FUTURE OF RETAIL

Retailers must reinvent to survive...

The adage that Britain is a nation of shopkeepers is under strain as retailers face up to changing consumer habits and crippling taxes

OVERVIEW
MATTHEW CHAPMAN

Although the UK economy has been steadily recovering, the retail industry is struggling to keep pace with the growth as consumers choose to spend their money on leisure activities instead.

The Office for National Statistics reported retail sales volumes decreased 1.3 per cent in March despite the Bank of England forecasting GDP growth of 2.2 per cent this year.

David McCorquodale, head of retail at KPMG, believes that retail sales failing to keep up with GDP is due to retailers losing out to leisure experiences such as travel.

The government is also doing the retail industry few favours when it comes to taxation.

The British Retail Consortium's *Retail 2020* report forecasts the cost of the national living wage, projected increases in business rates and an apprenticeship levy will add £14 billion of costs on to the retail industry in the next four years.

This amounts to approximately 20 per cent of industry profitability. Retailers are truly locked into a survival of the fittest where only those that innovate will flourish.

> Retailers are truly locked into a survival of the fittest where only those that innovate will flourish

The current BHS predicament is a salutary lesson in what happens if retailers stand still.

"BHS has not been investing in either its systems or interaction with its customers and you can't just open your stores every day without much change and expect the market to keep flocking in," says Mr McCorquodale.

Digital and in-store investment in a world where customers expect a wide variety of fulfilment options does not come cheap.

Between 2004 and 2014, costs in the retail industry rose 33.8 per cent as consumer spending only edged up 2 per cent, according to research from the British Retail Consortium (BRC) and retail analysts Conlumino.

As a way of comparison, in the previous decade costs jumped 19.6 per cent and consumer spending increased 5 per cent.

Waterstones has been at the forefront of the e-commerce onslaught, but has shown that through innovation it is even possible to battle the might of Amazon.

James Daunt, managing director of Waterstones, says he has combatted Amazon by making his company's shops more fun and the shopping experience social.

"High street retailing is a recreational rather than a practical exercise now to a significant degree," says Mr Daunt. "The days of an absolutely practical stand-and-deliver shop are limited."

Waterstones has demonstrated this at its new Tottenham Court Road store in London, which features a bar and pop-up cinema in the basement.

Helen Dickinson, BRC chief executive, believes that in order to flourish in the current environment retailers need a "relentless focus on understanding and responding to the customer".

She highlights how the high street is being reinvented to such an extent that online players are dipping their toe into bricks-and-mortar retailing.

Even Amazon is trialling a physical bookstore in its hometown of Seattle and it reportedly has plans for up to 400 shops in the United States.

"What customers are looking for are experience, excitement and theatre, and often the physical environment is a better place to do that," says Mrs Dickinson. "It is not to say that it is not creatable in a digital environment, but we should not see them as separate anymore because, from a customer's point of view, they are agnostic to the channel."

Online shopping is still very much a transactional experience, but a big area of opportunity for retailers is recreating the offline experience online.

Ian Charles, chief executive at fast-growing gardening e-tailer Primrose, admits online retailers have not been great at experiential retailing.

He argues online retailers should take lessons from Harry Gordon Selfridge in making e-commerce an experience and believes video content is the key to achieving this.

"How do we make that a more immersive experience where it is more enjoyable?" asks Mr Charles. "It is no good it being like watching a TV programme because that is too passive."

In a world where margins are shrinking, he also believes it is vital retailers innovate with their products to make the most of the higher margins before products become commoditised.

The quest for higher profit margins comes against a backdrop of net profitability across the industry falling from 6 to 8 per cent of sales pre-2007 to 3 to 5 per cent today, according to research from BRC.

"If we don't innovate then we are not winning, so almost all of our best-selling lines will have some sort of intellectual property in there," says Mr Charles.

> British retailers have the option of selling to the huge Chinese market by partnering Alibaba

The concept of developing products with a point of difference, such as the iPad, to take a greater share of consumers' wallets is vital in a market with "massive overcapacity", according to Mr McCorquodale.

He also believes another market opportunity for innovative British retailers is international expansion. The rise of e-commerce means it is no longer necessary to take an expensive gamble by opening stores to test a new market.

British retailers even have the option of selling to the huge Chinese market by partnering Alibaba, a strategy currently being pursued by Sainsbury's.

"We've got some of the strongest e-commerce retailers in the world who are used to competing in a very tight market," says Mr McCorquodale. "With our British brands and innate ability to be good retailers, there is a real opportunity for us to grow internationally."

Mr Daunt predicts British retail has not seen the last casualties, but the industry will come out stronger the other side.

"There will be losers and more BHSs," he concludes. "People who do not invest, reinvent and remain current are going to fail, and I don't celebrate that in any way, but there is a positive side to it, which is those that remain are getting better."

It is a case of evolve or die.

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TOP AREAS WHERE RETAILERS ARE FOCUSING TO DRIVE GROWTH IN THE NEXT THREE YEARS

Percentage of C-suites from global retailers who considered the area to be in the top three

Source: Raconteur/DWF 2016

ECONOMIC GROWTH DRIVER

2.2%
estimated increase in UK real GDP in 2016
Source: Bank of England

3%
estimated increase in consumer spending in 2016
Source: PwC

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RACONTEUR

PUBLISHING MANAGER
Nathan Wilson

HEAD OF PRODUCTION
Natalia Rosek

PRODUCTION EDITOR
Benjamin Chiou

DIGITAL CONTENT MANAGER
Sarah Allidina

MANAGING EDITOR
Peter Archer

DESIGN
Samuele Motta
Grant Chapman
Kellie Jerrard

CONTRIBUTORS

STEPHEN ARMSTRONG
Contributor to *The Sunday Times*, *Monocle*, *Wallpaper** and *GQ*, he is also an occasional broadcaster on BBC Radio.

DAVID BENADY
Specialist writer on marketing, advertising and media, he contributes to national newspapers and business publications.

MATTHEW CHAPMAN
Freelance journalist specialising in retail, technology and marketing, he contributes news and features to national and business publications.

ALISON COLEMAN
Writer and editor, she is a contributor to *Forbes*, *The Guardian*, *Director*, *Economia* and *Employee Benefits*.

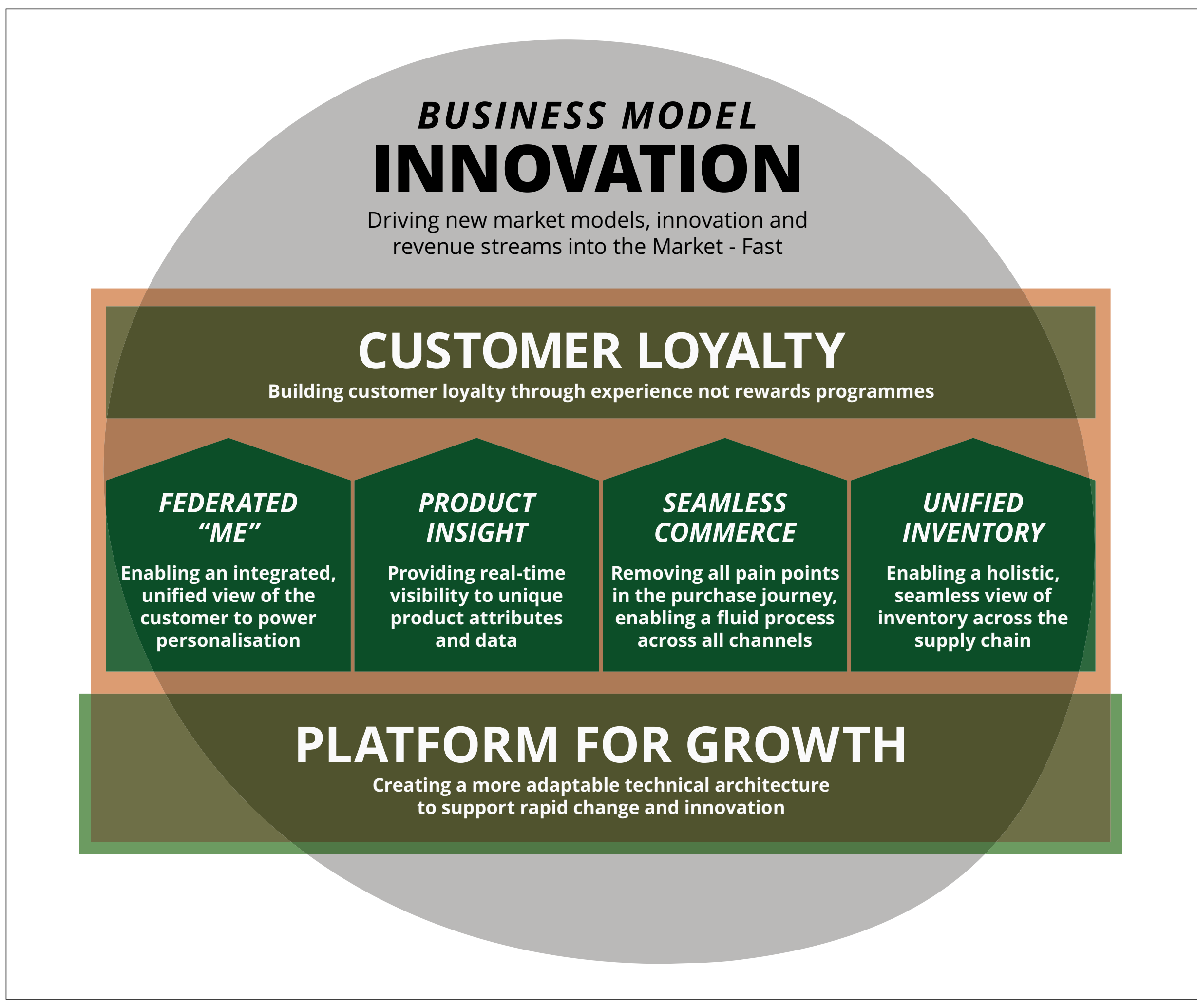
OLIVIA GAGAN
Senior reporter at IJGlobal, she writes for *Euromoney Institutional Investor*, and was formerly with *Drapers* and *Infrastructure Journal*.

GABRIELLA GRIFFITH
Business journalist and diary editor at *City A.M.*, she has worked for *Management Today* and *LondonlovesBusiness.com*.

CHARLES ORTON-JONES
Award-winning journalist, he was editor-at-large of *LondonlovesBusiness.com* and editor of *EuroBusiness*.

PAUL SILLERS
Freelance aero-industry and travel retail writer, he contributes to *The Independent* and *Business Life*, and is the author of *International Business Etiquette 20:20*.

COMMERCIAL FEATURE



KEEPING UP WITH THE PACE OF CHANGE IN RETAIL

Long-term growth plans are essential for any retail brand, but in an industry undergoing rapid transformation, driven by constantly shifting consumer trends and digital technology, forecasting what lies ahead has never been more difficult

Instead of relying on predictions for what might happen several years hence, the most effective way for retailers to future-proof their businesses is to become more responsive and able to adapt to change very quickly using technology as an enabler. These capabilities also create the platforms for growth to support and sustain new business-model innovation. Not doing so leads to the graveyard of retail.

ThoughtWorks' head of retail in Europe Mark Collin says: "The problem with predicting the future for retail in the digital age is navigating the endless possibilities and speed of change. A modern retailer has to be adaptive and responsive rather than predictive, which means moving away from buying technology that takes a long time to implement and change.

"What companies ask for when embarking on a programme of change is often not what they need once the project is complete, simply because customers, technology and the commercial world has changed and moved on again. Millions of pounds have been spent on large-scale IT projects that ultimately failed because change was happening faster than the project could be completed. With this comes a major cultural and attitudinal change that most companies are not well set up for."

