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REPORTS

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Associates.

Retail 2017

Exclusive intelligence about the
year ahead from top retail chiefs

RETAIL WEEK FOREWORD



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Following the somewhat tumultuous year that was 2016, many retailers may wish they had a crystal ball to help shed some light on what to expect from 2017. Yet, for the 25 retail chief executives interviewed for this report, it is clear that those who plan ahead and create their own destiny are the ones who will succeed.

Retail businesses, no matter their age or size, have come to realise there is no point in simply standing still and hoping for the best. Instead, they must drive innovation and adapt to suit the needs of their consumers.

It is very apparent from the 25 interviews that shoppers' wants are fundamental to most business decisions, from the growth in peer-to-peer recommendations, to the expectations for free and super-speedy delivery.

Retailers must therefore take a long hard look

at what their own audience wants and find a way to fulfil their wishes without shattering their bottom line.

Over the next six chapters we will provide an overview of the state of the market, including a glimpse at the opportunities and challenges that lie ahead.

Retail 2017 will also examine how businesses are adapting to become truly omnichannel and how best to communicate with their customers in the wake of these changes. Ongoing pressures on the supply chain as consumer expectations multiply will also be a focus, as will Brexit and its potential impact on the market.

As we enter a brand-new year, armed with the hindsight of last year and the hope for the year to come, Retail 2017 will provide an all-access and unmissable glimpse inside the minds of individuals at the very top of the industry.

“
Shoppers' wants are fundamental to most business decisions
”

RETAIL WEEK CONNECT: RETAIL 2017

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PARTNER VIEWPOINT



HENRI SEROUX
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It is clear that, with the uncertainty of Brexit looming over the heads of many, retailers are understandably worried about the impact this will have on consumer spend. But this could now be the opportunity retailers need to turn their attention back to the in-store experience as customer expectation becomes even more important, as well as the differentiation a personal service can offer.

As the quality of the in-store experience becomes a critical aspect of brand value, empowering store assistants with actionable customer insight to bring back the personalised shopping model of the past is essential.

It is apparent to all that customer expectations have changed radically over the past decade – even the essentially isolated, impersonal online experience has become a powerful, engaging and increasingly personal event. And that personalised, relevant and timely experience should now be delivered, not only online but across every channel. The anonymous in-store shopping experience in particular may have been the norm for the past five decades, but the tide is turning and retailers urgently

need to reconsider the quality, relevance and personalisation of that in-store experience if they are going to stay ahead in uncertain times.

The optimisation of the supply chain will also likely see a turning point in 2017 as retailers want and need to deliver quicker. And with retailers like Amazon launching Amazon Dash and Go, the desire for an increasingly omnichannel environment is forcing supply chains to evolve, as new, innovative and modern ways to get orders to customers become more common. With options like same-day delivery becoming another strategy that takes modern-day logistics to a whole new level, it is important that retailers learn to keep up during 2017.

In summary, it is time for retailers to finally redefine the role of stores while still fulfilling online orders in the best way for the consumer. And in order to survive the uncertainty of Brexit, they must embrace technological innovation that drives both service enhancements and operating margins, while also engineering a cultural shift that will enable staff to reinforce brand value and deliver that personalised service experience across every channel.


Customer expectations have changed radically over the past decade


RETAIL 2017

EXECUTIVE SUMMARY

As the UK retail sector welcomes in a fresh year, it is clear that despite the uncertainty that permeated throughout 2016, optimism reigns supreme for the year ahead – even if it is cautious optimism for some.

Analysing the exclusive reflections from 25 retail leaders, it is clear to see there is much positivity about 2017, with grand plans for international expansion, improvements in customer service and investment in people. In fact, this year, bosses across the sector very much have a ‘cup half-full’ outlook on life, with six in 10 of the retailers we spoke to predicting a rise in sales next year.

Sectors forecast to offer the best growth prospects include home improvement and homewares, electricals and electronics, and discount retailing. However, food and fashion are expected to be particularly challenging categories in 2017.

As in previous years, ecommerce and mobile are identified as key investment opportunities, but improving customer service and the shopping experience are also seen as priorities.

Although the majority of retailers (61%) are confident about 2017, this is a considerable drop compared with *Retail 2015*, when 84% of retail chiefs forecast sales would be slightly or much better in the year ahead.

Following the result of the EU referendum back in June, the issues surrounding the Brexit vote are a strong consideration for all, with the topic looming large on the agenda for the coming year. Retail chiefs see the uncertainty caused by Brexit weighing on consumer confidence and foresee a growing impact over the coming 12 months and beyond, with currency-led inflation the most prevalent concern.

The possibility of rising wage costs, triggered by inflation and the implementation of the national living wage, as well as increasing demand for free delivery and other flexible fulfilment options, are other cost concerns.

THE OMNICHANNEL JOURNEY

As ecommerce and mobile retailing develop, retailers continue to address the challenge of successfully integrating new channels and modes of business with traditional store retailing and pre-existing operations. Some 63% of the retail chiefs say their companies have had to embark on a process of internal reorganisation to meet omnichannel demands, yet 71% say it is difficult and expensive to recruit the people

they need, notably specialists in social media and data management.

Only 18% of the retailers say they have reached the “omnichannel ideal” of having a single view of both customer and stock, almost flat with the 19% from 2015 who said the same. However, this year a further 30% say they are close to achieving this, compared with the 19% of retailers in 2015 who expected to achieve this goal within 12 months.

There are conflicting ideas about what represents an ideal omnichannel model, making it fundamentally clear that there is no one-size-fits-all approach. However, a common theme is the need for adaptability and flexibility in the face of continuing technological advances.

COMMUNICATING WITH CONSUMERS

As retailers look to evolve and change with the times in a bid to keep consumers engaged, the most significant current trend identified by the retailers is the growing importance of social media in retailer-customer communication.

Some 28% of the retailers say they will be extending their use of social media during the coming 12 months. The retail chiefs emphasise the importance of understanding the role peer-to-peer recommendation increasingly plays, and how social networking can be integrated into a multimedia approach to consumer communication.

Growing use of social media is part of the increasing emphasis on personalisation and tailored customer relationship management. Interestingly, consumer research conducted by Manhattan Associates suggests customers value loyalty schemes offering exclusive promotional offers well above a personalised shopping experience, whether in store or online. Meanwhile, the research also shows consumers do expect a consistent quality of experience across all channels.

THE ROLE OF THE SHOP

The digital revolution has not only spawned new forms of shopping, but it is also transforming store retailing. Indeed, there is broad agreement among the retail leaders that, far from being superseded by new channels, the multifunction role shops play in today’s omnichannel world makes stores more important than ever. By the same token, shop staff have a crucial role in omnichannel retailing.

The value of stores in supporting online and mobile channels, while also still acting as a key

sales channel in their own right, is universally recognised, as is their importance as a primary contact point with customers.

Some 16% of the retailers say they plan to step up in-store communication to consumers over the coming 12 months. Encouragingly for the retailers, consumer research underlines how consumers see the store as intrinsic to the omnichannel experience, with 44% saying next-day delivery to a store is the most important delivery option when shopping online or via mobile.

Retailers now consider offering flexible delivery options to be essential, while consumer demand for speed is also prompting companies to seek shorter lead times from suppliers. When discussing other supply chain challenges, the impact of the fall in sterling following the Brexit vote is a predominating concern.

The evolving role of shops evokes much enthusiasm from retail chiefs, yet concerns that the growth of ecommerce has altered the economics of store retailing are apparent. The need to reduce retail space is a prevailing trend as the role of the store evolves and ecommerce grows. Furthermore, quantifying the store’s contribution to a retail business, in its developing multifaceted role, has too become something of a challenge.

BEYOND 2017

Due to the unknown impacts of the Brexit vote on the retail economy, it is difficult for many retail chiefs to make long-term forecasts. However, there is a consensus that impact on consumer confidence and the market will continue beyond 2017, with a period of two to three years of challenging conditions expected.

Research supports this, with 32% of retailers saying consumer mood is worse than 12 months ago, compared with just 8% of retail chiefs who said it was worse two years ago.

Nonetheless, the horizons aren’t all dark and stormy, and the growth in tourism to the UK and growing international online sales are two bright lights for growth.

Flexibility and the ability to adapt to changing conditions, whether in the marketplace or in technology and consumer behaviour, are considered vital attributes for a successful retailer in today’s market. There is also an underlying sense that the period of unprecedented change the sector has had to navigate in recent years stands it in good stead at this time of uncertainty and potentially far-reaching change.

RETAIL 2017: KEY DATA

2017

56% of retailers say they plan to expand their international horizons during 2017

Seven in 10 consumers say when they go shopping, they find they know more than the store assistant

32%

of retailers think the consumer mood is worse than 12 months ago

A third of retailers say they are several years away from having a single view of customer and stock

6 in 10 retailers expect a growth in retail sales next year

Just 8% of consumers say a personalised experience either online or in the store fosters loyalty

28% of retailers will communicate with their consumers via personalisation/tailored messaging

71% OF RETAILERS SAY IT IS DIFFICULT TO RECRUIT THE PEOPLE THEY NEED

FAST FREE

62%

of consumers say free delivery to a non-store address is the most important delivery service when shopping online, through a catalogue, a mobile app or call centre

OUTLOOK FOR 2017 AT A GLANCE

CHAPTER ONE STATE OF THE NATION

"The next 12 months are going to be tough"

- Electronics and home improvement tipped for growth
- Cautious view on investment
- Mobile, online and the customer experience seen as priorities



CHAPTER TWO BECOMING OMNICHANNEL

"The customer is in control and changing things all the time"

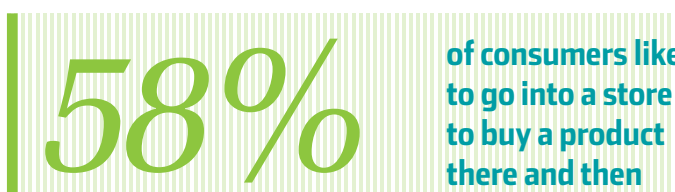
- Single view of customer is key omnichannel priority
- Omnichannel readiness requires restructuring, say 63% of retailers
- Flexibility and constant evolution seen as critical



CHAPTER THREE COMMUNICATING WITH THE OMNI-CUSTOMER

"Social media rules"

- Use of social media in engaging customers to continue growing
- Multimedia approach crucial in a multichannel retail world
- Customers expect consistent quality of experience across channels



CHAPTER FOUR PERSONALISING THE IN-STORE EXPERIENCE

"The role of the shop is changing dramatically"

- Multifunction role makes stores more important than ever
- Store associates adapting to meet multichannel challenge
- Shopping experience sets stores apart but cost challenge has to be faced



CHAPTER FIVE REFINING THE SUPPLY CHAIN

"Our constant focus is how we can deliver quicker"

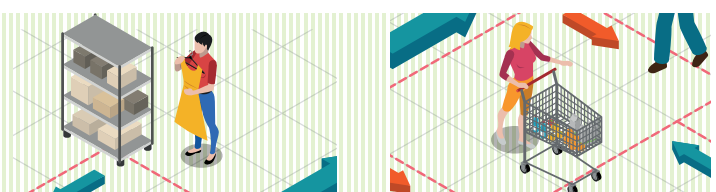
- Fall in sterling predominant supply chain concern
- Retailers still seeking shorter lead times from suppliers
- Consumer demand for speed influencing sourcing and fulfilment strategies



CHAPTER SIX THE BREXIT EFFECT

"Brexit is going to be a shock to the country and the industry"

- Retailers point to immediate impact of fall in sterling and inflation
- Rising tourism and growing international online sales provide positivity
- Long-term impacts hard to assess before Brexit strategy is known



CHAPTER ONE

STATE OF THE NATION

- Challenging year ahead as Brexit and inflation weigh on consumer outlook
- Food and fashion under pressure but electronics and home improvement set for growth
- Cautious view on investment with mobile, online and customer experience the priorities



With Donald Trump, the Olympics, Alan Rickman and Pokemon Go all featuring in the top 10 UK Google searches of 2016, the state of the nation is very much a mixed bag as we enter a brand new year.

