UNLOCKING GROWTH IN 2019

How a data-driven future will be key to increasing market share

SUSTAINABLE GROWTH IN RETAIL

In association with Google

RWRC CONNECT BY ASCENTIAL

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RETAIL WEEK CONNECT: UNLOCKING GROWTH IN 2019

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GOOGLE
VIEWPOINT

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Ongoing shifts in consumer behaviours and the evolution of technology are making the retail market today a less certain, less predictable place. As a result, retail organisations are having to meaningfully evolve their business models in order to respond and remain relevant.

In these turbulent times, it's easy to fixate on the challenges of today while deferring focus on tomorrow. However, historic lessons show that innovation and experimentation are not only needed in uncertain times, but essential for survival after a downturn. In fact, a slowdown is a perfect time for retailers to speed up.

Online shopping continues to surge, with 20% of purchases in the UK being made this way. This shift continues to challenge the traditional economics of retailing with the implications of store estates, fulfilment and warehousing having to be rethought. Successful retailers of tomorrow will be those that can deliver convenience at scale, manage their inventory effectively and minimise returns in the process.

Consumers are searching online more than ever, and searches with retail intent continue to grow at pace. This gives retailers a means of fulfilling the needs of their consumers at scale, and also offers the necessary data and insight to keep abreast of those changing needs and behaviours. Using insights for smarter, faster decision making across the full value chain is critical, and advances in machine learning and AI will only further accelerate this.

In times of change it is more important than ever to use data and technology to keep delivering and evolving the customer proposition. Used effectively, customer data can help deliver real-time personalised interactions both on the retailer's website and across marketing channels.

But, with 80% of UK retail transactions still occurring in stores, it's essential to rethink how we measure their role in a business. It is the interaction between the mix of channels and their contribution to a final transaction that should now inform a retailer's strategy.

Now is an incredibly exciting time for retail with great potential for growth. To achieve it retailers will need to build partnerships and alliances that help them deliver change across the organisation. At Google we're partnering with retailers across our ecosystem to make this possible.

"It is more important than ever to use data and technology to keep evolving the customer proposition"

GOOGLE

UK Sales Director
Martijn Bertisen

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EXECUTIVE ANALYSIS:

WAKING UP TO A NEW REALITY

- **Consumers shop less often in physical stores**
- **Retailers are increasingly competing with other areas of consumer spend**
- **Growth will be determined by digital transformation**

There is little doubt that this year is going to present the retail industry with an unprecedented challenge. The fallout from Brexit and the weakened consumer sentiment surrounding it, alongside radically changing consumer shopping habits, means that achieving growth is going to be harder than ever before.

It is widely accepted that the industry has changed from what was – in the main, a retailer-led, shop-dominated, relatively straightforward consumer-facing business in the 20th century to something quite different today. The theory goes that organisations that continue to do things the way they always did may struggle to find growth in the future.

There are still plenty of stores – including new chains and innovative concepts opening – but consumers simply don't need shops as much as they used to (see page 7 for more detail on declining store sales growth).

Consumers are not only opting to switch their spend to online for the functional items they regularly buy, but they are also using the internet to extensively browse and discover new brands and products before they complete a purchase, whether that be online or offline. What's more, a growing desire for compelling and healthy life experiences is shifting how people spend their time outside of work.

Retailers therefore now compete with a host of entertainment, hospitality and leisure providers for a share of people's hard-earned money. Such a scenario has always existed, but consumers now have even more choice – online and in the real world – which means retailers have to work smarter, offer additional services and continually evolve their proposition to stay relevant.

Mapping a path to success

In the following four chapters, Retail Week will underline some of the solutions out there for retailers grappling with this new environment.

We investigate the various headwinds challenging retail today, including analysis from high-profile industry commentators and leading high-growth retailers. We also feature case studies of retailers that are switching how they operate to meet the needs of modern consumers.

As part of the report, we look at what Lord Wolfson, long-term Next chief executive and a proven astute observer of the UK economy, says about "the new reality" of British retailing. His insights call on retailers to function successfully on multiple sales channels, while dealing with often unexpected cost pressures accompanying such a switch in business activity.

The forthcoming chapters will investigate what successful retail business models of the future will look like, the growing importance of data-driven retailing and how a more digitally considered approach can revitalise stores and help support retailers on their journeys towards growth.

CHAPTER 1:

IDENTIFYING OPPORTUNITIES FOR GROWTH

- Consumer uncertainty weighs on retail spend
- The sales shift to online necessitates digital transformation
- New KPIs for growth are emerging

Various industry barometers paint a picture of a low-growth market in retail today. Figures from the British Retail Consortium (BRC) and KPMG show store sales on a three-month average have been in year-on-year decline since April 2016, with the latest figures from February showing a drop of 2.8%.