Part of the problem is the industry itself. In a new report by World Retail Congress and Green Park, which surveyed 100 of the most senior global executives in the sector, 37 per cent of UK retail chief executives were described as "not fit for purpose", particularly when it came to their lack of mastery of digital skills. The report concluded that the current captains of the retail industry were lagging behind the pace of change and no longer equipped with the personal or technical abilities required.

"These industry leaders are extremely smart, very experienced business people, but they are lacking in digital awareness, and unfamiliar with the new technologies and business models that are relevant to the industry," says Mr Collin. "They are failing to grasp that what was once considered cutting-edge technology is table stakes, the minimum they need to compete effectively in today's retail industry."

From the outside it is easy to spot the leaders over the laggards. "If we see board-level roles like chief customer experience officer or chief digital officers becoming CEOs it's a positive indicator," he says.

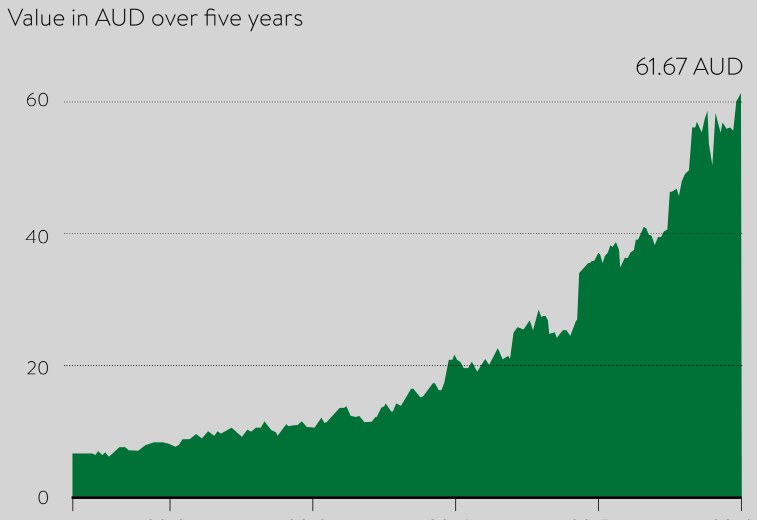
Mr Collin references Domino's Pizza Enterprises Ltd as an example of a digital-savvy board recognising that technology would create incredible growth and company value, first by digitising their customer experience, and then moving the bulk of customers from telephone to online ordering, thus simplifying operations and really being in tune with their customers' needs.

> A modern retailer has to be adaptive and responsive rather than predictive, which means moving away from buying technology that takes a long time to implement and change

"After ThoughtWorks helped launch their award-winning social loyalty programme Pizza Mogul, which rewarded customers for designing, creating, sharing and selling their pizzas, this, along with new store openings and a price promotion, contributed to a net profit increase of 42 per cent for the first half of the year," says Mr Collin. "Such examples are hard to achieve, but they do demonstrate the powerful combination of a platform for growth with new business-model innovation."

DOMINO'S PIZZA ENTERPRISES LTD SHARE VALUE

Value in AUD over five years



Source: Domino's Pizza Enterprises Ltd

The more digitally aware businesses and boards become, the more modern retailers define and describe themselves as technology companies that happen to be retailers, such as Yoox Net-A-Porter, Zalando and, of course, Amazon. Their market valuation rises too.

ThoughtWorks is increasingly involved in helping its clients become modern retailers, enabled by technology striving for uniqueness, not parity. They use design-thinking, lean and agile approaches to put their customers at the centre by creating a responsive platform around them – in effect a new digital DNA.

To be able to experiment and drive business-model innovation, retailers need rapidly to address the challenges around their technology tools and frameworks that support their core business capabilities. The mindset should change from "replatforming" to "working between the seams" to untie complexity quickly.

Flexibility around core business capabilities gives retailers a better understanding of the customer in real time to enhance personalisation and provide a seamless purchase journey across all channels. Mr Collin says: "When retailers are able to introduce changes that matter to customers quickly, it builds real customer loyalty through a better experience."

In maintaining its own ability to respond and adapt quickly, ThoughtWorks has collaborated with some innovative retail technology startups, including those developing artificial intelligence and visual search technology. If a customer spots a cool product, this technology allows them to instantly capture it on their mobile and search for relevant options. It is using complex algorithms and in effect learning from behaviours.

"It's a small piece of technology inserted appropriately into the customer's experience that helps to solve the challenge of keeping it useful, unique and exciting," says Mr Collin. "We used this in a successful project with leading digital retailer Shop Direct – some 58 per cent of their traffic is now driven through mobile."

Another important factor in the digital age of retail is talent acquisition. For too long companies have taken a cost-focus approach to technology, which has impacted the talent stakes. Mr Collin recalls one large European retail company that almost entirely outsourced the running of its IT function on the basis that they could save 40 per cent on costs.

He says: "In doing so they were also outsourcing their innovation and their understanding of what technology could do for their business as a competitive advantage rather than a cost."

There is now a growing demand among retailers for people with excellent software development skills to build the agile technology platforms that will enable them to respond and adapt to market changes faster than their competitors. At the same time, they are building their employer brand and being seen as a great digital company to work for – no mean feat for a traditional big-box retailer competing with the likes of Google, Farfetch and other digital-age businesses.

"It is another example of retailers using technology to gain a competitive advantage, in this case to secure and retain top technology talent," says Mr Collin. "And it also illustrates the importance of focusing on the here and now rather than the future. If you don't have the best available tech talent today, how do you compete in the future?"

ThoughtWorks delivers more than great software and digital customer experiences, it facilitates the full enablement of a retailer's own teams. "The future of retail is hugely important to the UK and global economies," adds Mr Collin. "Our collaborative style of working responds and adapts to change as it happens, effectively enabling retailers to create their own future."

Some sleeping giants are yet to be awakened by the competitive advantage technology brings. Some will die in their sleep. Those retailers that step away from well-trodden paths of traditional linear business models can find valuable new opportunities in relatively unexplored areas of retail innovation. It does require a change of thinking, most importantly about their relationship with their customers and the role they play in their lives.

For more information please visit www.thoughtworks.com

Contactless payments look like beating cash

A plethora of payment methods has bombarded retailers and consumers alike, but while providers battle for supremacy, simplicity at the checkout is the aim

RETAIL PAYMENTS
OLIVIA GAGAN

Use a checkout in 2016, whether in person or online, and the chances are you will be met with a plethora of payment options, some of which were unavailable just a year ago.

In July 2015, Apple Pay entered the market and gave consumers the ability to pay for their shopping with a wave of their mobile phone and a thumbprint. Smartphone apps now enable their users to split a restaurant bill, reimburse a friend or pay for a taxi without the use of cash or cards.

In shops, tap-and-go, contactless payment terminals have become ubiquitous. On the other side of the counter, as the customer-facing technology has accelerated, so too have the options available to retailers. Retail staff can process purchases without a traditional point-of-sale system, taking payment via a tablet and e-mailing a receipt before the shopper has left the store.

Cash, cheque, chip and PIN, contactless, biometric, wearable and mobile phone payments –there is an overwhelming array of choice when it comes to opting how to pay. But this decision takes place at the point in the shopping process where consumers desire speed, simplicity and security above all else. Whether sat on a train or stood at a till point, the average shopper just wants to pay and go.

So what is driving this wave of new payment options? Innovation is not propelled by customers demanding new ways to pay, but by technology providers creating new products. Therefore, it is imperative that retailers help explain and market the advantages incoming payment options offer. If not, they may fail to be embraced by consumers.

As Gary Munro of payments consultancy Consult Hyperion says: "What you don't want is a niche product. Technologies are not cheap to bring to market. The payments industry is good at the tech – these companies know how to make complex cryptography and how to ensure a transaction works seamlessly, for example. It's not so good at communicating the benefits to the public."

The slow rise of contactless payments in the UK is a case in point. The first transaction terminal was available almost a decade ago in 2007. But it only really took off during the 2012 London Olympics, when Games sponsor Visa included a dedicated marketing campaign to promote the technology around the event site.

Mr Munro says: "The major retailers didn't get on board at the start. But when businesses like Marks & Spencer began to offer contactless, it started to get ingrained in people's consciousness. McDonald's was also a big and important adopter."

Four years later, paying via contactless credit or debit card enjoys high acceptance among shoppers. The UK is the leading user of contactless payments in Europe, along with Spain and Poland, according to market research firm Euromonitor. The UK Cards Association reported there were 159.1 million contactless transactions in February 2016, which is the equivalent to about 63 a second.

Lagging behind contactless is the use of mobile phone payment. The push to increase mobile payments is an attempt to capitalise on a boom in smartphone use. An independent study carried out by UK payments processor Vocalink estimates that 84 per cent of the UK population used a smartphone in 2015, up from 60 per cent in 2013. Despite this, the study says only 12 per cent of the more than 5,000 16 to 75 year olds surveyed used their smartphone to pay for something last year.

Figures on the infiltration of Apple Pay in its maiden year in the UK have not been made public. But as Mr Munro asks: "Is Apple Pay any easier than tapping your card? Not really. Contactless has become a norm, where customers are disappointed if a retailer does not offer it. Mobile payment options like Apple Pay need to become a norm, too. The next generation will expect to use smartphones to pay, but that change in behaviour will take a bit of time."

179.6m
contactless transactions were made in March 2016, up 12.9 per cent month-on-month and up 184 per cent year-on-year

Source: UK Cards Association

52%
of all consumer transactions in the UK were still made in cash in 2015

Source: Payments UK

Philip Benton, senior research analyst at Euromonitor, adds: "At the moment the benefit of using mobile payments over card or cash is not immediately obvious, but that should change when consumers get used to the idea of leaving their wallets at home."

It's a behavioral change the payments industry is keen to speed up. This month Barclays announced the launch of its Android contactless payment service in June, the first in the UK, beating Google which has plans to launch a similar Android app later this year.

> The benefit of using mobile payments over card or cash is not immediately obvious, but that should change when consumers get used to leaving their wallets at home

Electronics giant Samsung is piling in too, as it gears up to release its rival to Apple Pay in the UK in 2016. Mr Munro says Samsung Pay "will turn the tap on a bit more" when it comes to people choosing mobiles over cards and cash, simply because "there will be more mobile phones with the ability to pay for things".

Mr Benton agrees: "There are more Samsung users in the UK than Apple users, so it is introducing mobile payments to a new audience. Samsung Pay also has the potential to be more disruptive than Apple Pay or Android Pay due to the technology used, which allows consumers to make mobile payments on older payment terminals which don't yet support contactless payments."

Another potential boost to mobile payments is increasing high-speed internet coverage in the UK. "The majority of online payments used to be done from a laptop or tablet," says Mr Munro. "With the rise in 4G access, and with wi-fi now readily available on trains and buses, travel time is becoming time when the customer browses shops and makes purchases on their smartphone."

As retailers race to keep abreast of the technology that is available, yet more payment trends continue to emerge. By 2020, being asked to enter your PIN code into a keypad to authorise a sale may well have largely disappeared. In a move pushed through by card payment providers Visa and MasterCard, by the end of the decade all retailers will have to provide contactless to be able to take card payments.

And beyond cards, store staff may find a multitude of new devices waved across payment terminals. London financial technology company Kerv offers a wearable contactless-enabled ring. Barclays already sells contactless wristbands, a key fob and a sticker – which can be affixed to a phone, say – that are linked to the customer's debit or credit cards.

As consumer usage of these new options increases, so too will confidence in their security, says Mr Benton. "I would expect the current contactless payment limit of £30, which was only introduced in September 2015, to increase again in the next 18 months," he says. Apple Pay already offers shoppers the ability to pay for big-ticket items via enabled devices.

