Partnering to Win in Retail's Digital Age

How To Stay Ahead

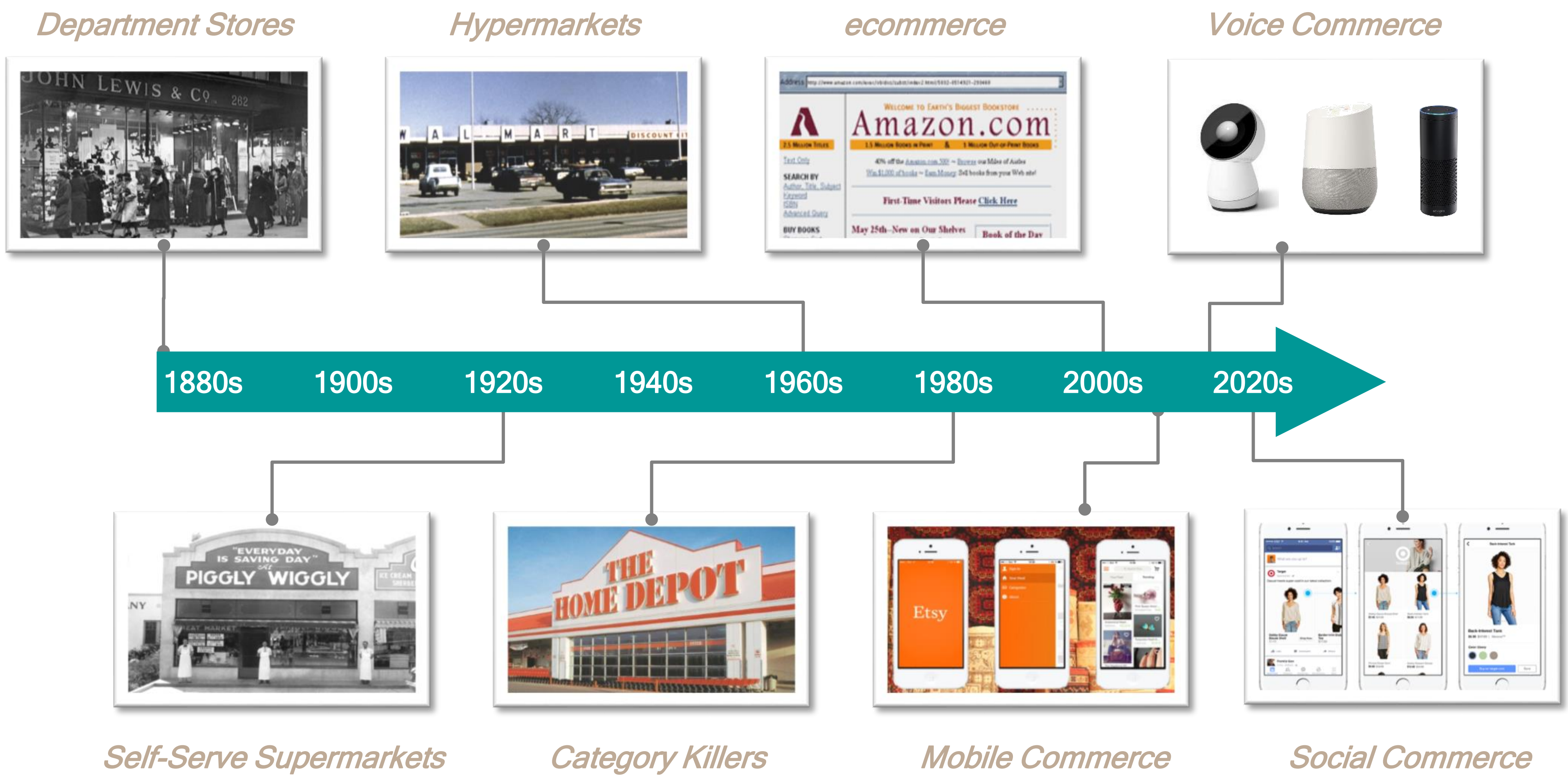
6 February 2018

OC&C Strategy consultants

Google

uncommon sense

Retail has always been an industry of change



Three themes dominate the retail agenda

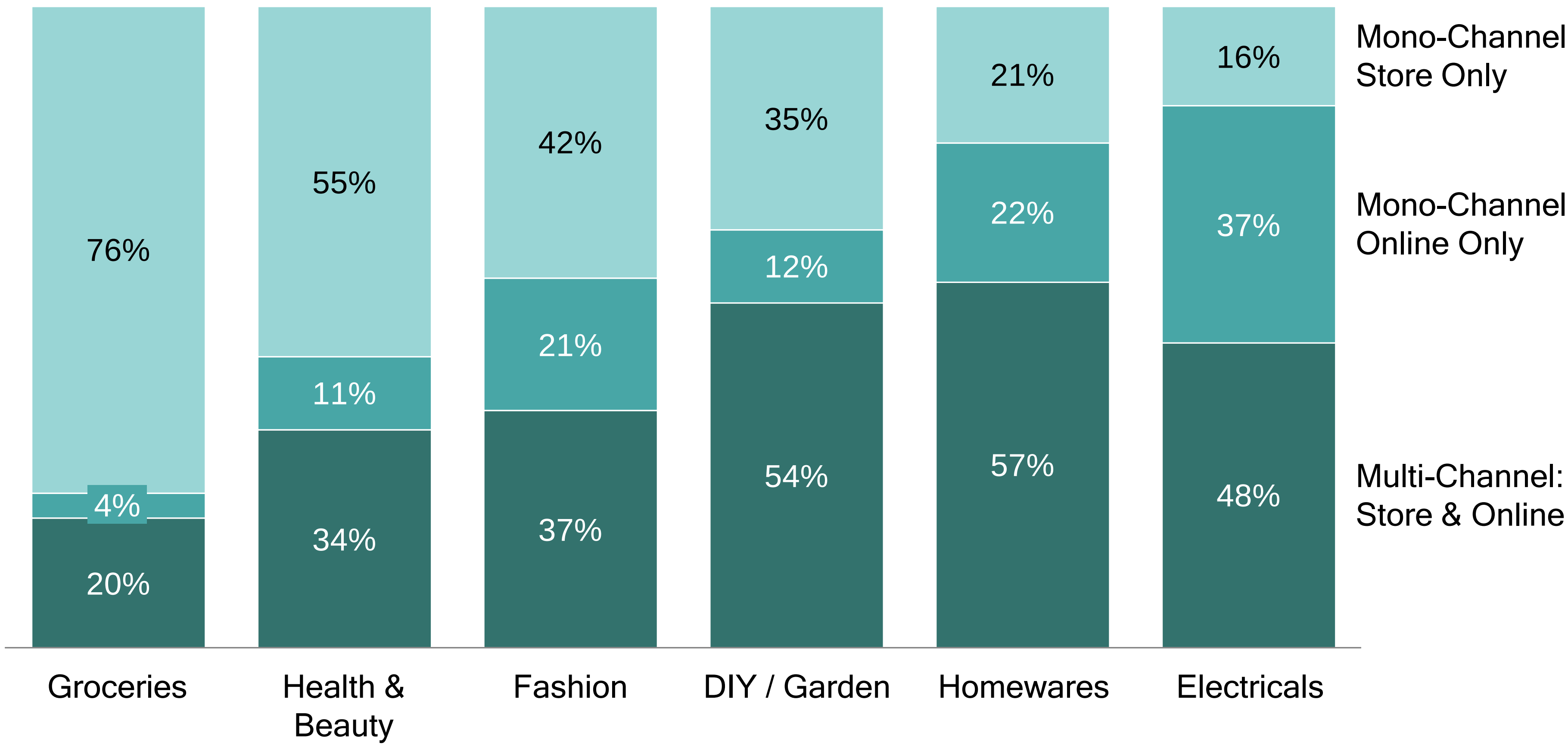
Customers continue to lead the change agenda for retail

