



# *Profitable growth in a digital age:* From multi-channel to Total Retail

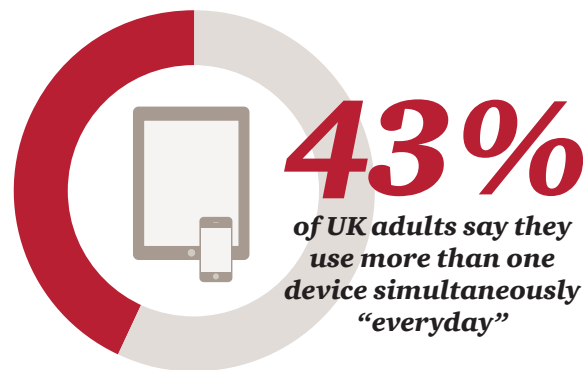
June 2013

# Introduction

*The UK retail sector has responded to the challenges of digital commerce by attempting to manage on a multi-channel basis. But it's becoming increasingly clear that the costs and complexities of doing this are simply too great: it's a faulty formula, which is doomed to failure. We believe that what retail needs now is a new mind-set, new skills, and a new organisational design. It's a new business model, and we're calling it Total Retail. This is not just a strategy for survival. Retailers who understand that will emerge with more innovative, more efficient, and more profitable operations; those who don't will die. It's as stark – and as simple – as that.*

Digital technology has revolutionised the way business works over the last decade, and nowhere more than in retailing. It began with e-commerce, as the High Street rushed to clicks not bricks. Then the smart operators realised that the physical store still had an important part to play, and responded by shifting to a multi-channel model. But this is challenging, complicated and costly to do well; worse, it isn't even the right long-term solution, because 'channel' means nothing to the consumer – they think in terms of what they're buying, not how they're buying it. And this becomes all the more complex when you add in the fact that consumers can see now see an entire product range online, regardless of which market they live in.

You need to give your customers what they want, the way they want it, and organise your business to deliver that. Why? Because we believe we're in the midst of a rapid evolution from digital commerce to digital consumption. In the last ten years we've seen a step-change in consumer behaviour. In fact many shoppers are already far more digi-savvy than the retailers: they're becoming both comfortable with – and adept at – exploiting their own shopping data to get good deals. This will drive the development of brands that will position themselves as digital intermediaries, saving consumers' time and trouble by precisely matching product to person. It's already happening in other sectors; it's retail's turn now.



Source: PwC Digital Natives research May 2013

Some things about great retail execution will never change: brand, product, price, and delivery are as important now as they've ever been. What is changing, though – and changing faster than ever – is the need to develop new technology, new processes, new skills for their people, and a new organisational design. Retailers don't need a digital strategy any more, they need a business strategy for a digital age, and a new business model. Because one thing is certain: no-one will make money in the future the way they made it in the past. That means transforming everything from the role of the store, to the management of risk, to individual roles, reward packages and responsibilities.

We have developed our own model for achieving profitable growth in a digital age using these 6 lenses. These 6 lenses assess your ability to achieve rapid growth through digital. We explain how you can achieve this.



### ***So what business model do you need, going forwards?***

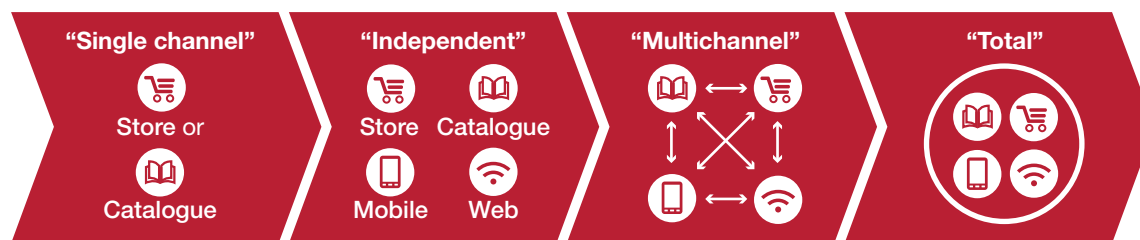
That will differ, of course, for different retail segments, but the answers will always start with the same question: how do you set up your business to serve the customer the way they want to be served, and do that efficiently, seamlessly, and profitably? From that, everything else follows, from people, to processes, to technology; from the brand experience at the front end to supply chain management at the back. To take just one example, the role of the store is changing – contrary to rumour it is not dead, but it does need to be managed to maximise efficiency, which for most retailers will lead to a smaller physical estate. This does not mean that all stores will necessarily turn into showrooms, but all stores certainly will need to be used more astutely, and customer engagement and excitement enhanced within the store by the use of new technology. We cite some examples of this to follow.

