisation to omnichannel readiness touches on many areas, and the retailers were asked to identify which aspects of omnichannel they are prioritising by selecting an unspecified number of choices from the following: single view of the customer; better leveraging of big data; single view of stock; investment in internal systems; investment in front-end technology; investment in mobile; and investment in supply chain and fulfilment.

It is not surprising to find investment in mobile ranking as the most important priority, being nominated by 67% of the retailers (see chart 3.3). Suggesting that the 'single view' idea is indeed intrinsic to the omnichannel ideal, the retailers identified 'single view of the customer' as the second most important priority, this being nominated by 63% of the retail leaders.

The third most important priority is 'better leveraging of big data', which is selected by 54% of the group.

"There are incredible things coming onto the market in terms of software packages, there are tools that give you much better ways of predicting consumer behaviour," says one chief executive, among several who also cite the data gathered from loyalty cards as extremely valuable if it can be effectively utilised.

However, the managing director of a grocery retailer is at pains to discount big data from the priorities, saying "we are becoming so dependent on data we are using it as a crutch and it is stifling creativity".



"To my way of thinking omnichannel is allowing the customer to buy what they want, when they want, where they want. It is as simple as that for me. It is customer-driven"

Chief executive of a fashion retailer

“We have the basic visibility of what we believe the sales profitability is but we don’t really understand at the moment exactly how each impacts on each other”

Managing director of a speciality retailer

“I’d like a better view of my customer but I have a pretty good view and probably a better view than virtually any other retailer”

Chief executive of a major supermarket

“I’m honestly not bothered about the profitability of separate channels and measuring it. We’re actively encouraging all the channels to think in a collective way because that’s how customers think”

Chief executive of a fashion retailer

ritates the hell out of me”. He continues: “We need to talk to customers in a way that we recognise them and that is why I’m frustrated by it because that is what they want and if you can do it then it surprises positively. Any positive surprise increases business.”

RESTRUCTURING REMAINS “WORK IN PROGRESS”

Notwithstanding the differing interpretations and contrasting views on the ‘single view’ measure, the fact that less than a fifth of the group believe they have achieved a single view of both customer and stock, at the very least suggests there remains a wide divergence in what might be termed “omnichannel readiness” among major retailers in the UK.

Underlining that most retailers feel the omnichannel project is a work in progress were the retailers responses to a question related to restructuring and reorganisation.

When asked how much progress they had made in any restructuring or reorganisation process undertaken to meet the demands of omnichannel, only 5% say the process was complete (see chart 3.2). Some 52% say they had made ‘some progress’, while 29% have made ‘significant progress’.

CHANNEL PROFITABILITY

Another important issue for companies to address in their bid to adapt to an omnichannel world is the precise individual profitability of each channel, given just how interconnected they have become and the way in which customers will frequently use more than one channel in a given purchase. In common with some of the remarks around the “single view” question, there appears to be diverging views on precisely what constitutes channel visibility and its importance.

In many instances, the retailers sought to qualify exactly what they meant by visibility. For example, when asked to what extent his company has visibility of the true profitability of each channel, a senior director at a major supermarket chain says it has “complete” visibility, but adds: “I mean obviously we make some assumptions. In an omnichannel world, you have to make some assumptions around cost and allocation of cost.”

The managing director of a speciality retailer also adds a caveat. “I’d say we have the view of the profitability across the channels. But we are not clear yet on the impact each channel is having on each other. We have the basic visibility of what we

believe the sales profitability is but we don’t really understand at the moment exactly how each impacts on each other.”

These are not the only retailers to make some sort of qualification in responding to this question, suggesting there is a degree of pragmatism applied when assessing the profitability of channels.

The chief executive of a fashion retailer not only appears to take a pragmatic view but suggests, in no uncertain terms, that trying to gain an absolute measure of channel profitability is folly. “I think only a fool in 2014 looks at channel profitability as absolute profitability. The true profitability of licensing, the true profitability of retail is now completely hidden by the omnichannel nature of the business. No matter which way you try and get to it you won’t get there.”

TAKING THE CUSTOMER VIEW

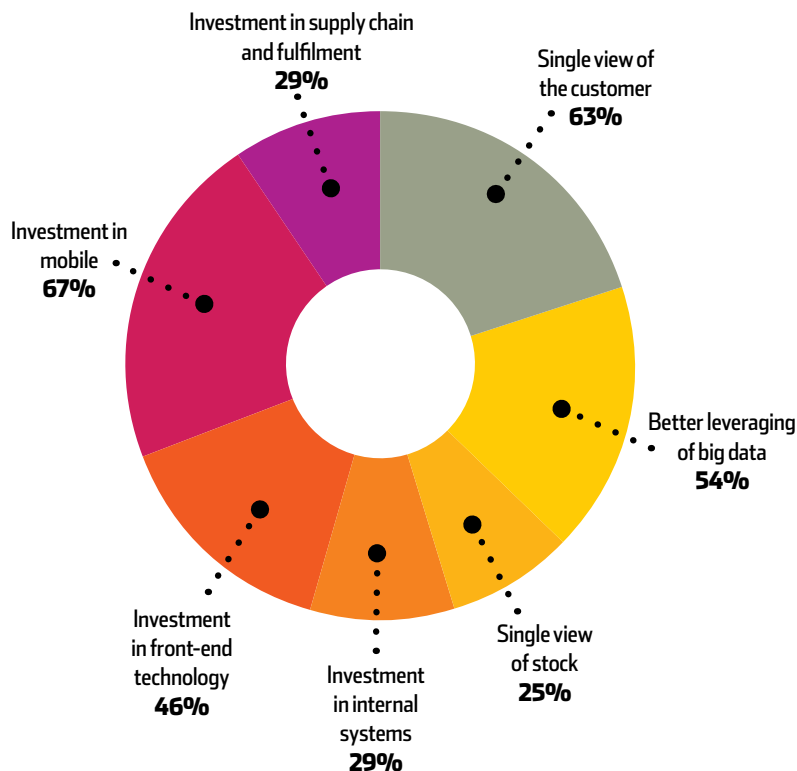
The chief executive of another fashion retailer ventures an equally forthright view on the matter. “I’m honestly not bothered about the profitability of separate channels and measuring it. We’re actively encouraging all the channels to think in a collective way because that’s how customers think. I’m not fussed about knowing whether online is more profitable than stores; all I’m interested in is the business growing.”

A fashion retail chief executive also emphasises the importance of looking at things as the customer does. “I don’t think the customer ever thinks in channel terms,” he says. “I think it is really something that the retailer invented. I mean, we look at

29%
of retailers have made
significant progress in restructuring their
organisation to meet the demands
of omnichannel

Source: Retailer interviews

3.3 Omnichannel priorities



SOURCE: RETAILER INTERVIEWS BASE: ALL RESPONDENTS NOMINATE THE PRIORITY AS FIRST, SECOND OR THIRD

it but we find it very hard to form a view. I don't really know what the profitability of our ecommerce channel is because a large number of our customers are recruited through the shops. It is almost impossible to unpick the influences that each channel makes on each purchase, or return, even."

As some of the earlier remarks suggest, there is a degree of "big picture" thinking in evidence when chief executives are reflecting on omnichannel, and perhaps because of its pervasiveness through all spheres of retail operation, and its significance as an all-encompassing retail trend, this is not surprising.

It is interesting to note that in response to the question on reorganisation to meet the omnichannel challenge, the "ongoing" option was not in the original list but as 14% of those interviewed insist that this is how their progress should be classified it has been added. This clearly shows the need

for constant evolution in the omnichannel world.

Furthermore, the chief executive of a fashion retailer believes aiming for an idealised finite point or structure will be fruitless as by the time a company reaches that point, the goalposts will have moved.

"It's not about a journey," he argues.

"People need to recognise things are happening, things are changing.

Speed is the most important aspect of it. If you dress omnichannel up as a great big project it will take two years, trust me, by which time you are one and a half years out of date. You've just got to keep stretching your capability, your capacity, your technology, so that everything is connected as much as possible and everything improves incrementally, daily.