Omnichannel strategies have been insufficient

Digital platforms have redefined what is required to win

Nearly 60% of customer journeys now involve digital channels

Share of Journeys by Category that are Multi-Channel vs Mono-Channel[1], % Share of Journeys

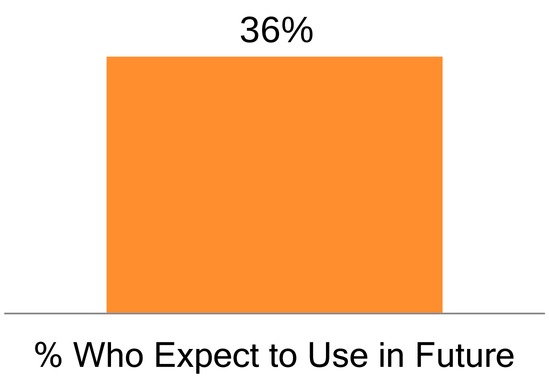


1. Share of customer's **most recent purchase** journey across UK, FR and DE that are mono-channel or multi-channel (where channel = desktop, mobile/tablet website, retailer app, or store)

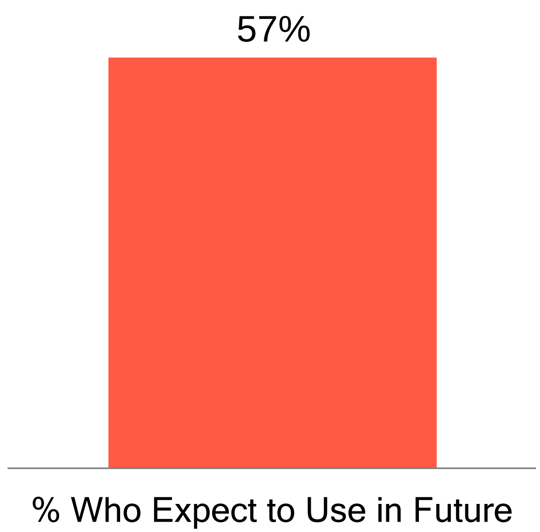
Source: OC&C Consumer Survey November 2017, OC&C analysis

The future will be even more technologically enabled

Digital Voice Assistants



Augmented & Virtual Reality



Artificial Intelligence

Alibaba's AI chatbots were crucial in facilitating the $25bn worth of transactions on "Singles' Day"

> *"Our chatbot can serve almost 3.5 million users a day, compared with 200-250 by a traditional customer services representative"*
>
> Product Manager, Alibaba

Source: OC&C Consumer Survey November 2017, OC&C analysis

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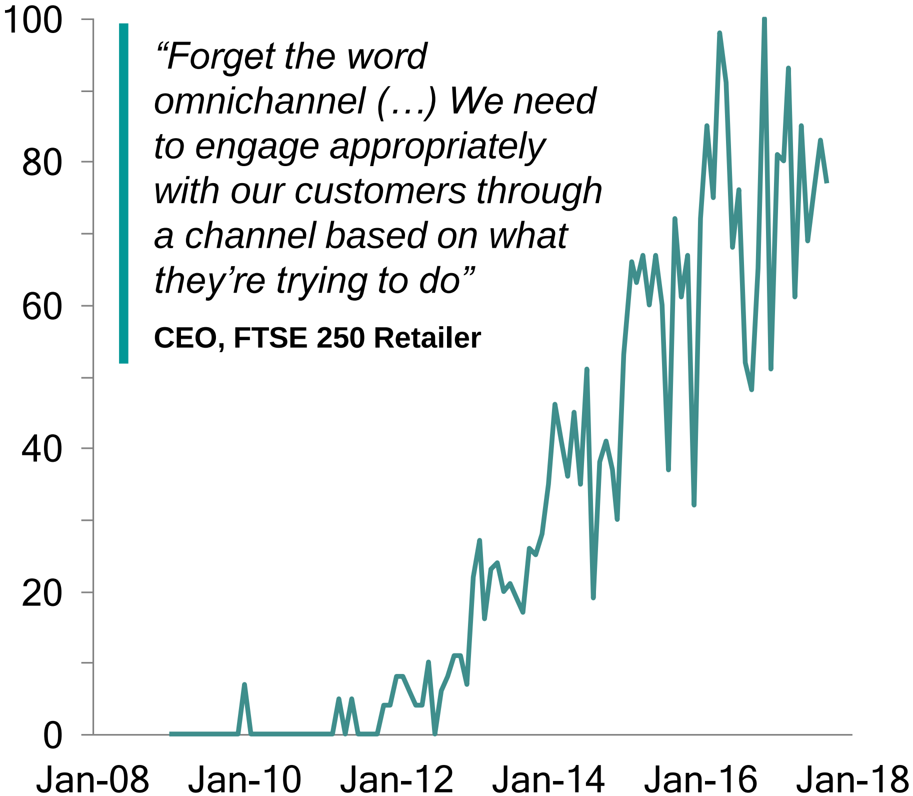
Being in every channel isn't sufficient to win

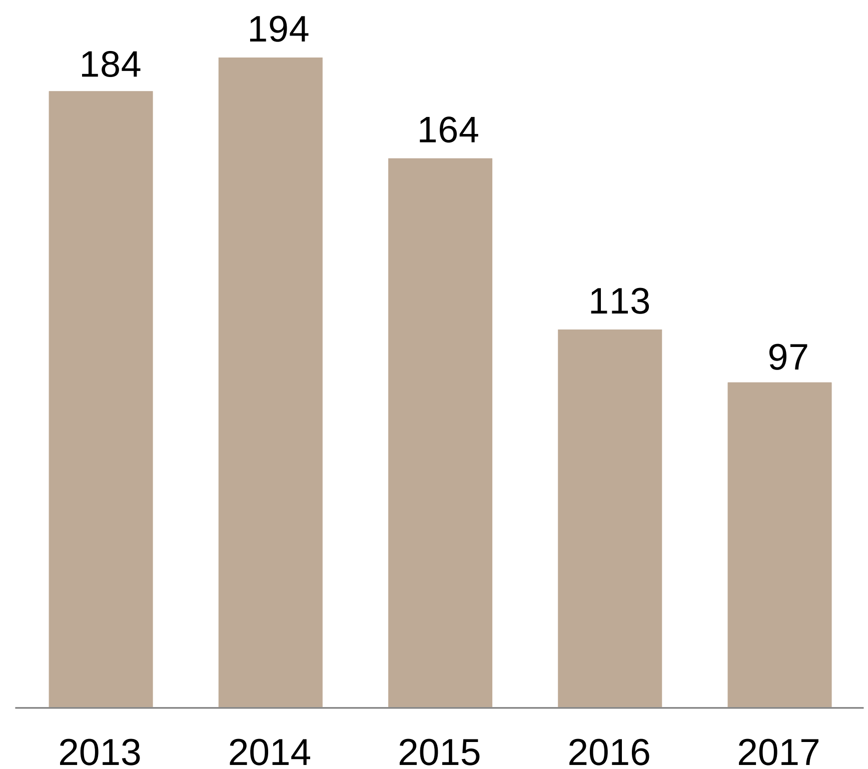
Google Trends' Searches[1] in 'Omnichannel', 2009–2017



"Forget the word omnichannel (…) We need to engage appropriately with our customers through a channel based on what they're trying to do"

CEO, FTSE 250 Retailer

'Omnichannel'[2] Mentions in Annual Reports of Top 10 Retailers[3]



1. # of Searches are relative to the highest point on the chart for the given time period
2. Omnichannel and Multichannel mentions
3. Top 10 UK and French retailers

Source: Google Trends, Company Annual Reports, OC&C Retailer Interviews, OC&C analysis