## **Foundations for profitable growth in a digital age**



Source: Profitable growth in the digital age, PwC 2013

## The changing business model for retail



*"Within the last week, 31% of UK adults have interacted with a brand via social media."*

PwC Digital Natives research May 2013

A new business model is the what of Total Retail, but there's also the how – not just what your business needs to look like in the future, but how you need to operate to win in that digital world.

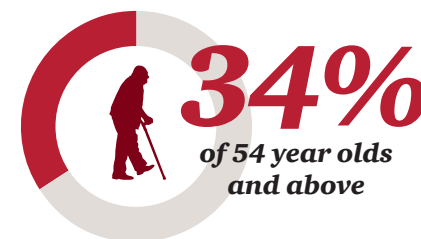
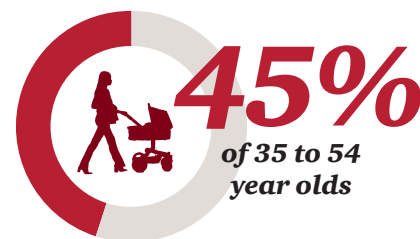
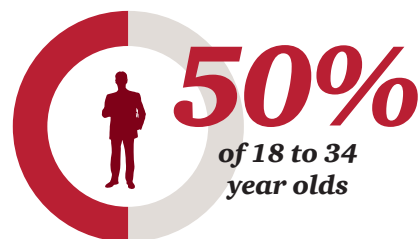
As a result of the in-depth work we've been doing with companies inside and outside the sector, we've identified seven principles of Total Retail. Some retailers are already making progress on several of our seven principles, but few are doing all of them, and doing them well. This is the challenge the industry faces now.



## Customer, customer, customer

The players who really understand the way business is changing are reorganising their companies around the customer, defining a strategy that puts them at the heart of every business process, physical, functional and financial. The basic idea here is breathtakingly simple: whatever the customer wants to buy, and however that enquiry is made, you need systems that can talk to one another, so that wherever that particular product is, you can find it, deliver it, and (if necessary) take it back, without any loss of product visibility. It sounds simple enough, but it's incredibly hard to achieve with the organisation and systems of a typical multi-channel retailer. But there really is no alternative, because your consumers are way ahead of you, and brands like Amazon have already raised the bar.

Breaking down the everyday usage of multiple devices across the age ranges...



Source: PwC Digital Natives research May 2013

Firms like Tata Motors, Dyson and Range Rover are even appointing a Chief Customer Officer, while others are assigning responsibility for customers to another C-suite role, in some cases the CEO. Consumers are no longer prepared to tolerate the sort of customer service that, for example, leaves them left on hold with a call centre or told that it's 'another part of the company' that handles whatever issue they want to raise. That approach is as outdated as analogue: retailers need to break down the internal silos that lead to that sort of negative customer experience.

The same thing goes for metrics. From now on it's not about selling more of a specific product, it's about selling more to a specific customer, or group of customers. Likewise sales per square foot is a meaningless measure when the store is functioning as a collection and returns point for online sales, or a showroom for sales made both there and on the web. Metrics that focus on the channel do not give an accurate view of the customer journey and the true source of sales, which is why the more insightful retailers are now moving to using measurements like Net Promoter scores.