As soon as something is institutionalised, like Twitter or Instagram, a new thing comes up the back straight that is cooler and then that is the thing you should be on."

67%
The percentage of retailers who rank investment in mobile as their top priority

Source: Retailer interviews

KURT SALMON PERSPECTIVE

Kurt Salmon

Operationalising omnichannel ultimately requires changes to every functional part of the business, but certain areas need to change first: the organisational structure, IT and the supply chain.

- In organisational terms, whatever title you may give to the omnichannel lead, the critical element is that there is one person with customer responsibility across all channels
- IT is key in enabling a platform allowing the retailer to innovate iteratively and meet ever-changing customer expectations
- And the supply chain needs to adapt to efficiently support the plethora of fulfilment options, which customers now consider a pre-requisite for earning their business
- It is important to have some view of profitability around channels in order to inform business decisions, but those calculations and the resulting decisions need to be made with a degree of pragmatism

CHAPTER FOUR

OMNICHANNEL
AND THE CONSUMER**40%**

of consumers select convenience as
most important to them when shopping
for clothing online

Source: Consumer research

- Customer-centric approach seen as crucial
- Increased data allows for targeted marketing
- Social media increasingly valued
- Retailers prioritise search engine optimisation
- Consumer research confirms speed of navigation as critical factor

Multichannel is rapidly becoming a less used – and soon possibly redundant – term. This is not simply because omnichannel better describes the cohesive and integrated retail structures that major retailers are establishing, but also because it embodies a singular relationship with the customer. Omnichannel represents an unbroken connection with the consumer across a seamless retail world.

As a measure of their progress towards the optimum omnichannel model, retailers were asked how close they are to having a single view of their customer and their stock. The findings show that:

- 19% have a single view of both stock and customer
- 57% have a single view of their stock but not the customer
- 14% have a single view of the customer but not of their stock

- 10% have a single view of neither their customer nor their stock

Putting things another way, 76% have achieved the single view of their stock, but only 33% have achieved a single view of the customer.

Obtaining a single customer view is a vital goal for retail chiefs, with 63% stating it's an omnichannel priority, making it the second most nominated option after investment in mobile.

"Definitely for us having a single view of the customer is a big one," says the managing director of a major retail chain. "Being able to have a look at all the elements of data that we have for a customer in a connected way is really important."

He is one of several retailers that emphasises the benefits of bringing the huge volumes of retrospective information about "what our customers do, how they shop, what they want, what their patterns of

shopping behaviour are" to bear in making customer communication more effective. "Our ability to link that to ways in which we communicate with customers is absolutely critical," he concludes.

This retailer is one of many to suggest reward and loyalty cards remain a useful source of information, in addition to being a driver of customer retention. "We have a lot of information about our customers that stretches back a long way and our challenge is to organise that data to be faster and fitter in the choices we make about how to communicate with them."

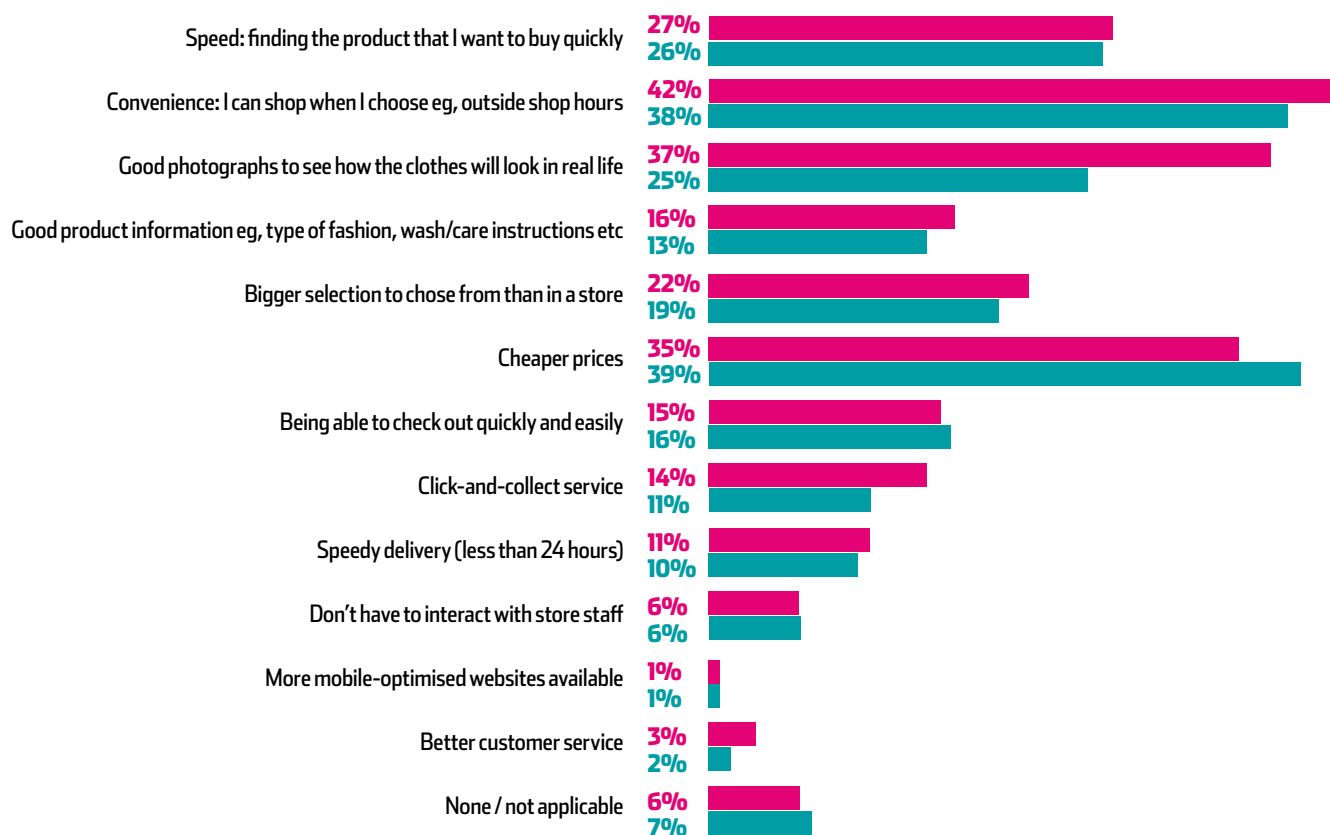
After mobile and the single view of the customer, the next most popular choice is "better leveraging of big data" which is selected by 54% of the executives. Generally, technology-related criteria feature prominently underlining the importance placed on keeping up with the pace of technological advance. ▶

4.1 Consumer priorities when shopping for clothes online



SOURCE: CONSUMER RESEARCH BASE: ALL RESPONDENTS LIST THEIR TOP THREE PRIORITIES

4.2 Consumer priorities when shopping for clothes online, split by gender

Women
Men

SOURCE: CONSUMER RESEARCH BASE: ALL RESPONDENTS LIST THEIR TOP THREE PRIORITIES

TARGETED COMMUNICATION
NEW RETAIL NORM

The retailers were asked how they envisage the way they communicate with their customers would evolve over the next 12 months, and their responses further reflect the links between customer relationship management and technology in an omnichannel world.

The chief executive of a fashion chain explains that its CRM database allows the company to target communication "much more accurately around shopping behaviour and other customer data like location", as opposed to the "sledgehammer approach" of only breaking down customers into men, women and children. He sums up the link between CRM and big data as "targeted communication based around richer data".

Similarly, the chief executive of a multi-category retail group points to the benefits of improved forecasting big data brings, in addition to more targeted marketing. "We have always in retail used history to model what is going to happen moving forward. Now we use a whole host of data inputs, some of which you'd probably consider would be irrelevant, but through algorithms their influence on outcomes is understood. It can give you a much better ability to forecast but also personalise your marketing - so targeting the right people with the right campaign."