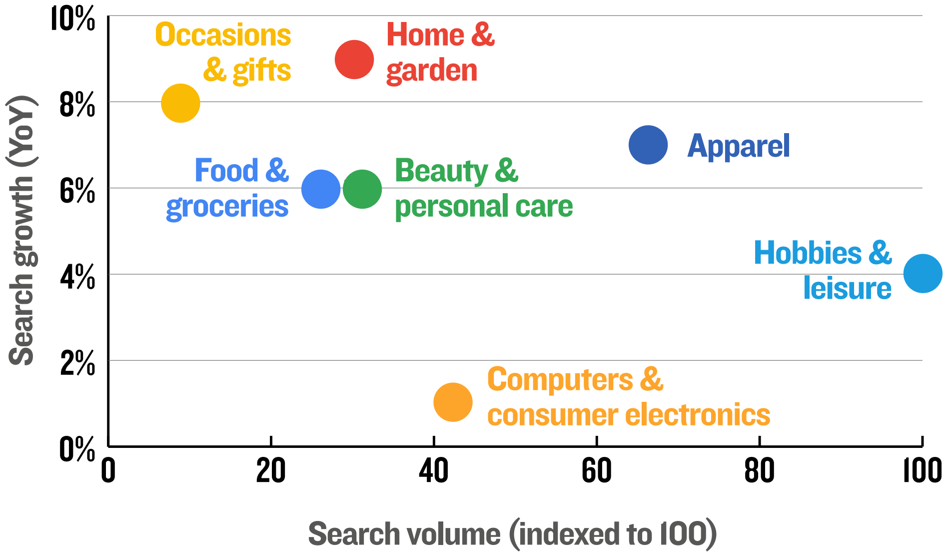
By comparison, online sales have been in growth since the tracker began in February 2013, currently at 5.4% as of February.

Ben Perkins, director of retail research at Deloitte, sums up the situation in a nutshell, adding that his company's own research found 50% of UK fashion sales in the build-up to Christmas 2018 were discounted, putting further strain on margins.

"Retailers from 2017 to 2019 have been squeezed between weakening demand and rising cost, and consumer confidence crumbled in the second half of 2018 – dropping by five points after four quarters of upward momentum," he says.

GOOGLE SEARCH DATA: VOLUME AND GROWTH ACROSS RETAIL CATEGORIES

Indexed query volume vs searches year on year (UK Q4 2018 vs Q4 2017)



Based on a sample of search queries

WHAT THIS SHOWS High-ticket categories were split in terms of search volume and growth. Computers and electronics grew the least, while home and garden rose the most. Smaller purchase categories remain buoyant, suggesting consumers are less likely to rein back spending here.

"If you look at the macro picture, inflation fell below the Bank of England target rate, we've got growth in wages and we've got full employment.

"In normal times, this would be a green light for consumer spending and good times for retail. However, these are far from normal times."

Whether it is Brexit uncertainty, political instability, house price stagnation, strained international relations or the multiple other factors that continue to arise, there are issues aplenty influencing today's news agenda that are arguably having an impact on consumer confidence and spending.

A burgeoning and competitive hospitality market involving big-name coffee chains and a host of food-on-the-go options are also diverting the shoppers' gaze – and therefore, too, their retail spend.

In particular, data from Google shows that while total retail searches were up in the fourth quarter of 2018 versus the same period in 2017 (see graph on page 10), consumers are now more likely to search for lower-priced items, with electricals suffering (see graph on page 7).

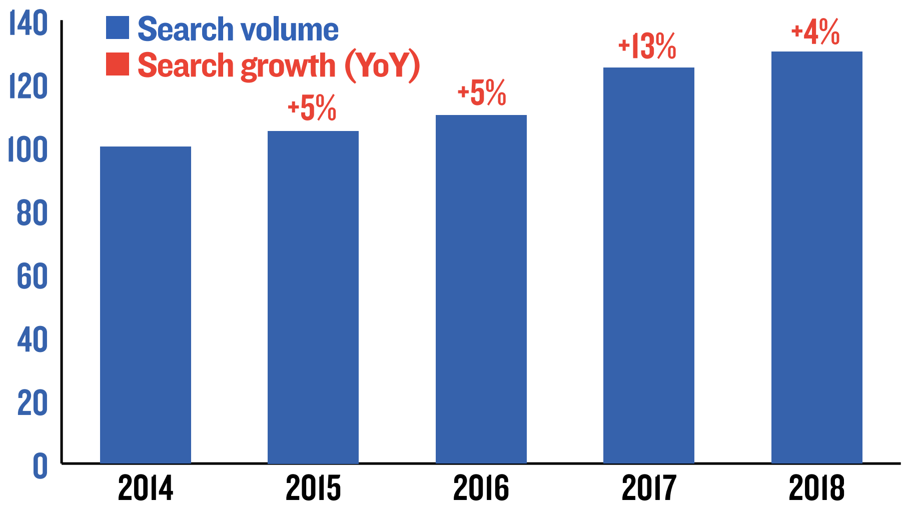
Google data shows that the fourth quarter in 2018 was less dominated by discount days such as Black Friday when compared with the year before. And, while the number of searches grew, the rate of growth was sharply down on the year before (see chart below).

Although wage inflation in the UK should give people more cash to spend in shops, it is, paradoxically enough, the industry itself – as one of the largest private-sector employers in the UK – that must find much of these funds in the first place to pay people's salaries.

Add to this constant concerns over rising rents and business rates, alongside battles over gender equality pay levels, and retailers find their growth strategies facing significant hurdles.

"On a premium site rate, the cost of rent and rates has gone up by 200% to 300% in three years, and no matter how well run or efficient your business is, that hits hard," says Perkins. "Generally, the feeling is that retailers – particularly big ones – are being hit from all sides in terms of costs, and therefore experiencing pressures on margins."