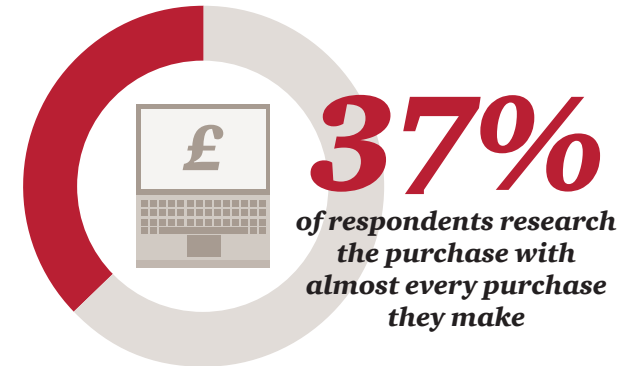


### ***Connect with the crowd***

Two heads are better than one, as the cliché goes, and two million consumers are better-informed than even the most clued-up marketing department. Today's consumers know this instinctively – that's one reason why they trust peer reviews more than advertising. You need to harness their collective intelligence to find out what people are saying about your products, and how you could serve them better. The leading players here are the likes of Lego, who have a well-established process for sourcing ideas from consumers and putting the most popular into production; Nike ID has been doing something similar for years, using its website not just to give people exactly what they want, but to monitor changing patterns of taste and demand.

Consumer insight has always been important, of course, but never more so than now, when the pace of change is so fast, and the balance of power has shifted from what the retailer wants to sell, to what the customer wants to buy. Customers have never been more knowledgeable, and have never had higher expectations – the personalised experience and super-efficient service offered by the likes of Amazon are setting a precedent that other retailers will have no choice but to match.

So explore new ways to ensure you always know what your customers are thinking and doing. The good news is that today's consumer actually wants to give feedback – though remember, they will also expect you to act upon it. And don't just concentrate on those who already buy from you, look for emerging trends from the 'digital natives'. Our research into digital native buying behaviour proves the power of the advance insight their behaviour can offer.



Source: PwC Digital Natives research May 2013



### ***Make it sexy, make it seamless***

The previous point was about how your brand works; here the focus is on how it feels – it's the difference between on-stage and behind the scenes. Retailers need to create new ways of retailing that merge the experience of shopping on-line and in-store so that each touchpoint is consistent, cumulative, and compelling. In a Burberry store, for example, the assistants are armed with iPads that can show customers new ideas, and check stock levels instantaneously. More than that, the RF tags on the products in-store are connected to the video screens, so that the screen can showcase what a customer is carrying.

If that sounds like 'store as showbusiness' then that's exactly the point. For brands like Burberry, the physical store has to function not just as a shop but as theatre, flagship, and entertainment destination. Jack Wills, for example, has a small stage in their one of their stores where they can stage exclusive music gigs. Burberry and Jack Wills are both high-end brands, but many of the same principles apply to retailers in other segments. The key here is to understand what role your stores play for you, and that will dictate everything else, from how much stock the physical outlets need to carry, to where they need to be located. Like so much else in Total Retail you need a 'test and learn' mind-set here, and an absolute openness to new ideas.



### ***The new CRM is Connected, Real-time and Mobile***

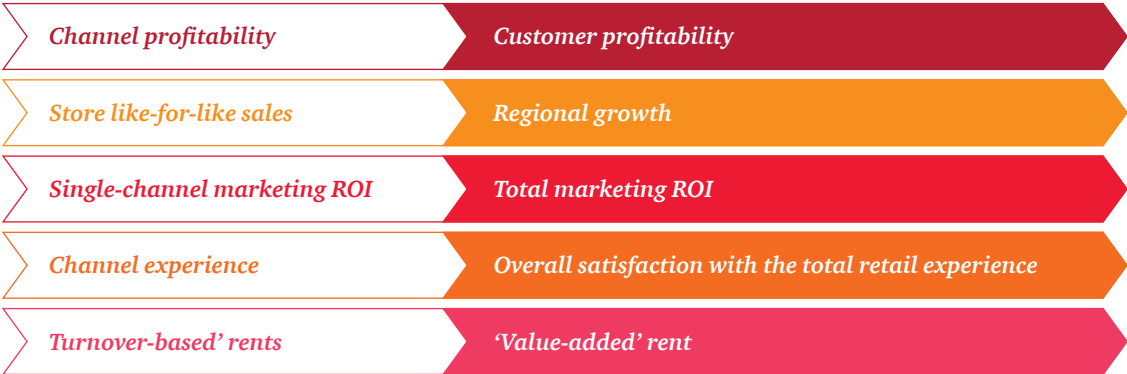
In a wireless world, retailers need to find ways to use digital connectivity as the bridge between the online and offline parts of their business. As far as CRM goes, the database is fast becoming a dinosaur, with companies like Microsoft evolving a new approach which allows customer interactions to be tracked at every conceivable touchpoint, whether they're communicating by email, connecting on social media, returning an item or making an order.