CHANGING THE MARKETING MIX

The chief executive of a major retail group points to the impact big data is having on the marketing mix and spend. "Increasingly spend is shifting and communication effort is shifting from physical to digital and away from traditional email-type mailings to more programme marketing and social media-based marketing. It should be hyper-targeted, compared with blanket TV and press ads."

Tellingly, the managing director of a major retail chain makes a similar point, also making reference to social media. "The headline would be moving from mass communication to customers about lots of things to a very targeted personal communication with specific customer groups with what is relevant to them. We are also dialling up our visibility on social media." In fact, more than a third of the retailers make specific reference to social media in relation to consumer communication.

"Communication is all very much linked to CRM, so emails and the whole social media piece," the chief operating officer of a department store operator adds. Another specialist retailer points to "much more tailored communication that we'll be doing in the next 12 months". Already most com-

munication is direct "through email and targeted advertising" but "we are looking to make that even more personalised", he says.

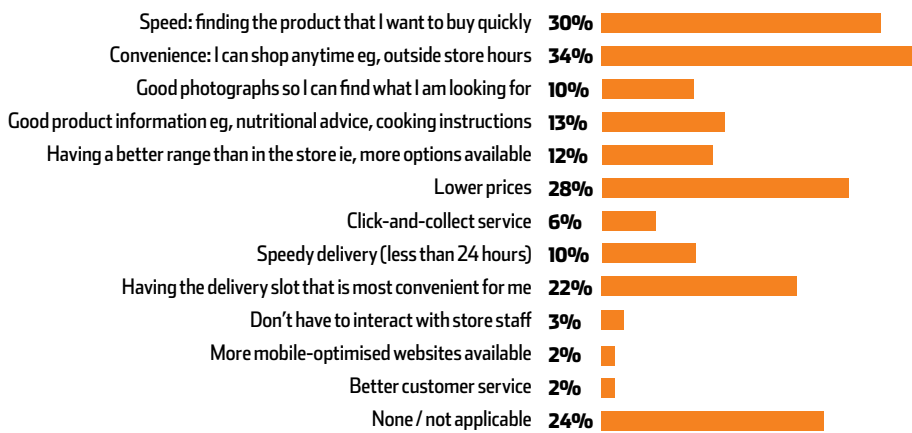
According to the chief executive of a discount chain, word of mouth has always been important and in the era of social media the effects are amplified. "We have quite a large following in social media that is becoming more and more important to us in determining where the trends are and what is exciting people. Word of mouth is very important for us, supplemented by this social media activity so you get more immediate, and more violent, reactions to launches than ever before."

He also points to the impact the growth in social media and tailored digital marketing is having on

"We're gently evolving into more digital advertising and CRM as we optimise the use of our historic customer data. That is the direction of travel away, probably, from press advertising. That is a key change in what is going on in our midst"

Chief executive of a furniture retailer

4.3 Consumer priorities when shopping for food online



SOURCE: CONSUMER RESEARCH BASE: ALL RESPONDENTS LIST THEIR TOP THREE PRIORITIES

the marketing mix and advertising spend. “We don’t believe in spending millions of pounds on advertising. Being a discounter we have to keep things very, very lean, and so we watch, analyse and learn from social media.”

“We’ll be dialling up social media, emails, text messages etc and dialling down the more traditional forms of marketing,” a senior director at a major supermarket chain adds. “We can be a lot more surgical and targeted with our social media activity than we can with our more traditional marketing.”

Lastly, the chief executive of a furniture retailer brings together all the strands – big data, advertising and CRM – in summing up how communication with his customers will change during the next 12 months. “We are gently evolving into more digital advertising and CRM as we optimise the use of our historic customer data. That is the direction of travel away, probably, from press advertising. That is probably the key change in what is going on in our midst.”

INVESTMENT IN TECHNOLOGY

Moving into online and then mobile retailing has clearly involved a huge technological investment for major retailers. These comments clearly show that their need to leverage large amounts of data to profile customers more precisely, target communication and develop areas such as social media are further reasons why investment in technology is a prerequisite in omnichannel development.

A senior director at a major supermarket chain points to the challenge of legacy systems when optimising an existing business for omnichannel. “For the new platforms to go in and work effectively we have to make changes to our legacy systems; that is quite expensive and time consuming and complicated. One of the great advantages to new entrants

into the market have is that they don’t have huge legacy systems to change. We do.”

When asked which areas of technology required the greatest focus to improve the customer’s multichannel experience, the answers are diverse, ranging from web design, mobile optimisation and CRM to order and stock management systems and in-store

46%
of retailers nominate investing in front-end technology among their omnichannel priorities

Source: Retailer interviews

Targeted personalised communication with shoppers is on the agenda in 2015



“We want people to be getting their phones out in store, they do it anyway, so we want them to be using them to engage with our content in store”

Chief executive of a specialist retailer

technology to facilitate the use of smartphone and tablet while shopping in stores.

“We need to be offering that multichannel experience in store as well, whether that is through iPads or other technologies where they can go online as well as physically look around the store,” says the chief executive of a fashion retailer. “That is an absolute minimum. There are other things we could try but that for me is the most important; when you go into a store that you can order in store as well as buying in store. I think that is the key thing.”

The chief executive of a specialist retailer who was among the 12% nominating mobile as the top priority for the coming year, says there is not only a need to invest in mobiles and tablets “as a stand-alone proposition but also their interactivity in store as well as part of the whole omnichannel experience. We want people to be getting their phones out in store, they do it anyway, so we want them to be using them to engage with our content in store.”

LISTENING TO THE CONSUMER

Consumer research commissioned for this report, suggests the retailers’ focus on technical innovation, digital expertise and areas such as search engine optimisation is entirely justified.

The 1,000 consumers were asked to say what is most important to them when clothes shopping on-

4.4 Consumer priorities when shopping for food online



SOURCE: CONSUMER RESEARCH BASE: ALL RESPONDENTS LIST THEIR TOP THREE PRIORITIES

line, choosing up to three options from a list of 12. While convenience, selected by 40%, and cheaper prices (38%) are the two most popular choices, other criteria to score highly includes good photographs (32%) and speed of navigation (27%) – see chart 4.1.

For food, convenience (34%) is the most popular area, followed by speed of navigation (30%) and then lower prices (28%). Having the most convenient time slot is nominated as a factor by 22% of consumers.

Given the importance consumers attach to speed of navigation, it is no surprise to see retailers prioritising investment in their websites – 46% nominate investing in front-end technology among their omnichannel priorities. Areas of particular emphasis are search engine optimisation and checkout.

“The real push for us is the core customer experience, their interface with us,” says a fashion chief executive. “That is all around great photography, great copy, and great ease of secure and simple check-out. We are constantly working on that above the tricks and fancy stuff. The customer still demands clarity and ease of search before they demand amazing video.”

The managing director of a major retail chain adds: “We want to look at how we further extend the reach of product availability in our market and therefore SEO is going to need to be even better, because that’s the first point at which the customer interacts with us. SEO and checkout are two key

elements of our online platform that we are looking to further enhance over the next year.”

This retailer is one of several who stresses the importance of optimising links between customer communication and stock management. “The biggest risk in retail, particularly where stock and inventory are under pressure to be kept tight, is a

customer arriving in the store and a product

that we thought was there isn’t actually there. So having the total confidence of product availability

in our single view of stock is going to be critical.” For a

large retailer, he adds: “The operational challenge of achieving that is a big one.”

Meanwhile, the chief executive of a large retail group emphasises the importance of multi-device functionality. Optimising websites and apps to fit with the “plethora of different handsets and devices” is a

critical challenge, he says, because “it is no longer a PC-orientated world”.

