

RETAIL 2019

EXCLUSIVE INSIGHTS ABOUT THE YEAR
AHEAD FROM RETAIL'S TOP LEADERS



RETAIL WEEK FOREWORD



JAMES KNOWLES
HEAD OF COMMERCIAL PROJECTS, RETAIL WEEK

After two years of countless column inches and endless speculation about what “Brexit means Brexit” actually meant, we are no closer to the answer. With a divided Parliament and the prospect of a no-deal Brexit still on the cards, retailers continue to trade in uncertain times.

Businesses need clarity and certainty, but don’t be fooled – UK retailers are ready and prepared for whatever lies ahead.

Once again we surveyed 25 leaders from UK retail’s biggest businesses for our annual flagship report produced in partnership with Manhattan Associates, and this year’s interviews were defined by a sense of optimism.

This report shows that some 20% of business leaders estimate sales will be much better than in 2018.

The negativity surrounding the Brexit process aside, retailers are preparing for a year when innovative new technologies

will shake up the way they do business and are busy plotting their pathway to digital transformation.

This was the overriding message from our exclusive research.

Far from reining in spending, when asked to choose between growth and cost-cutting, more than 50% of business leaders told us they are focused on “mostly growth” in order to achieve profitability in the year ahead.

This shows – despite widespread acknowledgement among business leaders that Brexit will be the single biggest detractor of consumer confidence next year – an air of confidence in the strategies they are readying to steady their ships through these choppy waters.

It will, of course, be those retailers that are able to be fleet of foot and adjust quickly to changing consumer needs that will flourish in this increasingly global, increasingly digital economy.



Retailers are preparing for a year when innovative new tech will shake up the way they do business



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MANHATTAN ASSOCIATES VIEWPOINT



CRAIG SUMMERS
MANAGING DIRECTOR, MANHATTAN ASSOCIATES

This year looks to be a period of optimism with just a hint of uncertainty for those leaders surveyed in this report. As Brexit looms over us and retailers look to other markets to score success, it appears the answer to a truly successful 2019 will lie with those who can boast a single view of the customer.

We have had more than a decade of omnichannel retailing and, as consumers continue to evolve with the market and the changes to our economy, it is great to see that so many retailers will look to invest in that end-to-end customer experience during the next year. Growth is high on the agenda and the optimism in the retail space around new opportunities and investment in technology is refreshing.

It appears that retailers throughout the UK are understanding the importance of investing in the foundations such as order management, their infrastructure such as

their supply chain and also a refresh in store with key elements such as point of sale. It is this type of investment that will see them through the upcoming political changes and into the growth period they are all striving for.

Through proactive planning and a focus on all aspects of the consumer journey, retailers can optimise their experience, enter new territories, ride the wave of Brexit uncertainty and still keep their sales figures balanced, if not soaring.

This optimism and desire for growth shows us that, while the country is still facing uncertainty over its interaction with the EU, retail is sure about its future with the consumer. It's all about offering and delivering, wherever or whenever that may be. It's time to pick retail up from its slump and show that it will not only survive in the face of Brexit, it will thrive. These results tell us that retail is very much alive and hungrier than ever.



By focusing on all aspects of the consumer journey, retailers can optimise their experience



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AT A GLANCE

This year, despite a great deal of business turmoil, particularly around the Brexit process, the leaders of the UK's largest businesses are adopting pragmatic strategies to navigate the choppy waters that lie ahead.

Retail Week, in partnership with Manhattan Associates, has once again compiled a state-of-the-industry report to kick off the year, based on insights from in-depth interviews with 25 senior executives across multiple retail industry sectors.

While they address the many challenges and big decisions ahead for the coming 12 months, there is, as ever with this industry, a sense of confidence.

Despite all the acknowledged obstacles that stand in the way of getting their businesses fit for purpose in the 21st century, 64% of those questioned say they expect sales in 2019 to be flat or slightly better than last year.

Some 20% of execs even estimate that sales will be much better than the past year.

More than 50% cite "mostly growth" when questioned about the balance they are seeking between cutting costs and driving growth in order to achieve profitability, indicative of a sector confident in its ability to progress.

And yet, uncertainty around Brexit is cited as the major reason why consumer confidence is expected to be low. Some 68% of retail bosses believe the consumer mood is going to be worse over the coming months, so their sales growth expectations could be described as reflective of an industry confident in its strategy to weather challenging times.

This time last year, the unknown impact of the UK's decision to leave the EU caused nervousness within the market, as highlighted in the *Retail 2018*

report, and this concern still exists to a large degree.

The execs interviewed for this research share some proactive and positive measures they have taken to mitigate for any Brexit-related fallout, much of it involving bringing forward stock deliveries in case of hold-ups at the border. However, many industry leaders just want to begin trading under whatever new conditions arise from the negotiations.

There's a sense of wanting to get on with things, highlighting retail's ongoing resilience and reinvention despite a plethora of events, new trends and changing consumer behaviours that threaten to take it off course.

METHODOLOGY

In October and November 2018, Retail Week conducted in-depth, off-the-record interviews with 25 chief executives and directors from the UK's leading retailers. This sample contains a representative mix of business models, from online to multichannel, and pricing, from value to luxury. Within this, every sector is represented, from fashion and footwear, to homewares, grocery, electricals, general merchandise, beauty, department stores and gifting.

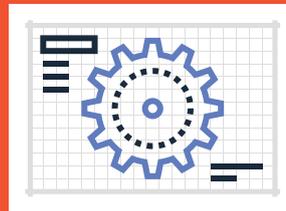
CORE RETAILING PRACTICES

Analysing insights from some of UK retail's most senior decision-makers, there was one comment in particular that offered some straight-talking advice for the wider industry amid all the new challenges. It emphasises the importance of focusing on core retailing practices while all else around evolves.

The chief executive of a value fashion retailer says: "If I read any commentary on retail there is nowhere near enough conversation about product."

"People talk about existential factors; they talk about the weather, Brexit, the competition, the change in consumer, the growth of online, but I don't see many people saying 'we had a really good year because our product was brilliant' or 'we had a crap year because our product wasn't good enough.'"

He adds: "Retail has become so complex that not enough retailers know what is really important, which is if you have got the right gear, people are going to come to you. I think there's a need for our industry to absolutely obsess about having the best products, at the right price and quality."



