



TOP 3 EVOLUTIONS OF THE RETAIL BUSINESS MODEL AFTER THE CRISIS

Optimise margin and sell-through
in a new environment



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Covid-19: An accelerator for the transformations already initiated

The crisis will accelerate the structural changes that were already happening in Retail.



Increase online business penetration

Boosted by the confinement (forced conversion effect), online business penetration is increasing and more established in purchasing behaviour at the expense of brick and mortar stores and the physical contact it generates. Those habits will then last naturally.

Powerful upswing of 'deconsumerism'

With confinement, customers are used to buying less. The post-coronavirus recession will only speed up the nascent 'deconsumerism' (decrease of purchasing power), which will **amplify reassessment of the consumerist model**, already shaken by the rise of environmental awareness. This evolution will be more accentuated for Millennials, whose political thoughts and socio-economics behaviour will evolve.

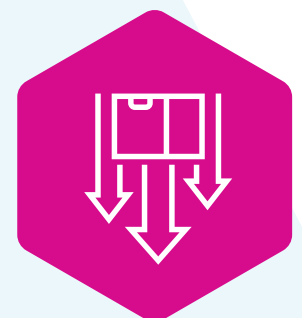


Reduction of square metres and of store networks

The health crisis and recession will be disastrous for stores already weakened, speeding up the restructuring of the "resilient" networks around the more profitable units. We will need to purge the square metres stronger and faster than initially planned **because online growth was already creating a surplus**. Impacting all the brands at the same time, this evolution will also weaken department stores and the commercial property landscape.

Decrease of merchandise volumes

The Spring-Summer 2020 fashion collections will be massively discounted. Between the order cancellations and the productions issues, Autumn-Winter 2020 will be done mechanically with lower volumes. The funds will then run out to finance the following seasons, which will also be done at lower volumes. A constraint that can also be an opportunity.



Covid-19: The forced opportunity to learn to do much better with less

It is not time to adopt a step-by-step evolution anymore: the Covid-19 crisis has imposed a comprehensive and quick revision of the Retail business model, which is a condition to resiliency.

Sell less but better: from a Sales-engine logic to a Margin-engine logic



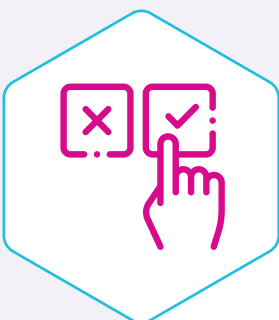
The resilient Retailer will have to maximise the profit produced on each item rather than thinking about large, mass selling. When the **offer is reduced on the sales floor** and there are less customers, each item counts. The numerous waste areas that were a habit in product journeys like discrepancies from suppliers and carriers, external/internal shrinkage and NOSBOSS are over. The sales of half of the stock during sales period that undermine the sales result are over too. Finally, it is the end of outrageous logistic costs for the online business that create a loss of 20 points of margin per item in comparison to the sales in stores. It will not be a question of selling by any means but to sell at the best price while creating new de-stocking models.

Reinvent the value chain: from an approach in silos to a unified demand chain

To be able to keep a maximum of stores and staff while restoring its financial situation, the resilient Retailer will have to redistribute the cards between its value chain stakeholders. Working in silo mode, which multiplies costs and constraints is over. The prehistoric model of the separated selling channels at the time of omni-channel purchasing is over. Time is not to rigidity anymore, it is the time for global brands links working in synergy, sharing functions and competences.



Turn a constraint into an opportunity: “accept what you can’t change but change what you can”



Paradoxically, **the periods of crisis encourage transformation projects** since this emergency state is breaking the ideological latch bolts and facilitating accession to change. This is true for stakeholders whose risk assessment mode will be profoundly modified and who will be much more receptive to innovation projects and changes. It is also true for the internal techno-structures much less inclined to petty squabbling and to the autonomous strategies when the challenge is to keep the company alive. The resilient retailer will know how to take the opportunity of this inevitable appetite to change the rules of the game.

The resiliency levers are known and available

Resilient Retailers are not compelled to reinvent themselves starting from scratch: they just need to implement the main levers that have been explored over the past few years.