The need for technical expertise, notably relating to areas such as social media, website engineering and data analysis, is having an influence on recruitment. When asked what new roles had been created as part of any reorganisation to meet the demands of omnichannel, around a third of the retailers specifically pointed to recruitment and new positions aimed specifically at meeting these demands. “In the broader context we are investing a lot in digital

“We have quite a large following in social media that is becoming more and more important to us in determining where the trends are and what is exciting people. Word of mouth is very important for us, supplemented by this social media activity so you get more immediate, and more violent, reactions to launches than ever before”

Chief executive of a discount chain

“We want to look at how we further extend the reach of product availability in our market and therefore SEO is going to need to be even better, because that’s the first point at which the customer interacts with us. SEO and checkout are two key elements of our online platform that we are looking to further enhance over the next year”

Managing director of a major retail chain

skills, in IT skills,” the chief executive of a supermarket operator says.

To remain competitive requires constant investment, adaptation and innovation, as the chief operating officer of a department store operator concludes: “The key for us is not resting on our laurels, you have to continue to invest, you have to continue to update, you have to continue to recognise what the customer wants and adapt and put the customer at the forefront all of the time to make sure you are responding to their needs.”

KURT SALMON
PERSPECTIVE

Kurt Salmon

Customer expectations and the sophistication of the technology they are using are evolving fast. Retailers are working hard to keep up and most acknowledge there is still some way to go in their ability to support a 1:1 experience for each customer, with the kind of personalised interaction they are used to when shopping online.

Managing big data and the development of mobile retailing are also set to be the big projects in 2015, with retailers further leveraging their digital learnings across all channels. Not only do retailers have more information at their disposal than ever before, customers do as well, and it is critical to pull this together to move to the next level of customer excellence.

We will see further investment in mobile, as the massive shift from desktop to mobile purchasing continues.

33%

of retailers have a single view
of their customer

Source: Retailer interviews

CHAPTER FIVE

DELIVERING GOODS



- Free delivery top priority for consumers
- Retailers keeping close eye on competitors in battle for delivery supremacy
- Convenience more crucial than pure speed in delivery
- 'Where' often just as important to consumers as 'when'

The preceding chapter underlined that at the root of omnichannel retailing is a faster, virtually continuous and more personal dialogue with the customer. Ultimately being customer-led, or even customer-centric, is an essential in the omnichannel retail world.

A refined approach to customer service and communication built on greater knowledge of the customer are also intrinsic to the omnichannel environment. And nowhere does the link between omnichannel retailing and enhanced customer service manifest itself more clearly and abundantly than in customer delivery.

Customer delivery has greatly expanded as a component in retail as mobile and online have grown, but it is not only developing in volume but also in terms of scope. The range of options retailers are already providing and expect to provide in the future to meet customer demands and stay ahead of their competitors serve to illustrate just how customer- and service-led the omnichannel revolution is.

"Whether it is about same-day delivery, next-day delivery, evening delivery, overseas delivery, you've got to offer what the customer wants and expects," says the chief operating

officer of a department store chain. "For us it is a key advantage and worth the investment to stay at the forefront."

FREE DELIVERY IS A MUST

According to consumer research commissioned for *Retail 2015*, the most important factor for customers is that delivery is free – 57% say it is a priority when shopping for clothes, while 45% say it is a priority when shopping for food.

Offering faster and next-day delivery are also seen as important. For food, 23% say faster delivery is a priority, while 17% think next-day delivery is important. Interestingly, these are both significantly higher for clothes shopping, at 27% and 33% respectively. More specific time slots are deemed a priority for shoppers buying clothing (24%) but only by 14% for food.

Retailers are listening to their customers to ensure they are keeping up with evolving consumer demands but, just as crucially, they are watching their competitors. "There is so much competition out there that they absolutely have got to stay slightly ahead of each other all the time and they are desperate to gain that advantage," says the managing director of a specialist chain.

The chief executive of a fashion group echoes the point. "We are constantly monitoring our competitors in their proposition to customers, their delivery options and their technology. How we react to it might be a conversation through to investing considerable sums of money, but we are always monitoring them."

Meanwhile, the chief operating officer of another clothing group identifies competing on delivery options as "one of several key factors" contributing to a retailer's success. "You have to make e-commerce as flexible for the customer as possible and let the customer, if you like, pick from a menu."

CONVENIENCE THE KEY

Flexibility is vital because being the fastest is not

always what the consumer is looking for. Indeed, if a retailer were to focus simply on always being able to deliver within 24 hours it would likely leave plenty of customers discontented, as the managing director of a department store operator, explains.

"Speed of delivery isn't the deciding factor," he says. "It is the convenience. How can I get it to you and for it to be convenient?" As part of the convenience trend, the 'where' of delivery is becoming just as important as the 'when'. Collection points are becoming more and more important.

The chief executive of a major supermarket operator concludes: "Like all retailers, we are looking at the wider range of options that are available. We already have delivery to home and we are trialling things such as click-and-collect, all of that is part of our future strategy."

57%

The percentage of consumers that say free delivery is a priority when shopping for clothes

Source: Consumer research

CONVENIENCE VS PRAGMATISM

Although consumer convenience is vital, the chief executive of a clothing chain suggests that the desire to compete and outdo competitors in terms of delivery options can be taken too far and certainly to a point where it no longer brings returns.

Describing his view as "pragmatic", he says: "We offer next-day delivery and click-and-collect in 24 hours, but I believe there is a point where things like delivery in two hours, or 'order by 10:30pm and have it by 8am', becomes posturing and ego-trips. There comes a point where the customer doesn't need any more. So I think sometimes you can offer too much to the customer. Delivery in 24 hours is reasonable."

For a supermarket chief executive, the most important priority is remaining sufficiently agile to go wherever the combination of consumer demand and competitor pressure might take delivery options. He says: "The reality is that we are using words like 'whenever and wherever our customers want', and by implication that means we need to be there to serve them in a very different way in the future."

KURT SALMON PERSPECTIVE

Kurt Salmon

To meet the customer convenience expectations of having orders delivered when and where they want, retailers must empower their supply chain with the right level of visibility as well as accurate and dynamic information (inventory locations, order and delivery status) across all touchpoints.

Achieving full cost transparency will allow the retailers to make informed decisions on delivery services offered and the costs to the retailer and to the customer.

Regular evaluation and re-design of product flows and solutions to fulfil deliveries is essential to meet changing customer requirements. Ongoing review and simulation of different demand and requirement patterns should be completed to understand capacity limitations and to ensure that new delivery solutions can be built in time to avoid extreme peak period failures.

“Whether it is about same-day delivery, next-day delivery, evening delivery, overseas delivery, you’ve got to offer what the customer wants and expects”

Chief operating officer of a department store chain

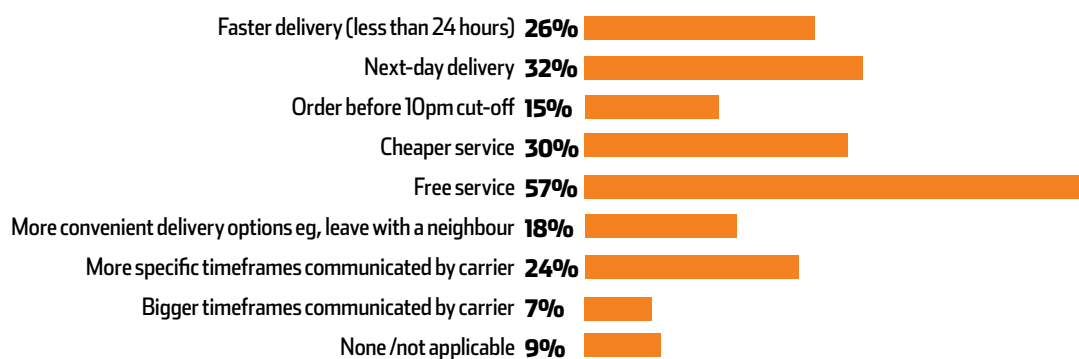
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Chief operating officer of a clothing group

“Like all retailers, we are looking at the wider range of options that are available. We already have delivery to home and we are trialling things such as click-and-collect, all of that is part of our future strategy”