Despite this, it is worth noting that cash is still the most popular, albeit a waning, way to pay among consumers. According to Payments UK research in 2015, the consumers still paid by cash for more than half (52 per cent) of all their transactions in 2014. This figure is forecast to drop below 50 per cent by the end of 2016.

Some forward-looking retailers are encouraging customers to leave behind notes and coins completely. Both supermarket Waitrose and healthy food chain Tossed have opened stores in 2016 which are entirely cashless, a trend Mr Benton says he expects to progress in the next two to three years.

Head of European retail at software company ThoughtWorks Mark Collin warns that retailers need to be careful not to prize innovation over ease for their clientele. "Mobile phone payments and grocery shopping, for example, doesn't always work – the shopper's hands are often full of items," he says.

Whatever the payment method is, ensuring it is integrated into what the customer wants is key. "Until we get to a point where it all starts to consolidate, retailers will have to learn how to deal with a lot of payment options," Mr Collin concludes. "Simplicity of checkout is where everyone is trying to get to now."

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UK CONTACTLESS ADOPTION AND SPENDING CONTINUES TO RISE

	2014					2015						2016	
	Mar	May	Jul	Sep	Nov	Jan	Mar	May	Jul	Sep	Nov	Jan	Mar
Number of contactless cards in issue (m)	43.3	46.2	49.5	52.8	55.9	59.7	63.8	67.2	70.9	74.4	78.2	81.5	86.5
Monthly amount on contactless cards (£m)	116.5	146.1	174.9	253	302.7	287.1	431.1	515.9	619.8	758.6	1024	1107.3	1508.4
Monthly number of contactless transactions (m)	17.8	22.1	26.4	32.2	39.9	43.5	63.3	74.1	88.9	103.2	127.5	135.8	179.6
Number of terminals/outlet (000s)	181	188.1	191.4	197.7	208.5	219.3	229.1	245.4	271.9	288.2	304.1	318.6	354.8
Average value of contactless transactions (£)	6.53	6.60	6.61	7.86	7.59	6.60	6.81	6.96	6.97	7.35	8.03	8.15	8.4

Source: UK Cards Association 2016

Now shopping is the best of both worlds

Competition between online and high street retailers is blurred by e-tailers opening stores and their rivals adopting e-commerce

ONLINE AND IN-STORE
STEPHEN ARMSTRONG

People have always complained about retail innovations. When hawkers started selling their wares in the bathhouse beneath Seneca's apartment, extending a seamless shopping experience beyond the forum in first-century Rome, he was furious complaining about the noise of the "pastry cooks with their varied cries, the sausage dealer and the confectioner, and all the vendors of food from the cook shops selling their wares".

Today, shoppers are keener on a seamless link between shop and home, says Richard Lowe, head of retail and wholesale at Barclays. "Mobile has helped blur the lines between physical and online retail with 'showrooming' – consumers visiting stores to try products before purchasing online – putting e-retailers in direct competition within the territory of their physical counterparts," he points out.

This seems, at least initially, to be another nail in the high street coffin – customers trying in-store then buying at a discount online. Steve Borges, however, who is co-founder at e-commerce agency Biglight, thinks mobile is potentially more useful to bricks-and-mortar retailers than purely e-commerce operations.

"We know that a real frustration for customers is when the size they are looking for isn't available in-store, once they have decided to buy it," he says. "In the future, you will see retailers present a different version of their mobile sites to customers in-store, using in-store wi-fi as a trigger that allows them to find the product they are looking at by scanning the barcode, for example, then place an order using click and collect in that store or another. They'll be using their phones, making this process frictionless for customers."

This artful blend of new tech and old stone is at the heart of the rise of omnichannel retailing in the age of "me-commerce" where the consumer is boss. Omnichannel, in its simplest definition, is a complete combination of in-store and online, using every single channel from mobile and social to personal shoppers and in-store events.

> This artful blend of new tech and old stone is at the heart of the rise of omnichannel retailing in the age of 'me-commerce' where the consumer is boss

"You hear plenty of retailers saying they need to be omnichannel – well yes, but what that means varies enormously," according to James Lovell, European retail expert at IBM. "The traditional model of retail is to own a big space, buy a bunch of stuff you think will sell, try and sell it, then offer it at a discount if it doesn't sell. Over the past few years, the more mature retailers have realised that to master omnichannel, retailers need to create a seamless customer experience across all of these platforms."

Mr Lovell cites Boots, Marks & Spencer and online retailer Net-A-Porter's new owner Yoox as impressive examples. Yoox is merging its e-tailing business, which includes the e-commerce websites of about 40 luxury and fashion brands including Alexander Wang, Giorgio Armani and Valentino, with Net-A-Porter's systems to create a single technology platform enabling seamless inventory integration across Yoox Net-A-Porter and the luxury brands' distribution centres and retail network, including same-day in-store pick-up or home delivery.

Over at Boots, online and in-store have merged so effectively that, as well as click and collect options as pioneered by John Lewis, staff can order out-of-stock items for customers to be delivered to their homes or to any other Boots store. While M&S has completely restructured its systems over the past 18 months to link up front end, back end and distribution.

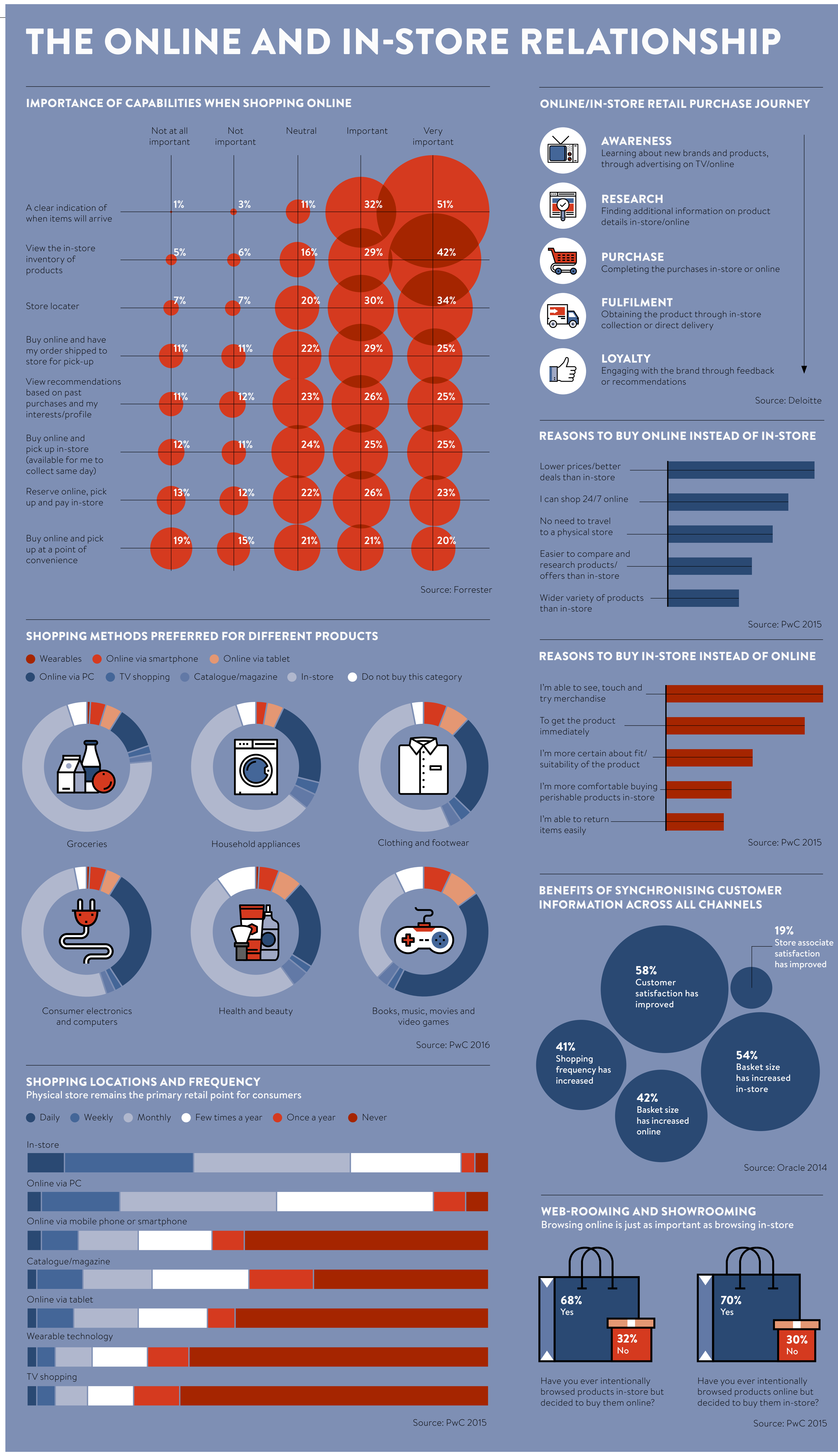
This sort of reorganisation – the stripping down of silos – is the key to profitability, according to a February report for JDA Software by PwC. This global survey of more than 300 retail and consumer goods chief executives found that only 18 per cent have eliminated operational silos to deliver seamless omnichannel shopping experiences. Those who had eliminated silos expressed greater confidence in revenue growth (59 per cent compared with a 48 per cent average for all chief executives) and profit growth (63 per cent against 43 per cent for those still siloed).

"It's really about retailers still reeling from the 'Amazonification' of shopping," Mr Lovell explains. "Amazon has created a level of expectation in consumers that bricks-and-mortar businesses are only just catching up with. The exciting part of this is what it allows stores to become."

Futurologist Ian Pearson imagines town centre flagship stores acting as theatrical entertainment spaces, with items home delivered by the end of the day. Smaller branches near transport hubs might become simply click and collect centres, a model Argos is rolling out. According to research from Barclays, consumers anticipate using in-store or locker collection more frequently in the future with Royal Mail coming out as a trusted brand for transport hub locker collection points.

Combining all versions of these stores' back ends into one system allows retailers to engage with customers as efficiently as online rivals, but with more intimacy, says Biglight's Mr Borges.

"We'll see retailers capturing e-mail addresses at the point of purchase in-store, so that the details of items purchased can be accessed via the My Account section of the website, removing the barrier between online and offline worlds," he says. "This is particularly interesting for pre-ordered or made-to-order products – furniture for example – that are bought in-store, as the customer can then look at the status of their order online without having to call or visit the store."



Visiting the store, of course, allows bricks-and-mortar retailers one great advantage. "Sales staff can make the greatest impact especially for luxury retailers versus other sectors," says Ryan Fisher, co-author of *Retail Operations: People are still the Best Investment*, a report for management consulting giants A.T. Kearney. "Staff are driving the brand, driving the purchase and creating what may be described as 'irrational loyalty' – the customer will choose the retail brand first, regardless of price, location and so on."

There's even more than reputation at stake, according to Diana Verde Nieto, chief executive and co-founder of Positive Luxury, which awards the Butterfly Mark, a digital and offline ethical trust mark. She believes leading retailers can and are already using their influence to encourage their staff and customers to make responsible choices.

"This change of attitude will help luxury brands start to see the benefits of implementing best practice in their own business operations," she says. "The possibilities offered by in-store conversation allowing stores and luxury brands to differentiate themselves from their competition, increase brand loyalty and enhance their reputation in a way purely digital retailers will find increasingly difficult."

> Curiously, the hottest tech retailer in the world, Amazon, is gradually embracing the bricks-and-mortar model

Ms Verde Nieto namechecks Selfridges, but her position is supported by Christopher Bailey, chief executive and chief creative officer of Burberry. Today's luxury customers, Mr Bailey insisted when unveiling Burberry's three-year omnichannel strategy this month, are looking for experiences, newness, authenticity and storytelling, which they want to see delivered through service-driven and personalised contact with, of course, greater use of technology, particularly mobile.