Current political and economic uncertainty weigh heavy on the minds of the 25 retail bosses interviewed by *Retail Week* in association with Manhattan Associates. Throughout each of the interviews the topic of the EU referendum is mentioned numerous times, and without the aid of a crystal ball it is impossible to tell the impact it is likely to have.

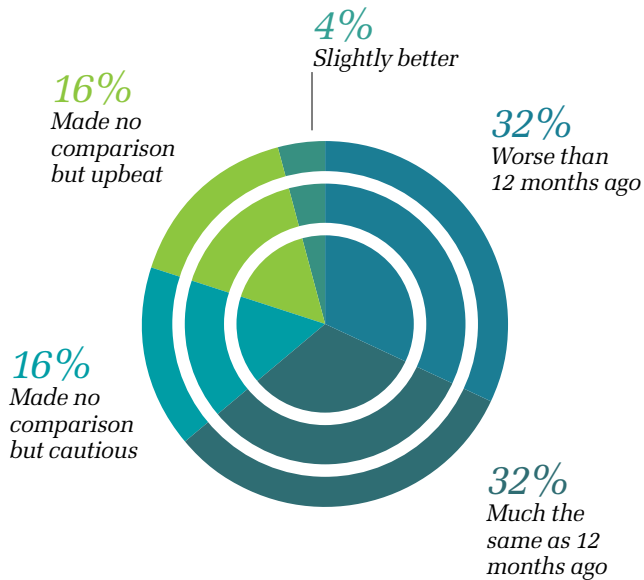
As might be expected during a time of such upheaval and debate, opinion is divided as to the impact the referendum result and the UK's impending departure from the EU has had on the consumer mood.

CONSUMER CONCERNS

Although there has been a lot of coverage in the press about consumer confidence being battered by events in 2016, research with retailers suggests this is not entirely the case. In fact, 32% of retail bosses say the mood is more or less the same as 12 months ago, while 32% say the mood has worsened, describing consumers as “more cautious”, “subdued” and “hesitant”.

Nevertheless, this does represent a bleaker view of consumer confidence than that expressed by the retail chiefs for the past two *Retail Week* annual reports. Going into 2015, only 8% of the retail chiefs interviewed said the consumer mood was a little worse, while ahead of 2014 all said the mood was the same or better. This year, only 4% of the retailers find the mood to be better, going no further than to say consumers are “slightly more positive”.

Retailer views on the consumer mood



"I think, broadly speaking, it's no different to a year ago," says the chief executive of a fashion chain. "I think there are some short-term factors that can affect spend one way or the other, but there's nothing in particular that's affecting their propensity to spend at the moment." Meanwhile, a director of a department store group says "we're still seeing a consumer that is very prepared to shop".

Others are slightly more negative about the mood among their shoppers. "Confidence is low. Consumers are unsure about Brexit," says the chief executive of a department store operator.

"Brexit has not been helpful," the chief executive of another clothing retailer adds. "I think that's created lots of turmoil. The mood is less good. They [consumers] are less confident, less optimistic and that results in them spending less." This view is echoed by the head of a cosmetics retailer. "People are being far more careful before they spend their money and this is being reflected on the high street."

CHALLENGES AHEAD

Retailers are not letting consumer mood affect their optimistic outlook for the year ahead and a

clear majority of the retailers (61%) expect retail sales to grow in 2017. Some 17% expect sales to be flat, while just 22% expect a decline. However, this outlook is not as rosy as it was for previous years when the forecasts for 2014 and 2015 were exclusively for growth or stability.

The chief executive of a fashion chain sees the current consumer uncertainty continuing, dampening growth prospects for 2017. "I think the next 12 months are going to be tough. You can see consumer confidence is still not fantastic and I don't think it's going to recover overnight. I think it's going to be challenging with no growth or a slightly declining top line." The chief executive of a department store operator, meanwhile, says there may be "marginal growth", but the coming year will be "continually challenging".

The impact of the Brexit vote on consumer confidence and on the value of sterling, with its knock-on impact on costs and prices, are dominant themes when the retailers discuss which external factors they expect to impact most on consumer behaviour in the coming year. Exchange rate and inflation are by far the most prevalent concerns, specifically cited as negative factors for the coming year by no fewer than 19 of the retailers. "I think with the weakening pound just understanding price, that price and value equation and how that changes over the next six to 12 months, will be at the top of a lot of retailers' agendas," says a director of a department store group.

A director of another department store chain stresses how inflationary pressures will not only be pushing up the cost of goods but also wages, already rising following the introduction of the national living wage in April. In addition, the continued "migration of trade" to online and mobile will add further cost pressure owing to increasing demand for home delivery. "More and more goods are being delivered to customers rather than collected in shops, so that's the trend and again it increases the cost to serve."

CAUTIOUS VIEW

Costs are one area retailers will be focusing on very closely over the next 12 months. When asked what balance they are seeking between reducing cost and driving growth to increase profitability, 50% say they are erring towards driving growth, with 31% saying it would be about 50/50 and 19% more towards cost reduction.

It is interesting that, despite some reservations about

2017'S CHALLENGES AND OPPORTUNITIES

CHALLENGES

FASHION

UNPREDICTABLE WEATHER IS DISRUPTING SEASONAL BUYING PATTERNS FOR CLOTHES

FOOD

INTENSE COMPETITION AND INFLATIONARY PRESSURES WILL HURT THIS SECTOR

SPORTSWEAR

A SHINING LIGHT IN THE TOUGH CLOTHING MARKET

2017, retailers are not holding back on driving growth and are instead pushing ahead even more so. This is even more marked when looking at priorities for retailers two years ago, when 40% of those interviewed said they would be mostly driving growth.

Conversely, with the upward pressure on input costs caused by the fall in sterling likely to be a prevailing trend in 2017, some retrenchment might well be expected. Indeed, this question has been asked for every annual report going back to 2011 and this is the highest percentage favouring cost reduction over driving growth ever recorded.

Nevertheless, a director of a department store chain says even with heightened pressure on costs, both driving growth and reducing costs remain equally critical. "The reality is you have to do both. There are very clear pressures on cost, and so to defend profitability there has to be a focus on productivity, but also the focus on growth to drive that profitability. So, I don't think it's an 'either-or'. I would feel uncomfortable trying to weight one or the other. They're both equally important."

The chief executive of a footwear chain agrees: "They have to happen at the same time as much as possible. It's more around keeping the cost base proportionate."

However, a counterpart at another department store emphasises cost control. "At the end of the day we are looking for profit growth as opposed to sales growth. So, managing cost prudently in the market as we see it at the moment is critical, and then looking for growth in categories where there is growth."

GROWTH OPPORTUNITIES

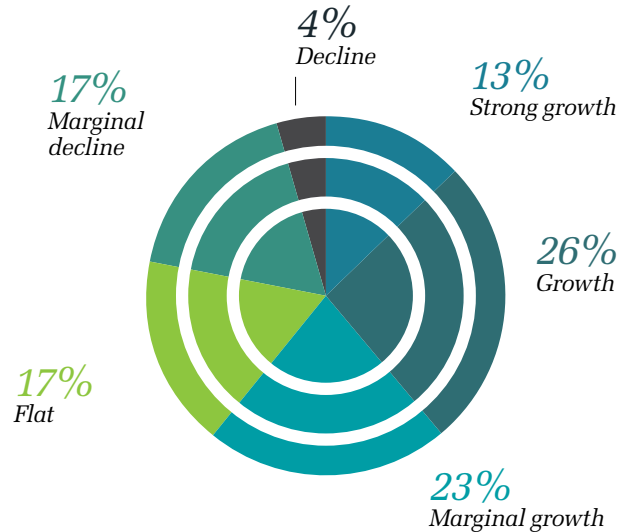
And there are certainly some strong areas in which retailers are forecasting growth for next year. The categories identified most often by the retailers as offering the best growth prospects for 2017 are home improvement and homewares, electricals and electronics, and discounters.

In electronics and technology, innovation will continue to drive consumer demand, say retail bosses from various sectors.

"Technology continues to be something that customers are excited by, and if the technology companies keep coming up with new products, I think that's an interesting part of the market to be in," says the chief executive of a footwear retailer. Consumers "always find money for technology", the chief executive of a discount retailer adds.

The chief executive of a homewares chain

Retail sales forecasts for 2017



believes electronics sales may be boosted by consumers "catching up" with technology after holding back during the recession. "There's lots of new technology coming through. People still haven't caught up."

According to the chief executive of an electronics retailer, an area likely to see "strong growth" in 2017 is the Smart Home market, including CCTV, security, lighting and heating.

Spending on home improvement in general, including "big-ticket" purchases, is expected to grow in the view of a number of the retail chiefs. "I expect people might be investing in their homes a bit," says the chief executive of a footwear chain. "That has been a trend so far this year, as people can't afford to move but still want to make sure they're living somewhere nice."

