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Will Christmas save the high street?

Retail businesses failing, stores closing and the ever-present threat of Amazon. Emma Herrod investigates the state of the retail industry in 2018 and asks whether Xmas 2018 will save the high street.

Since the beginning of the year, 20 retail companies have failed, effecting 1,415 stores and more than 15,000 employees, according to the Centre for Retail Research (CRR). Retailers closing their doors include Maplin, Toys 'R' Us UK and fashion retailer East. House of Fraser, New Look and Mothercare plan store closures as part of Company Voluntary Agreement proposals.

The once-stalwart of the high street Marks & Spencer is closing 100 stores by 2022 – and has reported annual pre-tax profits down by almost two-thirds to £66.8m. Its sales of food, clothing and homeware have all declined. The closure of its stores is part of a modernisation programme that the retailer says is “vital” for its future.

Andy Burton, CEO, Tryzens, agrees: “M&S’s figures make for unhappy reading and it’s clear that it has some work on its hands to turn things around. Despite being a stalwart of the British high street for decades with a loyal customer

base, it’s clear that it has been too slow to adapt to the new era of shopping. Although M&S has – rightly – diversified its product lines to appeal to the next generation of shoppers while trying to keep its loyal customer base – it has struggled to completely satisfy either group of customers, with many left unsure what M&S stands for.”

He continues: “With multiple customer segments, it is possible for M&S to appeal to different customers at the same time and win back the loyalty it once inspired in its customers. But to do that, it needs to be sharper on customer focus, offering a personalised, tailored experience that is contextually aware and consistent across in-store, online or on mobile devices. For less technologically savvy customers, refreshing the in-store experience will be the essential ingredient for long term success, but inspiring loyalty amongst the next generation will require a much more engaging and cohesive experience across its digital and physical properties.”

He does believe though that M&S can “ultimately, reignite the spark that made it a high street staple in the first place,” but in order to do so it has to meet the needs of its increasingly diverse customer base.

All retailers have to meet the needs of their customers – this is nothing new to retailing really if you look back over developments in the industry – it is just more important in challenging times. This rise of digital and the change to omnichannel retailing is hitting some retailers hard and fragile consumer confidence does not help.

RETAIL AT BAY

2018 is expected to be the worst year for store closures since 2008 with more than 10,000 stores leaving retail use, predicts CRR. Since 2012 it estimates that 60,932 stores closed (a fall of -15.7%) to end-2017 and by the end of 2018 the figure will be 71,602 (-18.4%).

In 2008, the online share of the retail market was only 7.7%, but more than doubled to 17.8% in 2018, worth £66.7bn. Since 2012, the sales increases made by traditional retailers only increased volumes by +0.5% compared to +87.7% growth by online retailers as they cannibalised high street businesses. This year almost a quarter (24.6%) of non-food sales (clothing, electricals, leisure, music and household) will be made by online sellers, thus depleting the bricks-and-mortar market even more. CRR’s Retail at Bay 2018 report does not see rapid online growth as continuing forever – online will have 22.7% of retail sales by 2022: ecommerce non-food will be equivalent to one-third (33.9%) of total non-food sales – but there are monopoly implications, currently unexamined by the Competition and Markets Authority, of a company like Amazon controlling 25%+ of the UK retail market.

The report discusses the reasons for the crisis. These include a decade of weak growth, changing consumer behaviour away from purchasing retail merchandise towards experiences, eating out, events and destinations, and lower (often negative) profits because of poor sales combined with cost hikes from the National Living Wage and Apprenticeship Levy, the depreciation of the pound, long-term uneconomic rents and Business Rates.

The retail business model is founded on regular sales increases, high rents, 25-year leases based on 5-yearly upwards-only rent reviews, high profits and a proliferation of shops to provide buying power and stability. These underpinnings of the old business model have all gone since the recession, which is the reason for so many CVAs and company administrations aimed at closing stores and cutting rents. Rents have further to fall yet, believes the report’s author, and Director of the Centre, Professor Joshua Bamfield

Along with outlining a range of strategies for retailers – not necessarily all online – he warns that the developing crisis in the retail sector will permanently damage the high street unless rapid government and local council action is taken.

As Adrian West, Director, Commercial Sector at Fujitsu UK comments: “This isn’t the survival of the fittest, this is the survival of the most digitally-savvy. Internet sales are expected to accelerate and consumers increasingly expect both their in-store and online experience to be boosted by technology. The consequence is bricks-and-mortar retailers have now involuntarily joined the race to reinvent their business or accept defeat.”