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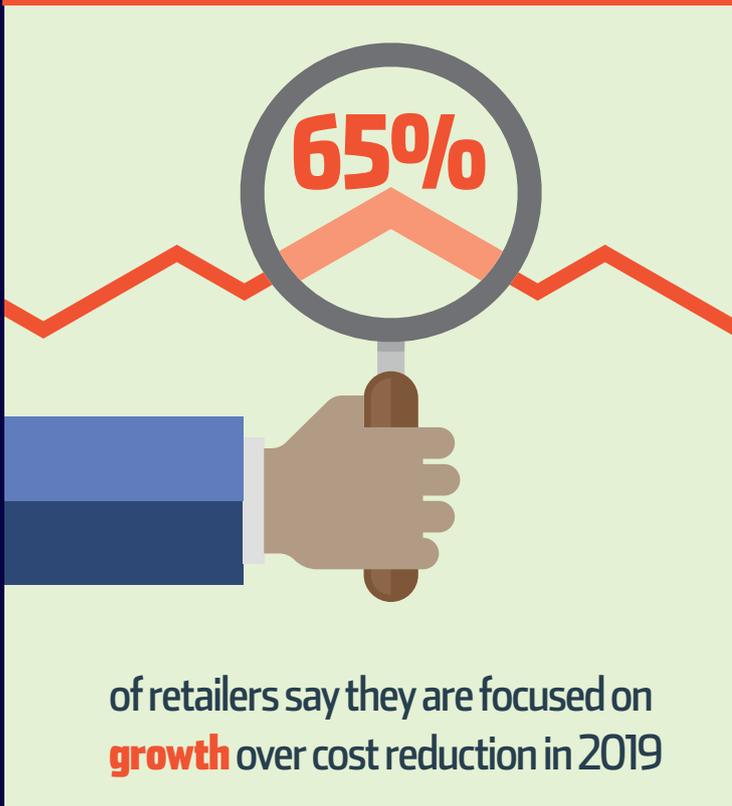
- Sales growth stalled while discounting was rife
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SURVEY SNAPSHOT: THE YEAR AHEAD



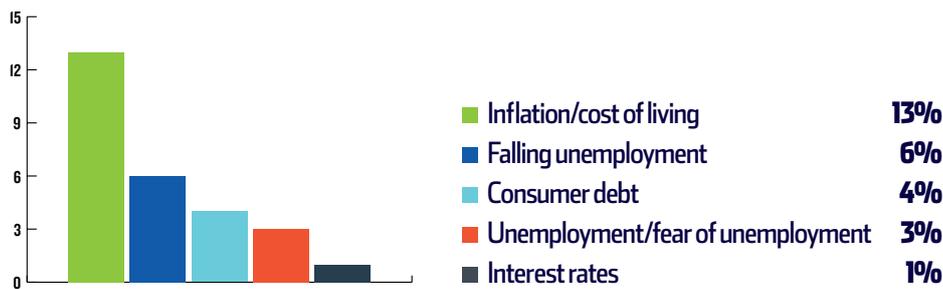
CHAPTER I

MANAGING BREXIT

- >> Brexit fallout will impact consumer spending, say executives
- >> Proactive planning for post-Brexit landscape
- >> International expansion has risen up the agenda



TOP 3 EXTERNAL FACTORS RETAILERS EXPECT WILL HAVE THE MOST IMPACT ON CONSUMER SPENDING IN 2019



After all the talk, speculation, negotiations, divisions and business uncertainty, 2019 is the year the UK is scheduled to leave the EU.

Whatever the departure deal with its European counterparts – which is still to be finalised in its entirety – the UK will be leaving the political and economic union it joined 46 years ago, then in the guise of the European Economic Community.

In the time since 52% of the British voting public ticked ‘leave’ on their 2016 referendum ballot papers, retail bodies – particularly the British Retail Consortium (BRC) – have been fiercely lobbying the Government to get a deal agreed before the March 29 departure date.

From concerns over frictionless trade with Europe to rising food prices, there are plenty of issues to address around Brexit. But what do the leaders operating in the wider retail industry think about it and what strategic

moves have been made to mitigate against any fallout from the UK’s departure?

Not one retail chief executive or senior leader questioned for this *Retail 2019* report says they expect the UK’s departure from the EU to be hugely positive for their business, but only 13% suggest it is likely to be hugely negative. Some 39% say they feel it will have a slightly negative impact and the same percentage remain unsure.

When asked to rank the top three external factors they expect will have the biggest impact on consumer spending in 2019, the fallout from Brexit is top of the list – with a third of respondents selecting that option.

Eyes on international growth

The least popular area of investment in last year’s *Retail 2018* report was international expansion, with only 28% of retail execs seeing it as an immediate priority. One year before that figure had been at 56%.

It appears international trading is back on trend, with 69% of executives saying international expansion represents a greater share of revenue over the past 12 months. Perhaps as a consequence, global expansion is now only behind investment in ecommerce on retailers' business priority lists for 2019, with Australia, China, the Middle East and the US highly favoured by those looking to expand.

The Brexit situation hasn't put retailers off investing in Europe, however, with Germany, France and Spain still well sought after among the surveyed executives.

A simplistic explanation is that the weaker pound – a consequence of the Brexit vote in 2016 – makes exporting more lucrative. Goods in general become cheaper for foreign buyers, prompting more interest in shopping tourism and cross-border purchases of UK retail goods.

It is clear some retailers eye opportunities from this situation. Many ecommerce businesses, for example, are heavily weighted in terms of international sales and are driving revenues down that avenue accordingly.

Meanwhile, the co-founder and chief technology officer of an online retailer cites international expansion as one positive move his business has made to protect against potential negative Brexit repercussions.

"We moved on that a lot quicker than we initially planned, mainly to protect the business from relying purely on the UK market," he explains.

"The second step we took was to open an office in Brisbane, which is a subsidiary to our main company in the UK. It provides us with more flexibility if there is a restriction in movement of pallets and it becomes really hard to get European workers over to the UK. We're also opening other offices in Europe."

Brexit preparations

The business preparations for Brexit are varied and, according to many of the chief executives' interviews, lots of these plans are being made reluctantly. "We've got some space reserved in a warehouse in Germany, so if we need to also fulfil from there, we will," explains the chief executive of a catalogue and online retailer. "We don't want to, quite frankly, but if we have to we can."

Manhattan Associates managing director Craig Summers says: "With uncertainty potentially impacting the movement of goods, it's important for the convergence of processes among internal teams and external trading partners to allow for more responsive operations and real-time visibility, which lays a foundation for increased profitability."

The chief executive of a women's sportswear retailer says the company is looking to make sure its insurance covers any delays at the port, which analysts have suggested might occur in the event of a no-deal Brexit. The chief executive of a beds retailer says his business is extending its stockholding – raw materials and finished products – by a few weeks.

Bringing forward cross-border stock deliveries for items arriving by air or sea to protect against inventory shortages in the event of border hold-ups is a popular move among retailers of all types.

The chief executive of a toy retailer notes: "An awful lot of my Far Eastern stock we're actually taking in earlier next year than we had planned.

"With a lot of Continental stock we will be placing orders and taking them pre-March next year just in case there is a tariff put on them. We just don't know. I've no word there will be, but on the other hand there could easily be."

The toy retailer chief executive is representative of many bosses in the



Customers are definitely nervous and it is that uncertainty that is the biggest impact of Brexit



CHIEF EXECUTIVE OF A VALUE FASHION RETAILER

industry with his focus on the workforce, adding: “We’re also looking at our staff to make sure we’re supporting those who may or may not be affected by any rights to stay, because we do employ quite a lot of European staff in our branches. Obviously we want to make sure they still feel welcomed and valued.”