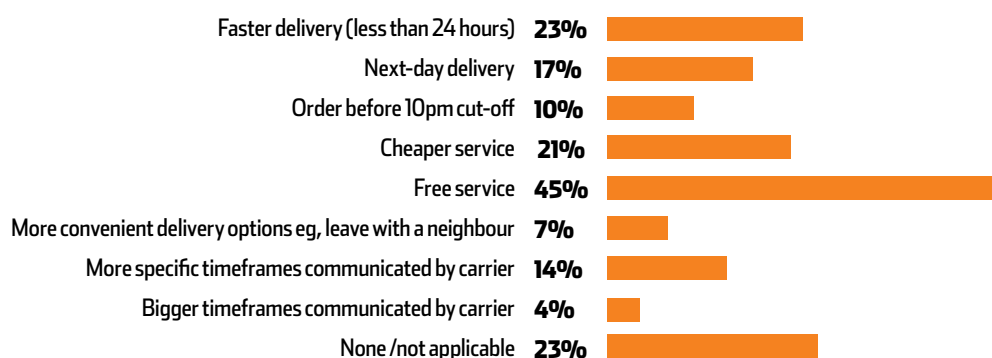
Chief executive of a major grocer

5.1 Consumer priorities for delivery when shopping for clothes



SOURCE: CONSUMER RESEARCH BASE: ALL RESPONDENTS LIST THEIR TOP PRIORITIES

5.2 Consumer priorities for delivery when shopping for food



SOURCE: CONSUMER RESEARCH BASE: ALL RESPONDENTS LIST THEIR TOP PRIORITIES

CHAPTER SIX

MANAGING
STORE ESTATES

- **Retailers forecast contraction of retail space**
- **Trend towards smaller food outlets to continue**
- **Supermarket operators facing over-capacity challenge**
- **Stores seen as part of the new omnichannel world, not the old order**
- **Good prospects for high street 're-boot'**
- **Call for landlords to be realistic on rents**

“We believe our stores are a fundamental part of the multichannel experience. With 90% of our customers collecting from stores, it's that convenience of the store combined with the information that can be accessed online which is at the heart of the multichannel experience we are trying to deliver. So our store strategy and our online strategy need to fit nicely hand-in-hand,” says the chief executive of a specialist retail chain. And he would not be alone in expressing these sentiments.

The advent of online and mobile retailing may have been the catalyst for omnichannel retailing but, as companies plan their progress towards an ideal omnichannel model, it is striking how much of the discussion is centred on stores.

It may sound trite to say that stores matter to retailers, but it is clear from the comments of the retailers interviewed for this report that shops and what happens to shopping locations is as important as ever, even though consumers are doing an increasing amount of shopping through other channels.

There may be a consensus view among the retailers that they need fewer stores, and they will occupy less space, but as online and mobile retailing inexorably progresses, there is an equally clear consensus that there is still a role – and a fascinatingly evolving one – for shops to play.

THE FUTURE OF RETAIL ESTATES

That is not to say, of course, that there is not anxiety among retailers about exactly where the omnichannel revolution will leave in-store retailing and store management. Stores are where long-term investment has often been made, where a substantial proportion of a retailer's fixed costs are to be found, notably in human resources, and are by definition significantly, and in some cases existentially, affected by the growth in online and mobile retailing.

A report last year by the Centre for Retail Research, entitled *Retail Futures 2018*, predicted that 22% of high street stores across the UK would shut by 2018, resulting in 316,000 job losses, while store vacancy rates could almost double to 24% by 2018.

What happens to retail estates, where will the contraction occur and where do the opportunities lie for store regeneration, are arguably equally crucial questions for UK retailers to address as any

concerning the growth of digital retailing. In many ways they simply represent the other side of the coin from those raised by the advent of online and mobile shopping.

The 25 retailers interviewed for this report were asked for the views on space trends for the coming 12 months and their responses lend valuable insight into the shape of things to come, not only in the year ahead but further into the future.

MANAGING SPACE REDUCTION

In general, there is candid acknowledgment that contraction will come, though the chief executive of one major retailer couches his assessment of the situation in more positive terms. “I think that good quality space will always be attractive and will always attract a premium,” he says. “However, I still think there is a huge challenge and that the majority of retailers, if they were able to re-set their

store ambitions, would choose to take retail square-footage down.”

Store closures are happening “as and when”, says a specialist retailer looking to trim its store portfolio to around 110 stores. “There is no round of closures planned, it will just happen very naturally when they come up for renewals or renegotiations. I think that is the desire from most retailers wanting to streamline. But for us it is really all about landlords needing to be realistic with the rents that they charge and that they don't price us or other retailers out of the schemes.”

Clearly, the fallout from the end of the space race between the major supermarkets is one of the defining current trends in the retail industry as a whole and in retail property specifically, and is identified as such by a number of the retailers interviewed.

Speaking specifically about the grocery sector, the chief executive of a major supermarket operator ▶

THE DEATH OF THE HYPERMARKET?

Rather like the death of the high street has been for so long, the death of the hypermarket appears to have become a “much discussed subject”.

“I think the huge hypermarket is a complete white elephant – wrong location and just not an easy or convenient or enjoyable experience. That idea of having everything under one roof is a redundant concept now that you have online,” says the chief executive of a retail group. “I know there is a lot of work going into thinking about how to re-work that space but I really think their time is up.”

A senior executive at a major supermarket operator adds: “There will be consolidation. I think there'll be a continuation towards smaller units and I think there'll be a significant trend towards collection points.”



The healthy outlook for retailers, particularly in the discount and convenience sector, augurs well for the revival of the high street



says: “There continues to be an imbalance between supply and demand, as in there’s more space and, at the moment, there’s a deflationary environment. And that combination is quite toxic for retailers because costs inevitably go up. There is no doubt that when you’ve got more space, the same demand and deflation, that is a pretty volatile combination.”

“In terms of trends we are likely to see a much reduced trend of new space opening because the

big-box pipelines are being turned off,” the chief executive of another supermarket operator adds. “That will be quite significant.” A recent report from Goldman Sachs suggested the major grocers would be compelled to close one in every five of their stores, though this forecast was deemed to be overly pessimistic by supermarket operators.

THE HEALTH OF THE HIGH STREET

The death of the high street has been the subject of many a retail trade debate for years, if not decades. However, the tenor of retailers’ comments on the high street suggests that this report should instead discuss the ‘health of the high street’. This phrase does not specify good or bad health, but does convey the notion that the patient is still alive.

In comparison with the unrelentingly gloomy outlook for the high street a few years ago, things have begun to look rosier. Intuitively, the healthy outlook for both discount and convenience retailing outlined in the opening chapter of this report augurs well for the revival of high street retailing, and this is reflected in some of the retailers’ comments.

The managing director of a major specialist chain, who also points to the “redefinition of the role of shops”, states: “It is very obvious that there is a big move towards more localised and frequent shopping trips for consumers. Customers who used to shop once a week on a Thursday or Friday night at the edge-of-town superstore are now shopping three or four times a week. That gives a big opportunity for the high street and for the local shopping centre to be more prevalent. I would expect increasing pressure

on space in those kinds of locations.”

“I think the high street is going to see some significant growth next year,” says the chief operating officer of a discount chain. “It is getting harder and harder to get the stores because there are now two or three people looking in every town. I think the high street will benefit. The premium boxes that we sit in, so about 6,500 sq ft, are harder to find now.”

The chief executive of a department store operator is less convinced about a return to rude health for the high street. “I hear all of this talk about the regeneration of the high street but I think people need to be more realistic and start thinking of what the alternative uses are, and they are most likely going to be converted into residential. The landlords need to get to grips with the fact that the yields that they got are not going to materialise ever again and the local authorities are going to have to realise that they’re not going to get the tax receipts.”

The chief executive of a fashion retailer makes a similar observation but is more sanguine. “I never

“It is very obvious that there is a big move towards more localised and frequent shopping trips for consumers. Customers who used to shop once a week on a Thursday or Friday night at the edge-of-town superstore are now shopping three or four times a week”

Managing director of a major specialist chain

SPACE TRENDS FOR 2015

Throughout this report, there have been numerous references to the omnichannel revolution being consumer-led. Many of the comments from the retail chiefs on retail space trends underline that this is as true for shops as it is for the high-tech channels and whatever comes next.