Food – described by one non-food chief executive as a "grim bloodbath" – and fashion are singled out by several retailers as the most challenging categories, owing to continued intense competition and inflationary pressures. However, one retailer believes sportswear will be a bright spot in the clothing

HOME IMPROVEMENTS
BIG-TICKET PURCHASES WILL PROVE POPULAR AS PEOPLE INVEST IN THEIR HOMES

SMART HOME
CCTV, SECURITY, LIGHTING AND HEATING ARE ALL PREDICTED TO EXPERIENCE STRONG GROWTH

TECHNOLOGY INNOVATION
CONSUMERS CONTINUE TO BE EXCITED BY DIGITAL PRODUCTS

OPPORTUNITIES

market, while beauty products are also singled out as offering growth potential in the coming year.

The clothing sector “continues to be quite tough”, says the chief executive of a footwear retailer. “It’s over-shopped. Clothes and food are the toughest areas to be in.”

In addition to continued intense competition in fashion, several retailers express concern that unpredictable weather patterns are disrupting seasonal buying patterns for clothing.

“In a digital world where you can get what you need when you want it, the weather will not cause postponement of decisions, it will cause customers to not buy,” says a fashion chain chief. “So, you can lose a whole autumn season with unseasonable weather.” A footwear chief executive adds: “Customers are much more inclined to wait until they need something.” This view is further echoed by a director of a department store operator. “Customers are now so used to buying when they need it as opposed to buying in advance that the weather has a greater impact now than it has done before.”

As in previous years, the retail channels identified as offering the best prospects for growth are ecommerce and mobile. However, some 50% of the retailer responses concerning growth prospects define the opportunities for best progress in 2017 not in terms of products or retail channels but in approach.

Such observations cover a diverse range of areas from the shopping experience and service to supply chain efficiency and omnichannel integration. This is a continuation from 2015 when investment in multichannel was voted the most important business priority for the coming year.

Expanding product options and adding new ranges are seen as key routes to growth by the chief executive of one fashion chain. “From a growth point of view, it’s about increasing options rather than increasing rates of sale.” Another fashion retailer believes speed is of the essence. “Those fashion retailers who have a fast supply chain will be the winners.”

Meanwhile, another fashion chief executive stresses innovation. “You could argue that fashion retail will be one of the most challenged, particularly around currency rates, but if you are innovative, if you are able to stand aside and you’ve got enough financial clout, you will probably do well.” For the chief executive of another multiple retailer, “service is the differentiator”, and retailers that “put service first” will see growth.

INVESTMENT PRIORITIES

In *Retail 2015* it was clear that mobile was by far the most imperative priority with 67% of bosses citing it as the top omnichannel priority. However, for 2017 it is apparent that retailers are spreading their investment across the board with mobile now in among a plethora of other key considerations including ecommerce, international, in-store technology, systems, price, reducing the cost base, customer service and experience, and products.

This year, the retail bosses are generally less prepared to nominate three areas of the business they would be giving top priority, often stating that all or nearly all are priorities. However, where retailers do rank investment areas in order, mobile still emerges as a key focus alongside ecommerce.

Customer service and the shopping experience are also mentioned as important priorities by several retailers, underlining the critical importance of the shopping experience, as retail competes with leisure for consumers’ money and time.

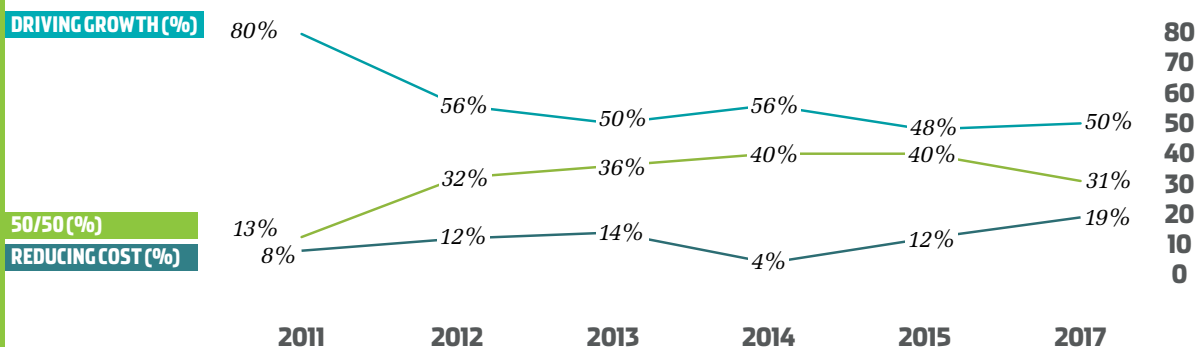
Some 56% of the retail chiefs say international expansion will become more important during the coming 12 months, a huge increase from 2015 when just 4% of retailers named international expansion as a top business priority for the year ahead.

“International will be a priority in terms of future growth for the business,” says one retail chief. “We don’t know yet how the effects of Brexit will play out, but we’ll find a model that works in an appropriate way for us.”

ACTION POINTS RetailWeek

- Local fulfilment points are helping to achieve same-day delivery and the influx of drones will further aid this trend for immediate delivery. Move towards real-time delivery by building flexibility and scalability into your retail operations to help minimise the impact of the consumer ‘buy it when need it’ approach.
- Maximise seasons and sub-seasons by ensuring multichannel agility through using an order-management solution as the central system of record.
- Product innovation and investment should be a priority. If the product is right then consumers will want to buy it.
- Mobile will continue to reign as a top retail avenue for consumers. Ensure your mobile sites are up to scratch and provide shoppers with a seamless experience.

Balance between cost reduction and driving growth 2011-17



CHAPTER TWO

BECOMING OMNICHANNEL

- **Single view of customer remains key omnichannel priority**
- **Shortage of talent hampers omnichannel development**
- **Constant evolution critical, led by technological advance and the customer**

With mobile, ecommerce and in-store technology all earmarked as top priorities, it is already clear to see that the complexities surrounding omnichannel integration will continue to be a preoccupation of the UK retail sector as we move into 2017.

Retailers must now ensure they are creating organisational structures, business models and logistics that allow online and mobile not only to co-exist but to harmonise with pre-existing operations. However, unsurprisingly, to perfect a retail environment where the consumer can interact through any channel or combination of channels effortlessly – and to do so in a way that allows the retailer maximum visibility of what each channel is returning to the business – is no easy task.

IN PURSUIT OF SINGULARITY

The omnichannel ideal is often defined as having a single view of both customer and stock. While only 18% of the retailers say they have reached this point, a further 30% say they are close and 30% say they are several years away.

It is interesting to note that the proportion of retailers saying they have achieved a single view of customer and stock is more or less the same as it was for *Retail 2015*, when 19% said they had reached this point.

As was the case in 2015, achieving a single view of the customer is seen as the higher priority – not



surprising given its close connection with other key areas such as customer communication, marketing and customer experience and service.

Asked to nominate omnichannel priorities from a list of eight areas – namely single view of customer, single view of stock, personalisation, leverage of big data, systems, front-end technology, mobile and supply chain fulfilment – some 45% of the retailers prepared to identify priorities include single view of the customer as either their first priority or among their top three. Yet this is a dip from 2015 when 63% of retailers listed it as

WHAT THEY SAY ABOUT RECRUITMENT

“There’s a shortage. It’s getting the calibre. The pool to select from is quite limited”

CHIEF EXECUTIVE OF A SPECIALIST RETAIL CHAIN

“Everybody’s gasping to get social network managers and data managers”

MANAGING DIRECTOR OF A FOOTWEAR RETAILER

“We like to recruit from inside as much as possible because people get the culture, the DNA”

CHIEF EXECUTIVE OF A FASHION RETAILER

“We need to broaden the skills for our existing people, and getting people upskilled and to change their skills is a challenge”

DIRECTOR OF A DEPARTMENT STORE

either a first, second or third priority, but this may be because more companies are getting closer to having a single view and so will start to focus on other areas.

It might be argued that online and mobile retailing can no longer be seen as disruptive trends in retail. Amazon began selling books online in 1995 and, heralding the age of the smartphone and mobile shopping, Apple launched the iPhone in 2007. Should major retailers no longer be on the journey to omnichannel but have already arrived?

The retail chiefs’ responses suggest the spirit is willing but the challenges are considerable, particularly in relation to personnel.

RECRUITMENT CHALLENGE

Some 63% of the retail chiefs say their companies have had to embark on a process of internal reorganisation to meet omnichannel demands, generally involving the recruitment of digital experts and others with relevant specialist skills.

Tellingly, some 71% say it is difficult to recruit the people they need. “I do think there’s a shortage,” says the chief executive of a specialist retail chain. “It’s getting the calibre. The pool to select from is quite limited.”

The shortage of appropriately skilled people not only delays the speed of reorganisation, but puts up the cost. “Scarce and expensive” is how the managing director of a footwear retailer describes the talent required to support omnichannel development. “It’s a struggle out there because the banks want them as well and we’re all fighting for a skillset, which means the price goes up.”

A director of a department store echoes the point, suggesting the challenge is “getting great digital talent into the retail industry, never mind into your

business. Retail is not the only sector trying to hire great digital talent. There is a little bit of a battle, in London particularly, for digital skills.”

Retention of digital expertise also appears to be a problem. “There are just not enough of them,” says the chief operating officer of a fashion and homewares retailer. “It’s incredibly difficult to get good people and keep them. What we find is even when we get good people they don’t stay long because the market’s so buoyant. They go somewhere else for another 10%, 20% or 30%, so it’s a real challenge. I think that’s going to be a challenge for the next two or three years.”

Among the areas seen as particularly problematic for finding people with the necessary skills are data management and analysis and social media, identified by many of the retailers as an increasingly critical area of consumer communication. “Everybody’s gasping to get social network managers and data managers,” says the managing director of a footwear retailer.

The problem becomes more acute when recruiting at the senior level, according to the chief executive of another footwear chain. “At junior level you can find people that have got the aptitude, but actually when you come to people who’ve got the experience to lead teams that’s more difficult.”

Omnichannel requirements have clearly created a need for specific skillsets, but some retailers still emphasise the importance of recruiting from within their organisations, and wherever possible staffing even new functions with people who already know the company. “We like to recruit from inside as much as possible because people get the culture, the DNA,” says the chief executive of a fashion retailer.

Meanwhile, a director of a department store

The pace at which consumers adopt new technology should dictate how retailers evolve



“RETAIL IS NOT THE ONLY SECTOR TRYING TO HIRE GREAT DIGITAL TALENT. THERE IS A LITTLE BIT OF A BATTLE, IN LONDON PARTICULARLY, FOR DIGITAL SKILLS”

DIRECTOR OF A DEPARTMENT STORE

emphasises the importance of investing in and developing human capital. “You can’t suddenly draft a whole new bunch in who have got multichannel skills. We need to broaden the skills for our existing people, and getting people upskilled, and changing their skills, is a challenge.”