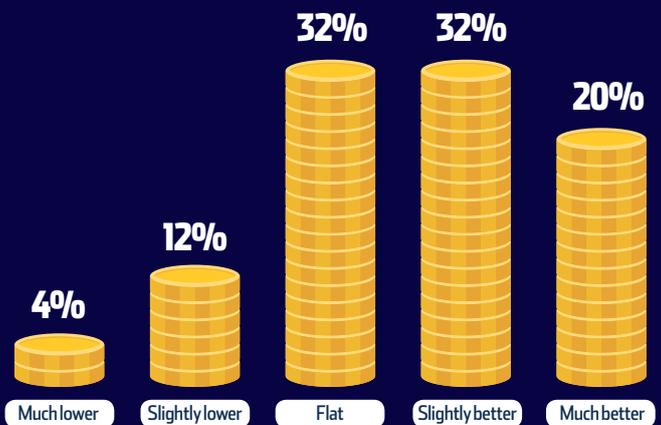
For some, the preparations for any implications of the UK’s departure from the EU are purely financial, with one chief executive of an online furniture retailer revealing his business has built up large cash reserves and not paid directors dividends in order to stay on a firmer financial footing.

Several retailers admit they are guessing what is going to be required in the new world post March 29. The chief executive of a value fashion retailer neatly puts the situation into context, saying: “In reality, we don’t know.

“Every day you read the news and wonder; it feels like there is really good progress and then the next day there has been a setback. I think customers are definitely nervous and it is that uncertainty that is the biggest impact of Brexit.”

He adds: “I think it is very dangerous to overthink what is going to happen, we just need the answer and the outcome, and then to work very quickly to get on and deal with it.”

WHAT IS YOUR FORECAST FOR RETAIL SALES OVER THE NEXT YEAR?



CHAPTER 2

DIGITAL THINKING

- >> **Achieving a single view of the customer is a key priority**
- >> **Retailers will invest in data and AI to do it**
- >> **This will be underpinned by investment in product**

As in last year's report, the omnichannel priorities listed by retailers for the year ahead are diverse. This can be taken as a positive as it shows organisations have identified where their own pain points exist, rather than simply chasing the latest fashionable tech.

When it comes to the aspects of omnichannel strategy being prioritised for the next 12 months, there are two standout choices, both of which are very much related: identifying a single view of the customer and driving personalisation of individual customer experiences.

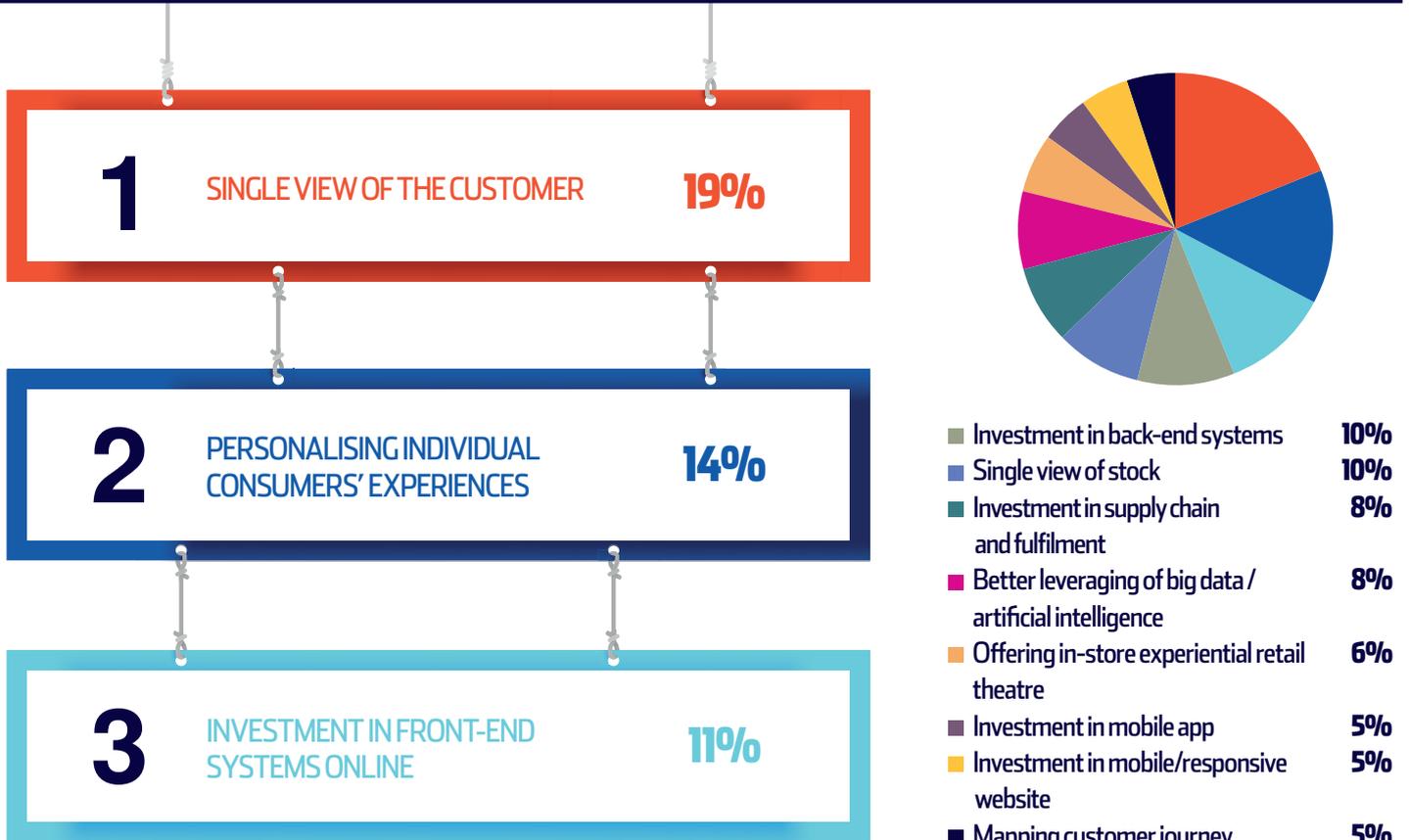
As the chief executive of a footwear retailer explains: "If you were to ask me to list three omnichannel priorities, I would say single view of the customer, personalisation and leveraging of data.

"I wouldn't call it big data and I perhaps wouldn't refer to artificial intelligence (AI), but we're very data rich. We have lots of data about our customers and our world, but managing that data and using it efficiently so managers and others are able to make better decisions is a challenge."

He adds: "It's an area we're focused on. I think it talks to that personalisation. It's difficult to deliver a personal experience if you don't know who your customer is, how frequently they've shopped with you and where they've engaged with your brand."

Manhattan Associates' Summers agrees more work is needed here. "Long gone are the days of customer journeys being linear. Retailers now need to be able to combine unstructured insight, like social conversations, within the same view as the real-time customer order, preferences and transaction history."

WHAT ASPECTS OF OMNICHANNEL ARE YOU PRIORITISING?



Digital sales and engagement

Instagram chief operating officer Marne Levine, speaking at the National Retail Federation's Big Show in New York in January 2018, said of modern marketing that "digital isn't just a sideshow, it's really a key feature of the main show".

The same can be said of commerce in general, as various metrics highlight the continued rise of online retail as a percentage of total retail sales.

To that end, it is encouraging to see retailers continuing to place website development at the top of the list of general business priorities for 2019.