In retail, we're already seeing the cleverer players using mobile apps and access to link the whole operation. It's clever because it means, in effect, that it's the store's own customers who

are providing the technology to bring it all together. And it's clever because when customers use WiFi in-store the retailer can track their behaviour and fit what they offer to what people are creating for themselves. It's rather like the well-known story of the architect who refused to put pathways between a group of buildings, and waited instead to see the tracks people made in the grass – tracks that showed not just the paths more travelled, but where no route was actually needed at all.

Both John Lewis and Debenhams are ahead of the curve here, and in an Apple store we are already looking at products on our mobiles, buying on the site and then collecting immediately with the receipt sent by email. So it's not necessarily about building slick mobile apps (though it might be) or even having an efficient mobile site (though that helps too). It's about working out what people want to do on the move and making that quick, easy, and effortless, whether it's checking stock levels, comparing prices, or placing an order.

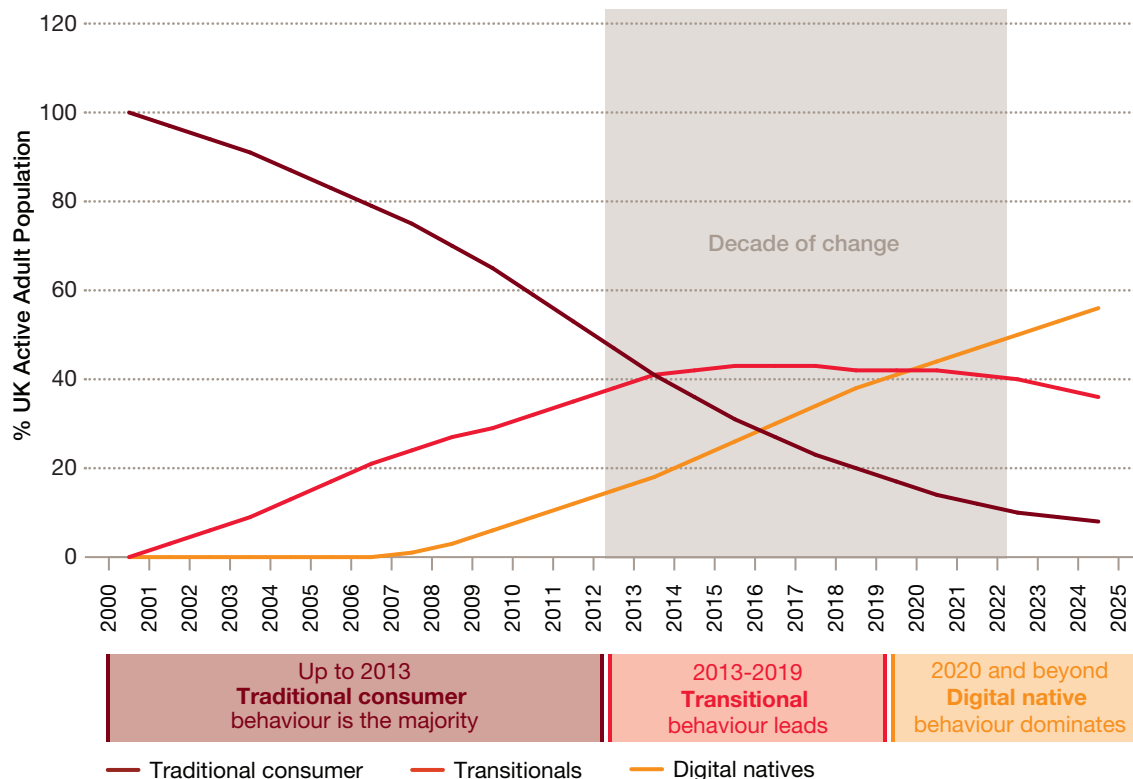
**Traditional Metrics**



*“43% of UK adults say they use more than one device simultaneously ‘everyday’ and 69% of respondents do so at least once a week”*

**PwC Digital Natives research May 2013**

## New and different types of customer behaviours are emerging – a decade of disruption is beginning



Source: PwC Digital Natives research May 2013



## Innovate using the data

Ever since Tesco started to mine the information captured by its Clubcards in the 1991, data analysis has been the not-so-secret weapon of the big supermarkets. It's time for the rest of retail to get as good at this as the grocers are, and start using its vast volumes of consumer data as a source of competitive advantage.