The chief executive of a discount chain adds: “In some areas you have to recruit, but on the whole we’re not looking to add, just move and be flexible.”

CONSTANT EVOLUTION

This emphasis on flexibility speaks to another facet of omnichannel development, and the revolution we’ve witnessed over the past decade has been characterised by rapidly advancing technology bringing in turn constantly changing requirements and demands.

“We have done a lot of work this year, but it will continue next year, into internal structures to meet and deliver against the challenges and opportunities of how retail is evolving,” says a director of a department store operator. “So that is a significant trend actually, or theme, in the running of a modern retail business. And I don’t think it’s something you do at once but these things continually evolve.”

The chief executive of a footwear retailer

NUMBER CRUNCH

A SINGLE VIEW OF THE CUSTOMER IS EITHER RETAILERS’ FIRST PRIORITY OR AMONG THEIR TOP THREE



19%

In Retail 2015 19% of retailers said they had a single view of both customer and stock

In Retail 2017, 18% of the retailers say they have a single view of both customer and stock; a further 30% say they are close. However, 30% concede that they are several years away.

71%

say it is difficult to recruit the people they need

63% of retail chiefs say their companies have had to embark on a process of internal reorganisation to meet omnichannel demands

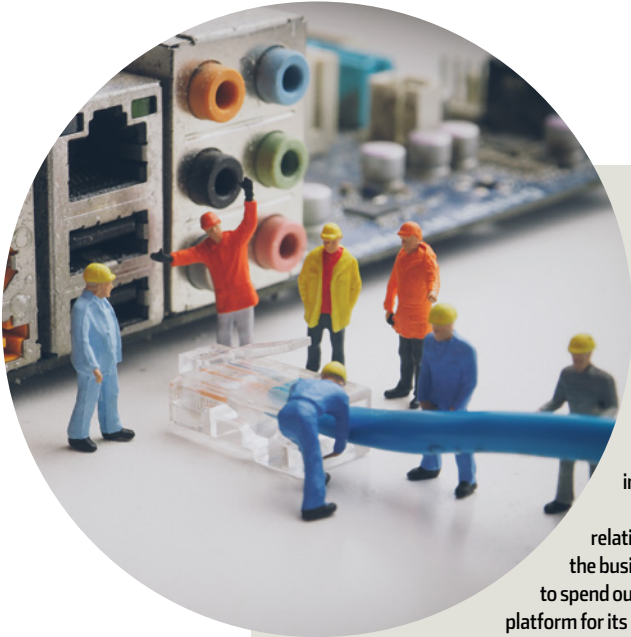


says bringing in new skills and new people “has been happening for so long it almost feels like business as usual”.

Moreover, the considerable variety in how the retailers respond regarding their omnichannel priorities underlines that questions around ideal forms of organisation are nuanced, and establishing an optimal structure is unlikely to be available as a one-size-fits-all package.

The chief executive of a fashion chain says omnichannel is “far more complicated” than simply a single view of stock and customer. “The key to omnichannel is just dealing with all of the channels together and trying to get a business that can work from channel to channel, both old-fashioned and new, seamlessly. I don’t think it’s as simple as those two; I think consultants turn it into that. The processes are only as good as your brand, and omnichannel is as much about your brands and your Instagram feeds and your communication as it is about your view of stock.”

Another fashion chief executive says: “My view is that we have to give a single brand experience for all of our customers 24 hours a day, seven days



INVESTING IN SYSTEMS

It appears there will be no holding back on investment next year as retailers work harder than ever before to provide customers with a seamless experience they will return for time and time again.

Astonishingly, 72% of retailers interviewed say investment in systems is a key focus for 2017, a phenomenal rise from 2015 when just 29% said that investment in internal systems was a priority for the year ahead. In 2014 only 16% said this was a pressing matter, which shows it is growing in importance at an impressive rate.

One fashion chief says: "Even though we think next year is going to be a relatively tough year, it will probably be the year we've invested the most back into the business and we'll be investing in all of those areas, and that's where we are going to spend our money." This company has spent money on its systems, implanting a new platform for its international business as well as changing its retail management systems.

The boss of one specialist fashion retailer says the business is going through a "massive transformation programme" replacing all of its big systems in a bid to become agile.

A department store boss also stresses: "The majority of our apex next year is towards IT and the IT is going to store systems and ecommerce, so very much the underlying investment for us next year is in IT."

"THE CUSTOMER IS IN CONTROL AND THEY ARE CHANGING THINGS ALL THE TIME. IT IS JUST ABOUT BEING ABLE TO EVOLVE. EVERYTHING WE DO AND EVERY INVESTMENT WE MAKE IS LOOKING TO BUILD FLEXIBILITY"

DIRECTOR OF A DEPARTMENT STORE

a week in however our customers want to engage with us, and it's our job to be there and provide that experience."

A director of a department store also emphasises the centrality of the customer, for instance in defining how a retailer adapts its approach to fulfilling online orders. "The customer is in control and they are changing things all the time and demanding things ever quicker. It is just about being able to evolve. Therefore, spotting the trend and adapting quickly. Everything we do and every investment we make is looking to build flexibility."

While there are clearly differing ideas about omnichannel priorities and adaptation, there is a shared sense that while progress in technology has precipitated the transformation of the retail landscape, it is the pace at which their customers adopt technology and how they are using new media that should define how retailers evolve their approaches and their structures.

How the information technology revolution is changing the way retailers communicate with their consumers is discussed in the following chapter.

Manhattan RetailWeek
Associates.

ACTION POINTS

- Gain a single view of inventory, in real time, in one system to make fulfilment from new or existing sales channels more efficient.
- Give all customer-facing employees, store associates, call centre staff, live chat agents etc, the same single view of each customer so they can serve them better.
- Create organisational structures, business models and logistics that allow online and mobile not only to co-exist but to harmonise with pre-existing operations.
- Invest in your staff. Provide them with training to develop hard-to-find skills including digital expertise, data management and social media. Your investment and interest in your employees will help garner loyalty.

CHAPTER THREE

COMMUNICATING WITH THE OMNI-CUSTOMER

- Use of social media to engage with customers to continue growing
- Retailers to offer greater personalisation and tailored customer service
- Consumers expect consistent quality of service across channels



While some retailers have had to fight hard to innovate and adapt to the fresh challenges omnichannel has thrown at them, it seems to be the opposite for consumers, with most embracing the new ways to shop.

As a result of this development, there have been irreversible changes to the way in which retailer-customer communication and customer service have evolved.

The digital revolution not only brought omnichannel retailing into being, but it continues to influence the way in which retailers communicate with their customers.

NEW CONVERSATIONS

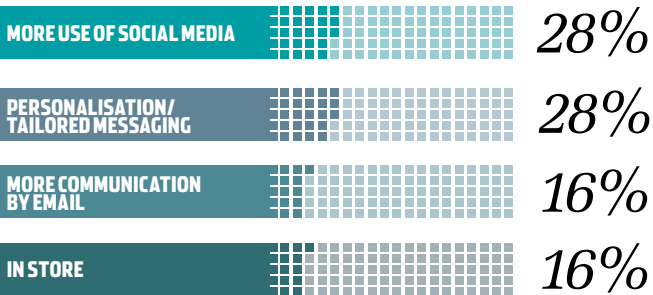
Already transformed by the advent of multiple retail channels, communication between customer and retailer is being further expanded and enhanced by increasing engagement in social media.

When asked how they expect communication with consumers to evolve during the coming 12 months, 28% of the retailers say they will be extending their use of social media.

The social media boom is “not going away”, says the managing director of a cosmetics retailer. “At the moment, social media rules, and so if you’re not really into the various platforms that count – Facebook, Instagram and the rest – then you’re not really communicating effectively with your customers.”

The chief executive of a footwear retailer, meanwhile, believes now is “one of the most exciting moments” for the retail industry in terms of customer communication. “Social media has just really come into its own. Five years ago, we didn’t really know what having a follower on Facebook meant or anything like that, but now it means something. We’re actually able to really understand how that helps drive engagement,

Evolving communication with consumers over coming year



drives transactions, drives familiarity and attachment to the brand. So, I think it continues to be a really exciting time.”

PEER TO PEER

Understanding the power of social networking and peer-to-peer recommendation is now a critical facet of a retailer's communication strategy. The chief executive of an online retailer explains: “I think because customers, especially younger customers, are so focused on recommendations from people they trust and looking at visuals on Instagram, you need more and more social media to pick up customers in the right way. We are focusing our marketing much more towards social media and less towards traditional media. So I think that's one more switch a lot of businesses will be doing.”

The chief executive of a footwear retailer believes the growth of social media is also revolutionising PR strategies. “PR has become a completely different game now. I think that not only have the newspapers and magazines changed the way that they think about brands and talk about brands, but we've also got a whole new community that influences people's opinions about brands. That's a really fascinating time.”

The customer relationship is by definition a two-way conversation, but the scope for developing that dialogue has increased massively in the digital age and will continue to do so.

“I think that the industry at large will use the mechanisms available to communicate more frequently and better with the customer than we currently do,” says the chief executive of a furniture retailer, “and give the customer the opportunity to communicate with us in a variety of different ways.”

The increasing utilisation of social media forms part of the broader personalisation trend in consumer communication and customer relationship management.

UP CLOSE AND PERSONAL

Some 28% of the retailers say they will be increasing the focus on personalisation in their customer communications during the coming year.

“There is an increasing trend towards using more digital channels than what you might call

traditional channels, increasing use of social platforms to inspire customers, and then increasing personalisation. “I would expect that to grow,” says a director of a department store chain.

“Understanding people's preferences and making a message relevant to them is getting more and more important, because no one wants to sift through hundreds of emails that are not relevant to them,” says the chief executive of an online retailer.

“You have got to really hit them when they want to speak to you and get them with the right product, and then you will attract them and they will go on to the site and buy.” The chief executive of another online retailer adds: “We want to tailor the messages ever more closely to the individual.”

For the chief executive of a clothing retailer, it is not only the message but the way it is communicated that should be personalised. “How I'm going to communicate with my customers is not the right question. The question is how do my customers want me to communicate with them? My job is to communicate with my customers how they tell me they want to be communicated with, and where and when.

“We will provide a personalised shopping service, focusing on customer experience and customer service, and part of that is giving the customer what they want, which includes communication.”

Interestingly, consumer research commissioned by Manhattan Associates suggests personalisation is not yet as compelling an idea to customers as retailers might believe.