Behind website development, the

following priorities for retail executives as they enter a new year are international expansion, as referenced in Chapter 1, investment in customer service/customer experience and investment in product.

Giving an indication of the different components required to develop a successful digital strategy, and proving how so many facets of it feed into each other, the boss of a women's sportswear retailer says: "For us, it's all around digital. It's ecommerce, and we're investing in personalised marketing and customer base analytics."

He adds: "We're using AI in customer insight and personalised marketing to target people individually."

Don't forget the fundamentals

The importance of having a digital strategy in 21st-century retail – whether it comprises a comprehensive, connected and personalised omnichannel strategy or simply an active social media presence – cannot be denied. However, with continued talk of AI, voice and other advancements in technology, there is an argument that the basics of retailing can often be lost amid the fanfare of shiny new solutions.

“Don't forget the fundamentals of retail,” says Manhattan Associates' Summers. “For a customer it's about their experiences, not just great experiences. The type of experience retailers' customers want are as varied as their personalities. Technology that enables these one-on-one relationships at scale will determine future loyalty.”

Investment in technology and new systems

must go hand in hand with an unwavering focus on product. It is therefore encouraging that such a significant percentage of executives choose product development as a 2019 priority.

The chief executive of a fast-fashion chain says: “If you invest in products and supply chain, then you've got the best chance of growing your sales and therefore the margin within the business.”

But describing the challenges that the growth in digital retailing brings businesses, he adds: “The migration of customer transactions from stores to online is creating an increased cost to serve because of the relative fixed cost of stores and variable costs of online.

“It's imperative to take cost out in order to make the same net profit per customer.”

Improving the customer experience

BUSINESS AGENDA: DIGITAL INVESTMENT IS THE TOP PRIORITY



25% INVESTMENT IN ECOMMERCE – WEBSITE DEVELOPMENT (DESKTOP/MOBILE SITE)

12% INTERNATIONAL EXPANSION

11% INVESTMENT IN CUSTOMER SERVICE AND CUSTOMER EXPERIENCE

8% INVESTMENT IN THE PRODUCT

7% INVESTMENT IN NEW STORES



Website development and investment in customer experience are priorities



CHIEF EXECUTIVE OF A FASHION RETAILER

has been high up the retail agenda for the past few years, indicative of how the onset of ecommerce has brought about the biggest change in consumer–retailer interaction for decades. It is no secret that online-first players such as Amazon, Asos and Yoox Net-a-Porter have completely transformed customers’ expectations of retailers, resulting in traditional firms reshaping how they serve them.

Delivering a first-rate customer experience is what retailers have always had to achieve to ensure a customer buys their product over someone else’s, but today increasing online competition means it is more vital than ever.

“We always invest in customer service and customer experience because we sell branded goods more than our own-brand goods, so therefore quite often what we sell is exactly the same product that is sold in other retailers,” explains the boss of a

footwear chain. “Therefore, what we’ve got to do is make our service better and try to make the environment that little bit more applicable.”

But when it comes to putting investment where the revenue growth is, ecommerce remains critical. As the chief executive of a fashion retailer notes: “Website development and investment in customer experience are priorities – it is just relevant to me in my business. We are a bit behind, so that is what I need to do. They are the things that will drive growth.”

CHAPTER 3

A SINGLE VIEW BUT NOT A BLINKERED VIEW

- >> A single view of the customer and stock remains elusive
- >> Mapping the customer journey is crucial
- >> Retailers are restructuring to do this

Since the onset of the digital revolution, there has been a strong drive in retail to achieve a single view of the customer and stock across channels.

Last year's *Retail 2018* report suggested retail executives were obsessed with developing this single view, with most retailers comfortable they had the systems to see stock in this way, but not customers. This year's research, although not conducted with exactly the same retail executives, actually suggests businesses are a significant distance away from achieving the holy grail on both fronts.

Some 35% say they have a single view of their stock but not their customer, while a quarter of respondents say they don't have a single view of either. But the chief executives and industry leaders are deploying various tactics to change that situation.

Seeing clearly

Why is this strategy so important to retail? According to the chief executive of a gadgets retailer it is the key to unlocking customer loyalty.

"Single view of the customer, that's a top priority because we believe the key to growing the business is by improving on our customer loyalty and engaging with customers more effectively – and at the moment we don't have a single view of store and online.

"Personalising individual consumer experiences is very important, particularly online, and mapping the customer journey is very important too."

One method for creating the single customer view is to develop a "front-end store system that links to our website, so we recognise when a customer has been online as they enter our store", says the chief executive of a beds retailer.

The chief executive continues: “Lots of people talk about omnichannel but very few people actually have an omnichannel operation.

“It truly becomes omnichannel if you can continue your online purchases in store.”

In fashion and footwear, where some multichannel businesses generate around a third of their revenues online – Dune, for instance, says 35% of its UK and European revenues come from ecommerce – there’s an argument that a single view of stock and customers becomes more crucial.

The chief executive of a fashion retailer says moving towards this goal has involved switching internal teams around and effectively reshaping its infrastructure – which are not insignificant decisions for businesses to make.

“We’ve had to restructure our IT and logistics teams because they were historically implementers, whereas now we need them to be central points to whichever business we’re rolling out,” he says.

“From a commercial point of view, we have people who are operating in separate silos, separate channels and without a real understanding of what the customer is going to experience in other channels.

So, we’ve had to consolidate that under a sales umbrella rather than separate ones for wholesale, retail and ecommerce.”

However, Manhattan Associates’ Summers cautions: “Having a global view of your product availability is important as you can’t sell what you can’t see. But equally you may not always want to sell everything you see either – particularly when retailers might offer add-on services such as gift wrapping or next-day delivery, as those requests might not be available at that particular location.”

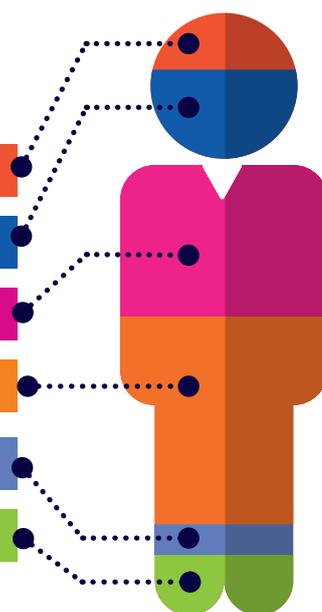
Mapping the customer journey

Retailers in different sectors and even those within the same verticals each experience unique customer behaviour. Whatever category a retailer operates in, it is becoming increasingly important for them to map their own unique customer journeys.

While some of this journey mapping will be conducted using old-fashioned retail management know-how and intuition, increasingly businesses are finding partners to work with or implementing technology that allows them to visualise what customers are doing when they shop and how they shop across different channels.

“We’re working with Google at the moment

HOW CLOSE ARE YOU TO ACHIEVING SINGLE-VIEW STATUS?





It truly becomes omnichannel if you can continue your online purchases in store



CHIEF EXECUTIVE OF A BEDS RETAILER

to try to understand those who shop online and who also go to stores. We'll develop that, but it's very embryonic at this stage," explains the chief executive of a cycling specialist.