The majority of consumers (80%) would spend more with retailers that have a better technology offering, according to research by Fujitsu. “This represents a huge opportunity for retailers to tap into the two key drivers of 21st century retail spending – convenience and experience,” says West. “Many consumers now prioritise flexibility over cost, especially as they’ve become accustomed to services such as Amazon and Uber that wrap around their needs. Moreover, almost half of consumers believe augmented reality will positively impact retail, illustrating an appetite for a different kind of shopping experience,” he says.

“ How many stores do retailers actually need to create the omnichannel experience? ”

He believes: “Retailers must be visionary in their use of tech and give shoppers what they want, before when they want it. With consumer confidence plunging, competition is fierce and both customer loyalty and shopping experience are weighing in. Those standing still face a worrying prospect – being the next generation of retailers to be pushed out of the high street for good.”

Other industry commentators responded by saying that store closures are highlighting the reactive state-of-mind of the industry as it rushes to solve the effects of deep-rooted problems, rather than finding a way to prevent the cause. The reality is that future success of the British retail sector relies on all players shifting towards a more proactive mind-set to address operational efficiencies ahead of time, believes Ged Scheuber, COO at Rotageek.

“With limited scope for investment, retailers must examine smarter technologies that solve issues in the backend – such as scheduling – instead of focusing on flashy in-store tech. This approach will help retailers find where small changes can make a big difference,” he says.

Other commentators have highlighted the in-store experience; A PWC 2017 Total Retail Global survey revealed that human contact is the most important part of the in-store experience for 59% of shoppers.

Shopping in store can be an event with more engaging experiences – ok it can be a quick grab and go experience, too – but stores will remain an important touch point

in the customer journey. They can deliver a human and emotional connection that is harder to provide online but it is the mix, and balance, of technology and human interaction that is winning over shoppers. Loyalty, personalised experiences and tablets in store are still showing results for retailers.

Store staff, as brand ambassadors “must have the ability to create an emotive, personal connection and be confident and passionate in their demeanour when addressing customers. This is a key opportunity to find out more about them and understand how a product can fit into their lifestyle. The overall aim should always be to provide an experience that the customer cannot get elsewhere. Brand ambassadors that understand the shopper and add to the enjoyment of a purchase will certainly evoke stronger feelings towards us as a brand,” says Stephen Sculley, CE In-Store Execution Manager at LG Electronics.

COMPETING AGAINST AMAZON

But will this mix of operational efficiencies and brand ambassadors in store be enough to stave off the challenges of retailing – as well as the market-share gobbling advances of Amazon?

In a similar way to how Amazon disrupts even itself, other retailers “need to innovate and evolve their offering,” says Wanda Cadigan, Vice President of Commerce, SiteCore, but first they need to look at their own customer base and understand their own customers. Amazon says that it puts the customer first and this ethos should be true for other retailers regardless of the sector or geography in which they operate.

She believes that data is the “next standard for loyalty”. If a shopper who regularly buys the same rabbit food in store views a video on the ecommerce site about adding a kitten to the household, that data should be available to the store associate and flagged up at the customer’s next store visit, she explains.

Richard Wolfe, Managing Director, Javelin Group, believes that retailers need to take a two pronged approach to shoring up their business in the face of competition from

Amazon. Retailers need to concentrate on brilliant basics and cutting new ground. “In a market in which we see margins consistently under pressure whether it’s due to the living wage, FX impact of Brexit or Amazon, retailers have to re-examine their cost structure and become more efficient and use that as a way to fund growth initiatives,” he says.

“You can see that Amazon is still a long way ahead of most retailers and to some extent that will apply to the leading pureplays as well,” he says.

Traditional retailers need to adjust, in some cases quite dramatically, to get them an operating model that is going to work in the next few years he believes while also changing their culture to support a test and learn environment in order to innovate.

On the innovation side, Wolfe believes “there will be more change in the next 10 years than there has been in the past 40.

“There is still a role for stores,” he says since they give traditional omnichannel retailers some advantages around footfall, collection and driving traffic back into stores but lockers and pick up points “negate some of those advantages”. The big question, he believes, is “how many stores do retailers actually need to create the omnichannel experience?”

Amazon already takes a big chunk of shoppers’ Christmas budgets along with the discretionary spend of those that can’t resist a ‘bargain’ on Black Friday. And that’s before it has even eaten too much of a share of the peak season grocery splurge. The Christmas peak will take on even more importance as everyone competes for the remaining share of wallet in what will be another challenging year for retail.

2018 may be the year that sees the high street becoming an omnichannel wonderland with digital effect and omnichannel services – along with merchandise from the Christmas adverts – as stores compete but this will only be amongst the flagship stores. For many others, the high street is becoming another click and collect location for retailers unable to invest to keep up with customers’ demands at best and at worst an abandoned pedestrian zone of closed doors, betting shops and charities holding their own Black Friday sales. 