GOOGLE SEARCH DATA: DISCOUNTS AND PROMOTIONS



Based on Google Trends

WHAT THIS SHOWS While the volume of Google searches for keywords such as 'deals', 'discounts', 'sales' or 'promotions' has increased every year for the past four years, the growth has slowed. This suggests that consumers are becoming used to widespread discounting, and paints a worrying picture for retailers' long-term growth and profitability.

RETAIL'S NEW KPIs

Objectives need to be shared across the whole business, rather than siloed. We take a look at six new KPIs to measure the likelihood of sustainable growth.

1. MAKE CONNECTED DATA INTEGRAL

A key determinant of success will be how well retailers are able to connect data between each of their online and offline channels, understand their customers' journeys and address any friction points.

2. CONSIDER OPERATING MARGIN VS LIKE-FOR-LIKE GROWTH

For many years, like-for-like sales and pre-tax profits have been the measure of success in retail. However, like-for-like sales often include different things for different retailers, and can be massaged by activities such as heavy discounting. Tesco has made operating margin a KPI, targeting a 3.5% to 4% group operating margin by 2020, up from 1.8% in 2016. These figures should also be split between stores and online, to reveal the true health of each.

3. MEASURE THE VALUE OF CHANNELS

Retailers need to understand the true value of stores by measuring not just physical sales, but also the 'halo effect' they have in driving online sales in their locality. Etailers such as Asos use site visits, duration, active customers, increased average order frequency and average basket value to determine success. Meanwhile, multichannel retailers such as John Lewis and Urban Outfitters allocate online sales to the stores within that postcode, painting a much clearer picture of the true value of their store estates.

4. MAXIMISE LIFETIME VALUE OF CUSTOMERS AND WIN NEW ONES

Retailers must win new customers if they are to increase their market share and continue to grow. This needs to be balanced with maximising the lifetime value of retailers' most valuable existing customers.

5. UNDERSTAND MARKET PENETRATION

Brand awareness is a key performance indicator at AO.com, and measures both prompted and unprompted awareness. As brand awareness has grown, the cost of customer acquisition has fallen, as it negates the need for more costly, traditional marketing avenues such as TV.

6. MANAGE BRAND REPUTATION

In a market where social media gives consumers a direct outlet to air grievances, responding to complaints and queries is essential in delivering a positive NPS (net promoter score), which in turn will have a positive impact on long-term growth.

Digital transformation

The Office for National Statistics estimates that 20% of all retail sales now take place online, highlighting what Perkins calls a "channel shift" in retail that has not been easy to adapt to.

The UK is a leader internationally in this regard and is second only to China, where the figure stands at around 23%.

By comparison, penetration is less than half that in the US at 9%, while Germany currently sits at around 8%, figures from Statista reveal.

The impact of online varies across different sectors. In grocery, for example, it represents around 5% of sales, while department store chain John Lewis and fashion retailer Joules cite it as closer to 50%.

Whatever percentage of sales comes from ecommerce, developing a digital mindset does not come easy, especially for long-established, store-heavy organisations.

The way forward

Jenny North, head of digital experience at arts and crafts retailer Hobbycraft – which recorded an impressive Christmas 2018 with year-on-year sales in store and online rising by 7.1% and 28% respectively – says point of difference is crucial to success.

"In this very tough retail climate, if you don't have a unique selling point, you're not going to survive," she says.

The key to succeeding in this new environment is not standing still. Perkins argues that there should be – and there are beginning to be – new key performance indicators (KPIs) emerging for retailers.

The old days of measuring success by scale and store estate are, it seems, by and large gone.

"There's been a shift away from scale towards the pockets or niches of growth, and that reflects a broader consumer trend, where we've seen fragmentation of both spending and attention," Perkins notes.

"With digital, social media and ecommerce, the barriers of entry to retail have been significantly lowered. The rules of the game are changing fundamentally and it's incumbent upon retailers to think about how they can adapt to this."

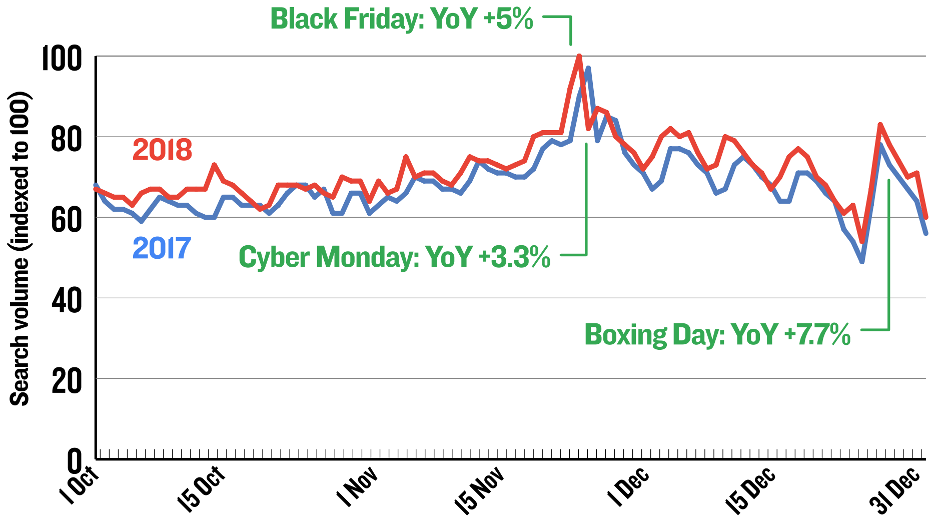
In Perkins' opinion, a successful business of the future will be omnichannel – one that leverages both digital and stores efficiently together – and it will likely be an organisation that uses data better than its competitors to add value to the proposition and product it then presents to customers.