The chief executive of the gadgets retailer adds: "Because people now shop across all different channels, understanding how much research is done with us and our competitors before they come to us is important.

"How much they come to us and then purchase online and understanding all of those trigger points is key to understanding our business really. What we then do with that is set the next challenge, but let's understand it first."

The research shows social media is as important for online retailers as it is for those more heavily focused on running stores, and analysis in this space plays a prominent role in the mapping of customer journeys.

The chief executive of a lingerie retailer says: "We just launched social sign-in last week, so you can sign in with your Google or Facebook account. That's a place where we think there is a fair amount of friction.

"We're looking at the journey going from a category page to a product detail page, figuring out a way to help the customer make that journey easier and reducing the friction there is something that we're working on."

However, some retailers still have a way to go. The chief executive of a general merchandise retailer says: "I think our problem is exaggerated because we have done such a good job of physical retailing to customers.

"We just haven't managed to get them over the wall, if you like, of shopping omnichannel. I think we have a great opportunity; we have just got to get on with it."

CHAPTER 4

SMALLER, SENSORY AND SERVICE-LED STORES

- >> Innovative experiences are keeping the store relevant
- >> Store staff are an integral part of digital transformation
- >> The number of shops will decrease

Although investing in new stores or in-store technology appears to have fallen down the pecking order for retail executives this year – behind digital development, international expansion and customer experience – every leader with shops states their valuable reasons for operating them.

Many foresee a wider industry trend for smaller stores, reduced bricks-and-mortar portfolios and for shops to offer different functions than they do today, but retail certainly isn't going shopless any time soon.

People power

Two online retailer leaders interviewed say they have developed a physical retail presence because they see value in one-to-one human interaction, describing store staff

as “brand ambassadors” or “the face of the company”. The chief executive of an online and catalogue fashion retailer says she will “increase the number of stores that we’ll have, over time”. The chief executive of a beauty multichannel retailer adds: “Store staff can deliver personal experiences because they’re face to face with customers; they can demonstrate the product. We started online, but quickly realised that we needed a bit of offline to run the business.”

Such opinion is indicative of how stores are changing. Ecommerce provided an alternative to shops and gradually eroded their market share, but physical retail offers social event-like experiences that online cannot deliver, so there is seemingly still a huge need for it if this function can be fostered.

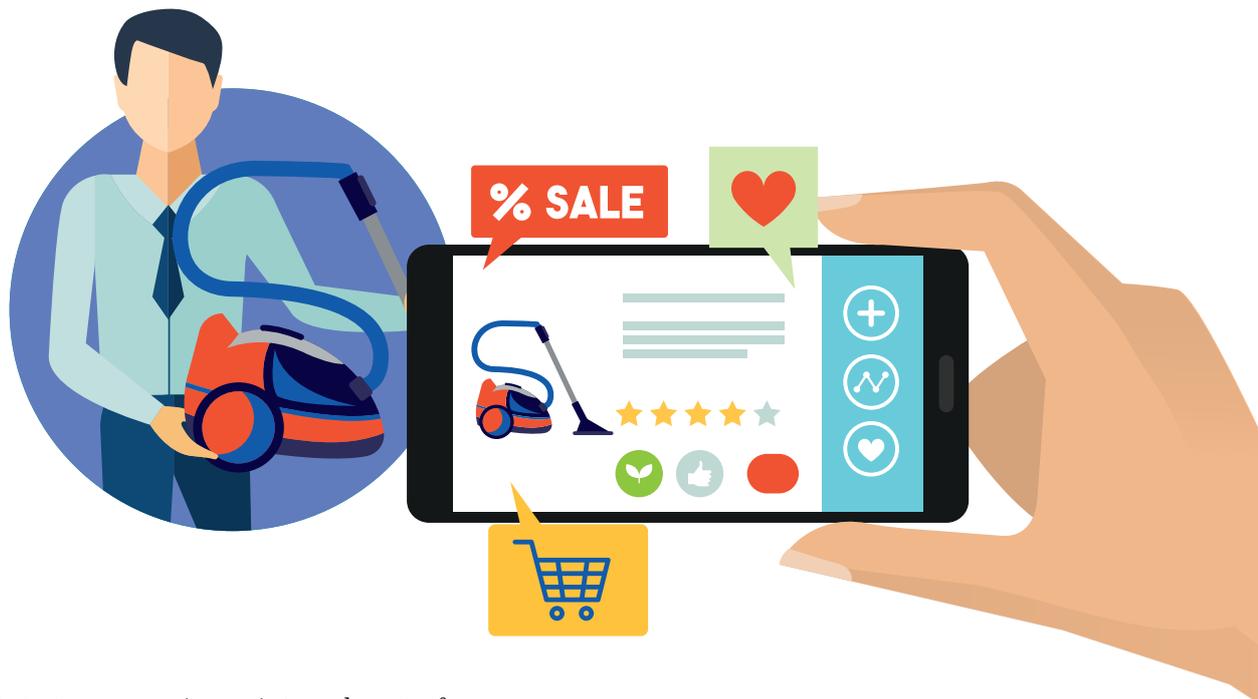
Manhattan Associates’ Summers agrees



It is providing a **TREASURE HUNT EXPERIENCE**. There isn't anywhere else really quite like it, and for our shoppers it's a very emotional and **EXCITING** thing to see if they can find something amazing



The president of a discount fashion retailer



that stores remain an integral part of multichannel: “While most retailers have made significant strides in providing digital tools to improve the customer experience online, the store and the store associate were being left behind. But with the rise of click and collect, stores are here to stay and can add value. The focus has come back on enabling store associates to be in control by assisting them with a 360-degree view of their customers and actionable insights to help them serve and sell effectively.”

Industry bodies and analysts, including trade association the BRC, suggest many stores will need to operate differently to how they did in the past. Online-only players will be among the companies that take the space incumbent retailers decide to depart, with Amazon reportedly one of several pursuers of the property left in the wake of Homebase’s post-Bunnings streamlining.

As the chief executive of a fashion retailer says: “There could be some good opportunities – and improved opportunities for retailers like ourselves to get in – as

people release space.” The co-founder and chief technology officer of an online marketplace suggests the value proposition of department stores has been eroded by online retail offering similar all-in-one-place convenience at the click of a button or swipe of a screen, and that should be a trigger for changing how they operate.

Debenhams, House of Fraser and Marks & Spencer are all reducing their store estates, while John Lewis reported a significant decline in profits for 2017-18, highlighting some painful challenges facing this sector.

“I’m not saying that all the department stores are going to shut down, but I do think there is a transformation around creating spaces that provide distinct experiences and where smaller, more distinctive shops with a certain edge have a higher probability to succeed – especially if they’re able to combine offline and online,” he notes.



95% of our GENERAL RETAIL SALES still come through our stores. It’s really important to us. It’s partly to do with CONVENIENCE, and partly the sort of products that we sell



The chief executive of a general merchandise retailer



Stores are our primary means of ENGAGING OUR CUSTOMERS and delivering a memorable experience. The most important element of delivering a great CUSTOMER EXPERIENCE is the people



The chief executive of a specialist retailer

But as the chief executive of a value fashion retailer puts it, sometimes the ability of the digital-first retailers can get overplayed. What some of them are doing online is actually easily replicated with good old-fashioned store practices, he argues.