Burberry plans a localised omnichannel strategy, using social to glean customer insight and boost loyalty, while focusing investment on selected cities. A new customer app includes features including a mobile checkout to boost in-store and online conversion.

Despite the obvious opportunities, many retailers facing tough trading conditions are wary of embracing this new philosophy. Integrating relevant back and front-end systems is hard and very expensive, requiring expertise that many retailers lack because many of the best engineers and designers are looking to work for technology companies.

Curiously, the hottest tech retailer in the world, Amazon, is gradually embracing the bricks-and-mortar model. At the moment, Amazon has just one store, a bookshop in Seattle. During May's annual general meeting, however, chief executive Jeff Bezos announced a rolling expansion programme starting in San Diego and spreading across the United States, opening possibly as many as 400 bookstores.

"We're definitely going to open additional stores," he told shareholders. "How many we don't know yet." Other US online retailers, including fashion site Bonobos and opticians Warby Parker, are also opening physical stores, with online make-up subscription service Birchbox cutting back on their online overheads to open bricks-and-mortar outlets.

In the UK, according to one retail expert responsible for the planning of out-of-town shopping centres, old-school stores are likely to resist such a move. "We've already had some interest from Amazon," he says, "but if you mention that to existing retail tenants they effectively threaten to walk out on you. It's going to take some time before they let online rivals into prime retail real estate."

It looks like moving into omnichannel will be a one-way ticket for a while yet. Seneca would be proud.

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CASE STUDY: SELFRIDGES

Selfridges opened more than 115 years ago – and yet its seamlessly linked on and offline presence puts almost every modern retailer to shame. The physical and digital worlds share the same buying team and staff swap between the two to ensure a consistent culture and complete breakdown of silos.

Why would a high-end department store with only four bricks-and-mortar stores work so hard? Selfridges hosts an impressive 15 million visits a year to its Oxford Street department store, but earns 100 million visits to its website, 25 per cent of which come from overseas, across 120 different countries. Two thirds of all purchases made from Selfridges overall have a digital element – some recent sell-out items had half their purchasers coming from Japan.

"For most of our history it used to be that shopping was a Saturday afternoon pastime," says the company's omnichannel director Simon Forster. "Now the following week's shopping starts online on Sunday night and could be concluded either in-store or out. You have to be present every step of the way."

Over the past 20 years, Selfridges has gained a powerful reputation for understanding the emotional side of physical world shopping – its window dressings are works of art and in-store events can range from philosophy talks to circus shows. "People visit Selfridges for the experience, for the sense of fun and for the customer service," managing director Anne Pitcher explains. "We have to ensure that part of our offer is seamlessly connected as well."

A new app enables customers to shape their own preferences and receive suggestions. "We're not a discount retailer, so we're not about sending people deals and bargains – and we're not plundering data," says Mr Foster. "We're about curating, so we like to offer our customers things they don't know they want yet."

Record annual profits in 2014 and 2015 suggest the company knows what it's doing.

COMMERCIAL FEATURE

TECH TAGGING BOOSTS SALES

Help is at hand for retailers struggling to keep up with the fast-changing, ever-evolving demands of fashion shoppers – the RFID moment has arrived

AVERY DENNISON | RFID

Radio-frequency identification tags are revolutionising the way retailers manage their stock, especially in the fashion field. Attaching an RFID tag to every item of apparel allows clothes retailers easily to locate the goods shoppers are asking for. Tagging gives retailers confidence they can serve up the styles on display in their shop windows or online shopping sites.

Some 3.75 billion clothing and footwear items were tagged with RFID in 2015, according to research by IDTechEx and that figure is expected to grow as more retailers implement the technology.

As the world's largest UHF RFID provider for the retail industry, Avery Dennison holds more than 800 patents and pending applications, and has been engaged with over 100 projects worldwide. The company develops, designs and manufactures RFID tags, and facilitates adoption by defining the entire solution and bringing in the appropriate partners for full rollout.

Avery Dennison has worked with brands and retailers, including Marks & Spencer, John Lewis and Macy's, to implement RFID tagging on much of their merchandise. This helps the retailers keep tabs on their stock and to boost the accuracy of their inventory. Many other retailers are deploying and piloting the technology.

While much of the implementation of RFID has been in the area of clothing, it is spreading to other categories such as cosmetics and homewares. Food retailers are also considering using RFID tags on higher-value items, such as meat and fish, to help reduce out-of-date stocks and ultimately reduce waste.

For fashion retailers, tags are integrated into the price ticket, care label or packaging of clothing items. Each tag emits a unique radio frequency which identifies the item to an RFID reader. This can be in the hands of a shop assistant and tells them that the item is in the store. Retailers are increasingly using hand-held Geiger counter-style readers which beep more rapidly as they approach an item. This helps a shop assistant locate goods, whether they are in the stockroom or placed on the wrong shelf.

Francisco Melo, vice president and general manager for RFID at Avery Dennison, says in the world of fashion retail, having an accurate picture of the stock available is an important driver of profitability. If a shopper goes into a store with their heart set on a certain item, but they can't find it in their size on the shelf or rack, they may walk out and go to a rival. If they ask a member of staff to find the item and the assistant can't locate it, the store not only misses out on a sale, but may also lose a customer. RFID helps solve these problems by improving inventory accuracy.

Mr Melo says the accuracy of inventory is between 60 and 70 per cent for many clothes retailers, which means about a third of items cannot be quickly located. They may be in the stockroom, still in the distribution centre, misplaced on a shelf or perhaps stolen. Implementing an RFID system increases the accuracy by about 20 to 30 per cent. This creates a huge leap in profitability.

"We have examples of retailers where they found out they had complete sets of merchandise in the stockroom that had never actually made it to the shop floor, but at the headquarters everyone was happy that the merchandise was in store. But if it is in the back room inside a bag or a box, it is not going to sell. RFID gives a retailer visibility of what they have in store and what is actually on the sales floor versus what is not on the sales floor," he says.

Stock-takes are usually done manually only once or twice a year as they are time consuming and labour intensive, and after the stock-check is done, the inventory quickly deteriorates month by month. However, RFID helps retailers conduct near real-time stock-checks.

RFID creates a process where the retailer is able to do a stock-take in a very accurate manner that is a hundred times faster than a manual process.

"RFID allows a fast stock-check to happen very efficiently," says Mr Melo. "It can be weekly or whatever timeframe suits the retailer. You keep inventory accuracy, you keep visibility of stock, you keep efficiency and therefore you reduce the out-of-stocks."

As consumers switch to online commerce, buying via their desktop computers, tablets and mobiles, as well through physical stores, the need for RFID is growing. Retailers are often reluctant to show styles on their digital shopping pages unless they are sure they can locate them in stock. RFID ensures retailers have confidence these items are in stock, allowing them to increase stock available on the website, which ultimately increases sales.

Given the huge benefits of RFID, especially in the clothing area, retailers are taking the new technology seriously. As Bill Toney, vice president of market development for Avery Dennison, says: "RFID is such a transformational technology it touches so many people – the supply chain and stores, the IT department and packaging, sourcing and merchandising."

> RFID gives a retailer visibility of what they have in store and what is actually on the sales floor

Avery Dennison has developed a five-step adoption process to help retailers understand the business case for RFID all the way from piloting the technology to deploying it. "We help build the business case around how the technology is going to help the retailer get a return on investment and drive shareholder value in the organisation," says Mr Toney.

According to Mr Melo, there is no longer a question over whether to adopt RFID because its ability to improve stock availability has been proven. But he adds: "The million-dollar question is how to implement RFID. There is a tendency to just talk technology with the IT department, but those who really need RFID are the store operations people. They understand the level of inventory inaccuracy they have and understand the level of accuracy RFID can achieve. They become the champions of the technology in retail."

3.75bn
passive UHF tags sold for apparel and footwear retail in 2015
Source: IDTechEx

95%+
inventory accuracy in retail clothing stores achieved using RFID compared to 65% without
Source: Avery Dennison

~50%
of the top 100 US apparel retailers have adopted RFID to some degree
Source: Auburn University

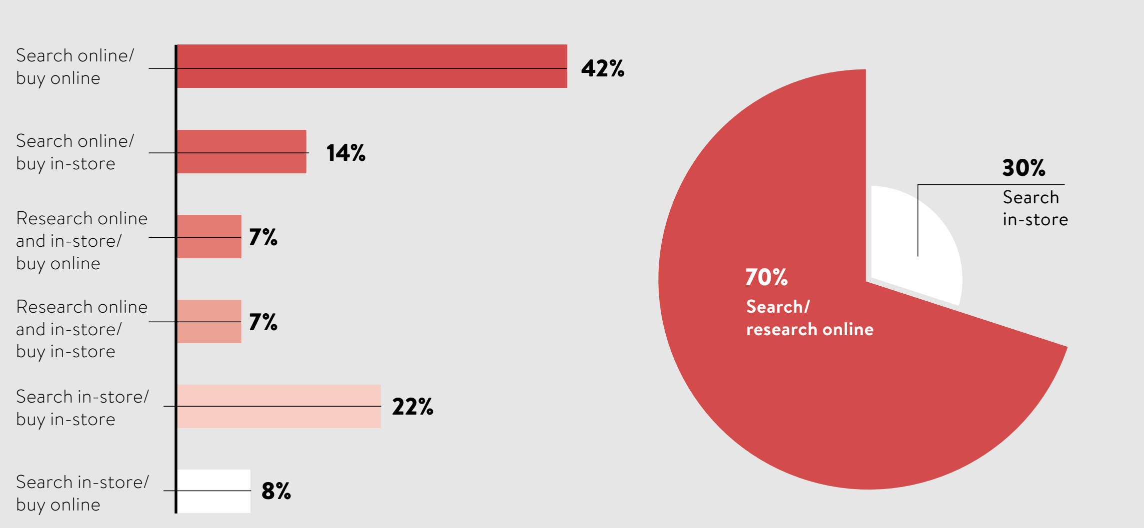
Mr Melo predicts that the RFID revolution will transform the way we shop. For instance, Ralph Lauren recently announced the implementation of an interactive fitting room at its flagship Fifth Avenue store in New York. When a customer enters the fitting room, the items they are carrying are identified from their RFID tags and they are displayed on the interactive mirror. This gives details about the garment and recommendations of similar items. The customer can tap on the mirror to request different sizes and colours, and can even have a text sent to their phones with details of the items they tried on.

Such creative uses of RFID technology are likely to grow with increased competition between online shopping and physical stores. Meanwhile, the tags will be vital in enabling ever-faster delivery cycles for online retail as they will help the retailers locate the goods quickly and ship them to customers faster.

One myth that Avery Dennison shatters is that implementing RFID technology is somehow expensive. The costs are minimal when set against the improvements in inventory accuracy that the technology offers, Mr Melo concludes.

For more information please visit www.rfid.averydennison.com or email rfid.info@averydennison.com

CONSUMER ENGAGEMENT IS EVOLVING TO AN OMNICHANNEL MODEL



Source: *2015 UPS Domestic Pulse of the Online Shopper*

Listen and learn from customers to sell them more

Good communication, dialogue and feedback enable retailers to know their customers and deliver an improved personalised service which invariably will result in additional sales

CUSTOMER EXPERIENCE
DAVID BENADY

Modern retailers thrive on online reviews, social media commentary and customer feedback, using insights gleaned from these sources to change the way they do business. From e-commerce giants to local bookstores, retailers are using the data they get from shoppers to create a feedback loop of personalised recommendations and promotions, and to improve the service, merchandise and prices they offer.