Productivity and profitability are still vital measures of success, he says, adding that the retailers driving top-line growth through promotional activity could see profits drop in their forthcoming quarterly and annual results statements.

"Agility is going to be increasingly important, both in terms of the way a retailer runs its business and how it adapts and tries new things," he adds.

"If things don't work, quickly shut them down; if they do work, then quickly scale them up. Having the ability to adapt quickly to events or trends on social media is increasingly important in a low-growth market."

GOOGLE SEARCH DATA: RETAIL SEARCHES ACROSS THE GOLDEN QUARTER



Based on a sample of search queries

WHAT THIS SHOWS Retail sales grew across the most lucrative period of the year, with the key discount days of Black Friday, Cyber Monday and Boxing Day all recording year-on-year increases.

Challenges in every direction

The difficulties facing the retail industry are not only consigned to bricks-and-mortar businesses.

As BRC chief executive Helen Dickinson says, reflecting on sales figures from January 2019: "It will not just be bricks-and-mortar stores looking nervously to the future, as online sales continued to grow below the long-term trend."

Indeed, fast-growing etailer Asos issued a pre-Christmas profit warning after a sluggish November, Debenhams continues to struggle and Missguided has bemoaned the cost of opening two huge stores to support its digital-first model, with the overall business making a loss last year.

Analysts can no longer point to online and say "This is the model to follow" because those digital players are also not easily making market share and top- and bottom-line gains.

Growth without borders

A survey of 25 chief executives and senior leaders in UK retail by Retail Week, published in January 2019, shows that international trading is on trend, with 69% saying global expansion represented a greater share of revenue in 2018 versus 2017.

They put global expansion second, behind investment in ecommerce, as a business priority for 2019.

Retailers looking for inspiration on which markets to enter can test the water with country-specific online marketplaces, via wholesale partnerships with leading local players, or by taking advantage of the increased flow of data at their fingertips.

For instance, Google and the BRC's online search data showed a growing international interest in UK fashion brands from abroad last year – searches were strong from Italy and non-EU countries at the start of 2018.

Such information can potentially point retailers in the direction of lucrative new markets. Aaron Chatterley, co-founder at online beauty retailer Feelunique, says: "There are a number of verticals where there isn't a dominant player globally, and we will see other sectors develop strong global brands in the way Net-a-Porter has in high-end fashion.

"Smart etailers could capitalise on that opportunity with the right strategy – and that includes in emerging markets such as Australasia, India and Russia."

The following chapters aim to provide guidance for all types of retailers and will look specifically at how to merge the digital and physical parts of a company, consider ways to make new business models add up financially and share tips on using data wisely.

Google ACTION POINTS

- **Connect with customers at scale by being available and relevant whenever they're looking for your products and services. Ensure prospective customers have the information they need: show your opening hours, phone number and location on Google Search and Maps. Utilise local data to match customers with the products they're looking for on the go, and leverage Google tools like Global Market Finder and Google Trends to uncover opportunities with new audiences and in new markets.**
- **Drive action by making it as easy as possible for customers to buy by removing friction from the purchase experience. Google has tools that can help with this: Test My Site measures the speed of your mobile site and offers tips on how to make it faster, while Google Pay enables a quicker, safer checkout. Many retailers are also now building second-generation mobile experiences with PWA (progressive web apps) and AMP (accelerated mobile pages), which are driving more seamless and efficient experiences.**
- **Accelerate your business by making data and insights the foundation of everything you do. Google Analytics gives you the free tools you need to analyse data for your business, while Google Cloud helps to power dynamic retail experiences by leveraging our flexible, secure technology and integrated big data solutions.**

CHAPTER 2:

WHY A DATA-DRIVEN FUTURE WILL UNLOCK GROWTH

- Using targeted data is key to driving sales and conversion
- Artificial intelligence (AI) is enabling great strides
- Legacy retailers are looking for digital know-how

Data lies at the heart of retail success in today's environment. It will prove the difference between winning and losing in the digital economy.

From the straightforward segmentation of customer emails, based on factors such as gender or location, to more sophisticated AI-fuelled personalisation and predictive analytics used to put items in a customer's online basket automatically, data provides so many growth opportunities for retailers at both ends of the scale.

Businesses ranging from tech-led Ocado to legacy retailer Marks & Spencer – and many in between – are putting a data-driven approach at the heart of their strategies.

Path to personalisation

At Ocado, for instance, customers can choose to have 'Ocado Regulars' automatically placed in their online basket on a given day or opt for 'Instant Order', which fills a customer's virtual trolley with goods based on past purchases.