“Everyone thinks that customers get turned on by looking at Asos and how to put an outfit together. You can do that through mannequins, photography, windows and excellent customer service,” he says.

Store closures can't be denied

It would be remiss to conclude that all is well in bricks-and-mortar retail. Clearly, the growth in company voluntary arrangements, taken out by the likes of New Look, Carpetright and The Original Factory Shop, which allowed them to escape from rental leases and close down swathes of stores in 2018, shows a downsizing of physical retail.

Local Data Company (LDC) figures show 24,205 shops closed in the first half of 2018 in the 3,000 UK towns, cities, retail parks and shopping centres it monitors. The number of new openings declined by 2.1% to 19,803, leaving 4,402 gaps on the high street, which LDC said was more than double anything recorded in the past five years.

PwC conducted its own research of 500 town centres in the first half of 2018, and reported a net 1,123 stores disappeared during that time.

For retailers operating in this environment, it is crucial that changes are made to continue to entice shoppers to their stores.

The chief executive of a beverages retailer lays down the template for specialist retailer survival, saying: “If retail space is going to have any future, it's got to do something you can't do online – that's not going to be convenience because online already provides that. So, it's got to be about discovery.”

He explains that stores need to exist to offer specialist advice and product expertise, delivered in a way that provides a compelling experience for customers.

“That all needs to be integrated into an online proposition as well. It needs to be absolutely seamless for the customer. They need to be able to do the same things in store that they can do online, for example.”

CHAPTER 5

IDENTIFYING SUPPLY CHAIN GAINS

- >> Major retailers continue to elevate customer expectations
- >> Demand rising for next day, same day and click and collect
- >> Retailers must carefully weigh up costs

Today, customer expectations are sky-high, and retailers need to be able to deliver on their wants and needs. As such, retailers now rely on having robust and flexible supply chains more than ever before.

Challenges

Supply chain management is moving up the boardroom agenda in the more complex multichannel era, with goods now ordered and shipped from a combination of channels and sites. Products must also be managed from the perspective of growing customer demand for rapid fulfilment and rising returns rates.

The retail executives surveyed for *Retail 2019* are expecting the demand for next-day delivery to increase. Some 32% say it is the delivery option they expect customers to request more in 2019, while 23% predict same-day delivery will be most sought after.

Click and collect is a fulfilment option that customers will be crying out for more of next year, according to 23% of respondents. But in terms of serving these demands, there are well-documented challenges for retailers.

There is no doubt Amazon is responsible for helping popularise online shopping. But for years it absorbed the cost of rapid customer fulfilment to the detriment of its bottom line – chasing market share

growth instead – and that has contributed to raised shopper expectations that traditional businesses do not always have the capital to meet.

The chief operating officer of a luxury London department store says in the future it is going to be important for retailers to allow shoppers to adjust their delivery requirements post purchase, adding: “I think the dynamism of deliveries can start to change enormously. Amazon has a lot to answer for!”

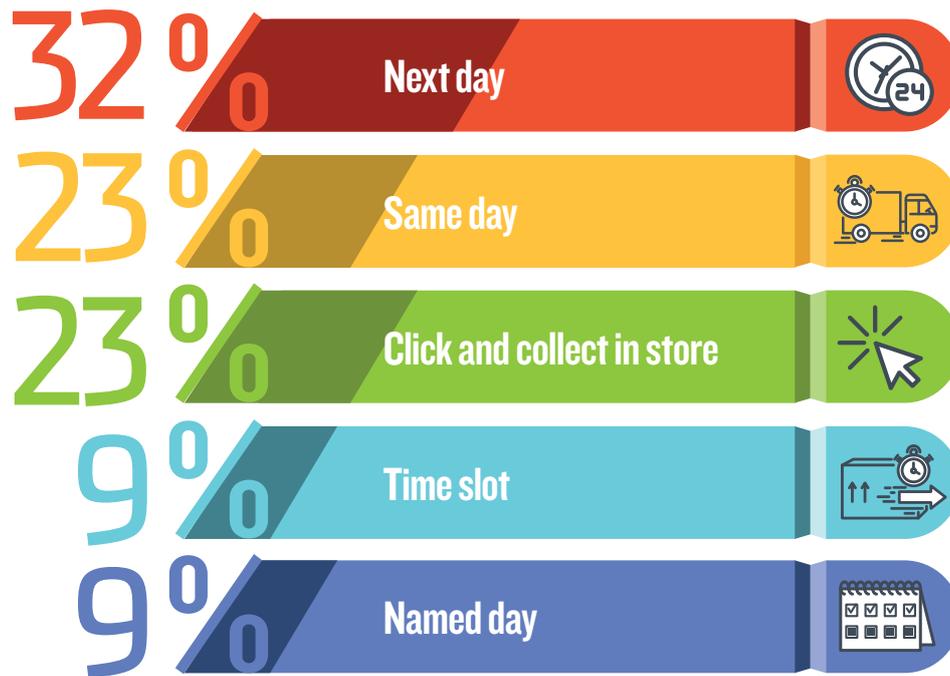
The chief executive of a fast-fashion chain says retailers need to follow the customer when it comes to fulfilment, but they must first assess the associated costs. This strategy forms a fundamental model for today’s retailers to follow, he suggests, especially as he cites the main reason for shops closing down as the economics of rents and rates pressures, as opposed to actual demand for physical shopping per se.

“Customers are becoming more demanding in terms of control over where, when and how they shop,” he explains.

“Retailers are responding to that by offering more and more services that are tailored to individual needs – and we follow suit. We judge what customers want, we look at the cost of delivering it, the cost of other initiatives, and then get on with it.”

Manhattan Associates’ Summers also

WHICH DELIVERY OPTIONS DO YOU EXPECT TO SEE MORE CUSTOMER DEMAND FOR?



says retailers are more focused on fulfilment at a senior level. “We are having more and more board-level discussions because it’s recognised that omnichannel fulfilment is vitally important in terms of margin protection and sales growth.”

Opportunities and investments

As Amazon and Argos have shown with their speedy same-day delivery options, there is an opportunity for retailers to make a name for themselves in terms of fulfilment prowess. This has become one of the most important factors when customers choose where to make a purchase.

And that is the reason so many executives are fighting to find the right mix of services, and putting a strong focus on this area of their operations. There is no right or wrong answer and the goalposts are continually changing, making it so important to monitor.

The chief executive of an online lingerie retailer says: “Certainly next day has become huge and being able to collect in

one of multiple locations seems like it has become really important.

“I do think that there is a paradox of choice, that if you have too many options, it’s actually too confusing for the customer and it’s harder for them to make a choice at that point. We’re still experimenting to find the right number of choices, as well as what the right user experience for that might be.”

The chief executive of a fashion retailer says click and collect presents a real positive brand-engagement opportunity for fashion businesses, although she argues it will be most successful if it evolves from a purely functional and transactional process.

“People don’t want to hang around at home waiting for deliveries, they want to go and get it when it suits them,” she notes.