Customers are vocal about the pain points in omnichannel journeys

Service In-store

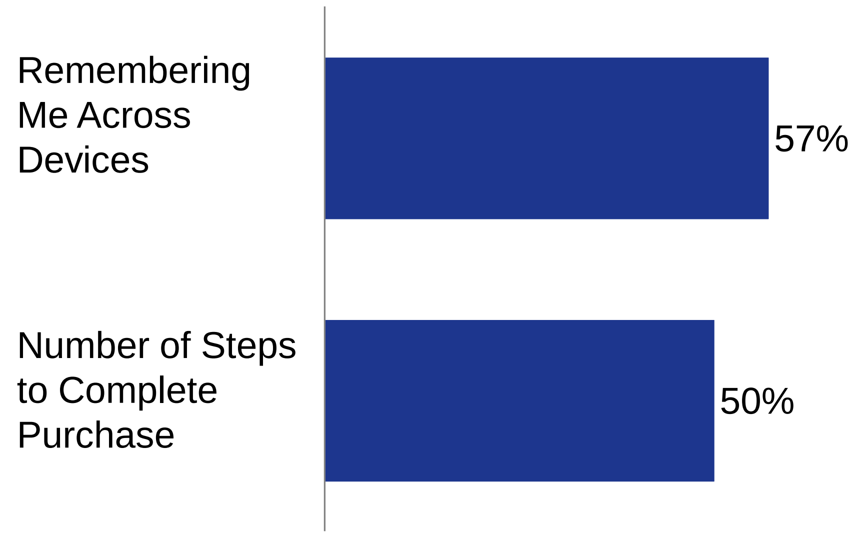
Top Offline Customer Pain-Points:

% of customers who cite as a pain point

Speed Online

Top Online Customer Pain-Points:

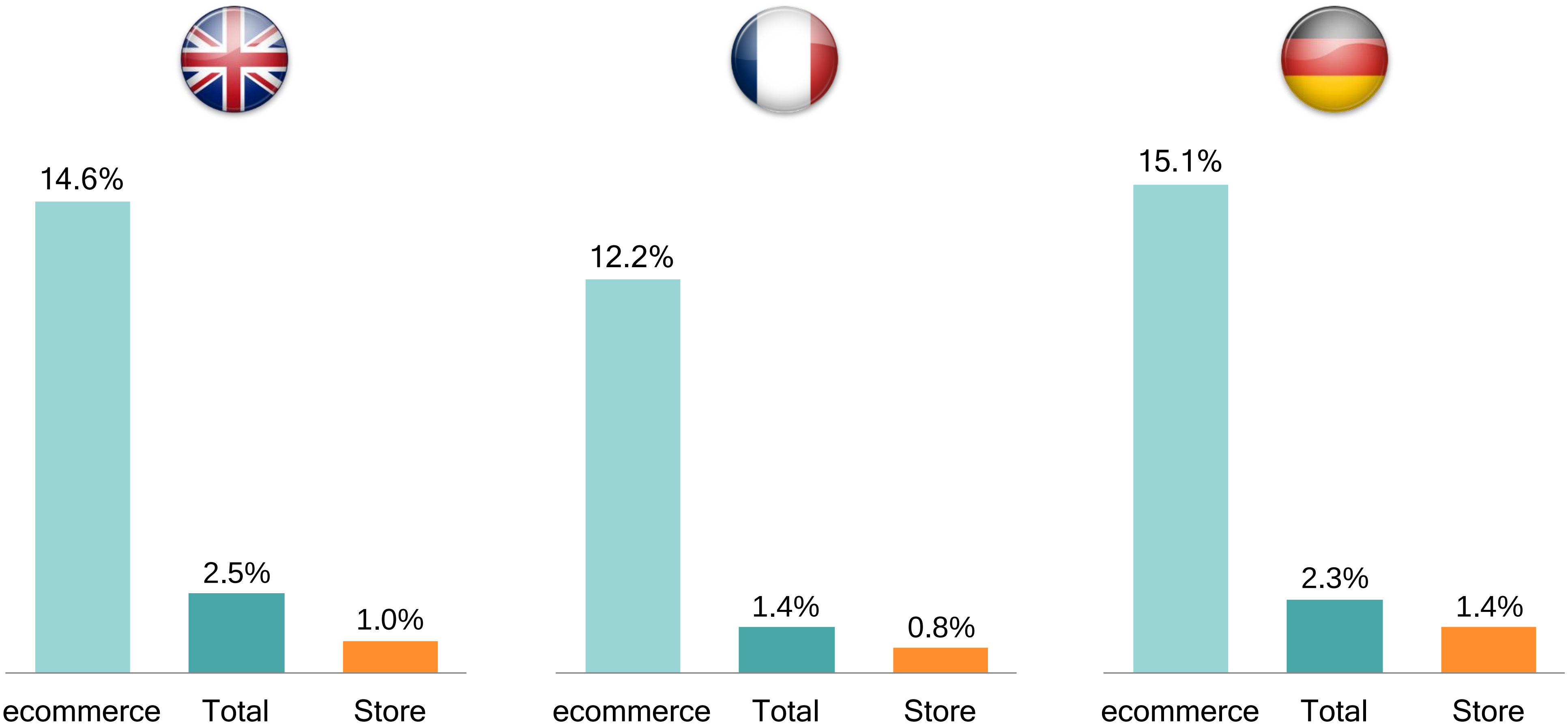
% of customers who cite as a pain point



Source: OC&C Consumer Survey November 2017, OC&C Retailer Interviews, OC&C analysis

Growth from new channels has been mostly substitutional…

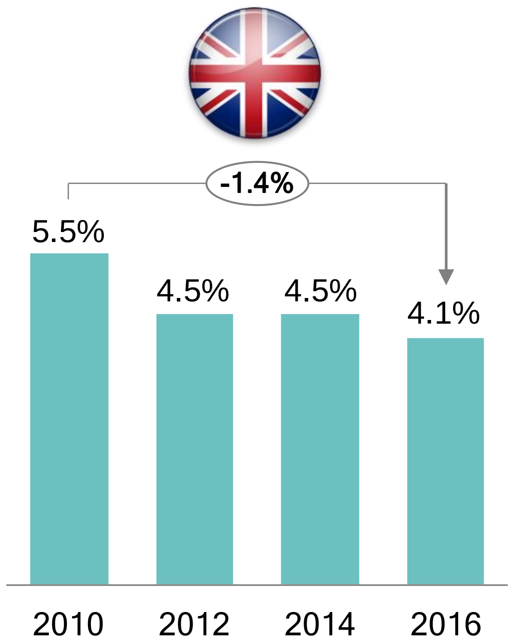
Retail Sales Growth by Channel – UK, France and Germany, 2011-16 (% CAGR)



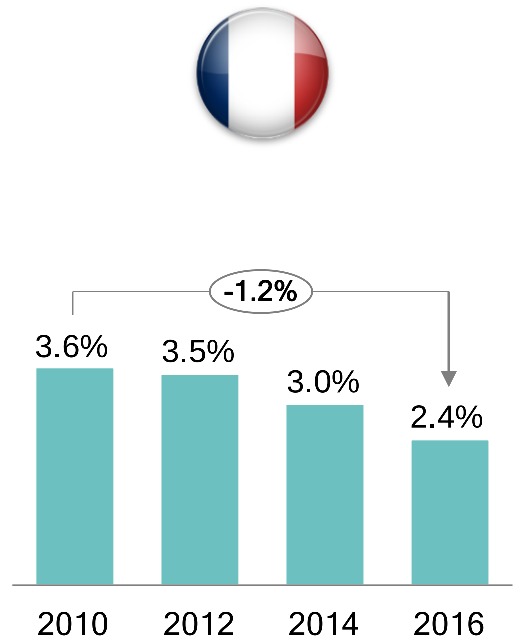
Source: Euromonitor, OC&C analysis

… at a time when the industry profit pool is under pressure

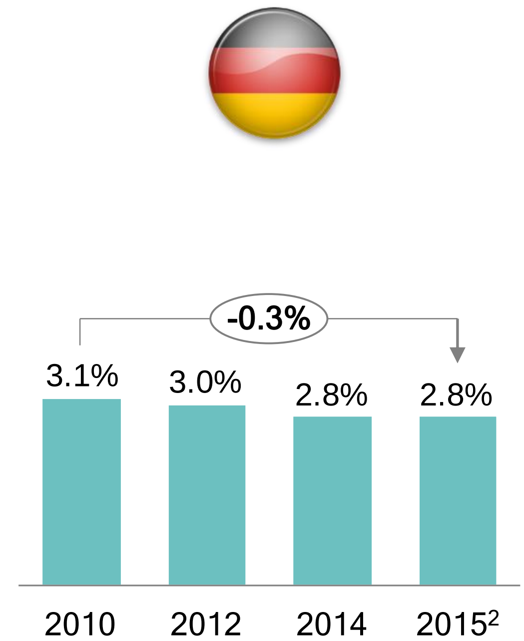
% EBIT Margin of Top 100 Multichannel Retailers by Market[1,2,3]