But some believe digital communications are an impersonal and remote way for retailers to connect with customers, preferring a human interaction. Waterstones managing director James Daunt, who has moved the bankrupt bookshop chain into profit since taking over five years ago, says: "Unlike our domestic and international peers, our shops are resolutely old fashioned.

"We are investing enormously in training booksellers, getting them to talk to customers, valuing and championing that kind of personal interaction, and we have invested to try and develop distinct personalities in our very diverse shops."

He accepts that retailers can create a powerful dialogue with customers using data gleaned from loyalty cards and social media, but believes the human touch is essential in selling complex products such as books.

So how far can the explosion of online reviews, social media chatter and other data collected via digital communications help retailers improve the service they offer? Over recent years, Facebook and Twitter have played a part in reshaping retail, acting as sounding boards for customer complaints and a platform for people to exchange shopping experiences.

Twitter has been likened to the world's largest unprompted focus group, which can be scoured for insights and feedback on shoppers' thoughts about stores. Iain Matthews, chief strategy officer at social media agency Deep Focus London, says some retailers use social media analysis to assess how people feel about local stores, capturing comments from Twitter on waiting times, customer service levels, pricing and the quality of goods.

> Facebook and Twitter have played a part in reshaping retail, acting as sounding boards for customer complaints and a platform for people to exchange shopping experiences

But he believes many retailers are lagging behind other sectors, such as air travel, when it comes to using customer feedback from social media and the open web to steer their businesses. "A lot of retailers are a bit behind the curve; there is value in being really strong in this space. But it is somewhat under-exploited by retailers at the moment," says Mr Matthews.

Social media-listening has an advantage over review sites such as TripAdvisor and Amazon as a way of gleaning customer feedback. The comments made on social media are unprompted, so are likely to be the random thoughts of ordinary consumers. By contrast, review sites are vulnerable to fake reviews from businesses promoting their own profiles or rivals trying to denigrate competitors.

The Competition and Markets Authority estimates that some £23 billion-worth of sales in the UK are made each year after consumers have read online reviews. It estimates that up to one fifth of those reviews could be fake.

Even so, online reviews are having a massive impact on retailers, who are using them to learn about their consumers' preferences and to change their offers accordingly. The so-called closed feedback systems, such as Feefo and Reevoo, are contracted by online and bricks-and-mortar retailers to send review forms to people after they have made purchases. This diminishes the chances of fake reviews or of vendors playing the system.

Matt Eames, co-founder and chief commercial officer of Feefo, says retailers have no choice these days than to listen to customer reviews. "No retailer can avoid reviews about their business; they are happening whether they like them or not. People post reviews on Facebook and Twitter, and savvy retailers embrace them. It is about owning the conversation rather than allowing it to take place outside your site," he says.

The feedback revolution is set to intensify over the coming years as retailers rise to the chatbot challenge, turning computerised virtual assistants into digital shop assistants powered by artificial intelligence. Customers will interrogate these chatbots to get the best shopping experience, and the AI-driven robots will learn about the needs, desires and wants of shoppers individually and as a group. This will allow retailers to become even more responsive to the demands of shoppers.

The rise of personal messaging services, such as WhatsApp, is also likely to transform social-listening. As people increasingly communicate via these apps, it will be more difficult for retailers to listen in to comments as they do on social media, since the messaging apps are private. But messaging services are now hosting retailer and brand chatbots, as well as virtual assistants, and will deliver personalised shopping services, allowing retailers to learn automatically from the behaviour of customers.

Elizabeth Cherian, director of The Innovation Group at advertising agency J. Walter Thompson London, believes customers will increasingly delegate buying decisions to machines, which will use the knowledge they build up about the customer to make purchases on their behalf.

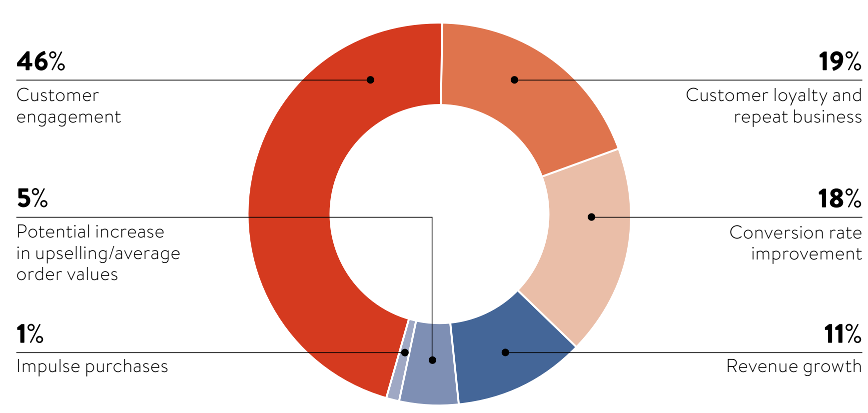
However, she adds: "People are happy to delegate control to devices, but there has to be sensitivity to the personal data they are divulging." Ms Cherian believes the issue of privacy is "scaring the hell out of people". She says: "If you don't get the data privacy aspect right, people will walk away."

Retailers are trying to achieve omnichannel retail, enabling customers to make purchases through a variety of platforms and channels, whether in-store, on their mobiles or via a desktop computer. But Ms Cherian believes this will go much further in the future. "People will be able to buy stuff everywhere. With the internet of things, there will be all these smart products in our personal space; we will be surrounded by things and everything is a potential sale," she says.

For some, retailers need to start paying more attention to the needs of customers, focusing more heavily on feedback and finding out about the needs of shoppers, rather than simply trying to sell more stuff.

Simon Hathaway, global head of retail experience at consultancy Cheil Retail, concludes: "One of the challenges retailers have faced over the last ten to fifteen years is the culture of 'buy, buy, buy' without understanding their customers and how they feel. Getting back to a customer-centric approach would be a good thing."

MAIN BENEFITS OF PERSONALISATION TO RETAILERS



Source: *Retail Week* 2015

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CASE STUDY: WATERSTONES GETTING PERSONAL

Since James Daunt took over management of Waterstones bookshops five years ago, he has adopted a locally focused and old-fashioned approach to customer interaction. The chain had been driven to bankruptcy by competition from Amazon's low-priced online book sales, but Mr Daunt is fighting back by concentrating on developing the dialogue between customers and staff in stores.

"I believe we live or die on how good our booksellers are in that personal connection," he says. "There is no algorithm that I have come across – including Amazon and the rest – which is remotely comparable to the intelligent human brain."

But he also believes that data about customers can be used to open a dialogue with them both outside shops and within them. The chain's loyalty scheme offers data on its two million members and gives a rounded picture of the likes, demographics, ambitions, family life and interests of customers.

Waterstones, which has some 290 stores across the UK, also offers a smartphone app, which can be used to search for and reserve books. The app is in the process of being updated and Mr Daunt says it will eventually include a method of making product recommendations which is very different from what happens on Amazon. The e-commerce giant bases its recommendations on looking at what other customers have bought: "Other customers who bought this item also bought these."

Mr Daunt adds: "We are trying to say, actually a very good bookselling brain will work in a slightly different way – if you bought this, we think you should be interested in this – it is subtly different."

Making shops fun tech places to help you buy

Stores are seeing a resurgence as high street retailing becomes an immersive, high-tech experience combining shopping with leisure and entertainment

NEXT GENERATION
GABRIELLA GRIFFITH

At the start of May, online shopping platform notonthehighstreet.com celebrated its tenth anniversary by going against the habit of its lifetime and selling products offline.

It held a three-day pop-up physical shopping experience in London's Spitalfields Market, allowing customers to step through eight interactive "doorways" into the various shopping categories it uses in its online store. The small businesses that sell on the platform were able to meet and greet shoppers like never before, and the platform offered master classes in the likes of tea mixology and calligraphy.

The move is part of a growing trend of internet-native businesses creating physical stores. Online furniture retailer Made.com went from clicks to bricks by opening a showroom in central London in 2014 and even Amazon, the world's biggest online retailer, opened a physical bookstore in Seattle last November.

Yet online sales in the UK are expected to keep rising – by 11 per cent this year to £126 billion, according to the *IMRG Capgemini e-Retail Sales Index*. So rather than signalling a U-turn on e-commerce, the trend could be indicative of a change in the role of physical stores.

"You just have to look at the rising rents paid by retailers in locations such as Regent Street and Oxford Street to understand the importance of flagship stores to retailers," says Eric Fergusson, director of retail services at eCommera. "However, the role of bricks-and-mortar stores is changing, and the benefits of making the in-store shopping trip a unique and engaging experience are plentiful. Stores are becoming leisure destinations, as much about engagement and excitement as making product inventory available."

Physical stores are also becoming brand-building exercises as much as anything else. For notonthehighstreet.com, which is famous for its handmade products, offering craft master classes is a case in point. Luxury Danish audio company Bang & Olufsen is another example of a company using its stores to tell a brand story. Its flagship Mayfair store has been designed to offer an oasis of calm, where shoppers can relax.

"Our customers generally live such a fast-paced life, so staff want to make sure that when they step into the store, their time feels valued and they are welcome to come down a gear and forget time for a moment," says Simon Silva, Bang & Olufsen's global customer experience manager. "Little touches like having sofas and coat racks sends the message that you are welcome to spend time in a store and relax. The new concept delivers a sensory experience through sound and design with a dedicated revolving speaker wall and immersive demonstration zones."

Creating spaces that consumers want to spend time in is a common theme. Trailblazer Apple has been welcoming the public into its stores to browse the internet for years, not batting an eyelid at those who clearly aren't in the store to buy. This is something that mobile giant O2 is moving towards with its latest flagship stores in Manchester and London's White City.

"We ripped up the rule book of a traditional mobile phone shop and set out to create inspiring and creative spaces where people can come to experience and learn about the possibilities of technology, not just buy a mobile phone," says Bridget Lea, head of stores at O2. "With complimentary coffees, spaces to work and relax, as well as the latest tech, we want people to spend time in these stores and come back regularly, whatever network they're on."

If on one hand retailers are creating spaces where people can spend their downtime, on the other hand they are utilising technology to engage customers when they're in-store.

01

02

03

01
O2's latest flagship stores provide complimentary coffees, and spaces to work and relax

02
adidas customers are able to see more trainer options than are available in-store with endless aisle technology

03
Internet-native businesses such as Amazon have begun to open physical bricks-and-mortar stores

As a result of cutting edge technology, shoppers are getting real-time information, tailored offers, shareable moments and greater choice while in-store.

One such example is adidas' use of what it calls "endless aisle technology", which allows shoppers to see more trainer options than are actually available in store on that day. This tackles the age-old bricks-and-mortar challenge of stock space.

"A couple of years ago, the Germany-based company realised that while it was impossible for any of its retailers to carry a full selection of adidas shoes, it was losing sales simply because shoppers were unaware of all the offerings available," says Kerry Lamos, chief executive of Retail Pro International. "Of course, customers could purchase online, but many didn't because of their desire to test shoes for fit before purchasing.

"With endless aisle technology in stores, shoppers can try on shoes that are physically present in stores and then use the technology to see all of the other varieties available to them." According to adidas, the installation of the endless aisle has led to a 40 per cent increase in footwear sales.

Another great application of technology in-store is the use of beacons. These are small wireless devices which send Bluetooth signals to mobile phones in the general area. It means that stores can identify certain customers in their stores and send personalised offers to shoppers.

"Beacon technology can enable retailers to gain critical visibility into a customer's in-store shopping behaviour," says Mr Lamos. "By integrating customer data from all of your channels, you can connect the dots between their activity in your web store and on your sales floor. Using this combination of data, retailers can personalise the offers and product suggestions they send in-store via beacons to match what customers have already been considering."