“If we make our shop environments more interesting, it won’t be a chore to collect a parcel, it will be a joy. You can go in, collect it, try it on and leave it there. I think it is ‘click and try’, rather than ‘click and buy’ – I think that process needs to be a bit more iterative.”

CHAPTER 6

ALL TOGETHER NOW?

- >> Customer experience sits at the heart of strategy
- >> Implementation is being driven by customer-focused roles
- >> Digital skills will be complemented by technology

Disruption in an industry often prompts leaders in that sector to ask questions about how they need to change and what the successful business model of the future is going to be.

Chapters 1 to 5 have shown there is much to keep today's retail leaders occupied and there is plenty on their minds as they look to navigate their way through what is undoubtedly a turbulent time for the industry.

No journey towards digital transformation can be successful unless a retailer brings everyone in their business with them, from head office through to stores and suppliers, and there is evidence UK retailers are adopting various new approaches to drive this workforce collaboration.

When asked about the biggest challenge

to their current restructuring process, the executives had only two answers. Finding the right people with the right skills (62%), and changing the existing mindset, culture and attitude (38%).

One customer vision

Achieving customer centricity has been a well-used buzz-phrase in retail over the past five years, but it is arguably justified because of the shift in culture it represents.

For years, the mantra 'the customer is always right' reigned, but the truth is retailers still tended to do what was right in terms of their balance sheets. Now, in an unforgiving consumer environment, and with more choice than ever before, business decisions simply must revolve around the consumer,





We are structuring our business around less traditional methods



CHIEF EXECUTIVE OF A BEDS RETAILER

otherwise they will take their custom elsewhere. The chief executive of a beds retailer explains: “We are structuring our business around less traditional methods – we are restructuring our business, you could say, around the customer.

“We are becoming aligned with how the modern customer is shopping, they are not thinking ‘I’m a web customer, I’m a shop customer’; they are both and we’re trying to align our business to that.”

This restructuring has brought about the introduction of customer-focused job roles such as customer director and customer officer – the latter described as “somebody who is the voice of the customer from the whole organisation, on the board table”.

This central target of knowing, understanding and better serving the customer actually has a broad impact, getting everyone in an organisation focused on a common deliverable.

Manhattan Associates’ Summers agrees: “Customers don’t consider channels when they purchase, they are simply shopping. The retail operations and technology should ensure this is seamless to be able to meet the needs of shoppers and support business growth.”

Some businesses have gone a step further to ensure staff are motivated and aligned towards a common strategy. Much like John Lewis, there are others in retail such as bookseller Blackwell’s looking to make employees partners in the organisation or to dish out a share of the profits every year.

The chief executive of a toy retailer says: “We paid out about £1.9m to the staff because staff retention is really important to us due to the knowledge they build up.”

Another method for motivating staff and getting them behind wider company goals is to be clear with them what the targets are from day one. The chief executive of a footwear retailer argues that change is the new normal – and his business uses that as a corporate *raison d’être*.

“I think our business has a culture of change and of embracing change,” he notes. “It’s very much part of our DNA so I think we look at change as an opportunity rather than a challenge.”

Where is the talent?

Whatever sector a retailer operates in, finding the suitable technology-, analytics- or consumer-focused individuals needed for modern commerce is seemingly a tricky task. Despite the BBC-inspired development of Manchester’s digital scene in recent years, Dundee’s emergence as a software skills hub and Sheffield’s growing robotics prowess, among others, some executives still see a North–South divide in terms of securing tech talent.

The chief executive of a greetings card retailer says: “I think it is well publicised that there is a definite challenge in attracting the right people, particularly when your business is up North.”

The chief executive of an online lingerie retailer adds: “One of the challenges that we have is our location. Not being in central London makes it more difficult for us to attract all of the digital talent that’s available.

“We have to figure out a way to either attract local talent or look for people who are willing to do a reverse commute, and who are excited enough about the opportunity that they’re willing to spend time travelling.”

But for others it's more of a general talent availability issue, and a challenge around getting staff to think differently for a digital age. The chief executive of a gadgets retailer says: "Continuing to get people to realise that they've got to think of everything across all channels, not just 'the shops, the shops, the shops'. That's the challenge – to get people to really think of this as top of mind."

Wider employment trends such as people changing job roles more regularly than in the past also pose a problem for retailers looking to reduce staff turnover. The trend highlights the opportunities that exist for those in the technology industry – and the competition that retailers face in securing talent as a result.

The beds retailer chief executive remarks: "The people in the digital and tech space, their careers are moving at such a rate.

"Some of them have never actually done anything, they seem to move jobs every 18 months and can't explain to you what they've actually achieved other than moved jobs."

Human v machine

AI is going to replace humans for some manual tasks. This is an industry topic of conversation that won't go away and demands serious executive consideration – even the BRC acknowledges there will be multiple sector job roles that are replaced with automation.

Envisioning a seemingly harmonious relationship between man and machine in the retail workplace of the future, the managing director of a footwear retailer explains his ideal scenario: "We'd like our staff to be doing the customer-centric things – the meeting and the greeting, and to advise our customers and help them.

"And if we can get robots, or you might call it technology or techniques, to help, that's where we see it.

"I see it as a necessary partnership that just has to work together, because we've got to be more productive, and the only way to be more productive is to be more efficient, and to be more efficient you've got to look to technology."

WHAT HAVE BEEN THE BIGGEST CHALLENGES TO BECOMING AN OMNICHANNEL BUSINESS?

Finding people
with the right skills



62%

Changing the
existing mindset,
culture and attitude



38%

CHAPTER 7

THE GOLDEN QUARTER

- >> Sales growth stalled while discounting was rife
- >> Footfall fell for the 13th consecutive month
- >> Consumers had “the most digital Christmas ever”

The changing shape of retail was evident for all to see last Christmas, with shoppers holding out for the discount bonanzas of Black Friday – a week-long event in most cases – and Cyber Monday.

Those who expected the discount days to lose steam were proved wrong and, as a result, December got off to a slow start with consumers having already emptied their wallets – albeit largely online.

John Lewis was among those experiencing consumers rushing to its shops at the last minute, while Morrisons and Sainsbury’s reported that shoppers were “downtrading” from premium to value ranges.

However, while many retailers such as HMV, Halfords and Debenhams struggled, a wide range of others did perform well across the golden quarter. Winners this year included Tesco, JD Sports, Joules, Ted Baker, Mountain Warehouse, The Entertainer, Shop Direct, Fortnum & Mason and Boohoo.

Across the sector, though, certain trends were clear to see.

The impact of discounting

In December, the BRC-KPMG Retail Sales Monitor showed no growth in overall sales. “This comes despite some retailers desperately attempting to generate sales through slashed pricing, which has not been enough to encourage shoppers,” says

KPMG UK head of retail Paul Martin. Despite implementing “some tactical promotional activity” in a bid to remain competitive, Debenhams, for instance, still suffered a 3.4% like-for-like sales drop in the six weeks to January 5.

Marks & Spencer, which did not participate in Black Friday, cited “widespread discounting by our competitors” as a factor behind its 2.2% drop in like-for-likes over Christmas.