Retailers are certainly having to be more inventive and creative about how they use their retail space and, given that total retail space is inevitably reducing, it could be that “less but better” is the defining retail space trend.

Better may mean higher quality space, it has to mean better conceived store propositions, but what it certainly signifies is that far from being the dead wood of retail, stores have a crucial and exciting role to play in the omnichannel world.

Indeed, they are as much part of the new order as any channel. As the managing director of a speciality retailer says: “I think the ability for retailers to be able to harness their property asset base with their online reach is where the greatest success will come from.”



“There continues to be an imbalance between supply and demand, as in there’s more space and, at the moment, there’s a deflationary environment. And that combination is quite toxic for retailers because costs inevitably go up. There is no doubt that when you’ve got more space, the same demand and deflation, that is a pretty volatile combination”

Chief executive of a major supermarket operator

“Consumers are changing their perspective on what they want from a shopping trip to a retail park or a high street. I think the implications are that retail space will continue to consolidate into high class, high velocity retail locations for more of the ‘social shopping event’”

Chief operating officer of a fashion retailer

believed in the death of the high street,” he says. “It always seemed ludicrous to me. What will happen is two things: one is that we will reach an equilibrium in terms of shopping behaviour between the different channels and the second thing is that assets will change hands and prices will alter, in terms of asset values, land values, rents, taxation, and even Government policy in order to make it economically viable again.”

“You know, the death of the high street has been called many times but I don’t think that is really happening,” adds the chief executive of a major retailer. “What happens is that one store changes, when one closes down it is an opportunity for others to grow and thrive.”

The chief executive of a leading fashion retailer points to that evolution, while also stressing the need for rents to be pitched at a level appropriate to the modern usage of so many high street sites. “The high street has gone through turmoil. The rents were too steep and the vacancies we’ve had have led to a re-booted high street. It may not be everyone’s cup of tea but they are now full of value players, full of tattoo shops, full of bookmakers, coffee shops, nail bars. It is a different experience but actually it is only what customers want.”

“As customers choose to travel less to the edge-of-town supermarket, they want to travel more frequently to the local or high street food retailer,” says the managing director of a major specialist chain.

CREATIVE THINKING

For the chief operating officer of a fashion retailer, the challenges facing the store portfolio are no different from those posed by the new channels. The critical factor is to respond to customer demand and desire. “Consumers are changing their perspective on what they want from a shopping trip to a retail park or a high street. I think the implications are that retail space will continue to consolidate into high class, high velocity retail locations for more of the ‘social shopping event’.”

It is clear that retailers have some critical judgment calls to make regarding managing the retail estate as the omnichannel retailing world crystallises.

Retailers are enthusiastic when asked about shops – who would expect anything else? This may reflect a certain romantic attraction to stores that one

would expect any retail executive to have, but it also reflects how critical the judgments retailers must make around stores are to the future of their companies.

It is how retailers use their store estates in conjunction with digital channels that will determine not just the survivors, but the winners.

22%
The percentage of high street stores across the UK that would shut by 2018

Source: Retail Futures 2018 report

KURT SALMON PERSPECTIVE

Kurt Salmon

For most retailers, having the right physical store locations remains a critical element of retail success. But as consumer behaviour shifts, so does the value – and the value proposition – in physical retail assets.

And the operating model within those stores is changing – with many stores now fulfilling orders in some form from store, and the number of stores doing this set to increase.

Retailers need to continue to re-invent their stores, and some need to make some big calls on how to use their space more effectively and efficiently. Creating a compelling store proposition that draws customers into stores is critical to ensure store economics remain viable.

We see 1:1 retailing in store, where customers can get the kind of personalised interaction they are used to when shopping online, as a hot topic for 2015.

CHAPTER SEVEN

EXPANDING HORIZONS



- Half of retailers report rising proportion of international business
- Only 5% report diminishing share of revenue from international sales
- Online boosting international presence for UK retailers
- Some retailers forecast growing number of ecommerce sites outside the UK in 2015

The degree to which a retailer might be focusing on international expansion will vary according to their unique strategies and priorities, but, once again, the influence of omnichannel retailing can be clearly seen here.

The advent and expansion of online and mobile retailing has by definition removed the need for physical expansion. Any retailer can extend its international presence by ensuring that

customers landing on its website in other countries can transact.

It is perhaps for this reason that retailers are reporting that international sales are rising as a proportion of their business. Half of the 25 retailers interviewed for this report say international sales have increased as a share of revenue over the past year, 45% saying the share is slightly higher and 5% saying it is much higher. Only 5% say international

business has declined as a share of revenue, while the remaining 45% say it remains unchanged (see chart 7.1).

INTERNATIONAL NOT TOP PRIORITY

While it could be said that embracing international online business is a relatively low cost and low-investment route to growth, the number of companies prioritising this development is relatively small. ▶

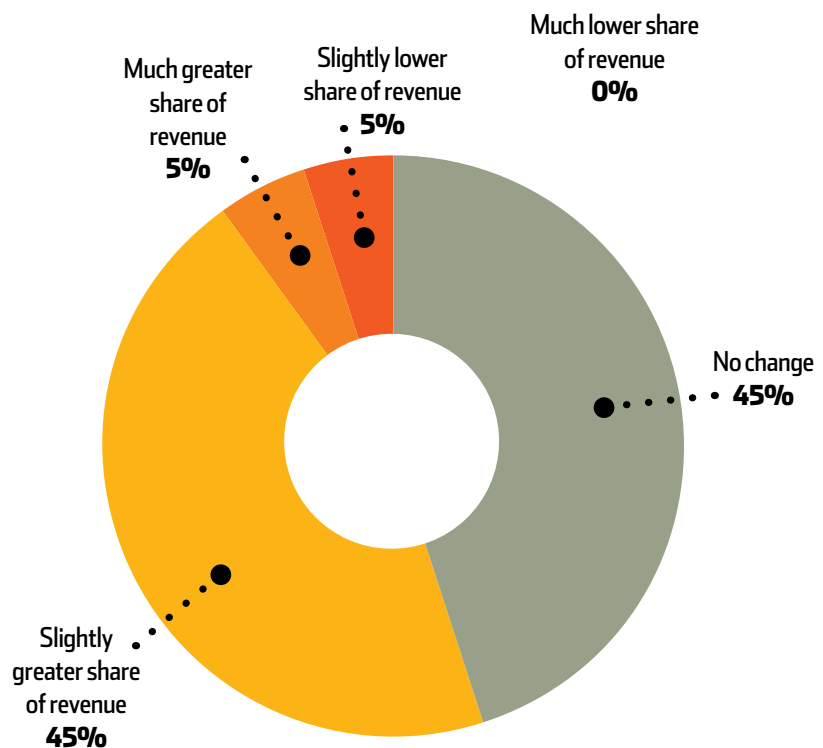
“We have no stores but we do sell online overseas. That said we are not investing behind it [online] this year; we don’t really think it is sustainable in our business, with our brand and our supply chain”

Chief executive of a specialist retailer

“When pure-play gets to a certain scale the recent trend is to expand overseas, so it is interesting just to see how many UK retailers are trying to now operate in other countries”

Chief executive of a major retail group

7.1 Share of revenue represented by international business compared with a year ago



SOURCE: RETAILER INTERVIEWS BASE: ALL RESPONDENTS

“International is still an opportunity for those companies with the right business plan and can execute it. But the uncertainties remain there around the economic turmoil in Europe, issues over exchange rates, the high cost of investments in order to get markets established, the risk of product fit being right and all those sorts of things, so I guess it all depends on the business”

Chief executive of a fashion chain

“I think businesses will look to consolidate and the days when businesses felt they could go to China to compensate for the low growth in their home territory, well, people found that China was a very difficult and complicated market in which to operate”

Senior director at a supermarket

When asked to identify their top three business priorities for the coming year, only one of the retailers put international expansion as the top priority. In terms of aggregate score, derived by allocating a score of 3, 2 or 1 for each time the priority was nominated first, second or third, international expansion achieved the second-lowest score of 6.

