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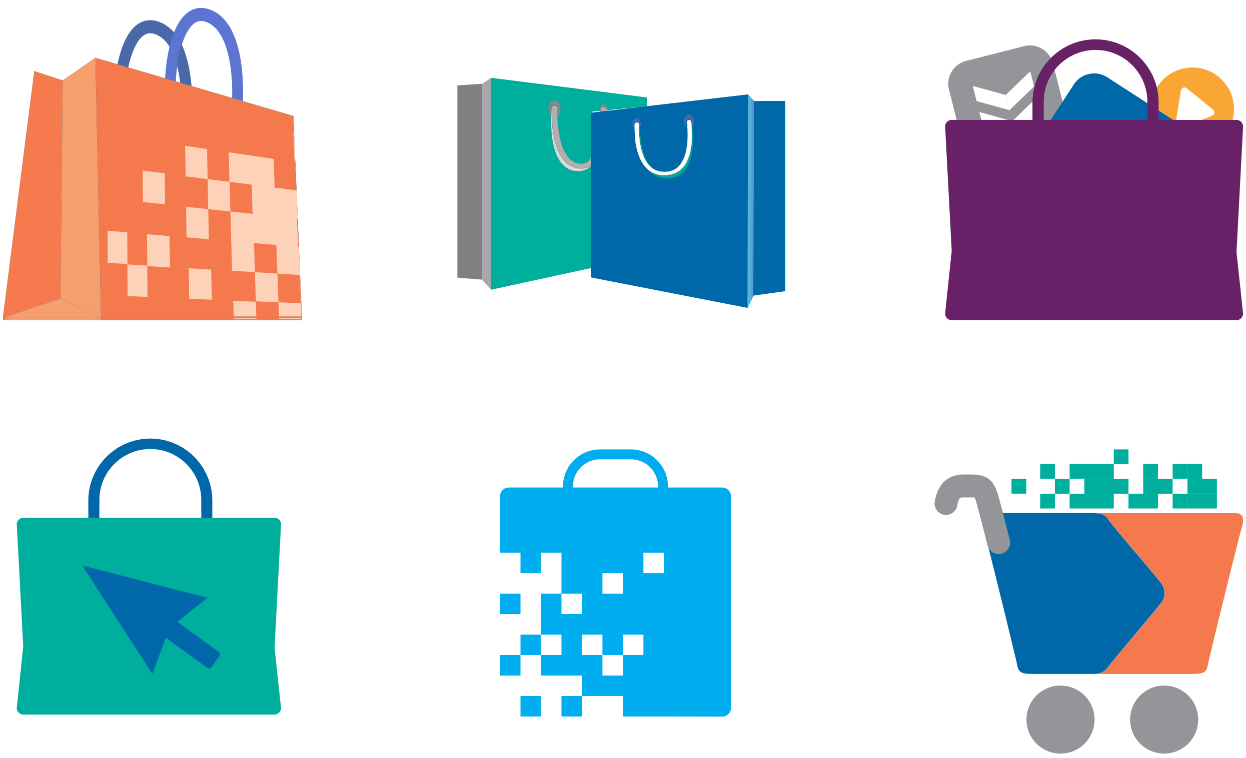
The Retail Challenge

How are retailers winning customers and staying competitive in what continues to be a rapidly changing sector? **Dawn Murden** reports



Retailers can swiftly find themselves blown off course by the ill-winds of tightening consumer budgets and the need to reduce operating costs. This pressure on margins is forcing those in retail to streamline processes and improve overall productivity – yet they must still meet customer demand.

"There is a sharp slowdown in disposable income, which we haven't seen for a number of years," explains **Jonathan Simmons**, Senior Strategy Partner and Lead Partner in the Retail and Consumer Products Practice for Europe at L.E.K. Consulting.

"Leaders should plan for the worst; look for cost cutting and restructuring, as well as improvements and changes to the supply chain – that's particularly a given for those with significant imports."

From a UK perspective, the various scenarios posed by Brexit need to be carefully considered. **Naomi Gillies**, Head of Future Planning and Sustainability Development at John Lewis Partnership, says: "Retailers should focus on de-risking everything – from capital spend to pay budgets – so they don't have to take a sudden U-turn."

Added to this uncertainty is the burden of cost increases from the National Living Wage, while rising rents and energy prices weigh heavily on the sector. "We're lobbying, especially around property costs," **Naomi** continues. >

EIGHT ACTIONS FOR BUSINESS RESILIENCE

Jonathan Simmons
Senior Strategy Partner & Lead Partner, Retail & Consumer Products Practice, Europe
L.E.K. Consulting

1. Attack Costs

Given the economic uncertainty, clear priorities should be cost reduction and restructuring to increase margins and reduce exposure to a slowdown. Further improvements in the supply chain should be examined to see whether there are additional cost savings. This is particularly true for companies with significant imports.