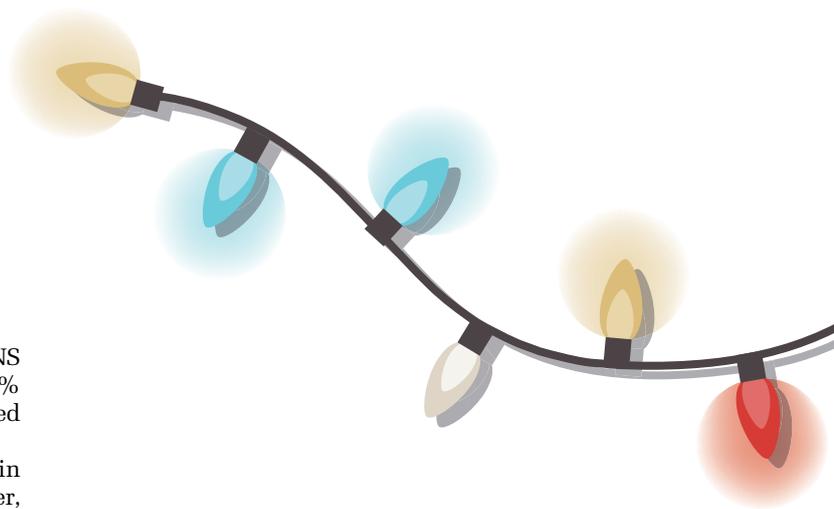
Falling footfall

Footfall also dropped across the board, marking the 13th consecutive month of decline.

Consumer numbers fell 2.6% in December, according to data from the BRC and Springboard, although the decline slowed from the 3.5% slump that was recorded in December 2017.

The downturn was felt most heavily in shopping centres, where footfall fell 3.9% in the 21st consecutive month of decline. Meanwhile, high streets and retail parks both experienced a fall of 2.1%.

In contrast to other bench-marking reports, the Office for National Statistics (ONS) reported that year-on-year retail sales were up 3.1% by value and 2.6% by volume in December, excluding fuel. In the last three months of 2018, sales grew 3.5% and 2.9% by value and volume respectively, compared



with the same period in 2017. But the ONS also said December figures were down 0.9% in terms of both value and volume compared with the previous month.

It reported total retail growth of 13.1% in November, slowing to 9.8% in December, which it said showed “a shift in spending to earlier in the year”.

Rhian Murphy, head of retail sales at the ONS, says: “Following the increased growth in November, where shoppers snapped up more Black Friday offers as they continue to bring forward their Christmas shopping, retail sales weakened in December.”

A digital Christmas

Online sales accounted for 20% of retail sales in December, the ONS reports, which represented year-on-year growth of 13.9%.

Online sales also grew month on month across the retail sector in December—except for in household goods, where there was a 17.9% fall following strong Black Friday promotions.

Deloitte head of retail Ian Geddes described it as “the most digital Christmas ever”.

However, increased online sales come hand in hand with increased costs at a time when retailers’ margins are already being hit by discounting, so 2019 is likely to see an attempt at achieving balance in order to protect profits.



**Ecommerce
accounted for
20% of all retail
sales in December,
according to the ONS**

CONCLUSION

THE YEAR AHEAD

- >> Retailers are finding solutions to keep up with customer needs
- >> Leaders are hoping for clarity over Brexit sooner rather than later
- >> Unique benefits of physical stores are being realised

This report reveals there is much retailers need to comprehend and many ways they must adapt to ensure they are well positioned to serve today's shopper – how, where and when they want to be served.

But equally, the responses of the executives paint a picture of an industry that is creative in its thinking, prepared for any eventuality and, importantly, increasingly obsessed with keeping up with how customers are changing in order to deliver what they require.

Brexit looms over retail, as it does many other industries, like an ominous dark cloud ready to burst and deliver an unprecedented downpouring of chaos and barriers to business progress. But, then again, as so many of the executives who participated in the research suggest, it is still unclear what impact the UK's departure from the EU will have – and there are, of course, always opportunities in times of change.

The uncertainty and potential impact of this on consumer confidence and shopper spending is what is causing the dark clouds, not Brexit itself, so businesses are hoping for clarity sooner rather than later.

Aside from the macroeconomic factors, which must always be observed by those in retail, there are sophisticated new retailing processes being introduced – with many

assessing the power of AI and analytics, while also working to find the right balance between back-end reinforcements and front-end web and shop tech to lure in customers.

Stores-first retailers are realising the unique benefits of their physical space and making plans to optimise it accordingly. Yes, many businesses are undergoing a painful realignment of their bricks-and-mortar portfolio, but *Retail 2019* shows plenty of retailers know how they want to use their shops and are mapping out those strategies.

From the 25% of execs who identify stores' importance as somewhere to provide shoppers with traditional experiences where they can look and feel products before purchasing them, to the 19% who understand that shops boost brand awareness, the humble store has multiple functions in a new age of retail.

Some 17% recognise stores are more than just shops – they say they are a “lifestyle destination”. This is the type of thinking that will help businesses thrive and – if they can shape their shops to live up to that promise while operating with customer centricity in mind – will give them a solid chance to progress.

At the heart of it all is the employee, partner, associate or colleague. Despite ecommerce's growth and the rise of self-service and tech in stores, there are

MANHATTAN ACTION POINTS FOR 2019

- **INVESTMENT: ARE YOU READY FOR THE END OF UNCERTAINTY?**
Invest in the core areas that will set your business up to be flexible in the face of uncertainty and not in technology fads.
- **TECHNOLOGY: IF YOU CAN'T SEE IT, YOU CAN'T SELL IT**
Embrace technology that provides profitable omnichannel operations and future proofing against new ways of shopping.
- **WORKFORCE: HAVE YOU EQUIPPED YOUR COLLEAGUES TO DELIGHT YOUR CUSTOMERS?**
Empower teams with consumer-engagement technology that helps them deliver great customer experiences.

suggestions the role of store staff has travelled full circle from the early days of retail when service and product expertise were paramount.

As the chief customer officer of a luxury London department store notes, service levels are once again crucial in modern retail if businesses are to successfully drive compelling customer experiences.

“I think that many, many years ago, the person on the shopfloor actually was the only single point of reference. They were the people qualified to sell, they knew about the product in intricate detail.

“That sort of shifted, I think, with the advent of magazines doing a better job in terms of recommendations. So, people used to come in with tear sheets, then it went on to celebrity endorsement and bloggers. My view is, it’s going to go back to the person behind the brand. I think that the sales associate is going to be ever more important actually. Full circle, really.”

Now, though, they must understand digital and in some cases maintain communication with customers on services such as WhatsApp. They also have to be able to facilitate click-and-collect orders, and locate and manage products wherever they sit in the supply chain, as well as work in unison with machines in what is becoming an increasingly digitised profession.

Manhattan Associates’ Summers concludes: “Ensuring the customer gets their product whenever, wherever and however they chose is an aspiration that hasn’t changed.” However, he adds: “Delivering this omnichannel fulfilment experience is non-negotiable, but delivering it profitably is the difference between surviving and thriving.”

RETAIL 2019: THE YEAR AHEAD



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