And this is just the tip of the data iceberg. Paul Clarke, chief technology officer at Ocado, describes the wider automated replenishment movement as the "broadband of grocery". The increasing use of connected devices in the home, particularly in the kitchen (such as Alexa, Google Home and smart fridges), gives Ocado confidence that there will continue to be greater demand for

DATA INSIGHTS AT DUNE

Shoe retailer Dune acknowledged the importance of data analysis and insights by establishing a specific team dedicated to this in 2018.

The team can work on its own projects, but it typically operates between the footwear retailer's stores and ecommerce. Its job is to collect all data from various business systems and bring it together to analyse the customer. This is part of the company's central aim for 2019: to personalise its customer experiences as much as possible.

Nick Wilson, head of IT business solutions at Dune, says: "[In the past] we have never been able to track people through their journeys, track all the purchases they have with us, and speak to them at different times with targeted offers or reminders to shop with us." With the new team in place, though, that situation is changing.

Having actionable insights is the bedrock of the business's next stage of development as it looks to continue growing sales in a competitive part of the retail sector.

Wilson adds: "We are giving store staff better tools in order to capture better information about customers, and now we can gather this data and roll it up with what we have from our other shopping channels.

"It is giving us a real, clear view of what our customer is actually doing. It means we know who is shopping with us right now, and who we need to go out and target."

AI: DOES IT REALLY DELIVER ROI?

AI has become the technology du jour as retailers look to revolutionise what they can do with the customer data they hold. But how widespread is adoption and, crucially, does it really deliver? Recent research from Capgemini reveals that 74% of retailers are currently investing in AI pilots, but only 1% are reaching full-scale implementation.

One of the challenges facing retailers is understanding what AI is, what it does and where it will deliver the most value and, therefore, the primary reason to invest. This issue is perhaps exacerbated by the fact that AI is not a technology in itself, but rather a family of technologies ranging from advanced machine learning through to systems such as merchandising, as well as visual and voice search capabilities, robotics and more. Essentially, though, it involves machines that can learn, adapt and react based on data.

Ocado, which fulfils hundreds of thousands of orders a week with 98.9% accuracy, is known for its focus on robotics. It referred to its Andover warehouse as the 'hive' – a three-storey block comprising hundreds of boxes of groceries, staffed by hundreds of robots. Known as 'the swarm', they worked collaboratively to shift boxes and collect orders. Greater accuracy has an obvious impact on ROI, but the cause of the recent fire that devastated the warehouse has yet to be determined. While the robots have not been blamed for the blaze, as yet, the grid on which they operate was reported to have made extinguishing it harder.

The impact of AI, experts argue, is longer-term, so pilots are not faring well in retail's 'fail-fast' culture. Partnering with a large technology company could be the answer for retailers who are not looking for a simplified off-the-shelf version – but this will prove expensive.

automated grocery services supported by the type of data science it has specialised in.

AI and automation can help retailers of all types become more efficient in how they operate, according to Deloitte's Ben Perkins. He says that the test-and-learn phase of these new technologies, which has been taking place over the past few years, will come to bear in the not-too-distant future via wide-scale roll-outs.

"In terms of finance, HR and operations there's a lot of potential for automation and AI to make businesses smarter and more efficient," he notes. "Increasingly, we're seeing that move into how retailers manage relationships with customers. It has the ability to help them make decisions based on past purchase behaviour, providing relevant recommendations."

A new business model

While Ocado has digital thinking at the core of its business model, older retailers are seeking new expertise to lead online and data strategy.

This was demonstrated by Marks & Spencer when it recruited Canadian grocer Loblaw's Jeremy Pee at the end of 2018 for the newly created role of chief digital and data officer.

In Canada, Pee built critical digital capabilities for Loblaw, and created a large team of experts in tech, data science, digital marketing and trading.

This is exactly the type of business model that many retailers in the UK are looking to build today. Growth retailers are recognising that data needs it own department, leadership and focus.

Google ACTION POINTS

- **Connect disparate data sources to ensure you have a full picture of the consumer path and are capturing data at each touchpoint. This may require changing how teams share data as well as investment in a connected marketing technology stack.**
- **Understand online to offline and use these insights to drive footfall. Use the products in the market that help you understand the impact of digital marketing on footfall and offline conversions.**
- **Put the consumer at the heart of planning with a data-driven audience strategy. It shouldn't be about brand or performance tactics or flighted media activity. It should be an always-on audience-led strategy.**

CHAPTER 3:

BALANCING THE BOOKS: THE ONLINE PROFITABILITY CONUNDRUM

- Retail is being shaped by 'new economics'
- Online sales are rising but they are less profitable
- Supply chain costs are coming under the microscope

High street mainstay Next delivered a better-than-expected financial update at Christmas, showing store sales were down but online sales were significantly up. This pattern is not unusual among some of the larger UK retailers and Next's chief executive Lord Wolfson has been vocal on the new economics shaping retail profitability.

Next downgraded its full-year profit guidance at the start of January this year, attributing £2.5m of that to the "increased operational costs associated with the higher online sales".

Wolfson and Next offered a detailed analysis of structural changes in the business as part of a half-year interim financial statement in September 2018.

Put in simple terms, the retailer said that when its shop-based retail sales decline, as they have in recent times, many fixed costs remain. And as online sales grow, its variable costs increase, creating pain points for different reasons.