1



Achieve omni-channel transformation and boost your delivery strategy

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Move to predictive and efficient big data by converging all the data

The resilient Retailer will know how to merge all the customers/products interaction data, from stores and from its website to leverage all the information it offers. It will not have to wait on translations in the numbers to detect the trends at the beginning of the season (best and worst potential) and the inflections of the demand over time. This ability to predict will be valuable in sourcing and in supply. The convergence of the interaction data will also allow the resilient Retailer to maximise the customers shopping baskets over time, by remembering each of the customer's intentions not converted to reactivate them in omni-channel mode. The resilient Retailer can then compete with pure players in CRM performances.

3



Purchase better and less by only buying what you can sell

The resilient Retailer will not be forced to take a risk with a unique order at high rates on items that will end up being sold during sales periods. Its ability to detect trends will allow it to sequence its purchasing orders to maximise their relevance. It will start by implementing a large stock but with short volumes (in stores and online) to identify the Best by limiting its engagement. It will then be able to complete its supply by focusing only on those items with high selling potential. This second wave will be ensured in close sourcing to reduce delivery delays and thus increase the identification period of the Best and the relevance of the second purchasing wave.

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Develop open ecosystems

The resilient retailer will not act alone but within an open and dynamic ecosystem. To sell, it will use new intermediates, whether it is existing partners better integrated into the omni-channel domain (suppliers, affiliates), or to players that will enlarge its target and/or its geographic coverage (marketplaces). It won't settle for reducing destocking, but will drive it in a dynamic fashion by directly preparing the orders from third party partners like Asos in its own omni-channel sites to reduce the intermediary costs while more quickly identifying the items to treat in order to destock earlier with a lower markdown. Finally, to deliver to the final client at the best cost, it will develop original partnerships with players in research of additional activities, like Uber, that he will be able to feed from its omni-channel sites.

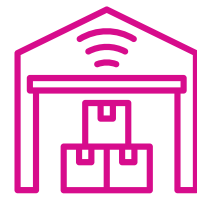
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Develop a real demand chain

Making available at the right time and at the right places the products that the consumer is looking for while minimising the stock: that will be the accomplishment that the resilient Retailer will be able to achieve daily. It will succeed by associating predictive capacities and logistics flexibility. The resilient Retailer will know how to anticipate permanently the needs of his different channels. It will feed them into lean production thanks to new levels of regional or local supply (warehouses or stores turned to pick-up points) bringing closer the contact points between stock and the final customer. It will also resort to the systematic rebalancing between sites based on local changes to maximise the exposure relevancy and the chances of mobilisation of each unitary item.

6



Digitalise the stock, the poor cousin of retail digitalisation

Thanks to digitalisation, the resilient Retailer will control his inventories at the unit level, continuously and in real-time, from the factory to the POS checkout, since it will be connected all the time to each item along the supply chain. This ability to track live the evolution of the offer available for sale is less a technological leap (connected inventory) than a logic leap since 100% accuracy is a prerequisite for the evolution of the business model (omni-channel, supply, buying, operations): it is not possible to work without a unified, accurate inventory updated in real-time while inventory depths will inevitably be reduced.

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7



Hyper-mutualise the strengths and competences

The resilient Retailer will know how to identify and leverage, within its network, all the available synergies. It will associate in mixed sites (multi-brand stores) brands targeting the same profiles of customers, or even complementary targets whose supply models are close. Online will put in common products, based on the same logic or a part of their selling channels (internal marketplace, across Click & Collect) to exploit better each visit/customer in a fierce competitive environment. To this front-end mutualisation will respond and mutualisation of the back-end means - whether we are talking of supply (creation of shared pick-up locations, local or regional, to bring the inventories together and reduce the store's needs), of the online orders management (preparation, delivery), or of the destocking process (common routes, cross destocking). With hyper-mutualisation, the resilient Retailer will be able to transform heterogeneity into a strength.

So, what is needed now?