The survey asked 2,000 consumers which aspects of customer service would make them most loyal to a retailer. Only 8% say a personalised experience either online or in the store would engender loyalty, though this rises to 11% for consumers aged 18 to 24.

By contrast, some 41% say a loyalty scheme that gives promotional offers would make them loyal to the retailer. In fact, the research reveals personalisation to be the aspect of customer service least likely of all to promote loyalty. Consistent service and experience (51%), fast delivery (41%), helpful and friendly store associates (29%), multiple delivery options (15%) and a flexible returns policy (28%) were all shown to be more likely to create loyalty.

With personalisation still in its infancy, it may be the case that consumers have yet to experience personalised service and so still place other factors ahead of it when considering what fosters loyalty. However, it is clear that shoppers still value elements that make their shopping experience as

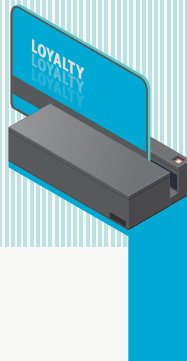
“FIVE YEARS AGO, WE DIDN'T REALLY KNOW WHAT HAVING A FOLLOWER ON FACEBOOK MEANT. NOW WE'RE ACTUALLY ABLE TO UNDERSTAND HOW THAT HELPS DRIVE ENGAGEMENT, DRIVES TRANSACTIONS, DRIVES FAMILIARITY AND ATTACHMENT TO THE BRAND”
CHIEF EXECUTIVE OF A FOOTWEAR RETAILER

THE SOCIAL SPHERE



41%

OF CONSUMERS SAY A LOYALTY SCHEME THAT GIVES PROMOTIONAL OFFERS WOULD MAKE THEM LOYAL TO THE RETAILER



28%

OF THE RETAILERS SAY THEY WILL BE INCREASING THE FOCUS ON PERSONALISATION IN THEIR CUSTOMER COMMUNICATIONS DURING THE COMING YEAR

28%

OF THE RETAILERS SAY THEY WILL BE EXTENDING THEIR USE OF SOCIAL MEDIA

efficient and easy as possible. Although having systems that enable the most seamless and streamlined experience is important, there is still huge attention placed on human interaction and good old-fashioned customer service.

MULTIPLE CONTACT POINTS

Alongside interacting with assistants in store and with the brand across social media, customers are interacting with retailers on a number of different levels and it is key that companies provide their shoppers with one consistent tone of voice.

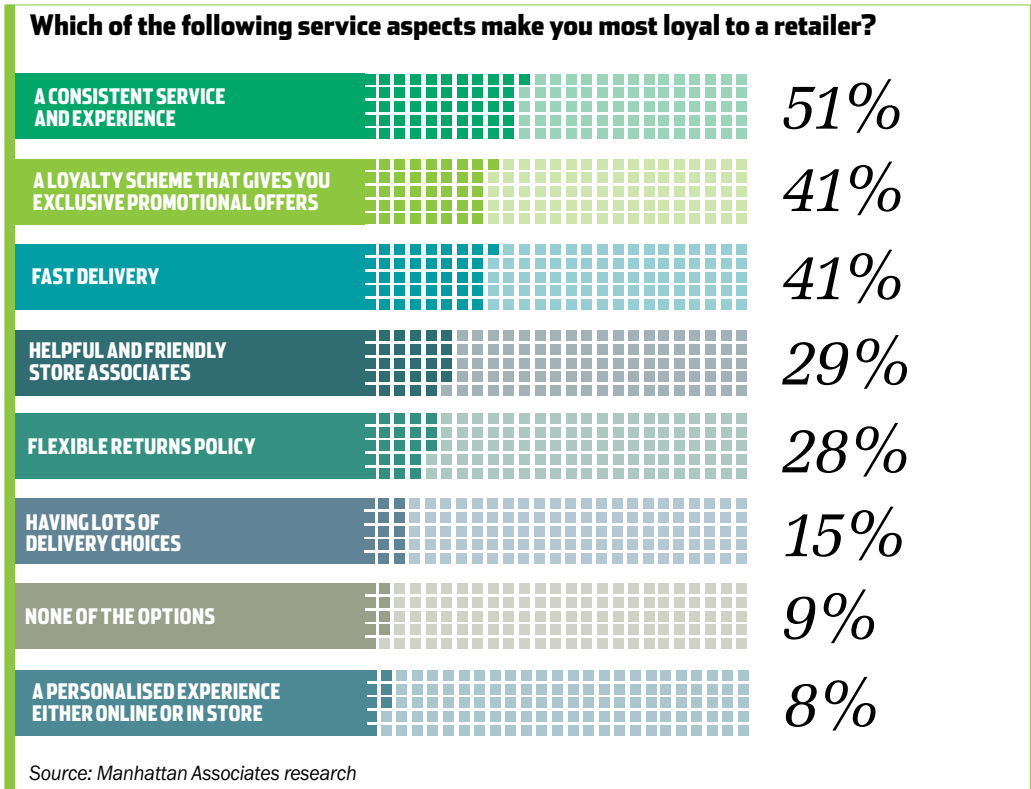
The chief executive of a clothing retailer adds: "I think the main change is to do with taking a cross-media approach. The traditional route is to select the most effective media channels on the assumption that customers will use one or two. What we're picking up is that our customers use a range of different media channels and brand touchpoints, often at the same time. For example,

they might be watching television and be on Twitter at the same time, while talking on the phone. So I envisage that brands generally will be communicating with customers via a multimedia approach."

Implicit in the greater use of digital channels and social media is more engagement with customers through their phones. Communication with the omnichannel customer has to be about engaging "at different parts of the journey", says a director of a department store operator, adding that optimising the contact customers have through their phones is a high priority.

"If you think about traffic to the website now, a huge part of it is through mobile phones, so it's got to be quick and easy and I would put investment in mobile near the top. That's quite often now their first port of call and their first contact with the brand, so that has got to be a brilliant experience and it has got to be increasingly engaging."

Mobile is the fastest growing channel, says



another department store chief, naming it as the number one priority for the year ahead.

As discussed in the previous chapter, retailers see gaining a single view of the customer as they move between different channels as a key omnichannel priority. They also believe it is critical that when customers move between different channels, the transition should be smooth and seamless and the quality of the customer experience should be consistent across the different channels. The customer, if you like, should have a single view of the retailer.

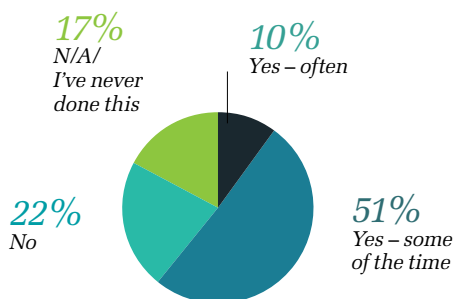
This opinion is harmonious across both companies and consumers, with the Manhattan Associates consumer survey finding that 68% of

the 2,000 respondents expect a consistent quality of experience when shopping with the same retailer in a store, online or via mobile.

Consumers were also asked whether they notice if the shopping experience from the same retailer varies when using different channels. Interestingly, while 10% say they often notice and 51% say they notice some of the time, some 22% say they do not notice if the shopping experience is different.

With consumers placing such importance on experiencing coherent encounters, it is vital retailers no longer silo the different commerce platforms but instead open their horizons to encompass all aspects of retailing.

Do you notice when you get a different experience from the same retailer when you shop with them through different ways, for example, either between online and in store, between stores or between a call centre and store?



ACTION POINTS **RetailWeek**

- Eliminate the need for customers to repeat information and processes when interacting across communication channels.
- Put in place an omnichannel customer service platform that is built around omnichannel data.
- Make sure you have a full understanding of the impact of social media and how your audience engages with it, understand how that helps drive engagement, transactions, familiarity and attachment to your brand.
- Provide a consistent tone of voice across all avenues, whether that be in store, across social media or your ecommerce platforms.



CHAPTER FOUR

PERSONALISING THE IN-STORE EXPERIENCE

- **Multi-function roles make store and store associates ever more important**
- **Shopping experience sets the store apart**
- **Quantifying what stores contribute is defining challenge for retailers**

Amid all the discussion of expanding online and mobile shopping, there is an overwhelming consensus among the retail chiefs that, far from being “yesterday’s channel”, the physical store is playing an increasingly important role in the omnichannel retail world.

Store retailing itself has evolved from that traditional model and modern retailers see the store as a critical point of contact within the

omnichannel customer relationship, as well as a unique channel in its own right, offering much to a retail brand that ecommerce cannot.

PHYSICAL CONTACT

Interestingly, when asked to identify how they see communication with customers evolving over the coming 12 months, some 16% of the 25 retail leaders interviewed for this report

emphasise stepping up in-store communication, second only to the proportion planning to increase engagement through social media (28%).

“The role of the shop is changing dramatically in that it is becoming ever more important at the front end of the customer journey and the back end of the customer journey,” says a director of a department store chain. “The shop is a place where customers come to discover new products, to be inspired by new products, touch the product and get advice. And then similarly at the end of the journey, it’s also increasingly important in the mix with fulfilment, collections and returns.”

Consumer research reflects the role the store now plays in the omnichannel consumer experience. When 2,000 UK shoppers were asked the top reasons making them more likely to go to a store rather than shop online, some 38% say to “try and feel the product before buying online”. Considerably more, some 58%, say they go to stores to buy the product “there and then”, while 52% say they want to try and feel the product before buying in store at a later date.