> *"We can't afford to invest in the tech that is required to keep up"*
>
> CEO, UK Retailer



> *"We have had to completely redevelop our IT tools"*
>
> CEO of Internet Sales, French Retailer



> *"Our approach has had to shift from defensive to offensive"*
>
> Board Member, German Retailer

1. Top 100 multichannel retailers by 2016 revenue in each market (multichannel defined by excluding platforms, bricks + mortar and pureplay retailers)
2. 2015 used in Germany due to lack of published figures for 2016
3. UK: 96 retailers, FR: 69 retailers, DE: 82 retailers

Source: OC&C Retailer Interviews, BvD, OC&C analysis

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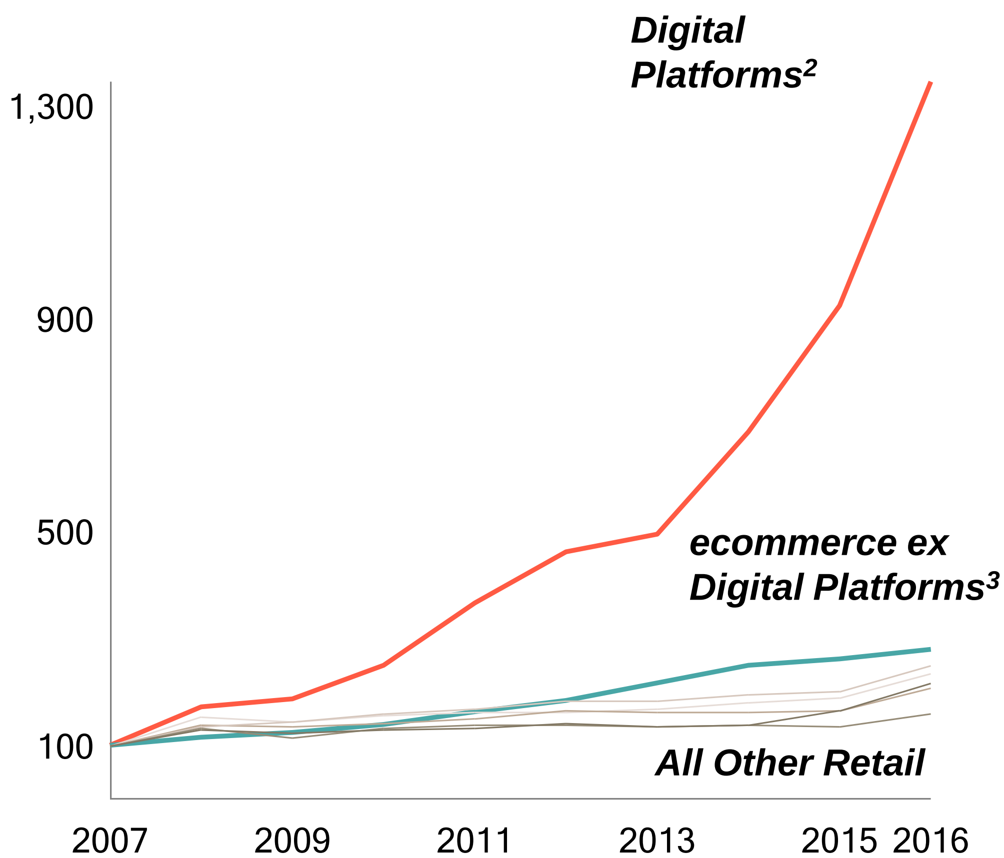
However, the performance of digital platforms continues to accelerate



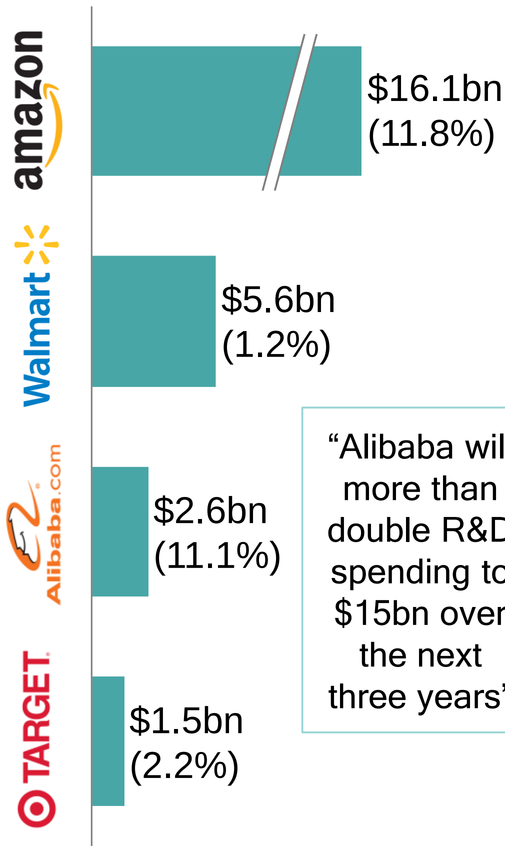
By 2025, c. 60% of all ecommerce transacted via digital platforms[4,5]

1. The global top 200 retailers by 2016 revenue were analysed
2. Based on revenue of Amazon, eBay, Alibaba, JD.com, Zalando (Other platforms such as Asos and Farfetch are not in Top 200)
3. Includes online pure plays and online sales of traditional retailers
4. Of total retail sales in France, Germany and UK, (excl. VAT and Travel and Leisure)
5. Assuming 14.9%, 9.2% and 10.1% yearly growth in digital platform sales in UK, FR, DE respectively

Source: BvD, Euromonitor, OC&C analysis

Platforms continue to out-invest in new technologies & experiences…

Investment in Technology & Acquisitions 2016
$bn, % of Revenue



"Technology and Content" Spend[1]

Investment in technology, digital retail, and related acquisitions

"Alibaba will more than double R&D spending to $15bn over the next three years"

Capital expenditure (capex)[2]