Urban Outfitters in one such retailer. The clothing store has implemented Google-enabled beacons into its concept store which are able to give opted-in shoppers personalised notifications. They take into account any social media check-ins in-store, any activity such as scanning a barcode in the Urban Outfitters app or shopping history to give people an offer they are likely to be interested in.

> Stores are becoming leisure destinations, as much about engagement and excitement as making product inventory available

"Urban Outfitters also encourages social-sharing of this personalised experience," says Mr Lamos. "After all, it's a personalised experience because it is theirs and theirs alone – and customers share pictures of their purchase on Instagram with #UOonYou."

By tapping into existing customer behaviour, such as social-sharing, the brands get their message shared in an organic way – a recommendation on Instagram or Facebook is often more powerful to users than a marketing campaign.

"Generation Z have been brought up in a digital world with social-sharing and online communities part of everyday life," says Simon Norris, chief executive of strategic user-experience design agency Nomensa. "As such, in the era of the selfie, brands that create interactive in-store experiences supported by digital and tech will transform shopping moments. Stores that understand the importance of blended experiences will be those that dominate."

One of the clever technologies inside retailers' apps is from a company called Slyce. It has created image recognition software, which can be built into apps and used to scan images, posters, barcodes and price tags to prompt further information.

"Our retailing clients are putting the technology to really cool uses," says Slyce president Ted Mann. "People can activate posters by scanning them to get further pricing, availability information or to enter competitions. Just yesterday we were building a prototype which could scan a video playing in-store."

It's these kinds of interactions that are enriching the in-store experience for people. According to research by Brightcove, around four in five UK shoppers (77 per cent) agree that visual stimulus, through interactivity, video and photography, enhances their shopping experience and influences them to make a purchase.

"As younger consumers gain more buying power in the coming years, these elements will become increasingly important as tools to engage these digital-natives, who naturally prefer online to on-the-street shopping in physical retail environments," says Sophie Rayers, director of marketing for Europe, the Middle East and Africa at Brightcove. "So whether it's interactive dressing rooms, holographic personal shoppers or intelligent online baskets that appear in-store, one thing is for sure – high-tech is coming to a high street near you soon."

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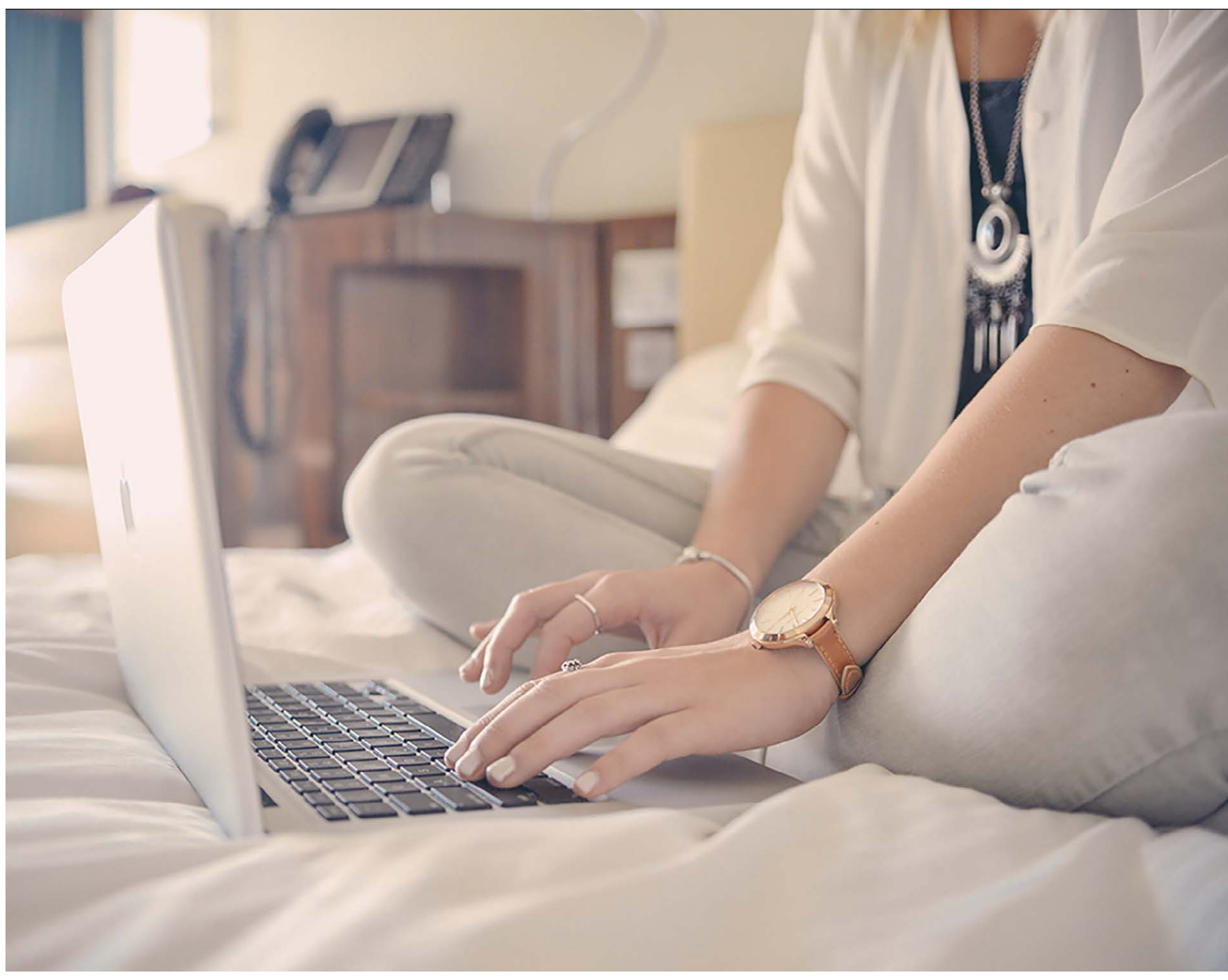
COMMERCIAL FEATURE



HOW CONVENIENT DELIVERY CAN ENHANCE CUSTOMER EXPERIENCE

Personalised delivery can enhance customer experience and increase brand loyalty when used as an integrated part of the customer purchasing journey

ON THE DOT

Today's shoppers demand a personalised and connected customer experience, from first browse to final delivery. Retailers are expected to remember personal details, recognise and reward loyalty, and put the customer's convenience first.

In turn, retailers have realised that excelling at personalisation and convenience is an incredibly valuable point of difference, and have invested in services to improve their offerings in this area.

However, there is one obvious way of boosting convenience and creating a bespoke feel that is not being capitalised on – delivery.

And it matters to consumers. Research by shipping platform Temando has found that for 39 per cent of customers, a late, delayed or damaged delivery would lead to reduced loyalty. More than 30 per cent are more likely to return an item if the delivery experience was not adequate.

Many retailers seem to be ignoring this. Some 86 per cent of consumers have used or would like to use timeslot deliveries, which allow shoppers to specify a convenient time for delivery, but only 38 per cent actually offer it as an option. This is a huge missed opportunity.

Put simply, if a customer buys something online, delivery is the only physical touchpoint that retailers have with their customers. Yet this is the part of the e-commerce journey they're most neglecting.

Patrick Gallagher, chief executive of CitySprint, the UK's leading last-mile delivery company, says it's time retailers moved from a delivery-last to a delivery-first model.

"The old model of deliveries on retailers' terms is dead and gone. In today's world, convenience trumps speed when it comes to buying online or in-store.

"It's counterproductive for retailers to invest in a personalised experience and then fall at the final hurdle by telling customers when they can have their deliveries, instead of asking when they want them."

To meet this gap in the market, CitySprint developed its innovative "On the dot" service, launched last year in London and Birmingham, and now available nationwide. Its mission is to help omnichannel retailers give control and convenience back to consumers by offering a choice of one-hour delivery slots, either through a fully integrated e-commerce or EPOS solution, or simply by the store booking directly at onthedot.com.

This proposition is different to the timeslot deliveries that some retailers are starting to offer, says Mr Gallagher. The former are "still within time frames chosen by the retailers or carriers, not the consumers. That's why On the dot is unique – the power lies completely in the hands of the customer."

Homeware brand, Lords at Home, started using On the dot's non-integrated service in 2015. It has allowed them to differentiate from competitors by offering a bespoke, high-quality and fully personalised customer experience, and has led to a 528 per cent increase in delivered sales with no investment in technology.

Shaun Bridgeman, head of e-commerce at Lords at Home, explains: "On the dot has empowered us to offer customers a completely different level of delivery service and in turn improve customer experience. Putting the customer at the heart of every aspect of the shopping journey has paid dividends and our customers absolutely love the service."

On the dot can also use an easy-to-integrate RESTful API (application program interface), which dynamically displays capacity in one-hour timeslots, alongside alternative delivery options at the checkout. This means that a consumer will stay in the retailer's purchasing environment throughout the purchasing journey.

"On the dot integrates the convenience of online retail with the immediacy of bricks-and-mortar stores," Mr Gallagher says. "By extending their reach in this way, retailers are effectively using their stores as warehouses for local fulfilment, meaning they can use fast, personalised delivery to compete with bigger pure-play retailers, such as Amazon, and win back customers who have become attached to online shopping, but would like to shop locally.

> The old model of deliveries on retailers' terms is dead and gone. In today's world, convenience trumps speed when it comes to buying online or in-store

"We have already seen companies, such as Argos and Best Buy, make same-day delivery a priority and this will only grow as retailers truly understand the unique value proposition it offers."

Innovation in delivery, as with nearly all aspects of the customer journey, often includes implementing new technology and ensuring a more personalised experience for consumers. For retailers, this process may seem daunting, but partnering with a good delivery provider with an established national fleet and innovative technology can ease some of the growing pains.

In today's demanding, always-on world, without convenient delivery options, great customer experience simply can't happen.

For more information please visit www.onthedot.com/retailer

75% of customers want or have used timeslot deliveries while only 38 per cent of retailers currently offer them

60% of customers abandon their baskets because of delivery, whether cost, speed or convenience

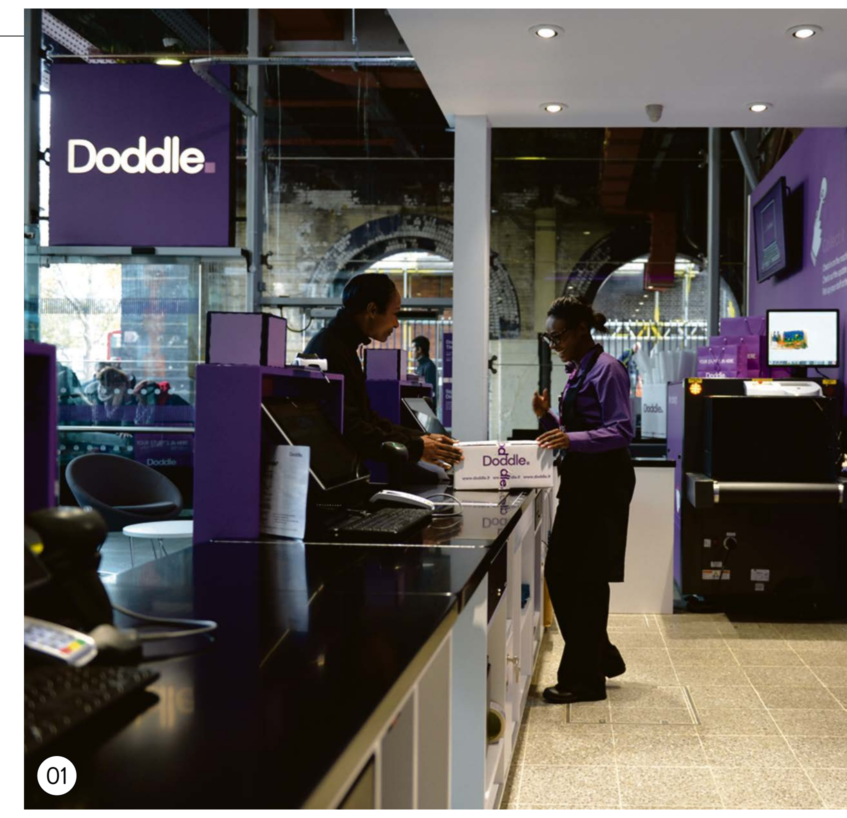
74% increase in sales if there are multiple shipping options at the checkout

Source: *The State of Shipping*, Temando/OC&C

Delivering on personal service is the way to go

Smaller retailers are catching up with market leader Amazon by matching delivery times and doing what they do best – providing a personal service to local customers

DELIVERY
ALISON COLEMAN



01 Doddle helps retailers save costs by consolidating deliveries to a network of stores

02 Planet Organic has teamed up with delivery service Hubbub

Competing with a global brand like Amazon can be a tall order for small retailers, especially given the retail giant's audacious mission statement to be "Earth's most customer-centric company, where people can find and discover anything they might want to buy online".