Wolfson explained that online sales are less profitable than store sales, saying: "If all the [store] sales lost in retail (£112m) were transferred to sales of Next stock through our UK online business, we would lose 7p for every £1 transferred, a cost of around £8m."

The £112m figure refers to the expected year-on-year reduction in full-price retail store sales in the 12 months to January 2019, forecast by Next in its September statement.

"The cost of the structural shift is mitigated by the fact that online sales are growing faster than retail declines, but hindered by the fact that third-party brand sales and sales overseas are at lower margins," Wolfson added.

In short, the new way consumers want to buy goods is, in many ways, more expensive for retailers to fulfil. Deloitte's Perkins notes: "The first big wave of growth has been about following the consumer; you adapt and you make sure you are available in all the channels that customers are in. But you're not going to be sure what impact that has on stores, the overall growth of the business or consumer spend – it's something you just have to do."

Now, he argues, "retailers are realising it is more expensive than they thought to not just build all this, but to deal with the returns as well".

New tactics for new retail

Dune, which reported a 5.9% increase in annual sales in 2017/18, says its data-led approach supported the launch of its Delivery Pass – a move to boost annual volume of purchases per customer, but without putting undue pressure on margins.

"If a customer buys one product from us online and they pay for the first delivery, we'll offer free delivery for the rest of the year," explains Dune's Nick Wilson.

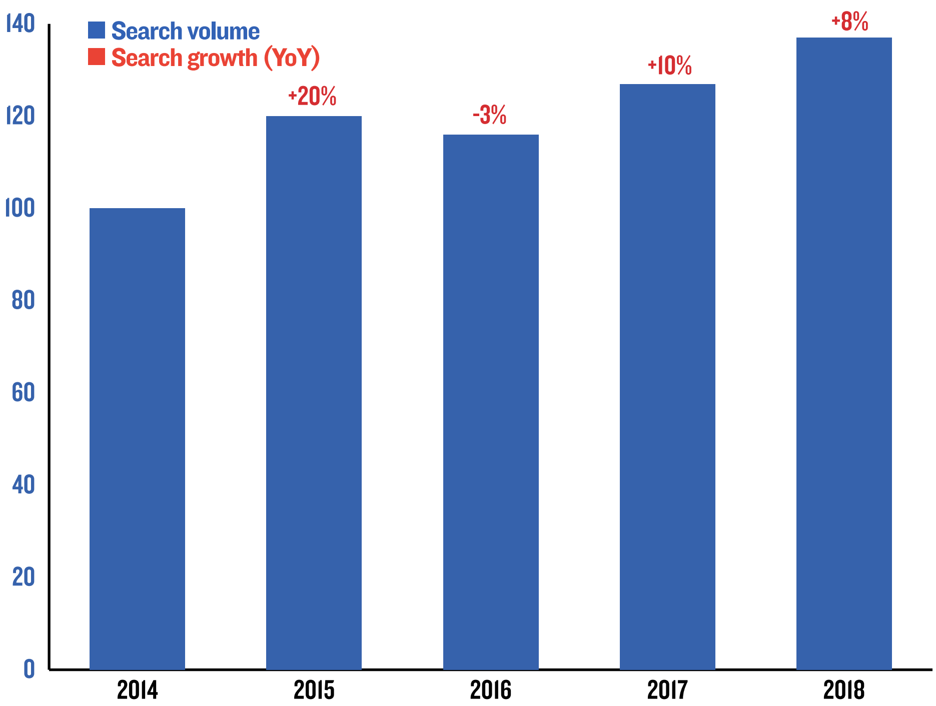
"At least there's a barrier removed from making what, with shoes, is an emotional purchase. The more you can help the customer buy, the better."

While that provides an example of trying to reward loyal shoppers by only charging them once for delivery, there are other methods that retailers have used to ensure they counter the costs of new retail models.

Some of these have involved charging the customer for using convenient services, at the risk of upsetting them.

A few years ago, Tesco and John Lewis were among a wave of retailers to make a conscious decision to reverse free click-and-collect, opting to charge for this service up to a certain shopping basket size. It was an early indication of some of the economic retail challenges raised by Wolfson.

GOOGLE SEARCH DATA: SEARCHES FOR CLICK-AND-COLLECT



Based on Google Trends

WHAT THIS SHOWS While the year-on-year growth in searches for click-and-collect has softened, the total volume of searches is still increasing. So retailers are under pressure to make this model profitable.

Others, such as Sports Direct, use click-and-collect to incentivise customers to visit stores. The sports retailer charges £4.99 for in-store collection, but if a customer collects their goods from one of its stores, they receive a £5 voucher to spend in store.

For Hobbycraft, running an agile business model and ensuring each decision is made with P&L in mind has led to the introduction of in-store picking for click-and-collect orders. This set-up gives good value to the customer and is operationally efficient, Hobbycraft's North explains.

"In a customer-centric world, retailers must still understand their pinch points. For us to offer click-and-collect and ship-to-stores wasn't efficient, but we've put in place the ability for stores to pick for click-and-collect. It will ultimately give our customers a better proposition through the likes of instant collection.

"The money we save on not fulfilling centrally is changing the profitability of our online channel."

Argos is ahead of the game here, with its 'hub and spoke' stores-for-fulfilment model that supports rapid click-and-collect around the UK – a key factor behind Sainsbury's deciding to acquire the business in 2016.