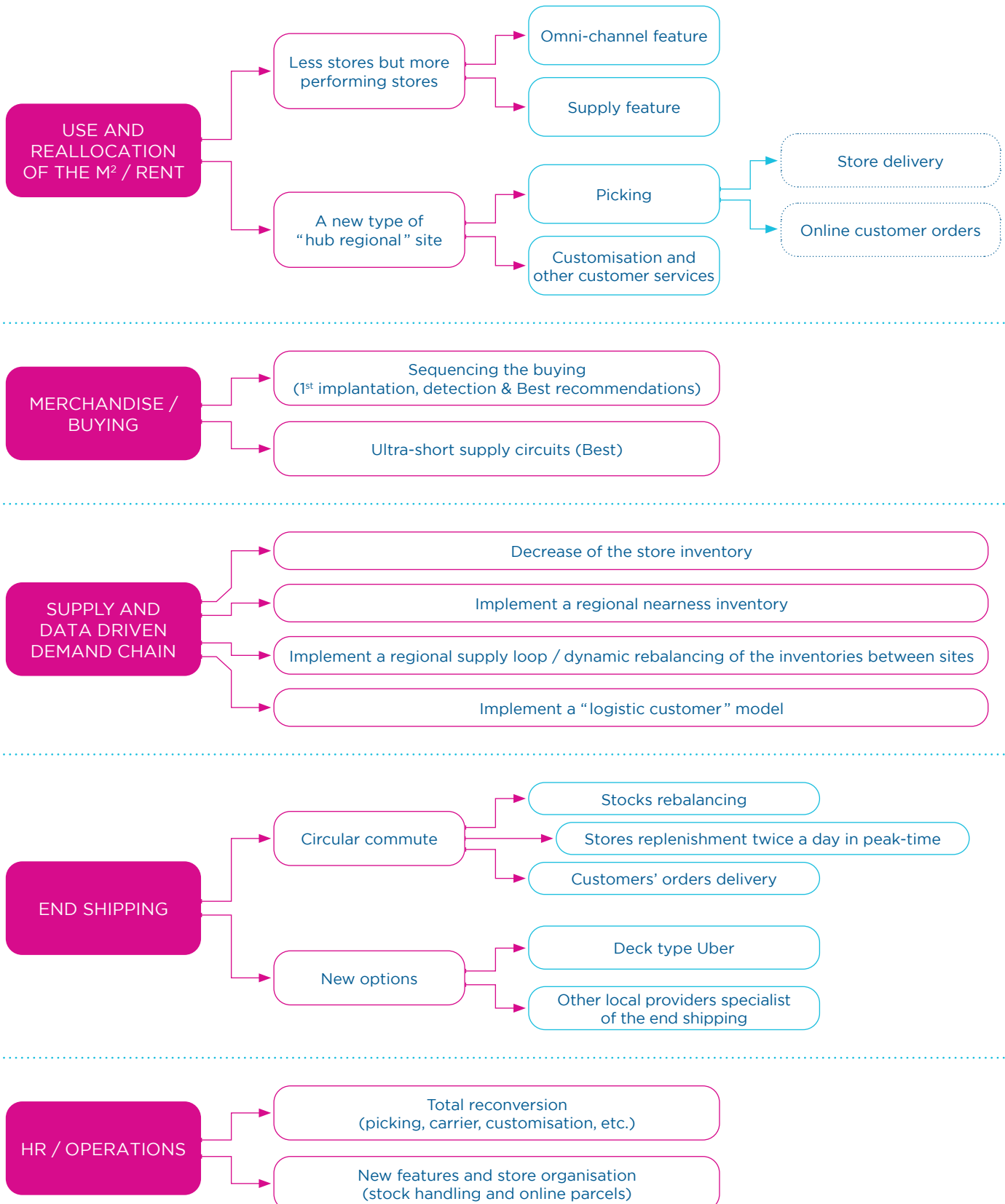
- 1 | Develop and quickly implement a specific action plan that will respond to this new business model for all the stakeholders.
- 2 | Adopt an agile and quick implementation methodology of the value drivers' themes.
- 3 | Mix internal resources and specialists' ecosystems to prevent the show-stoppers and increase speed and execution excellency.

Being resilient, it is getting in action

To not suffer from the after-covid-19 period, we need to build this right away. Operating instructions in 3 stages.

Stage 1

DEFINE THE BIG HYPOTHESIS AND THE EVOLUTION DRIVERS OF YOUR BUSINESS MODEL



Stage 2

IDENTIFY AND ASSESS THE RELEVANT OPERATIONAL USE-CASES, ASSESS THE IMPACTS AND THE GAPS



Stage 3

ADOPT THOSE USE-CASES IN A "LAB REGION" HEAVILY IMPACTED BY THE CRISIS

WHY A FULL-SCALE PILOT?



WHAT PRACTICAL METHODOLOGY?