Increased consumer expectations present another challenge for small and medium-sized enterprises (SMEs). A recent study by OC&C Strategy Consultants found that in the last two years the number of shoppers opting for next-day delivery grew by 50 per cent, while those willing to wait between three and five days fell by 10 per cent. It also predicted that home delivery and click-and-collect sales will double in the next ten years, and that by 2025, 40 per cent of all non-food sales in the UK will be made online.

Nevertheless, for SMEs that have convenience, cost, choice and a great customer experience built into their delivery and returns strategy, competing in this sector is entirely possible.

The first thing they need to know is exactly what delivery services their customers want, says Chris Field, independent retail analyst and chairman of Retail Connections.

"It doesn't make sense to offer all customers a delivery-in-30-minutes service, if 80 per cent of them are happy to wait 24 hours or longer," he says. "Better to invest in understanding your customers and offer them delivery services that enable you to make a profit, while suiting their needs. This way, if you make a loss on one item, it isn't necessarily an issue because you know that particular order is for a loyal, high-value customer."

Consumer trends are increasingly focused on speed and choice. They want delivery options and locations that unite them with their purchases wherever and whenever they want it. This means that SMEs have to compete on service rather than product alone, where there is increasing transparency on product and prices, says Madeleine Thomson, UK retail and consumer leader at PwC.

"SMEs can overcome their lack of scale by maximising various partnerships in the market," she says. "These include CitySprint's 'On the dot' service that allows retailers to offer same-day and one-hour timeslots for delivery, and potentially compete with Amazon Prime Now. For larger and more cumbersome items, peer-to-peer delivery company Nimber offers shippers the chance to connect with a network of 'bringers' and receive offers on delivering items in a cost-effective and personal way."

Doddle's pick-up and drop-off service, created to eliminate the pain of missed deliveries for consumers, also provides retailers with a long-term solution to managing growth in delivery volumes from e-commerce sales.

Chief executive Tim Robinson says: "For retailers, home delivery can be hugely inefficient. It's harder to achieve savings via consolidation because you have to make hundreds of stops to individual addresses, which increases the time and therefore cost. Click and collect, by contrast, enables retailers to make consolidated deliveries to a network of stores, their own or through a third party such as Doddle."

Organic supermarket Planet Organic recently teamed up with independent store delivery service Hubbub to deliver its natural food and drink, health and beauty, and household goods within one-hour timeslots to London post codes. Through Hubbub customers can combine their orders from multiple independent stores into a single delivery that can be received the same day.

Planet Organic founder Renée Elliott says: "Although it means that we share space with other brands and stores, ultimately the range of produce available in one place means this partnership has opened up our offering to a new audience looking to order from like-minded retailers across London."

There are also cost-benefits for the retailer and customer. Because the single deliveries include goods from multiple stores, the cost charged to retailers by Hubbub for facilitating each delivery is shared by the stores the consumer orders from.

Ms Elliott adds: "By pooling our efforts, we can protect our margins, get our brand and products in front of a new audience as part of a broader range and offer same-day one-hour delivery slots that beat those offered by Amazon Fresh."

Fashion retailers in the middle-to-premium market range face some of the biggest challenges in providing fast and free or subsidised delivery. Their lack of purchasing scale and relatively long order cycles mean they don't have the agility of fast-fashion retail brands such as Zara and H&M. Operating on tighter product margins leaves them less to invest in free or subsidised delivery.

> The technology used so skilfully by the likes of Amazon to steal a march on competitors is increasingly being turned to the smaller retailer's advantage

A solution, says Eric Fergusson, director of retail services at eCommera, is to bring more production back on shore to reduce lead times and enable a more effective use of data to forecast future demand accurately.

He says: "Ultimately it's still about the basics, having a single view of stock and one view of customer, in order to track customers' behaviour across channels and deliver on customer promise."

The technology used so skilfully by the likes of Amazon to steal a march on competitors is increasingly being turned to the smaller retailer's advantage. Recent innovations in supply chain technology, for example, have made enterprise technology accessible to much smaller companies.

Michael Latimer, vice president of sales and marketing for TrueCommerce Europe, says: "This has introduced new opportunities for SMEs to take advantage of efficiencies that historically wouldn't have been available due to price restrictions. Warehouse management, ordering and invoicing, carrier management, drop-shipping, as well as many other efficiencies, are now all within reach of SMEs."

According to Karl Wills, chief executive of home-parcel box Pelipod, internet of things technology will enable smaller firms to turn the tables. He says: "A delivery box or pod can be placed outside a house, only allowing entry to couriers who are given a unique code, and recording deliveries by photographing its contents and sharing via e-mail."

This solves the issue of parcel theft and fraud, while customers can avoid having to pay for a specified delivery slot to coincide with them being at home. It can also provide valuable insights for retailers in the form of customer data.

Another long-standing source of frustration for SMEs is the integration of delivery and returns services into an existing e-commerce website. Today e-commerce platform integration can be achieved using the technology solutions available from brands such as Shopify and ChannelAdvisor.

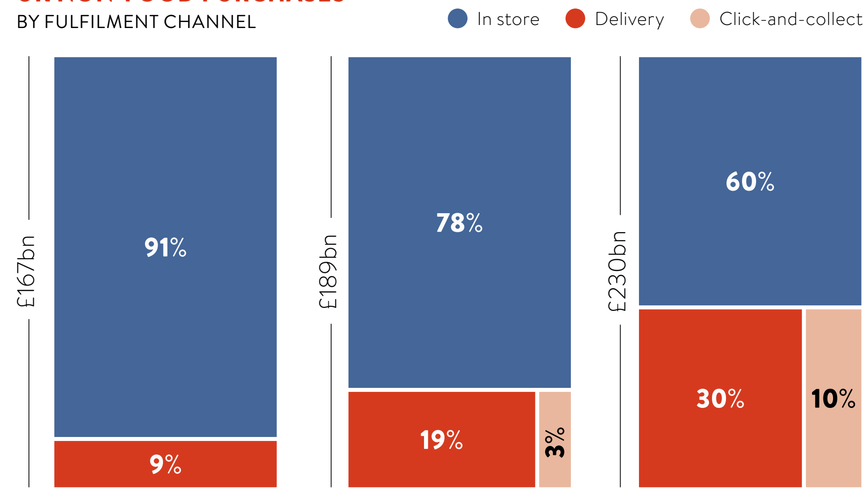
Amazon has set delivery expectations soaring among consumers, who expect similar offerings when shopping elsewhere, and has been hugely successful at encouraging customers to contribute to delivery costs by stealth.

As Jason Tavaria, head of direct at online delivery platform Shutl, points out that few other retailers can offer services like film and music subscriptions to encourage customers to sign up for a premium service such as Amazon Prime, which in turn provides high customer satisfaction through faster delivery. The answer, he says, is for retailers, regardless of size, to look at what they do best.

He says: "Consider the realistic alternative add-ons that could encourage customers to pay for premium delivery services, thus ensuring those high satisfaction levels – for example, access to a VIP service team, exclusive shopper evenings or enhanced warranties."

Smaller retailers can also maximise on the one thing that Amazon doesn't have – a nationwide presence of store locations. Mr Tavaria adds: "Retailers with physical stores should look at how these can be utilised to best advantage, for instance improving click-and-collect facilities or servicing all local customers with same-day delivery. For smaller local retailers, being physically closer to the customer is a huge advantage, which should make it easier to fulfil orders and returns."

UK NON-FOOD PURCHASES
BY FULFILMENT CHANNEL



Source: OC&C Strategy Consultants 2016

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Retail on the go is taking off

Air travel retail is shifting dramatically towards aspirational, personalised and service-oriented propositions...

TRAVEL RETAIL
PAUL SILLERS

01 DEPARTURES

Imagine if booking your flight and buying optional travel goods were as intuitive as using a dating app.

That's the thinking behind the next incarnation of Ryanair's mobile app, featuring "One flick", which will enable customers to book flights and select travel extras, including upgrades, fast-track, parking and other options, using the flick-left and flick-right smartphone user-interface that's already familiar to many.

It's all part of Ryanair's "Always Getting Better" programme, which transitions the airline from budget carrier to one that combines lowest price with an evermore customer-centric focus.

Once logged in with One flick, the idea is to present customers with relevant retail product and service propositions at the right time, based on what is known about that passenger.

The ubiquity of smartphones and the improving quality of customer data promise to make it a game-changer.

"The continued drive to improve our customer experience has been reflected in the record passenger numbers and load factors we have had over the past two years," says chief marketing officer Kenny Jacobs of the Always Getting Better initiative. "Year three will be about digital acceleration and innovation, particularly through our Ryanair Labs digital developments."

Ryanair is putting the finishing touches to One flick, which debuts this summer.

02 AIRSIDE

After running the gauntlet of check-in, ticketing, bag-drop, passport control and security, airside passengers are generally predisposed to some retail therapy.

The propensity for spending at airports, which increasingly resemble major shopping centres, is supercharged by the convergence of three factors: longer waiting times due to security imperatives; pre-flight product research via online peer reviews; and targeted propositions from retailers, using big data acquired by tracking customer behaviour.

Shopkeepers at airports are acutely savvy to what passengers are itching to buy and because passengers are smarter at buying flight tickets – hence the success of low-cost carriers – it leaves more discretionary income when they hit the duty free zone.

Look out for airports with concentrations of low-cost airlines – this is where travel retail is morphing into up-market retail havens.

A case in point is MAG-owned Stansted Airport, where phase three of its £80-million international departure lounge makeover has recently been completed. Commenting on new retail units last autumn, the airport's managing director Andrew Harrison disclosed: "Interest in this final phase was extremely high with over 80 proposals received for the 18 remaining retail units."

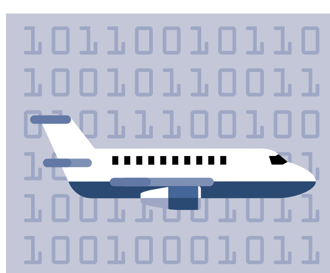
The final line-up includes Lacoste, Superdry, Dune, Boss, Ted Baker, Mulberry and Swarovski.

03 INFLIGHT

Remember the dull old days when inflight retail was limited to what airlines could load on to the duty free trolley? Then came pre-order and delivery to your home, morphing into innovations such as KLM's "Wannagives", where you send an airborne friend a gift, delivered by the crew after take-off.