With such a large percentage of consumers still keen to visit physical stores, retailers’ store portfolios will still remain a strong focus of



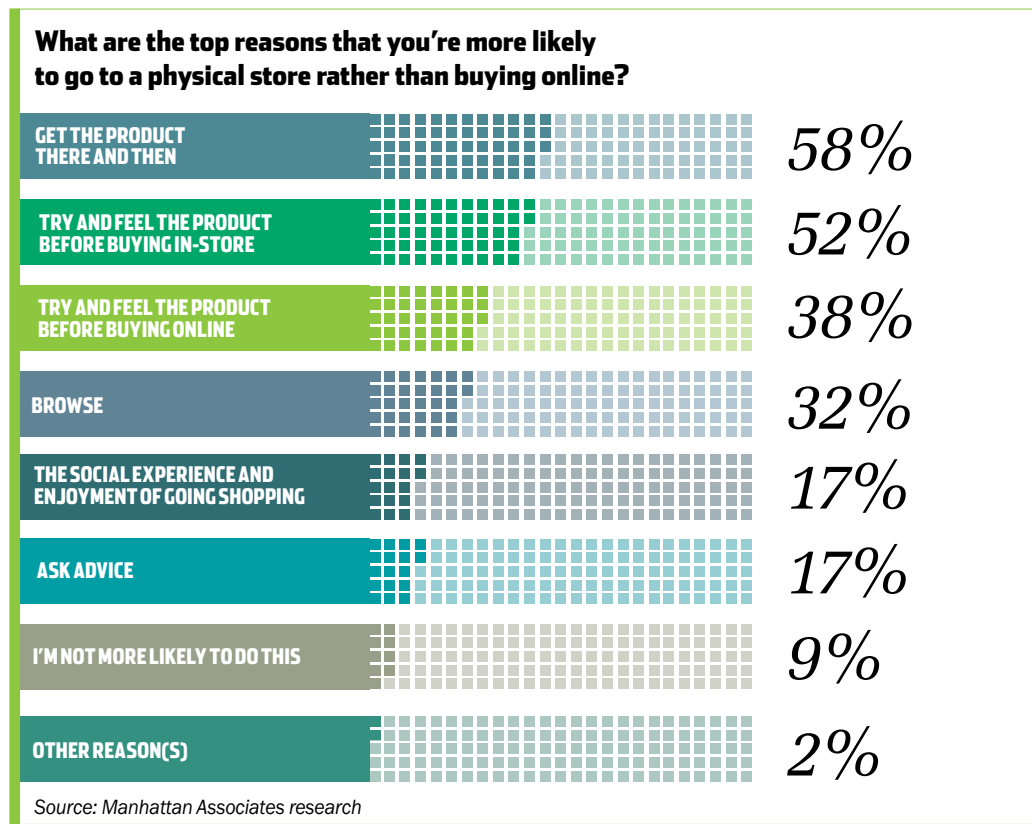
strategies for 2017. “It’s very important to us,” says the chief executive of one grocer. “It’s still all about footfall and that personal contact, so digital can help and can complement that but the direct thing remains for us.”

STORE ASSOCIATES

The “multifaceted” role the store now plays means the store associate “needs to be able to also undertake a lot of roles”, says the chief executive of a clothing chain, for example assisting customers in placing orders online while in store and dealing with collections of online purchases.

Store staff “have to understand a truly multichannel business”, says the chief executive of a department store operator. “They have always been on the front line, so to speak, but they’re even more important now in terms of the whole piece around the customer experience and customer service.”

This is a view that is strongly echoed across the 25 retailers interviewed. Shop staff are “unbelievably important”, says the chief executive of a discount retailer, “and it’s changed a lot, immeasurably actually”. Given how often they will be showing customers products available online, store staff arguably need to be as well acquainted with a retailer’s online offer as they are with products available in store. “They’ve got to be very digitally aware,” the chief executive of a fashion chain adds.



Several retailers stress the importance of in-store systems and automation in freeing up staff to help customers, to provide the human interaction that is the store's USP. "The more we can take away the grunt work, that gives our colleagues the chance to do what they enjoy most, which is selling stuff, or at the very least engaging in a conversation that brings someone into the brand. And even if they don't buy anything, they remember the interaction and hopefully come back again," says the chief executive of a department store operator.

In addition to all the new tasks, shop assistants are there to provide information. "Knowledge is still absolutely key," says the chief executive of a specialist retail chain, along with "great customer service and staff friendliness".

However, the Manhattan Associates consumer survey suggests this may be a rather idealised view of the store assistant. When the consumers were asked whether they ever find that they know more than the shop assistant, 9% said they found this "all the time", while 61% said this happened "some of the time".

More encouragingly, when consumers were asked to nominate aspects of customer service most likely to engender their loyalty to a retailer, almost 29% said friendly and helpful store associates.

SHOPPING EXPERIENCE

While there has been massive investment in optimising the customer experience when shopping online or via mobile, the retail chiefs stress the increasing importance of the store experience to a retail brand. Shop staff are "brand ambassadors", says the chief executive of a clothing retailer.

The contrast with the two-dimensional digital retail world – not to mention the increasing competition retail is under from the leisure sector – arguably places a greater onus on making shopping in store an "experience", even if stores are less significant in terms of their contribution to sales.

"What customers are looking for is a great experience when they go out, rather than just shopping," says the chief executive of a clothing store. "You need to give them an experience." The chief executive of a specialist retailer echoes the point, saying stores are becoming "experience centres".

Hinting at why the shopping experience remains so attractive and important to consumers even in the digital age, the chief executive of a clothing chain points out that it is younger adults who crave the physical shopping experience the most. "As the world becomes more digital and we've got a generation growing up who have lived socially on digital forums, they enjoy the physicality of shopping more than ever. If you were to interview

When you go shopping, do you ever find that you know more than the store assistant?



Source: Manhattan Associates research

a load of 18 to 25 year olds, they are almost more evangelical about the physical shopping trip than the generation who didn't grow up with digital technology."

Consumer research conducted by Manhattan Associates backs up this belief. When shoppers were asked to give their top reasons for going to a physical store rather than shopping online, some 17% give the social experience and enjoyment of going shopping as a reason, but for respondents aged 18 to 24 the percentage climbs to 19%.

We may conjecture about millennials being the most digitally savvy generation and the primary adopters of technology, yet it appears they also crave standout in-store experiences.

REALITY CHECKOUT

While universally recognising the value of store retailing to their overall operations and to their brands, retailers voice concerns about how that value can be properly measured in the omnichannel world. Clearly, this is one of the prime reasons why the organisational aspects around omnichannel retailing are such a preoccupation. The heavy fixed costs of a store estate require justification in more than cultural terms.

"We expect greater growth still online but very challenging times in bricks and mortar," the chief executive of a department store operator says of the coming year.

When discussing the implications for retail space trends, length of leases is an issue raised by a number of the retail bosses, while retailers with short leases were more buoyant about the matter. "We have an average lease length of less than five years," says the chief executive of a clothing retailer. "That means we can easily trade out of stores."

"If you're lucky enough to be able to get out of stores and space, then I think retailers will be looking at doing that," the department store chief executive says.

Over the past year, there have been many exits from the British high street with Staples stores closing, BHS shuttering its 164 stores following its administration, Banana Republic and American

"THE STORE IS STILL AN IMPORTANT PART OF THE CUSTOMER EXPERIENCE AND I FUNDAMENTALLY BELIEVE IT ALWAYS WILL BE, BUT CUSTOMERS ARE CHOOSING NOT TO USE STORES IN THE SAME WAY AS THEY DID BEFORE"

CHIEF EXECUTIVE OF A FOOTWEAR RETAILER



38% of consumers say they are likely to go into a store to try a product before buying it online

Apparel withdrawing from the UK and M&S announcing it will axe up to 60 stores over the next five years. The Centre for Retail Research forecasts the number of stores will continue to fall and between 2013 and 2018 this is expected to drop by 22%.

In a bid to successfully navigate the ever-changing retail horizon, retailers are facing the big conundrum of balancing their investment in bricks and mortar and ecommerce.

The impact of the costs of the national living wage is another concern raised by a number of the retailers, along with expected wage inflation forecast for the coming year.

“Stores are fast becoming a complicated network of contacts and brand touchpoints,” says the chief executive of a clothing retailer, “and where exactly customers choose to transact isn’t necessarily reflective of the role that the store plays. Gone are the days when a high street store serviced the local community and the only way of measuring performance was the sales through the till.”

The concept of showrooming – where shoppers look at products in a store but then buy online – is an accepted challenge in retail today and is clearly a growing trend, with 38% of respondents in the Manhattan Associates survey saying they are likely to go to a store to try a product before buying it online.

It is therefore no surprise that retailers appear to have such mixed emotions about store retailing, with some eager to ensure the in-store experience is as positive as possible to encourage shoppers to spend there and then, while others are reducing their focus on bricks and mortar.

Finding a way to truly evaluate the commercial contribution of a given store in the omnichannel

age is arguably a defining challenge for the retail sector.

The chief executive of a footwear retailer concludes: “The store is still an important part of the customer experience and I fundamentally believe it always will be, but customers are choosing not to use stores in the same way as they did before. We really have to think about how many stores we actually need. Do we have them in the right place? Do we have the right sizes? Do we have staff in at the right time doing the right things? So, it’s looking at all of that and making sure that’s all fit for purpose.”

Manhattan Associates **RetailWeek**

ACTION POINTS

- Empower store associates with past purchases, wish lists and inventory availability to revolutionise the service they give shoppers into a very personalised experience.
- Remove friction within the customer journey through real-time, single views of both the customer and inventory.
- Turn your stores into experience centres to give shoppers even more of a reason to visit.
- Utilise in-store technology in a way that frees up store associates to help customers and provides human interaction that will be central to a store’s USP.

CHAPTER FIVE

REFINING THE SUPPLY CHAIN

- **Fall in sterling seen as biggest supply chain challenge**
- **Retailers seek shorter lead times to meet consumer demand for speed**
- **Flexible delivery options now an essential requirement**

Given the ongoing attempts to create a harmonious and seamless omnichannel business, firms are having to consider how their supply chain can work to deliver what is required by both consumers and retailers.

Speed, sourcing and sterling are three recurring themes from across the retailer interviews, with speed and sterling mentioned by a third of retailers and sourcing by a fifth. The current unfavourable exchange rate is mentioned more than any other individual factor when the retail leaders discuss supply chain issues.

When asked to identify challenges related to the supply chain, some 32% refer to the exchange rate, with several retailers saying it is the biggest challenge they face in this area.

“When thinking about supply chain challenges, the first thing that comes to mind is the exchange rate,” says the chief executive of a specialist retailer. “The biggest impact on our supply chain is the falling pound,” says the chief executive of an optical retailer. “That’s the biggest single challenge we have.”

“If you’re dealing in euros or dollars then that’s going to cause an issue,” says the chief executive of a department store operator.

However, the chief executive of another specialist retailer plays down the currency problem, suggesting that it’s the same for all companies. “Exchange rates have changed things, but it’s a level playing field. Everyone’s faced with the same exchange rate.”