Capex on eCommerce and supply chain improvements

Digital Assistants

AI

Cloud Infrastructure

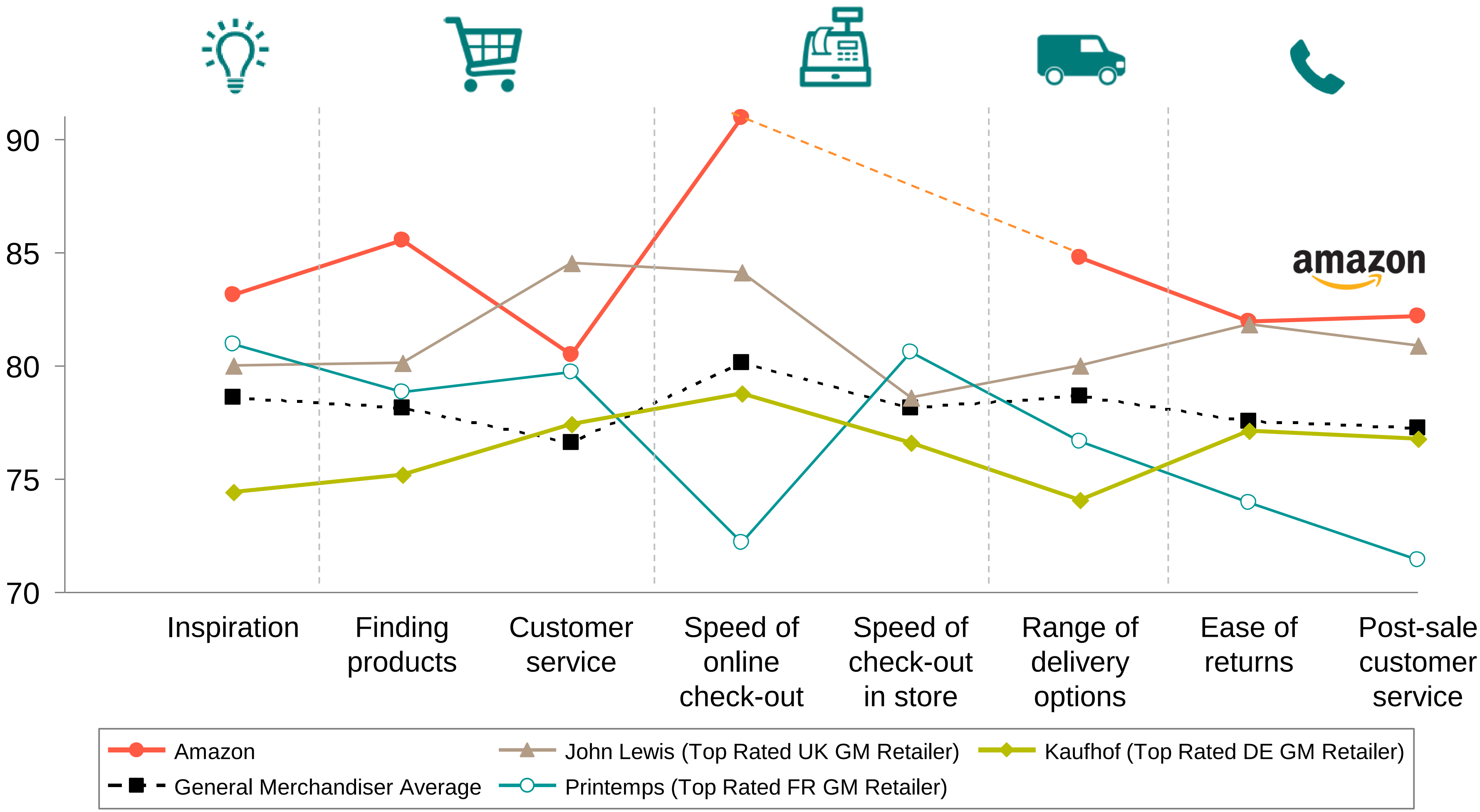
Augmented Reality

1. 12 months to March 2017
2. 2017 capex

Source: Annual Reports, Bloomberg, Market Watch, OC&C analysis

… and deliver consistently superior customer experiences

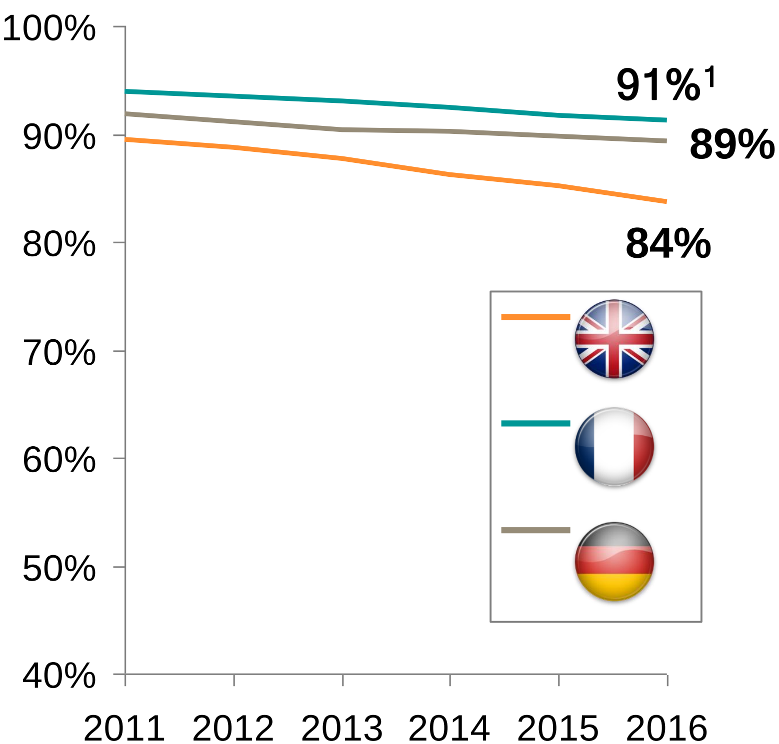
Average Rating By Step Of Customer Journey Across All Channels, Amazon vs Leading GM Retailer
Score Out of 100



Source: OC&C Proposition Index 2017, OC&C analysis

Offline is the next frontier for some

% of Retail Sales Value In-store



amazon

$13.7bn
Amazon acquisition of Whole Foods

450
Wholefoods stores in the US

Alibaba.com

$2.9bn
for a 36% stake in Sun Art Retail

446
Hypermarket locations

FARFETCH

"Our store of the future is a bit like an operating system for a shop, we build the platform and you build the apps."

1. FIVAD report in-store sales to be 93% of French market

Source: Euromonitor, OC&C analysis

Retailers will need to think customer, not channel

Customers continue to lead the change agenda for retail

Omnichannel strategies have been insufficient

Digital platforms have redefined what is required to win

Partner To Win

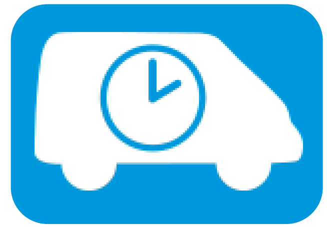
- Think Customer, Not Channel
- Reinforce Your Distinctiveness
- Organise Around Speed & Accountability

Winning retailers are actively solving their customers' top pain points…

Ranked in Top 3 in Peer Ranking in OC&C Proposition Index Against Each Journey Step

Product Findability

In-Store product availability can be checked and 2-hour home delivery is offered



In-Store Experience

Flagship Store in Munich with 300 m^2 of smart home exhibition space

Service In-Store

Rigorous training programme with sales staff hired based on genuine interest in tech products

Source: OC&C Consumer Survey November 2017, eConsultancy, Ingenico, OC&C analysis

… and enabling personalisation in stores

SEPHORA

Customer Preference Behaviour Characteristics → In-store Personalisation With Technology & Training → Linked To Better Product Or Solution

In a 2015 customer survey, 80% of Sephora shoppers said that learning more about beauty was their top priority

Tech Solution: Color IQ

The handheld device captures a person's exact skin tone and matches it to products

"We believe that education is empowerment, and by enabling our customers to learn, we're allowing for both higher conversion and deeper brand loyalty"