The view of the chief executive of a specialist retailer with more than 50 stores in the UK appears to speak to a “take it if it comes” view towards international growth via online. “We have no stores but we do sell online overseas,” he says. “That said we are not investing behind it this year; we don’t really think it is sustainable in our business, with our brand and our supply chain.”

According to the chief executive of a major retail group, if UK retailers follow the same approach as pure-play online retailers, more will be looking to develop online sales outside the UK going forward. “When pure-play gets to a certain scale the recent trend is to expand overseas, so it is interesting just to see how many UK retailers are trying to now operate in other countries.”

A senior director at a supermarket plays down the theory that UK retailers will look to overseas markets to offset low growth in the UK.

45%

of retailers say the share of revenue represented by international business is slightly higher

Source: Retailer interviews

He says: “I think businesses will look to consolidate and the days when businesses felt they could go to China to compensate for the low growth in their home territory, well, people found that China was a very difficult and complicated market in which to operate.”

Meanwhile, the chief executive of a clothing retailer contends that the international expansion of his company is most certainly not borne out of inertia in the domestic market. “While our international business is growing at a faster pace our UK business is far from stagnant,” he says.

GLOBAL EXPANSION POTENTIAL

As for the potential in general for UK retail brands to expand their international presence, the chief executive of a fashion chain, which is itself expanding internationally, sees some potential.

“International is still an opportunity for those companies with the right business plan and can execute it. But the uncertainties remain there around the economic turmoil in Europe, issues over exchange rates, the high cost of investments in order to get markets established, the risk of product fit being right and all those sorts of things, so I guess it all depends on the business.”

The chief executive of a supermarket operator is considerably more sanguine, saying: “I think what we have seen is a breakthrough for retailers in terms of their ability to take their brands overseas and that provides very good prospects for continuing growth in 2015.”

KURT SALMON PERSPECTIVE

Kurt Salmon 

Some fashion and speciality retailers, inspired by the success of the likes of Asos and Wiggle, have generated healthy growth in 2014 from international expansion and, in particular, ecommerce expansion. With UK websites and brands popular in many international markets, this remains a good growth route for many in 2015. Fashion players with strong brands are also seeing growth potential via a blend of wholesale, retail, franchise and ecommerce.

For those retailers embarking on international expansion, critical success factors required to support international growth across the end-to-end supply chain should be defined. Supply chain capabilities (from sourcing, customs, warehousing, distribution and returns management) can then be designed and implemented to align with the business growth strategy and future requirements across all channels to limit costs and maximise ROI.

CHAPTER EIGHT

OPTIMISING THE SUPPLY CHAIN



- **Retailers seek to optimise supply chains for multiple channels**
- **Bringing sourcing closer to home identified as a priority**
- **Speed and flexibility viewed as critical**
- **Large majority of consumers see sustainable sourcing as important**

As so many of the observations of the major retailers interviewed for this report have made clear, to succeed in the omnichannel environment a retailer needs to be customer-led, flexible and responsive. Ideally, it should also have a single view of both its customer and its stock. It thus follows that its supply chain must be configured and optimised for the demands of omnichannel retailing.

In the businesses represented by the 25 retail chiefs interviewed, this is clearly happening or on the agenda for 2015. While 29% specifically name investment in supply chain and fulfilment as a priority, others are prioritising tasks that can be grouped under the 'supply chain management' banner. These include achieving a single view of the customer, nominated as a priority by 63% of retailers, and a single view of stock (25%). Similarly, investment in internal systems, nominated by 29% as a priority, could arguably be considered a task that falls under the supply chain directors' jurisdiction.

Therefore, it's apparent that for many retail businesses, focusing on improving and optimising their supply chains to survive in a multichannel world is a chief concern going forward.

OMNICHANNEL PRIORITIES

The managing director of a major retail chain explains why he put supply chain and fulfilment among his company's omnichannel priorities. "The biggest risk in retail, particularly where stock and inventory are under pressure to be kept tight, is a customer arriving in the store and a product that we thought was there isn't actually there. So having the total confidence of product availability in our single view of stock is going to be critical. Supply chain is a key part of convenience and within the industry, and we want to further leverage it."

For a clothing retailer, supply chain and fulfilment appear among the omnichannel priorities because of the need to cope with expansion. "If I was to prioritise, for us, from that list, it would be supply chain and fulfilment because we have to deal with growth and we're maxing out in terms of what we have got in place."

As with the general business priorities, the choices the retailers make may be informed by their overall focus on a winning retail formula but also by the particular stage their company is at. In the context of omnichannel development it should be noted that 76% say they have achieved the single

view of their stock, which might indicate that many have already addressed what they considered to be challenging supply chain issues.

SUPPLY CHAIN CHALLENGES

The retailers were also asked which areas of supply chain are currently providing the sternest challenges. Adapting the supply chain to the demands of omnichannel features prominently in their responses to this question, both in terms of customer service requirements and the practicalities of supplying multiple channels.

"We are seeing the need for a supply chain to be adaptable and flexible to the speed that customers want to get products in," says the managing director

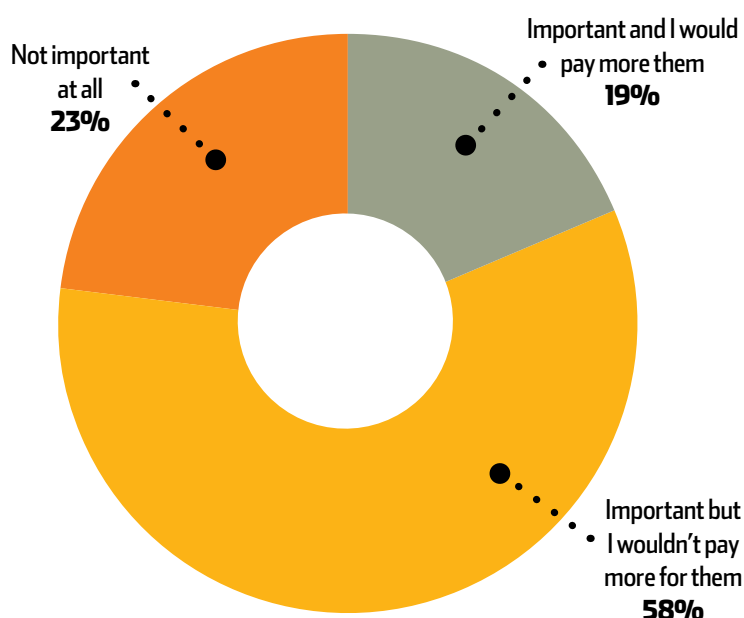
of a major retail chain, "and we are seeing an online platform that needs to connect the online space with stores in a more integrated way than ever".

A similar challenge is highlighted by a senior director at a supermarket operator. "The challenge would be around omnichannel stock and how we organise ourselves around it, so effectively having a single stock pool, but the management of it and the allocation of stock to the online businesses and the more traditional store-based businesses."

"It is all about online delivery and getting the balance right in terms of resource allocation between online and physical stores," the chief executive of a clothing retailer adds.

As has been the case for some time, UK retail-

8.1 Importance of ethical and environmentally responsible sourcing of clothes to consumers



SOURCE: CONSUMER RESEARCH BASE: ALL RESPONDENTS

ers also remain concerned about increasing costs in China. In addition, how to shorten lead times and, in some cases, shorten the supply chains themselves by bringing sourcing closer to the UK is identified as a challenge.

"I think in a world where people want things forever quicker, the biggest challenge for me is trying to minimise the timeline from Far East imports," says the chief executive of a furniture retailer.

Speed is also of the essence for the chief operating officer of a department store chain, along with better tracking of freight. "Track and trace is becoming more important certainly, knowing where your containers are, knowing when they've come into port, and trying to speed up the whole operation when a product touches down. So we are looking at everything and anything that we can do to speed up that whole process." Another chief executive adds: "The continued pressure on speed of service, I don't think that is going to go away."