SEEKING NEW SOURCES

Although a third of retailers are concerned about the issue of the exchange rate, it should also be

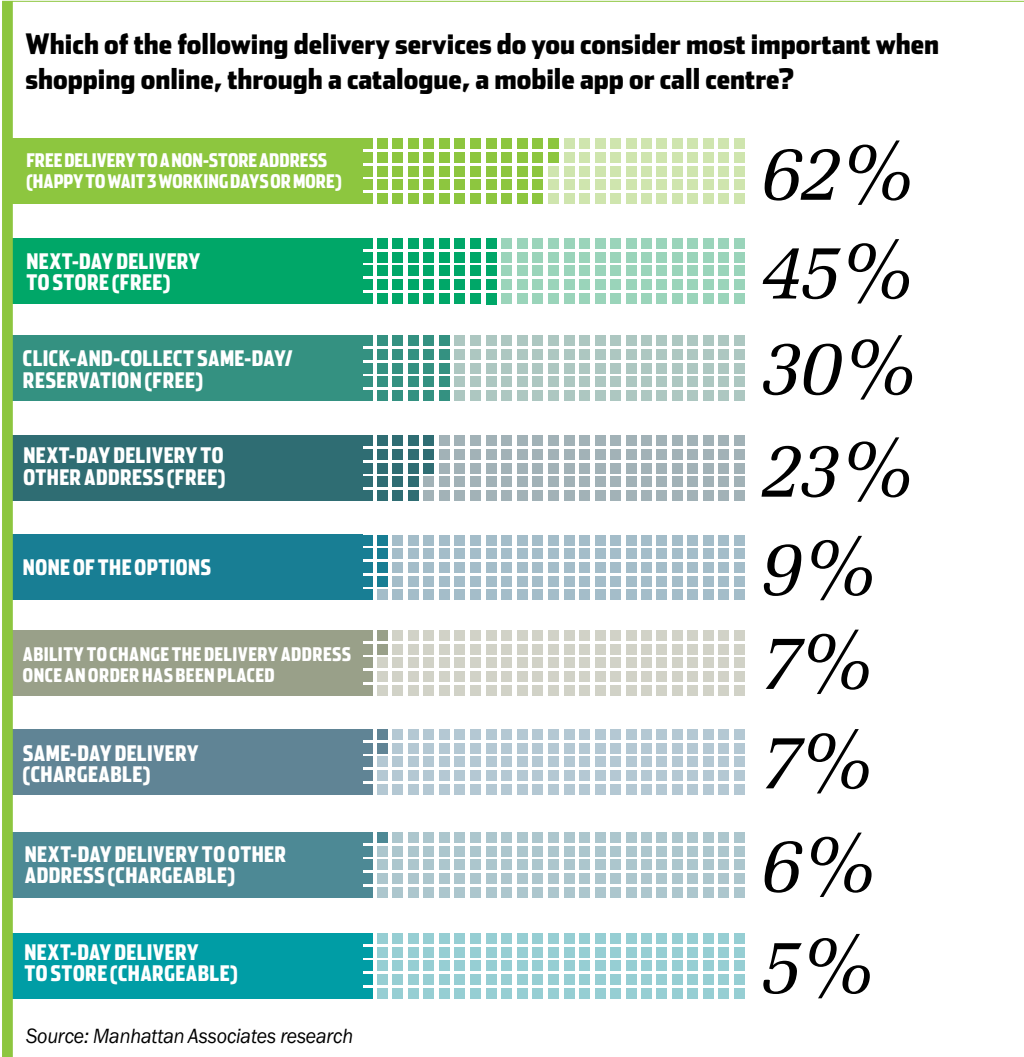


noted that 68% of the retail leaders do not mention the currency devaluation at all in connection with the supply chain. Two of the retail bosses specifically state that the fall in sterling has not affected them as they source predominantly from within the UK.

Shortening supply chains to reduce lead times and sourcing closer to the UK has been an ongoing trend in UK retailing for some time and the sterling devaluation may be a catalyst for greater urgency in this regard, particularly as the pound is widely expected to remain around its current level for some time.

“Obviously currency is a big issue at the moment and we’re all thinking about what that means for sourcing decisions,” says the chief executive of a footwear retailer. “And obviously, as we are having to change source markets, that throws up other supply chain issues.”

“Many years ago, it was about offshoring the product to where you can buy the product the cheapest, and invariably lots of retailers went to the Far East,” says the chief executive of a furniture retailer. “But there has been this growing trend of retailers trying to source products more locally.”



That's a trend that continues to grow."

Costs have been rising in China, but speed is just as much of a primary consideration for some companies, a trend which was also highlighted in *Retail 2015*. "We've got to become quicker," says the chief executive of a department store group. "A high proportion of our manufacturing has previously been in China. We've got to try and get it closer to home, to be able to turn around product quicker because customers are wanting it faster and quicker."

FOCUS ON FULFILMENT

Interestingly, in spite of the currency issue, overall the retailers focus far more on fulfilment than sourcing when commenting on supply chain challenges and opportunities. And again, speed is the focus.

The importance of improving speed of delivery or expanding delivery options for customers features prominently in the priorities the retail leaders identify, with 32% mentioning speed. "Our constant focus is how we can deliver quicker," says the chief financial officer of a fashion retailer.

Leveraging delivery options to gain competitive advantage is now an ubiquitous strategy for UK retailers, according to the chief executive of a furniture retailer. "I guess the whole industry is either moving in that direction or has gone a long way down that route."

Flexible fulfilment "is increasingly becoming an area that customers want you to excel at", says the chief operating officer of a fashion and homewares retailer.

Meanwhile, the chief executive of a clothing chain says the "nuts and bolts stuff", such as effective delivery, effective returns and clear communication around online orders, are "really what makes the biggest difference" when it comes to customer experience.

Pressure on conventional retailers to offer their customers the same sort of flexible delivery service available from pure-plays has been a key dynamic in the evolution of omnichannel retailing over the past few years.

"Companies like Amazon, who basically deliver almost on the same day or next day faultlessly, have raised the bar in terms of customers' expectations,"

says the managing director of a footwear retailer. “No longer would you wait a week to get a pair of shoes delivered. It’s got to be within the next day. So the actual speed at which the customer expects the service is a lot faster because of the online players. That expectation is there. Same with returns, they expect free returns on everything now.”

A comment from the chief executive of an online retailer speaks of the challenges conventional retailers face. When asked how flexible the company’s business model is when it comes to fulfilment, the chief executive says: “Absolutely flexible. Because we’re a pure-player, that’s all we do. We’re highly flexible. We’re constantly looking at the latest offerings from the carriers – next day, same day – and try to give our customers as many options as possible.”

With a supply chain purpose-built for online fulfilment, Amazon and other pure-play retailers are clearly at a considerable advantage.

By contrast, conventional retailers have had to adapt existing structures, while continuing to service their store-based operations. Adaptation of legacy systems represents the biggest supply chain challenge, says the chief executive of a clothing retailer. “Because we have legacy systems in place, anything that requires significant changes to those systems is complicated and lengthy to achieve.”

Manhattan Associates’ consumer survey provides some fascinating insight into consumer expectations regarding delivery. Asked which

32%
of retailers say the
exchange rate is the
biggest challenge for
supply chains

delivery service from a list of options they viewed as most important when shopping online, through a catalogue, a mobile app or call centre, around 62% of the 2,000 respondents choose ‘free delivery to a non-store address within three working days’. It is apparent that free delivery is more important than it was this time two years ago, when 45% of shoppers said free delivery was their priority when shopping for food and 57% when buying fashion items.

Free next-day delivery to a store is considered most important by around 45% of respondents. The research appears to confirm consumers will seek out free delivery, with chargeable options being seen as less important services. Click-and-collect is recognised as important by 30% of respondents.

Consumers are becoming more demanding with their delivery expectations and retailers are expected to evolve in order to cater to their wishes.

“We have to be able to adapt to the wants of our customers,” says a director from a department store group. “The customer is in control and they are changing things all the time, and they are demanding things ever quicker. Maybe three years ago we didn’t have click-and-collect and it is now a third of our business, so it is just about being able to evolve well – firstly, spotting the trend and secondly, adapting quickly to what we are doing in everything we do.”



THREE KEY CHALLENGES FOR SUPPLY CHAIN

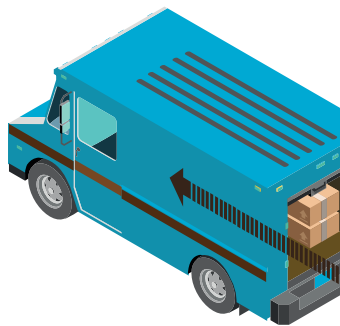
1



Unfavourable exchange rates

2

Speed – must become quicker



3



Location – looking closer to home for manufacturing

ACTION POINTS

- An order-management solution provides a single view of inventory, regardless of location, that makes it easier for retailers to keep customer promises and have flexible fulfilment options.
- Unlock stock silos in stores, hubs, distribution centres and with suppliers, and create a single stock pool to fulfil customer orders from.
- Leverage delivery options to gain a competitive advantage.
- Free delivery is a must for consumers. Analyse supply chain costings to establish whether this is a possibility for you.

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CHAPTER SIX

THE BREXIT EFFECT

- **Two to three years of challenging conditions ahead following Brexit vote**
- **Long-term impacts cannot be evaluated without more information on Brexit strategy**
- **Questions over access to skilled and unskilled labour have to be answered**

Without a doubt, the hottest water-cooler topic of 2016 was the lead up to and the aftermath of the EU referendum. It is therefore no surprise that every single one of the 25 retail leaders interviewed for this report touched on it in some way.

To speak of the impact the Brexit vote has had on the retail market is somewhat difficult as Brexit itself is yet to actually happen. On the other hand,

separating the immediate impact of the result from the potential long-term implications is helpful. The retail bosses provide a very clear picture of the former and shed some light on the latter.

IMMEDIATE IMPACT

The retail sector has certainly been affected by the immediate impact of the vote. As discussed already in this report, the devaluation of

WHAT THEY SAY ABOUT BREXIT

"Brexit is going to be a shock to the country and the industry, and basically, whenever there's change, the companies that are most flexible and can adapt to it will win"

CHIEF EXECUTIVE OF AN ONLINE RETAILER

"In many ways, the economy is slightly stronger if you take it in glorious isolation of Brexit"

CHIEF EXECUTIVE OF A FASHION CHAIN

"Retailers are pretty good at getting through the hard times and trying to make the best of it. I'm quite positive, but I know it's going to be a bumpy couple of years"

CHIEF OPERATING OFFICER OF A FASHION AND HOMEWARES RETAILER

sterling immediately after the referendum has pushed up the cost of goods, with major implications for UK retailers importing from dollar and euro markets.

Despite the inevitable rise in inflation that the fall in the pound will trigger, 61% of the industry bosses forecast retail sales will grow in 2017, with just 22% expecting a decline and 17% predicting sales will be flat.

Some retail leaders suggest the consumer mood has been affected by the referendum result, with 32% saying the mood is worse than 12 months ago and just 4% saying it is better.

"Consumers are more confused and [the mood] is worse than this time last year," says the chief executive of a fashion chain. "In many ways the economy is slightly stronger if you take it in glorious isolation of Brexit, but they [consumers] don't really know what to believe, so I would say they are slightly more pessimistic and slightly more concerned."