Director Of Innovation Lab

Source: Retailer Interviews, Desk Research, OC&C analysis

The bar on what it takes to be distinct in retail has also been raised

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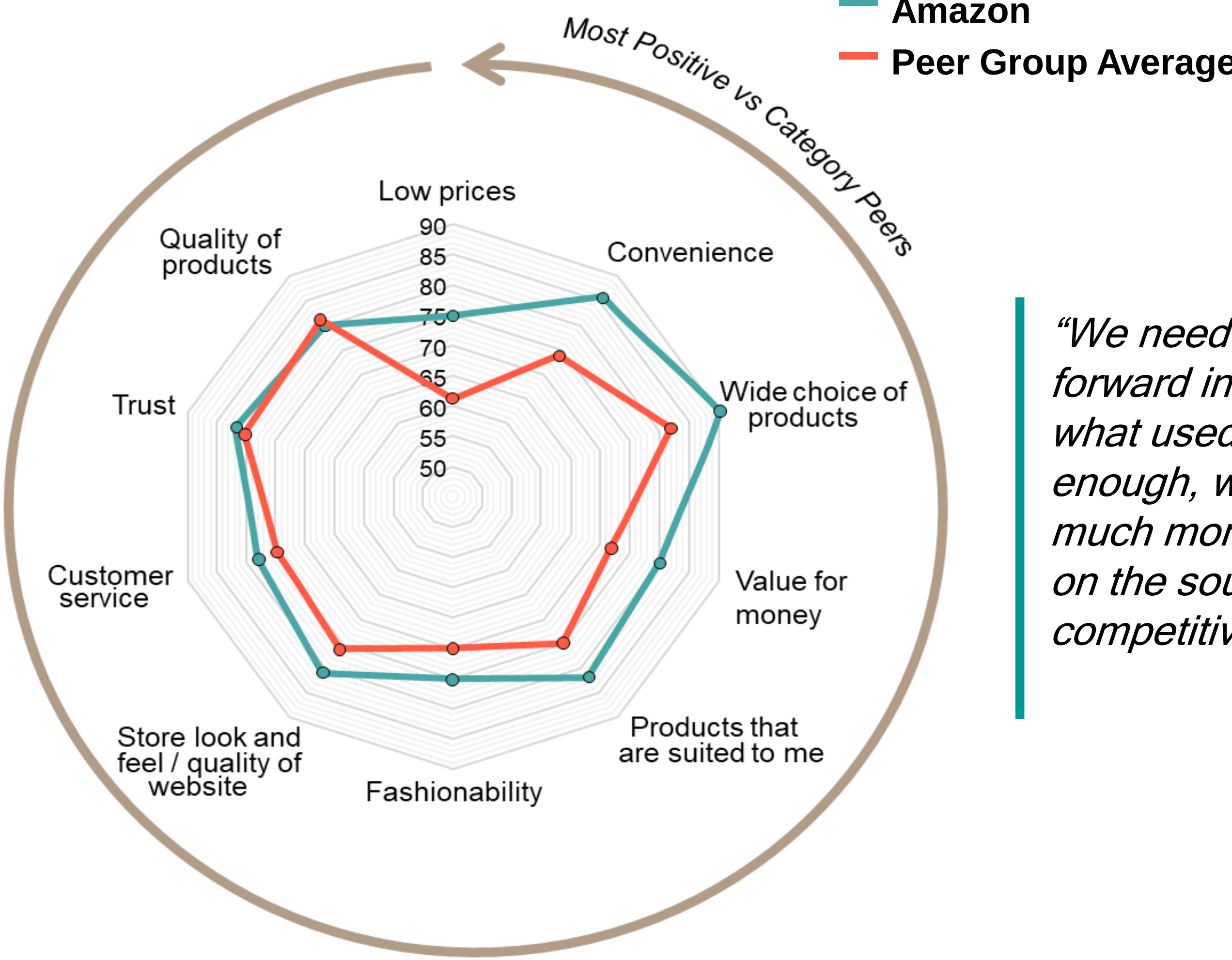
Reinforce Your Distinctiveness

Multichannel retailers need to re-focus on what makes them great

Amazon Proposition Index Rating vs Peers[1]



"We need to take a step forward in our proposition - what used to work isn't enough, we are taking a much more aggressive view on the source of our future competitive advantage"

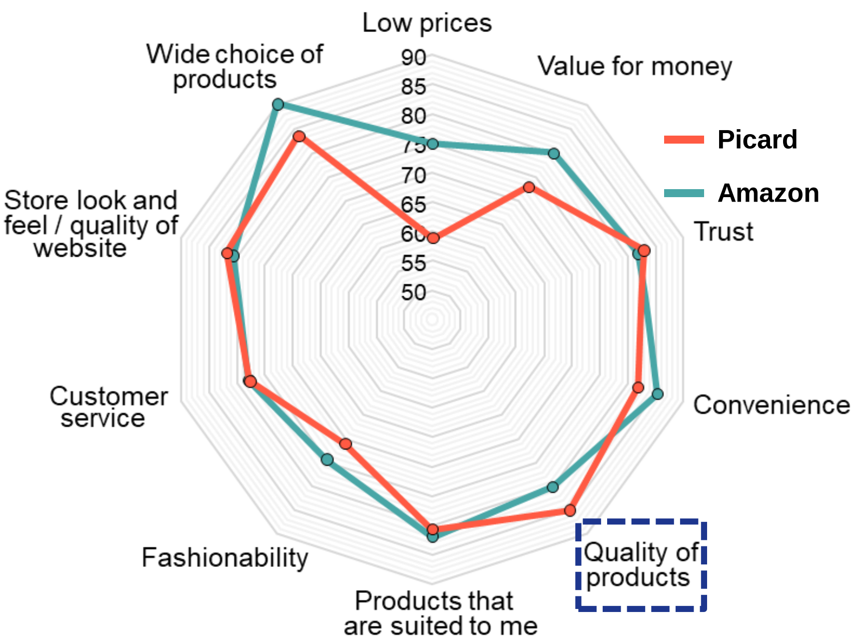
CEO, UK Retailer

1. Peer Group contains top 3 GMs/Electricals from UK (Argos, John Lewis, Wilko), France (Fnac, Galeries Lafayette, Boulanger) and Germany (MediaMarkt, Saturn, Conrad)

Source: OC&C Proposition Index 2017, OC&C Retailer Interviews, OC&C analysis

Winning multi-channel retailers will pick their battles

Quality

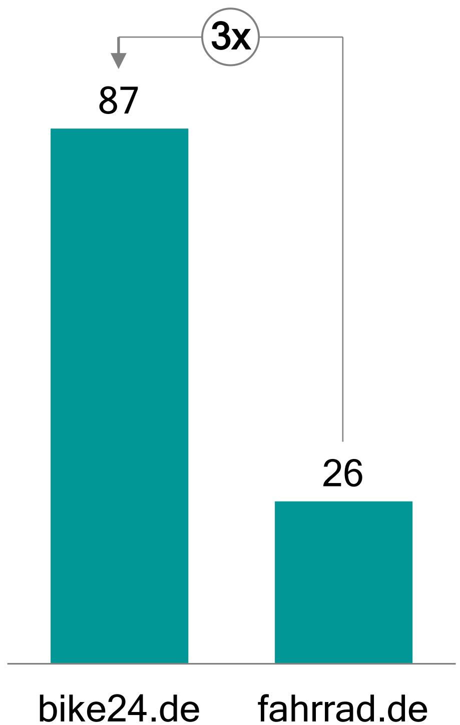


Price and Value For Money

Source: OC&C Proposition Index 2017, OC&C analysis

Customer experiences will need to be truly distinctive

of Cycle Product Options (k)