One recent study has estimated that retailers would see a margin improvement of anything up to 60%<sup>1</sup> if they could capture and use all the customer data they could theoretically access. That data includes not just buying preferences but social media behaviour and information from location-tagging technology. Knowing who your customers are, what they want, and how and where they want it leads to better and faster decision-making across the whole retail value chain. Stock is managed more efficiently, and the most (and least) popular lines identified in real-time; the supply chain is more stream-lined; innovation is faster and nimbler; and marketing and merchandising are more effective, because

<sup>1</sup> Big Data: The next frontier for innovation, competition, and productivity, McKinsey Institute, June 2011, p vii

<sup>2</sup> Big Data, p 67

it's more targeted. To take only one example: at one point Amazon estimated that as much as 30% of its turnover was coming from sales<sup>2</sup> prompted by its 'You might also like' feature.

### *Traditional Metrics*

The challenge here is not so much developing the technology, because that already exists – it's developing the skills to exploit it fully. What retailers really need are the people who can interrogate all these vast volumes of data intelligently, and turn that information into actionable insight. In fact those who don't thrive by the data may well die by it, and see their margins not rising but in decline. Because if the retailers aren't data-smart their consumers certainly are, and they're getting ever better at using it to compare prices and secure the best deals.



### ***Invest in agile cloud-based IT***

This one takes courage. At a time when costs are still rising and the recovery seems as far off as ever, it's a brave CFO who authorises significant expenditure in new systems. But there is no other way. Five years ago no-one predicted the impact Twitter would have – or even saw it coming; what will be the next big thing? The cost of acting to exploit these trends could be nothing to the opportunity cost of failing to act at all.

The retail sector has to realise that there is no longer any alternative to accelerating their investment in digital technology. They have to accept the need to be bold and take risks, and ensure that if a particular route does fail, they can recover quickly and move on. There is some good news here though. Direct communication with specific customers is more efficient and effective than blanket marketing to everyone, so over time money spent on the first should save money on the second. Likewise cloud-based technology is

nothing like as expensive as conventional data centres, and this can help to reduce the upfront risk. The not-so-good news is that according to a recent PwC survey<sup>3</sup>, most large companies are still in the very early stages of developing and adopting cloud-based computing, and that means it will take time to identify the best ways to harness this capability for particular sectors. As with consumer data, the challenge for the retail sector here is one of skills, rather than systems. Retailers need to find or train people who can use cloud-based applications effectively, and apply that technology to the specific challenges of a retail environment, from automating key processes to inventory management.

3 The Future of IT Outsourcing and Cloud Computing, PwC 2011



## ***Sharpen up your cyber-security***

When as much as a quarter of your business is being done online, cyber-security has to be a serious priority. It's not just about protecting the safety of your own systems, it's about understanding how they might be used (or, indeed, abused). The digital world represents a whole new realm of risk, from people, to processes, to public perception.

Social media are central here. You need to have clear and robust policies about what your staff can and can't do on social media, whether in the company's name or merely by association with it. But it doesn't end there. An increasing number of organisations, from HMV to Associated Press, have had their Twitter accounts hacked, with potentially disastrous consequences – the latter caused panic on Wall Street after a fake tweet claimed the US President had been injured in explosion at the White House. Proof, if proof were needed, that such hacking doesn't just pose a reputational risk but a financial and governance one, and it needs to be assessed, managed and monitored at Board level, along with all those other hazards that could bring your business down. Ignorance is no excuse.

## ***In conclusion***

We believe this new customer-centric business model will be the single most seismic change that has happened in retail organisation since Category Management in the mid-1990s. It will affect every aspect of retail, and every business operating in the sector. The winners will be those who understand this, and move to implement it fast, and ahead of the rest.

Apply seven principles to the conventional skills of retail excellence, and you have calling Total Retail. We are already helping retailers to put these principles into practice, and we've developed our own model for achieving profitable growth in a digital age.

It's time to change, and time to act.

Contact us now

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