2. Keep Your Powder Dry

Now is the time to conserve resources until they are needed. That said, although the opportunities for obvious investments may be few and far between, it could be wise to acquire the IP or capabilities of small innovators that strengthen your position.

3. Push Out Marginal Participants

Similarly, now may also be time to engage in strategies that grow market share and push out marginal or weaker competitors in your industry.

4. Demonstrate Value to Consumers

While it's prudent to cut costs and shape up your business ahead of a possible downturn, you must be careful to maintain and demonstrate value to your customers.

5. Look Abroad

There can be hesitancy about overseas investment as initial costs will be more expensive in pound sterling. However, future earnings will have more monetary value, which is particularly important as a hedge if a company has a non-sterling supply chain.

6. Limit Further Operational Leverage

The past few years have seen economies of scale used as a driver in sustaining low levels of inflation, while growing corporate profits. However, a high, fixed cost base could backfire if volumes were to drop because of a slowdown. It's important to look at ways of re-engineering your cost base so that it is more variable.

7. Build Liquidity Reserve

Businesses also need to look at their debt structure to ensure they can withstand the strains of slowing demand.

With interest rates at an all-time low, some companies have taken on debt, with methods such as stock buybacks proving particularly popular recently.

In tougher times covenants can quickly come under pressure and risk a breach if they are stretched too far.

8. Sector Choice will Matter

For inward investors, assets priced in sterling may look attractive, but sector choice will prevail. Over the past three downturns, some sectors have proven to be more resilient than others, and the right investment choice will limit risk.

Read more from L.E.K. Consulting here

"Our corporate affairs team do a huge amount of work with Government and external partners to make sure implications on the retail sector are understood."

The stakes are high and mistakes can be brutally punishing, so leaders need to put a resilient plan in place.

At DHL Supply Chain, **Mark Parsons**, Chief Customer Officer for the UK and Ireland, is interested in how retailers are dealing with these challenges. "Every retailer has to focus on its product mix, where it's generating cash and the level to which information flows up and down the supply chain," he advises. "Traditional retailers can often fall down on one of those elements."

High Expectations

New technology continues to change the retail experience for customers. A prime example is Amazon, which has opened a store in Seattle with no checkouts – cameras and sensors are used to identify the items a customer takes and charges them accordingly.

Rob McWilliam, former Vice President for Consumables at Amazon and former Finance Director at Asda, says that "this type of innovation is really interesting as a cost reduction and service improvement opportunity for retailers".

When it comes to innovation, **Rob** notes that while it may be easier to experiment in a digital business, leaders in traditional retail need to find different ways to try out new ideas. "There are some situations that are one way doors – such as major Capex commitments – but there are many things you can try and if it doesn't work, you can unwind it. Learn the difference between one way and two way doors. Don't spend two hours in the board discussing those two ways doors, just do it," he says.

"We sign off as a leadership team the areas within which we're going to innovate and the test fast"

Hesitation will cost you, as **Alison Bennett**, Relationship Manager at Criticaleye, highlights. "The customer can shop wherever they want, whenever they want; if you can't respond to that and are not agile as an organisation then you're going to lose," she says.

At Waitrose, **Naomi** notes that having separate teams to take the lead on innovation has proven effective. "We sign off as a leadership team the areas within which we're going to innovate and then test fast," she explains.

"For example, we'll launch an idea into a store and test customer appetite. Having a team that works solely on this means we don't have to worry about all the normal hoops you have to jump through."

The waters may be especially choppy for retailers, but those that batten down the hatches will emerge stronger.

"I don't think this is going to be a year of retail Armageddon as some people have suggested," notes **Rob**. "However, I do think that in order to maintain their market share, retailers need to make sure their sails are set according to the new way consumers want to shop.

"In order to do this, leaders need to be incredibly focused on managing the short-term impact, while also testing, learning and innovating for the customer of the future." ■

These views were shared on a Criticaleye Global Conference Call. Find out more here

Featuring Commentary From:

Alison Bennett
Relationship Manager,
Criticaleye

Naomi Gillies
Head of Future Planning & Sustainability Development,
John Lewis Partnership

Rob McWilliam
Former Vice President,
Consumables
Amazon

Mark Parsons
Chief Customer Officer
UK&I
DHL Supply Chain

Jonathan Simmons
Senior Strategy Partner
& Lead Partner, Retail
& Consumer Products
Practice, Europe
L.E.K. Consulting

Contact the contributors through:
www.criticaleye.com