No PPC spend – Customer traffic driven to the site by searches for unique range

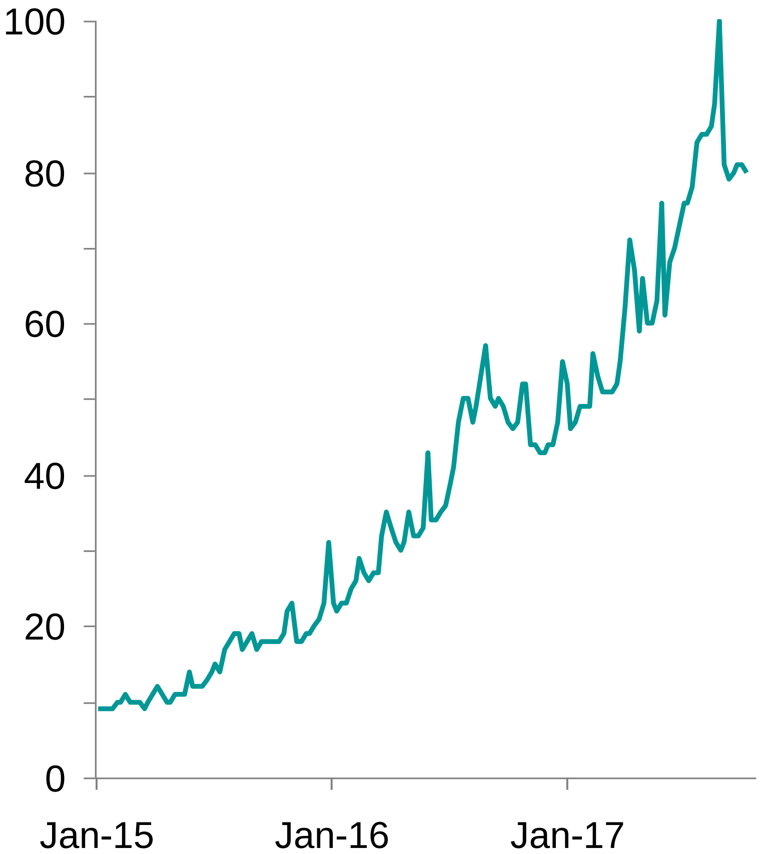
***20%+ growth
10% EBITDA Margin***

"We will pay for new launches to be flown to us rather than what for them to be shipped – our customers get it first"

Source: OC&C Store Checks, OC&C analysis

There is more to do to capitalize on linking online and offline behaviour

Growth of “Near Me” searches, 2015–2017



Tailor Store Proposition To Local Demand

Measuring Online to Offline Impact

Surface Local Inventory Availability

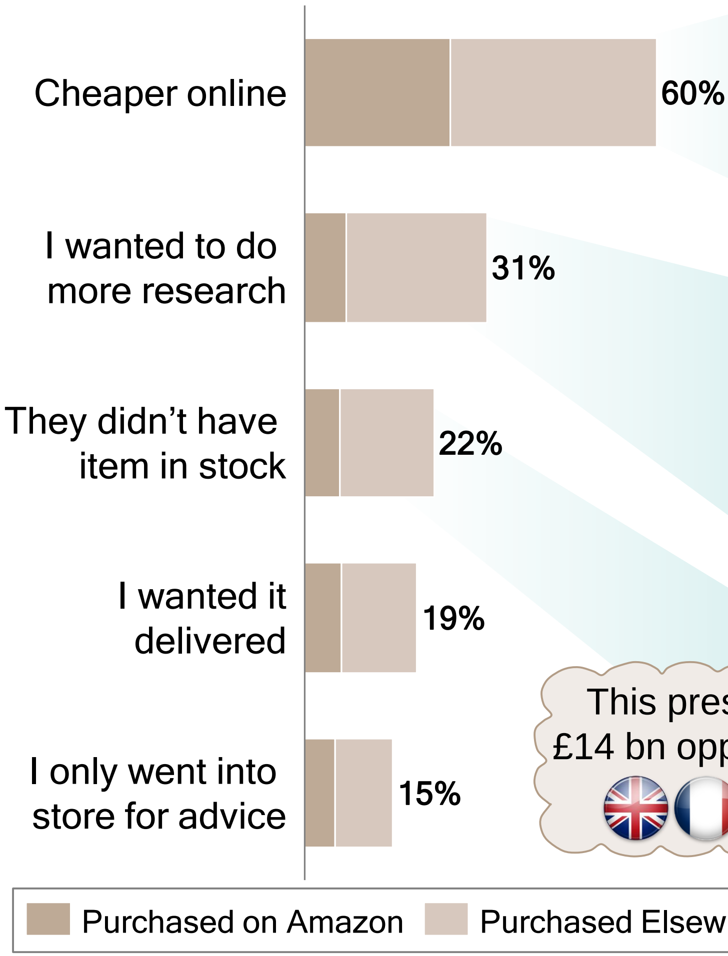
Location-based Targeting

1. Google Trends data, search interest relative to the highest point on the chart for the given time period

Source: Google Trends, Think With Google, OC&C analysis

There will need to be clear focus on lost sales opportunities in store

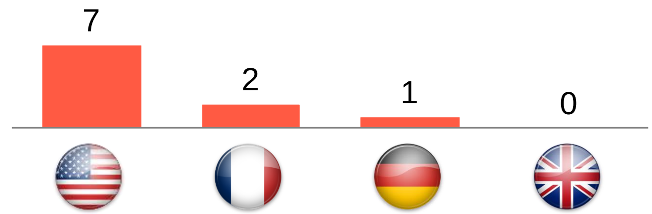
Reasons for Browsing But Not Purchasing In-store



This presents a £14 bn opportunity[1]

Price Matching to Amazon

Of Top 10 GM & Electrical Retailers Who Price Match to Amazon



Information Availability In-store

AR + Avatar Assistants

Product Testing

In-store Ordering

Tablets to Connect In-store to Online Site

éram

c.5% LFL Sales Uplift

1. 11% of online customers browsed in-store before making the purchase online. Online sales revenues were estimated at £126bn in 2017

Source: OC&C Consumer Survey November 2017, Euromonitor, OC&C analysis

Retailers will need to organise around speed & accountability

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Partnering To Win

Think Customer, Not Channel

Reinforce Your Distinctiveness

Organise Around Speed & Accountability

Speed is becoming a source of competitive advantage in retail

Create end-to-end accountability for categories and functions

"Everyone has a highly siloed approach in the business, which makes it harder to incentivise and make people think outside of their role"

Customer Director, French Retailer

Make data drive your decision making

"We have teams focused on store efficiency and integrating them with new recruits who are used to a digital-first environment is challenging"

Ops Director, German Retailer

Test quickly, fail fast, stay the course

"Launching an innovation takes at least 12 months. There are a number of functional teams that need to input into the process"

CEO, UK Retailer

Partner to deliver new capabilities in data and technology

"We have 300 IT projects running at the moment, but progress against these is slow. We don't have the capabilities to deliver these quickly"

Head of Corp Dev, German Retailer

Winning retailers are organising around pace and accountability

Link commercial teams to technology capabilities	"Our marketing team is integrated and channel agnostic. Incentives are based on overall P&L, not for a specific channel" **Head of Internet & Customer Relations, French Retailer**
Aggregate marketing spend and budget responsibility	"We have IT developers embedded into customer facing ecommerce teams…this has been great for improving collaboration" **ecommerce Director, UK Retailer**
Product management capabilities sit alongside core commercial functions	"In addition to our commercial buying and merchandising teams, product management is key to ensuring our customer experience continues to develop at the pace we need it to in areas such as voice search, visual search, mobile user experience, loyalty" **CEO, Pureplay Retailer**

Source: OC&C Retailer Interviews, OC&C analysis

Retailers will need to partner to win

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Why partnering is an imperative

"Anyone can create templates and methods, but you need someone who makes it more precise and actionable"

COO, French Retailer

Talent

Technology

"Partnerships would give us access to more technology and international capabilities"

Head of Corporate Development, German Retailer

"We need to look at alternative ways to differentiate our proposition, partnerships are a great way to do this in a capital-light way"