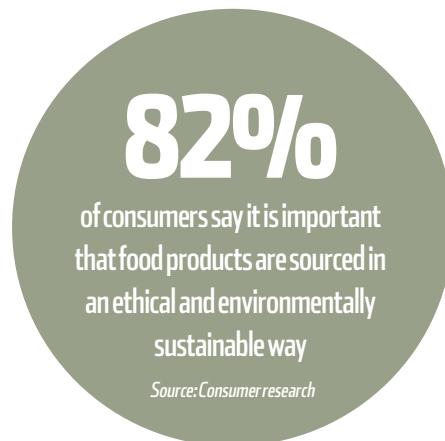
Meanwhile, tailoring the retail offer according to customer preference has implications on the supply chain beyond the outbound fulfilment stage, as the chief executive of a supermarket operator explains: "The big challenge is about making selection more personal to the customer. That means the range in stores is going to be much more adapted to local communities and local markets and that, for a convenience retailer, puts pressure on the supply chain."

Surprisingly, given that the impact of the horse-meat scandal and the Rana Plaza tragedy is still resonating around the retail world and environmental stewardship is also higher up the corporate agenda than ever, only one retailer referenced sustainability or ethical sourcing as an issue of concern.

The chief executive of a multi-sector retail group says: "You know, in supply chain terms, climate change is here to stay. The fashion industry is only just waking up to that. I really believe that sourcing closer to home, taking the hit on margin in the short

"Having the total confidence of product availability in our single view of stock is going to be critical. Supply chain is a key part of convenience and within the industry, and we want to further leverage it"

Managing director of a major retail chain



term, but having the flexibility to manage a stock package nearer the time and repeat where things are selling well and respond to the impact on climate, are extremely valuable. Maybe moving into Turkey and the Uzbekistans and maybe Eastern Europe."

While none of the retailers specifically referred to levels of workers' pay or conditions in producing countries, as noted in chapter 2, the chief executive of a specialist retailer suggested that the comparatively low wages paid in the UK retail sector represent "a challenge that all of us retailers need to have in our sights next year".

It's surprising that the issue of ethical sourcing and environmental responsibility did not come to mind for more of the retailers given that supply chain management involves so many business decisions with an environmental and ethical dimension, and these issues are becoming a concern to an increasingly wider range of consumers. However, it could be that this speaks to the retailers' confidence that the interventions, policies and safeguards they have put in place to mitigate the environmental and social impacts along their supply chains are being effective.

ETHICAL SUPPLY CHAINS

Heightened public concern on these matters was reflected in the consumer research conducted for this report. When asked how important it is that food products they buy are sourced in an ethical and environmentally sustainable way, some 82% of respondents say it is important, while 18% say it is not at all important. However, only 24% say they would pay more for such products, versus 58% who said it was important but they would not pay more for them.

The research showed lower levels of concern for clothing. When asked the same question about clothes shopping, only 77% of respondents say it is important, while 23% say it is not. Some 19% say they would pay more for sustainably sourced

clothes, with 58% saying the issues are important but they would not pay more for them (see chart 8.1). This pattern has been discerned in other research on sustainability, with consumers generally more concerned about food than non-food categories.

The research also reveals some interesting gender and age variations, with women showing greater concern in these issues than men. For food, only 14% of women say it is not at all important compared with 23% of men. For clothing, 71% of men say these issues are important compared with 83% of women.

For both food and clothing, concern appears to be greatest in the 55-plus bracket and lowest in the 28-to-35 age bracket.

For food, 86% in the 55-plus age bracket say it is important, against 76% of 25-to-34 year olds. For clothes, 82% of consumers over 55 say it is important, compared with 71% of 24-to-35 year olds. Concern is also revealed to be high in both categories among 18-to-24 year olds, with 82% saying it is important for food and 81% saying it matters when buying clothes.

KURT SALMON PERSPECTIVE

Kurt Salmon

To respond to the new supply chain challenges and obtain the required level of agility and competitive advantage, retailers need to develop an integrated view across the entire chain – from upstream raw material planning and manufacturing through to customer fulfilment. Designing and implementing differentiated operating models are ways of managing the growing complexity not just of consumer behaviour but sourcing challenges and growth of private label.

End-to-end visibility will not only enable optimisation of the supply chain and achieve increased sales and reduced costs, but also enable the retailer to answer any ethical and environmental questions that the consumer might have.

Many retailers will need to make a number of transformational changes such as new technology, new fulfilment facilities and different transportation models.

To achieve omnichannel success, new ways of working and development of governance models will support senior level buy-in and cross functional decision making across the supply and demand network.

CONCLUSION

CUSTOMER FOCUS



If there is one uniting feature that encapsulates all that retailers are doing to embrace change and prosper in a changed retail market it is the unrelenting focus on the customer.

The particular significance retailers attach to achieving the single view of the customer is a key finding to emerge from this report, while the innovation being shown in areas such as mobile retailing, customer relationship management, tailored marketing through social media and customer delivery underline that being customer-led and service-orientated is a major priority in today's competitive retail environment.

The ubiquitous references to 'personalisation' speak to the irony that in a retail world which is more automated and computerised than ever, the personal touch has never been more crucial. Indeed, far from making retailing impersonal, in many ways technology – and in particular the ability to leverage the huge amount of data retailers hold about their customers – is enabling a closer relationship between customer and retailer.

Furthermore, because customer demands and technology are evolving so rapidly, the emphasis in terms of change management is on flexibility and agility. For all the discussion of finding the optimum omnichannel business model, retailers stress the need for constant evolution and renewal, rather than a journey to an ideal structure.

Indeed, one clothing chief executive goes further, suggesting that retailers are spending too much time "having stupid intellectual debates" about what the right structures might be. "[There's] too much time spent talking about it and not enough just doing it and moving forward". Such strong views clearly emphasise the importance of action over words.

MAKING SHOPPING SEAMLESS

Clearly, operating through multiple channels does require a significant reappraisal of the way retailers operate and those with a clear understanding of how the channels interact will be in better shape to capitalise in the omnichannel world. That said, there is clearly some difference of opinion among the retailers as to just how precise the quantification

of each channel's contribution to an individual sale needs to be.

However, the clothing chief executive's sentiments also speak to a dichotomy remarked upon by a number of other retailers. While the retailers' understanding of the way the different channels interact deepens and their systems allow them to follow customers more closely as they move between channels, the consumers' perspective is quite different. Consumers do not think in terms of channels. They simply shop and expect a seamless interaction with the retailer as a matter of course.

Whether or not this means that retailers should also stop thinking in terms of channels in order to be completely at one with their consumers is debatable. It could be that retailers have to think very hard about this – as the work being done on multichannel integration underlines – precisely in order that their customers do not have to think about it at all.

Presumably a convergence of the consumer and retailer mindset will happen as a matter of course at some point in the future, when technology renders the real and virtual retail worlds entirely indistinguishable and indivisible.

FUTURE-PROOFING FOR SUCCESS

For now, the fact that just 5% of the retailers represented in this report see the process of reorganisation and restructuring to meet the demands of omnichannel as complete, and only 19% believe they have achieved a single view of both their stock and their customer, suggests discussions about perfecting business models will remain the norm for some time to come.

There is no doubt that the innovation and creativity being applied to the retail sector in order to meet the demands of today's omnichannel world make it a both a profoundly challenging and interesting place to be.

The retailers' moderate forecasts for 2015 in terms of retail sales growth and improvement in the consumer mood may not excite, but it is a measure of the opportunities represented by omnichannel that, in spite of the uncertain market environment, the UK retail sector conveys a spirit of dynamism and progression.

"While retailers' understanding of the way the different channels interact deepens and their systems allow them to follow customers more closely as they move between channels, the consumers' perspective is quite different. Consumers do not think in terms of channels. They simply shop and expect a seamless interaction with the retailer as a matter of course"

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