That disparity between consumer sentiment and actual economic indicators has been a feature of the period following the vote, as the performance of the economy has confounded pessimistic forecasts and arguably flown in the face of prevailing public mood.

Towards the end of 2016 there was a further example of economic good news taking the country by surprise, as retail sales figures released by the Office for National Statistics exceeded expectations. Retail sales volumes in October were up 7.4% from a year earlier. Average store prices even fell marginally by 0.7%.

TOUGH TIMES AHEAD

However, as we go into next year, the full impact of the fall in sterling will begin to work through to retail prices, triggering inflation. The Bank of England has forecast inflation will triple next year to 2.7%. Interest rates could well

rise also, particularly if growth in inflation is faster than expected, with the effects certain to be felt beyond 2017.

A director of a department store chain believes inflation will be the key factor. "Most would suggest there will be a return to big inflation at some point next year, less clarity around cost-of-living expenses, particularly mortgage increases or interest rate increases, and then, waiting to be seen, fear of unemployment."

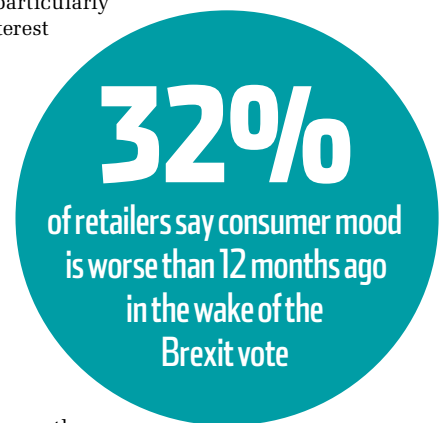
Others see the feeling of insecurity stemming from uncertainty about the Brexit process and its outcomes.

"I think it's uncertainty that affects consumer confidence," says the chief executive of a specialist retailer. "That's the worry."

The consensus view among the retail bosses is that these challenging conditions will prevail for two to three years. "I think it will be dramatic for two to three years until we get clear signs into what's happening post-Brexit," the same chief executive concludes.

The chief operating officer of a fashion and homewares retailer also expects two to three years of tough times, with inflation biting and pressure on disposable income, but stresses the resilience of the retail sector. "Retailers are pretty good at getting through the hard times and trying to make the best of it. I'm quite positive, but I know it's going to be a bumpy couple of years."

The chief executive of a department store chain is also smiling in the face of adversity. "There's always going to be something difficult. It would be boring otherwise. Boring and easy. Who'd want that?"



"I think it will be dramatic for two to three years until we get clear signs into what's happening post-Brexit"

CHIEF EXECUTIVE OF A SPECIALIST RETAILER

"I think potentially it is either going to have very little effect or it's going to have some sort of negative effect"

CHIEF EXECUTIVE OF A FURNITURE RETAILER

"Consumers are confused and [the mood] is worse than this time last year"

CHIEF EXECUTIVE OF A FASHION CHAIN



POSITIVE EFFECTS

When it comes to Brexit, retailers are finding further things to smile about. The unhelpful exchange rate may result in consumers taking fewer foreign holidays, says the chief executive of an online retailer, which could benefit domestic retail. "What we may see is actually less overseas travel because it really is going to be significantly more expensive and, therefore, you are going to have people spending more money staying within the UK."

By the same token, the UK is now a significantly more attractive holiday destination. "On a positive, if you've got stores in tourist areas, and you've got tourists coming in from Europe and the US in particular, you're probably actually going to see an upside," says the chief executive of a department store chain.

The currency devaluation will benefit any UK retailers selling online internationally. "I think Brexit will actually have a positive impact," says the chief executive of an online retailer. "A lot of our sales are overseas and now we're cheaper. Anybody that's online with international sales is in a very good position and will be getting accelerating growth, so there is an opportunity there absolutely."

The chief executive of a fashion chain says that, while the currency devaluation would not be sufficient reason to change an international strategy "overnight", the weak exchange rate means international operations have become more significant to the company, contributing 20% more than before June.

In fact, 56% of the retailers say they plan to expand their international horizons during 2017, while 16% say international expansion is a top priority – a significant jump from just 4% in 2015.

RETAIL AFTER BREXIT

As to the long-term implications of Brexit itself for UK retailing, the prevailing view among the industry leaders is that it is too early to tell. There is still no clear idea of the deal the UK is seeking, let alone the one it might get.

56%

of the retailers say they plan to expand their international horizons during 2017

THE BANK OF ENGLAND HAS FORECAST INFLATION WILL TRIPLE NEXT YEAR TO 2.7%

16%

say international expansion is a top priority



"Britain's exit from the EU has not been defined in terms of timing or nature," says the chief executive of a clothing retailer. "It is pure speculation, in my view, about what the impact will be. At this point, I'd say it's unknown. There are too many variables. However, overall, one could say that with change comes risk and volatility."

This retailer goes on to say that the implications for the retail sector are tied to the economic impacts of Brexit, particularly in relation to disposable income and consumer confidence.



That is almost to say: the retail sector will thrive post-Brexit if the country does.

The chief executive of a fashion chain describes the vote as a “massive own-goal”, but believes the UK is robust enough to survive any setback. After two or three difficult years, he suggests, “things will be a lot better”.

One area of particular concern is the impact of Brexit on the retail labour market. “I think clearly we’re all anxious about the labour issue and where we’ll get the people we currently rely on who are not British-born, and what will happen if they’re not encouraged to stay or to come to this country,” says the chief executive of a footwear retailer.

Retail could potentially suffer from shortages of both unskilled labour and highly skilled personnel if free movement of people between the UK and the EU comes to an end, and the controls that replace it do not take appropriate account of the industry’s needs.

61%
of retail bosses
forecast the industry
will grow in 2017

“We want the single market and we want free movement of people because both are beneficial for our business,” says the chief executive of a fashion chain.

“Thirty per cent of our employees are non-British EU citizens and are highly qualified and brilliant at their jobs, and we would struggle to fill those roles.”
Once again, until more details

emerge of how the government plans to approach immigration after Brexit, it is impossible to judge accurately the threat to the retail labour market.

Brexit clearly poses challenges to the retail sector at large but, the chief executive of an online retailer suggests, it will be up to individual companies to respond to whatever circumstances and conditions materialise.

“Brexit is going to be a shock to the country and the industry, and basically whenever there’s change the companies that are most flexible and can adapt to it will win.”

RETAIL 2017 CONCLUSION

Any approaching year presents its unique challenges and opportunities, and many are still trying to make sense of where 2017 is heading.

Perhaps understandably given the uncertainties, the retail leaders interviewed for this report make few predictions regarding the future beyond Brexit.

Retail sales will naturally be one of the economic indicators closely watched to measure the impact of Brexit as it approaches and after it happens, but retail can offer more than that. In this report, retailers discuss the impact of Brexit, not only in terms of the positive and negative economic consequences they predict for the market, but also in terms of how their customers are feeling.

THE HUMAN FACTOR

With its inherent closeness to and direct relationship with the consumer, retail is arguably matchless as a barometer of consumer sentiment and, by extension, the public mood. In the coming year or so, those attributes may be more useful than ever.

This unique characteristic, which differentiates the retail sector from the many manufacturing industries, is underlined by one of the strongest themes running through the interviews with retail leaders, namely the home truth that success ultimately comes down to a retailer's relationship with its customers.

It is notable that, amid all the discussion of ecommerce, social media, internal reorganisation, creation of new roles, recruitment of digital experts and evolving appropriate omnichannel business models, the retailers stress the abiding importance of their stores.

Many, of course, note the multifaceted role stores and shop staff now have to play in the omnichannel world, but the animation with which they discuss their stores speaks to the value they place on the personal contact stores provide. The precise quantification of a store's contribution may remain a vexing challenge in the complex omnichannel world, but the value of stores is universally recognised and cherished.

"THE RETAIL SECTOR HAS SHOWN ITSELF MORE THAN CAPABLE OF RESPONDING AND PROSPERING IN THE FACE OF MASSIVE UPHEAVAL, AND CHANGE PERHAPS PROVIDES THE STRONGEST CAUSE FOR OPTIMISM AS THE INDUSTRY BRACES ITSELF FOR THE IMPACT OF BREXIT"

RESILIENCE THROUGH ADAPTABILITY

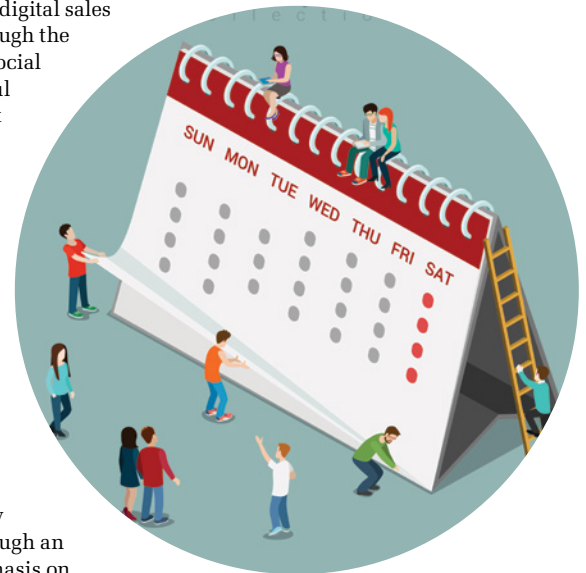
While the emphasis on creating business models to meet omnichannel demands continues, a common feeling emerges from the interviews that, while the digital revolution may have transformed the mechanics, it has not changed the nature of retailing. Whether through personal contact in-store, digital sales channels or through the growing use of social media, successful retailing is about communicating with consumers and knowing the customer.

If this represents a point of clarity in the omnichannel journey, or even a sense of newfound ease with a changed retail order, it has only come about through an unstinting emphasis on adaptation and innovation that has characterised the past few years. Another strongly emerging theme is the importance of continuing evolution and flexibility in response to continued technological advance and constantly changing consumer demands.

The period of adjustment has not been without pain. However, it is notable that, notwithstanding the continuing challenge of finding an appropriate balance between investment in store retailing and ecommerce, even more traditional retailers now discuss online and mobile almost exclusively in terms of opportunity rather than threat, something that would not have been the case a few years ago.

The fact that the retail sector has shown itself more than capable in recent times of responding and prospering in the face of massive upheaval perhaps provides the strongest cause for optimism as the industry braces itself for the impact of Brexit.

Adaptability is seen as a key determinant of retailer success over recent years, and industry leaders expect that to continue to be the case as the country, its retailers and its consumers move into uncharted waters.



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