North asserts: "To the retailers that say they can't do it, I would say we have been able to make it happen – and I put it in at B&Q too [North was omnichannel proposition manager at B&Q for three years]. Any retailer can make it happen if they really want to."

While the general cost to serve in modern retail, which includes picking, packing and getting delivery drivers on the road, does not come cheap, it is the reverse logistics process associated with ecommerce where most pain is now felt.

The problem of returns

Returns management platform Rebound estimates the overall cost of returns to retail between Black Friday and Christmas 2018 alone was £2.4bn.

£2.4bn was the overall cost of retail returns between Black Friday and Christmas 2018

Some of this money, it acknowledges, is recouped in resales but the handling costs and often high levels of discounting involved in reselling returned stock impacts margins at a vital time of year.

In response, some retailers are investing in technology to help online customers get size and fit correct the first time around. Meanwhile, some companies – Amazon included – have said they would consider closing or monitoring closely the accounts and social-media activity of serial returners to ensure customers are using the free returns policies correctly.

"Free delivery and returns are appealing and they drive the top line, but they also encourage behaviour you don't want. People buy more than they need," says Perkins.

"Every time that returns stock is touched, repackaged, reprocessed, it costs retailers. The focus is now on what they can do about it."

Whether it entails picking click-and-collect from stores, charging more for premium fulfilment services or rewarding only the most loyal customers, retailers are taking action to ensure the cost of new retail is not debilitating.

Scrupulously analysing data about customers' previous purchasing behaviour, as well as embracing the raft of AI and automation services now available, can help retailers to understand their shoppers better.

With this knowledge, they surely give themselves a greater chance of pleasing customers first time, thus reducing returns and providing satisfaction that can drive loyalty.

Google ACTION POINTS

- **Retailers are challenged to become more data-driven, but internal data is hard to access, analyse and use. Most retailers struggle with disparate data silos, legacy data systems and overall lack of skills in the latest data analytics methods and technologies. Seeking insights is often costly, fragmented and far too late to support real-time decision-making. Furthermore, retailers are facing an explosion of data from new unstructured technologies – social media, clickstream, images, videos, location – and the volume, variety and velocity is rising.**
- **Google Cloud lets retailers combine a vast array of data sources, both structured and unstructured, into a single data platform. This enables real-time data analytics, which helps retailers to improve their single-customer view, understand preferences, provide real-time promotions, make purchase recommendations and optimise pricing to provide 'right product, right time, right place'.**
- **Retailers are turning to Google Cloud to assist them in solving challenges across the retail value chain. They are investing with Google Cloud in the following areas: leveraging AI to drive more predictive analytics; delivering dynamic customer experiences; transforming their workforce to be more proactive and collaborative; connecting partners across the ecosystem; and improving IT agility.**

CHAPTER 4:

HOW DIGITAL WILL RESHAPE STORES AND REVITALISE GROWTH

- Further store closures are likely as shopping habits change
- Investment in connected systems is crucial for store survival
- Reimagined stores will be vital for future success

Whether it is House of Fraser, bought out of administration by Mike Ashley's Sports Direct group in 2018, or long-standing retailers Debenhams and Marks & Spencer – where portfolio downsizing is part of the business strategy in 2019 – news of retailers shuttering stores is rife.

The churn on the high street, driven in part by a raft of company voluntary arrangements conducted in 2018 by the likes of New Look, Carpetright and The Original Factory Shop, is evidence that retailers face challenges to make their stores work.

"A lot of retailers could do a lot more to bridge the divide between digital and bricks-and-mortar," says Feelunique's Aaron Chatterley. "There's often a defensive mentality in retail where they take on a victim position, and rather than embracing what digital can offer their existing customers, they're not getting to grips with it."

1,200
customer hosts in Dunelm stores are armed with tablet devices to assist shoppers

Retail store outperformers

Despite the perceived missed opportunities, there are several retailers achieving sales growth. This is partly due to investment in innovative in-store technology and also a result of a connected approach to running different sales channels.

Recent research by Retail Week Prospect ranked the top 30 by sales per square foot and found that technology was a key driver for both footfall and conversion.

The top 30 was dominated by premium retailers such as Apple, which generated sales of £3,850 per sq ft in 2016/17, up from £3,250 a year earlier.

Burberry came in second, with £2,800 per sq ft in 2017/18, nearly twice as much as Harrods in third position.

The two leaders both use in-store WiFi, mobile point-of-sale (PoS) technology and interactive touch screens. In fact, of the top 30, 13 offer interactive touch screens, 12 have kiosks or terminals in store, and 15 provide Wi-Fi.

Meanwhile, other retailers, such as Game, are blurring the boundaries between bricks and clicks with mobile technology. The gaming retailer uses in-store smartphone scanning features to offer personalised promotions tied to its app and have them delivered to its store.

Mobile PoS systems have also been used by Kurt Geiger, Office and Apple to enable faster checkouts and free up time for staff to focus on customer service.

Meanwhile, in-store analytics will play a key role in retailer's futures.

Tesco, Asda and Burberry have all deployed RFID tags to improve stock visibility and support a more frictionless customer journey.