CEO, UK Retailer

Investment

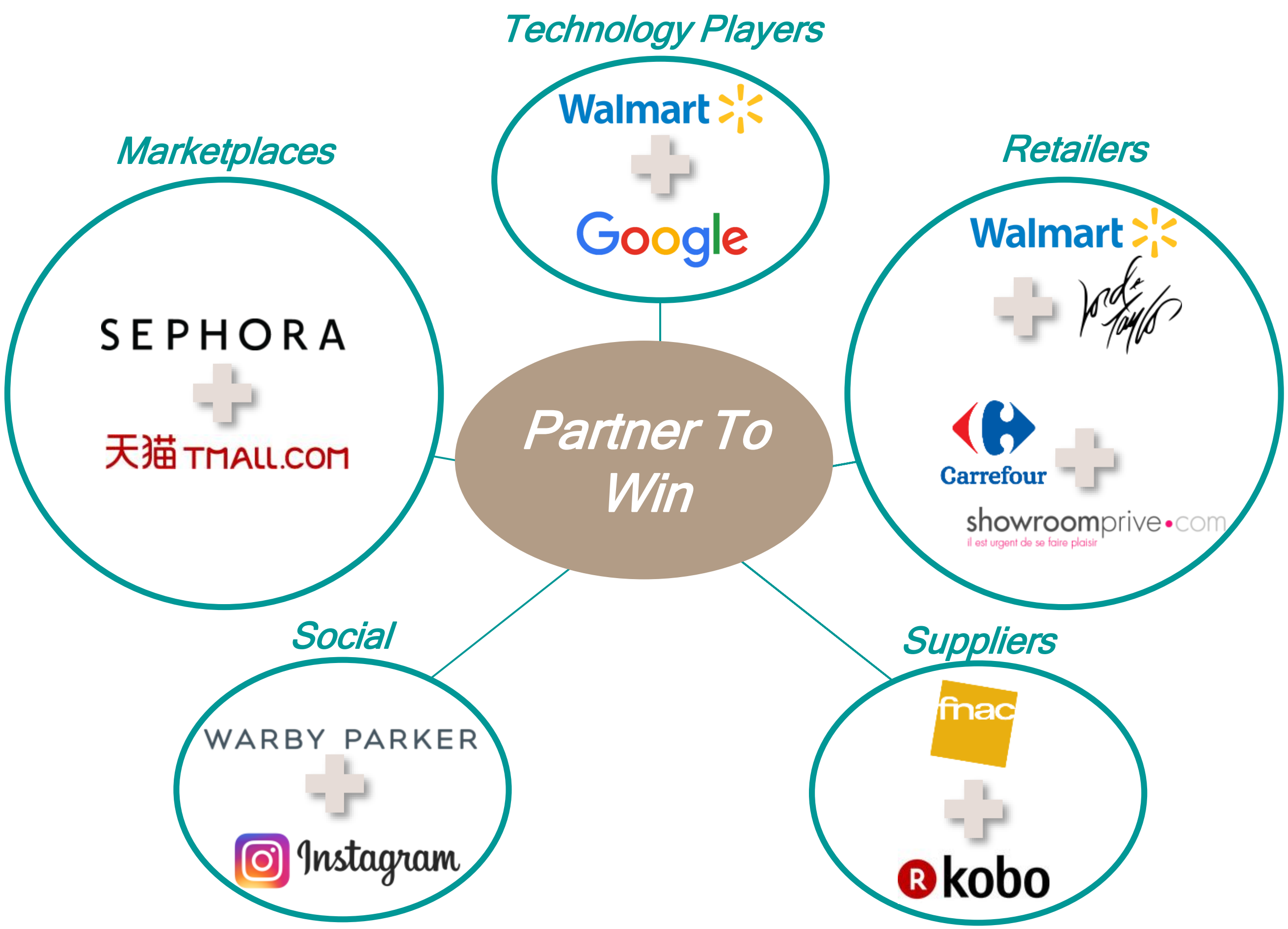
Pace

"Working with partners is a quick way to improve our technology, infrastructure and logistical capabilities"

Head of Internet & Customer Relations, French Retailer

Source: OC&C Retailer Interviews, OC&C analysis

These partnerships will take different forms

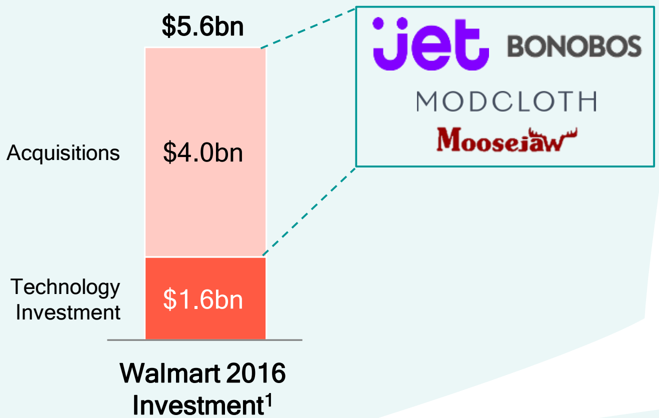


Source: OC&C analysis

Walmart is pursuing a broad range of partnerships

Compelling Retail Proposition

Expanding ecommerce Offer



Customer Growth & Loyalty

Expanding Customer Reach

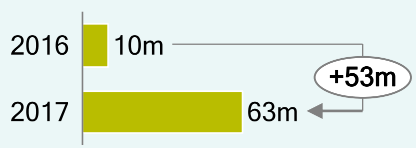
Google Express

Google Home

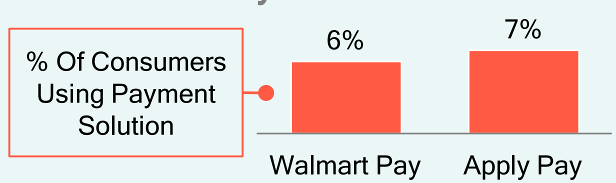
Third-Party Margin Streams

Product Range Growth[2]

Walmart Marketplace



Payments Solution Growth[3]



Pay

1. Walmart investment in technology, digital retail and related acquisitions 2. Millions of products in online range, May 2017
3. Share of consumers using payment method in last 3 months (Forrestor consumer survey)

Source: Annual reports, Forrestor, Desk research, OC&C analysis

In the last 5 weeks alone:

Kroger said to eye Ace Hardware Partnership[1]

Kroger Co. and Ace Hardware have been in preliminary talks to open Ace Hardware locations inside Kroger stores, according to a report on TheStreet.com

Kroger's Mobile Pay

The Kroger Co. is partnering with Chase Pay, the **digital** engagement wallet form JP Morgan Chase & Co, on mobile payments

Carrefour Buys 17% Stake in Showroomprivé[3]

"This partnership is a new step in the acceleration of our ***digital*** *strategy, in an omnichannel approach. It also allows Carrefour to enter the* ***online*** *private sales market and strengthen its offering"*
Alexandre Bompard, Chief Executive Office of Carrefour, said in a statement

Shipt and Target to launch same-day delivery in Jacksonville, St. Augstine[4]

Online grocery leader Shipt today announced a **partnership** with Target to begin same-day delivery of in-store groceries, essentials, home, electronics and other products across Florida

Tencent, Yonghui to give Carrefour boost on mainland[5]

French retailer seen leveraging online resources of unit as bricks-and-mortar

Walmart makes a late entry into the e-book market with Rakuten[6]

Walmart is making a circuitous and belated push into the digital book market, teaming up with Rakuten to sell e-books and audiobooks

1. Supermarket News; 2. MMR; 3. WWD; 4. Jacksonville Business Journal (Florida); 5. South China Morning Post ; 6. The New York Times

There are three imperatives to win and a clear set of actions to get there

Partner To Win		
Think Customer, Not Channel	1	Eliminate the pain points from your target missions
	2	Follow your customers to their preferred channels
	3	Prioritise customer profitability over channel profitability
	4	Personalise to stay relevant and reinforce your distinctiveness
Reinforce Your Distinctiveness	5	Be distinctively brilliant
	6	Stay a step ahead to capture local demand
	7	Capture the in-store sales leakage
Organise Around Speed & Accountability	8	Create end-to-end accountability for categories and functions
	9	Make data drive your decision making
	10	Test quickly, fail fast, stay the course

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