Of the 8.6 million passengers boarding an airliner daily, one in ten buys something. And according to retail technologists GuestLogix, inflight retail spending is $5 billion a year, growing at 13 per cent.

Impressive, but there's a more ambitious paradigm, a tectonic plate shift, coming to inflight retail. NDC or new distribution capability, an XML-data-based initiative of the International Air Transport Association (IATA) is implementing a joining up of the dots between airline flight booking systems and retail channels, boosted by the high-speed wi-fi airlines are installing in their cabins.



NDC will empower retail, travel agencies and metasearch price comparison engines to share data, generating "more engaging digital flight shopping experiences". IATA's analysis indicates 68 per cent of business and 64 per cent of leisure passengers "would be comfortable with an airline or travel agent tracking the optional purchases they make and letting them know when these products are available".

Fifteen of the world's top twenty airline groups are already exploring NDC's retailing potential.

04 ARRIVALS

When baggage is taken out of the equation of the journey to and from the airport, interesting things happen. It liberates you to do business or sightseeing while your luggage is securely chaperoned to its final destination. You might also be inclined to take public transport rather than a taxi.

UK company Portr offers such a service, called AirPortr, delivering luggage to and from Heathrow, Gatwick and London City airports, and any home, hotel or office in London. If you're arriving into one of these airports, you pre-book online and an AirPortr concierge meets you in the arrivals hall, goes through ID formalities and frees you from your luggage, which can be tracked on your smartphone. For departures, the process works similarly in reverse.

Portr recently inaugurated an extension of the service at London City called Carousel Collection, available for British Airways domestic flights. A concierge can collect your luggage off the carousel while you're already heading downtown.

"We're always working on innovative solutions to break down the 'pain points' in the customer journey," says Randel Darby, chief executive and founder of Portr.

Carousel collection costs £10 per booking and the standard AirPortr booking starts from £15 for the first bag and £5 per additional bag.

OPINION COLUMN

Future of fewer but better jobs

The retail industry faces a challenging future of job losses, but has an opportunity to improve conditions for those who remain

HELEN DICKINSON
Chief executive
British Retail Consortium

Retail 2020: Fewer but better jobs, the first of a series of three reports, sets out to explain to a wider audience how profoundly the industry is changing and how this multifaceted transformation is likely to affect retail employees and the communities they serve across the country.

We found that the number of people working in retail has been falling and the incidence of low pay rising. This is no accident, but a function of costs rising faster than the market is growing, the investment and return on digital, and the consequence of three years of falling shop prices due to intense competition.

The rate of change is now set to quicken as the digital revolution reshapes the industry, many more leases come up for renewal than we have seen over the last few years and the costs of labour versus technology diverge.

We also found that this acceleration will be compounded by recent policy announcements, in particular the national living wage and the introduction of the apprenticeship levy, by markedly increasing cost-pressures at a time when growth in consumer expenditure remains subdued.

Together these effects could mean the number of people employed in retail could fall by up to 900,000 in a decade.

There is an upside. Those jobs that remain will be more productive and higher earning as retailers develop better propositions and compete harder across an increasing range of business models from modern multichannel formats through to discounters and online businesses.

But what really mattered in our analysis was not the quantum of jobs, but who and where will be affected most by all this change. We now know that the effects will be uneven across the country, and in how they impact on different sizes of business and groups of people within the industry.

Smaller businesses will find it harder than larger ones. And areas that are already economically fragile are likely to see the greatest impact of store closures, with many of the people affected by changing roles those who may find it hardest to transition into new jobs created.

Over the next few years, retailers will work both individually and collectively to improve productivity and the customer offer. But in order to minimise the impact of the changes we expect to see in places and on people who may be most vulnerable and to realise the ambition of fewer but better jobs, we also need to work in collaboration with government.

There are three areas where this should happen. The first is to rebalance the burden of taxation. The changes to the business rates system announced by the chancellor last month were welcome, but do not go far or fast enough.

Second is to ensure the remit of the Low Pay Commission is strengthened and clarified to ensure their independence for their recommendations regarding future changes to the national living wage.

Thirdly, there must be greater employer involvement in the apprenticeship levy, including much more discretion for employers over how and where it is spent.

Getting this collective response right will have a hugely positive impact on the retail industry, but also on the wider economy, social mobility, geographical balance, training and employment more broadly.

Our second report, *Retail 2020: What our people think*, published on May 11, included the detailed findings from the survey of the lower paid working in retail as these are the people most vulnerable to the changes ahead.

Our detailed surveying showed that those people responsible for the care of children and others are less inclined or able to take jobs with more travel or hours that don't work for them. Where then do they look for alternative employment?

The third report, *Retail 2020: Solutions*, will then describe how the industry plans to tackle these challenges and opportunities.

Data software can open doors for Britain's exporters

Britain needs to boost exports as its trade gap grows ever-wider, but the good news is the technology to help firms research overseas markets and land sales is out there

GLOBAL CONSUMER

CHARLES ORTON-JONES

Britain's trade deficit is pretty shocking. The country imported £125 billion more in physical goods than it exported in 2015, arguably the worst performance since 1870. The director general of the British Chambers of Commerce called this "an economic time bomb waiting to go off".

It's clear we need to export more. For companies willing to take up the challenge, though, it's never been easier to find new buyers overseas – the key is to research customers. And there is a plethora of productive methods to do this.

Neil Westwood is managing director of Magic Whiteboard, a simple roll-up whiteboard product which he sells to multiple export markets. He advises upgrading from Google Analytics to do this. "We also use A1WebStats. It is a bit like Google Analytics, except it gives you the name of the company looking at your webpage."

This is supplemented with social media research. Mr Westwood reveals: "We do our own research using LinkedIn to find names of overseas buyers, we can then guess the e-mail address. We e-mail them in local language. It makes them aware of us."

Alamy

Barbour used marketing company Dotmailer to gather customer intelligence

Other metrics complement this initial analysis. When beauty brand Charlotte Tilbury wanted to boost exports it worked with data analytics company Ometria to identify fertile destinations. James Dunford Wood of Ometria recalls: "In addition to geographic location, data can also tell you which sources are attracting visitors.

"How are these overseas visitors hearing about you? Perhaps it's a powerful referral source, such a fashion blogger with a big international reach, or maybe you discover a lot of people in Japan are searching for 'English pyjamas' and your product pages are attracting organic search traffic. This shows you who to reach out to for more publicity, as well as how to further optimise your SEO [search engine optimisation] to gain maximum leverage in particular markets."

Simple data gathering exercises can yield big rewards. Luxury fashion brand Barbour works with marketing company Dotmailer to gather customer intelligence. Skip Fidura, Dotmailer's client services director and a member of the Direct Marketing Association council, says: "One tactic that worked particularly well for Barbour is a website pop-over. The British heritage clothing label acquired 20,000 new sign-ups in just three months."

When doing market research it is vital to ensure there are no "warping" factors. For example, many companies don't offer a localised website, meaning potential customers will be put off. Japanese customers are unlikely to respond well to a website designed only for UK companies. Yet many firms don't localise their content.

Research by Amplience, which provides localisation services, shows only 17 per cent of retailers localise editorial content. Just 7 per cent of reviews are localised and only 39 per cent provided localised homepages. This potentially damages the integrity of research. Consumers won't be abandoning the retail process because they don't like the product; they may well simply not feel at home on your website.

Assuming a company has created a welcoming website and tailored marketing materials locally, it can speed up the research process by partnering with a data-rich third party.

For example, in the travel sector Hertz car rentals relies on a data-rich partner called Sojern for market insights. Sojern provides a data-driven marketing platform for 800 travel brands, including British Airways, Emirates and Disney, giving it a powerful overview of the sector. In 2013 Hertz wanted to increase bookings in the Middle East and Asia-Pacific.

> For companies willing to take up the challenge, it's never been easier to find new buyers overseas – the key is to research customers

Sojern was able to see which travellers had already booked a flight or hotel and target them with tailored advertising, and the time when they were statistically most likely to purchase car rental.

A parallel area is in online checkout. There is a wealth of data available on consumer preferences. Payment providers are the premium source here. Terry Hunter of Astound Commerce explains: "In Belgium, for example, 27 per cent of transactions are processed through Bancontact/Mister Cash. In the Netherlands, the vast majority of buyers use iDEAL. And in Germany, payment methods such as giropay and SOFORT have gained in popularity. By offering more local payment methods, merchants will increase their conversion."

The rise of social media means much of the research work can be done through basic channels. App designer Serif sells its Affinity photo-editing software to numerous markets worldwide through Apple iTunes.

Serif managing director Ash Hewson says: "We put enormous emphasis on social media – our forums, Facebook and Twitter pages. If you're an online retailer, you already know that your customers are likely to be web savvy. And developers are coming up with new and better tools to target ads at social media users, based on factors such as geographical location or conversation content in real time."

The digital revolution means even the smallest of businesses can do comprehensive market research on export markets. The obstacles are minimal. Even data privacy regulations, which dissuade many companies from gathering information on new markets, are mostly irrelevant.

Elle Todd, partner at law firm Olswang, says: "The good news is that employing the same principles for overseas customers will in the majority of instances still be compliant. This is because Europe already has higher compliance obligations than most places and, unlike consumer laws – where the country the customer is in applies – data protection laws generally centre on where the company is located."

The nation needs our brightest and best companies to export more. Our future depends on it. With so many easy ways to research consumers overseas, there's no excuse not to.

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CASE STUDY: LARSSON & JENNINGS

London watch brand Larsson & Jennings opened its first overseas store in New York and is now exporting to retailers abroad. The business has grown phenomenally over the last four years and is currently selling watches at the rate of one every four minutes.

Larsson & Jennings chief executive Andrew Jennings shares his method for cracking a new market: "Before we launched our first overseas retail store in New York, not only did we watch our e-commerce traffic patterns closely, we also created a number of concept spaces, or pop-ups, to test actual consumer demand in specific locations. Armed with that knowledge, we felt reasonably confident about putting investment into a longer-term lease.

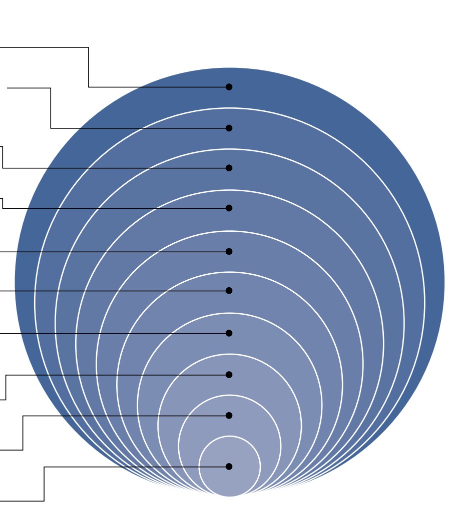
"Advice from influential people who have already 'been there and done that' helps to cement these kind of decisions. I've been privileged to forge links with some key industry peers who have been very generous in sharing their lessons learnt. Wen Zhou, chief executive at fashion brand 3.1 Phillip Lim, in particular has provided some valuable insight to inform our growth plans.

"My tip? Never underestimate the time-investment needed to get overseas projects off the ground, but Larsson & Jennings is now reaping the rewards of that hard work with strong sales figures."

RANKING OF IMPORTANT RETAIL KNOWLEDGE ATTAINED THROUGH DATA

Global survey of retail executives

01 How many customers enter the store
02 How many customers who enter the store buy something
03 Which promotions attract customers
04 Where the customer goes in the store
05 Times customers pick up own-brand products instead of national brands
06 Where a specific type of customer goes in the store
07 How many times a specific customer enters a specific store
08 Service times
09 Out-of-stock items
10 Track demographics of private-level credit card holders



Source: Nomi 2014