Google ACTION POINTS

- **Your digital store is often the first place customers will go before a journey to your physical stores. Ensure you have local product availability on your website and across Google shopping ads.**
- **Understand how digital channels drive store activity by category. This can help you drive more people into store through effective marketing investment. Google store visits data can provide this insight.**
- **Experiment with new technologies in store that remove the friction from the shopping experience.**
- **Ensure in-store and digital customer touchpoints are collected and sorted into the same place. This can help provide a unified view of customer behaviour and inform retention/acquisition strategies.**

These international retailers are using tech in store to drive sales growth, personalise the shopping journey and stand out from the crowd.

ZARA

New Zara stores around the world, including one in Westfield Stratford City in London, offer self-service checkouts, allowing shoppers to avoid queues and purchase at their own pace.

Increasingly, the fashion retailer's stores feature 'online' areas, facilitating the purchase and collection of digital orders. Automated order collection points, where shoppers scan their receipts and a robotic arm retrieves their packages, are becoming more prevalent.

In its last full-year results for the 12 months to January 31, 2018, Zara's UK arm reported soaring profits and sales, with pre-tax profit up by 30% to £51m and sales up by 17% to £704m.

NIKE

With the launch of its new flagship stores in the US, Nike is doing more than most to integrate its mobile app with its bricks-and-mortar operations. Dedicated spaces in store are reserved for items that are heavily researched or bought by people in the local city, in a neat example of how to use data garnered from a mobile app to shape the shop space.

Nike app users in the store can also scan products on mannequins and digitally alert members of staff to prepare these items for them in nearby fitting rooms.

In the three months to November 30, 2018, revenue for the Nike brand was $8.9bn (£6.7bn), up 14% on a currency-neutral basis year on year. Group net income, including Converse and other divisions, was up by 10% to $847m (£648m) off the back of this large revenue growth.

ALIBABA

In Alibaba's 40-plus Hema supermarkets, customers find digital all around them as an integral part of the store design.

Hema is a hybrid store, fulfilment centre and place of entertainment. Employees fulfil online orders in store, picking from shelves and then attaching them to an overhead conveyor – creating retail theatre. Customers can also purchase for home delivery by using the Alibaba app, with payment being made by Alipay.

Meanwhile, in Alibaba's Futuremart, customers gain entry and pay via facial recognition technology. A 'smile-o-meter' also dispenses discounts depending on how wide a customer can smile.

CONCLUSION:

SO, WHAT DOES THIS ALL MEAN?

Growth does not come easily in today's retail market, but there are various tactics and techniques that retailers can use to gain an edge and keep driving their businesses forward in challenging times.

Hobbycraft's analysis of data since it launched its loyalty scheme, for example, has enabled it to split customers into two groups: the ones they know intimately from understanding online and member-card-swiping patterns; and the anonymous shoppers who don't have a card.

Hobbycraft's Jenny North argues that it is important to grow both cohorts. Many loyalty-scheme members show a "great return on investment" for Hobbycraft by responding to special offers and growing their incremental spend if prompted by personalised messages, but adding new "unknown" customers is also crucial for growth.

"To grow the business exponentially, we need to do radically new things that bring in new people," she explains. "Our unlinked database will grow as a result of that and, over time, we aim to convert [these shoppers] to loyal customers.

"It is not just about getting more from our existing customers. We have to do things that are incrementally different with our proposition, which will give us a broader reach."

As the industry evolves, retailers are in turn having to establish new targets, measure different capabilities and plan fresh ventures.

With digital transformation front and foremost in mind for many, this often means rewriting the rulebook that has stood for so many years.

Deloitte's Ben Perkins says: "A hackneyed phrase for retail has been that it's all about 'location, location, location'. Those locations were the best high streets, shopping centres and retail parks.

"Now that location is increasingly on social media platforms, search engines, and online. Do you have the right customer engagement strategy around that?"

TAKE FIVE

WHAT YOU NEED TO KNOW

1. A NEW LEADERSHIP MINDSET

Today, retailers find themselves operating in an increasingly digital economy. In order to win in this period of unprecedented change, a new leadership mindset is required, alongside investment in people, process and systems.

2. SET NEW KPIS

This requires new KPIs to ensure retailers are on track to achieve sustainable growth. As discussed on page 9, these should be focused around connecting siloed data, measuring success by operating margin, understanding the true value of channels, maximising the lifetime value of the most valuable customers, investing in market penetration and managing brand reputation.

3. INVEST IN DATA

A well-developed data strategy, backed up with investment in the right systems and skilled employees is critical. Artificial intelligence, as discussed on page 14, will see a great deal of investment over the coming years as retailers look to drive conversion and growth.

4. PUT CX AT THE HEART OF STRATEGY

Today the customer is in the driving seat and retailers must deliver propositions that reflect this. From Amazon-style checkout-less stores and experiential technology such as AR and VR that enhances in-store experience, to greater personalisation and ever faster delivery options online, retailers must react to changing consumer desires.

5. AGILE INVESTMENTS VS LONG-TERM VIEW

The pace of change is now so fast that retailers need to be able to make agile investments and test-and-learn. However, this needs to be balanced with a sense of direction. Global giants such as Alibaba and Amazon exemplify this – they constantly invest into their businesses, leading in new technologies – but with the longer-term picture and growing market share in mind.

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