ALI ATHAR

Fighting Amazons

Helping Retailers Compete Effectively in Turbulent Times

Content

Preface

All those who have contributed to this book have worked with retailers for over 30 years as operators, consultants and advisors. In addition we have been associated with many of the technological innovations that have enabled the success of chain retailing.

Chain retailing could not have been possible without the bar code, the application of technologies to merchandise and range planning, central replenishment, space utilisation and supply chain management. All of these innovations made the centralised model of retailing possible.

However we believe that the chain retailing model, which we have been party to creating, is under threat. Within the seeds of its own success are potentially the reasons for its decline. The advent of the world-wide-web is changing the landscape yet again. The new "Amazons" are no longer just the Wal-Marts and Tescos, but also the likes of amazon.com and eBay, and a host of category specific on-line e-tailers.

Why are the new Amazons being successful? It is because the centralised chain retail model is failing to provide the customer experience and interaction that consumers once cherished; in other words the traditional shopping experience. Consequently, there is a danger that retailers will lose the most valuable commodity they have: the customer. They will lose them to the emerging Amazons, probably for the wrong reasons.

This book has been written to highlight how retailers need to change to avoid that loss. The ideas are probably familiar, but in highlighting the significant issues we hope that retailers might start to re-examine their business models and the design of their operations.

I would like to thank my colleagues and associates who have contributed to this book. In particular Steve Beck who has acted as contributor and editor, who took many of my thoughts, expanded on them and articulated them so much better than I can. In addition Simon Curtis, Gareth Warwick and Gareth Morris, all for their contribution, feedback and help in putting this brief book together.

Ali Athar

It’s tough out there

“Traditional retailers” are competing in a very difficult trading environment – possibly the most challenging trading environment in which they have ever competed.

The current global economic meltdown has caused nearly universal commercial disruption; unemployment has risen dramatically, house prices have dropped precipitously, capital has become dangerously scarce and consumer spending has diminished as consumer confidence, consumer credit and disposable income has shrunk.

It is widely believed that full recovery from this economic dislocation will take three to five years.

Last year, high street non-food retailers struggled to achieve increases over the previous year same-store sales. Yet, on-line sales grew by double digits, while discounters and value-driven competitors fared better than most.

This year promises to be a zero sum game as well, with on-line and off-price retailers pressing their price/convenience advantages, while in-store retailers haemorrhage margins with continually unproductive promotions and without the cost structures required to maintain profitability.

In zero sum games all gains are made at someone else’s expense. Which competitors will pay for yours? How will you make them pay?

If on-line and off-price retailers continue to grow at their current pace whilst in-store retailing does nothing to combat this trend, traditional retailing could soon reach a tipping point, a tipping point in which there is not enough footfall and sales volume in traditional retailers’ shops to cover overheads.

As we are painfully aware, tipping points can abruptly become toppling points!

In fact, this has already happened to many traditional retailers and will, in all likelihood, only intensify over time.

Many retailers are approaching their own potential tipping points at different velocities, with all running the risk of experiencing one.

They need to find ways to compete aggressively and successfully with the giants of the retail world and the fast growing on-line and off-price retailing community. Without achieving this, the inevitable drop in footfall will cause a reduction in the number of retailers, stores and, eventually, consumer choices.

How can traditional retailers fight these “Amazons”?

The Challenge

Whether you are selling branded or non-branded products, on-line competitors have to be treated as a significant threat. They are slowly taking market share away from traditional retailers.

It is a well known fact that in many retail segments consumers walk into retail stores to choose a product and then go on-line to source it at the lowest price.

Many category specific on-line retailers are offering a much broader selection of ranges than traditional retailers. If you add to that the price proposition, the convenience of home delivery and ease of return, on-line retailing is proving to be a very attractive proposition to many consumers.

We believe the traditional retail business model needs to be re-examined. In the case of many retailers:

- They operate at too high a cost so cannot hope to be price competitive
- Their customer proposition is not sufficiently differentiated to retain brand loyalty
- Their service proposition is more often than not inadequate
- They work on averages
- They are confused in their pricing strategy
- They are drowning in ineffective product promotion

The current model does not consistently give enough reasons to consumers to keep returning to stores; in fact it is pushing people on-line. Consequently we are seeing significant erosion in retail brand loyalty.

If the traditional retailing model is to survive and flourish in the years ahead, it has to find ways to:

- Get shoppers back into stores in greater volumes
- Convert these shoppers into customers with increasing frequency, while growing average transaction size
- Extend "stores" without the incremental costs and risks of additional stock and space
- Create on-line and off-line environments that interact, surprise, delight, comfort, inform and serve
- Find a price proposition consistent with the value proposition that is really delivered not "imagined"

Traditional retailing is not dead; it just needs to re-think its purpose.

A recent article in the Financial Times said:
"Customer feedback is that people are still willing to spend in shops as long as the product offering is fresh and original, the service efficient and the environment home-made, intimate and inviting. In many ways it is the sense of being part of a community that makes good old-fashioned shop-keeping so exciting – even rewarding."

We believe the traditional retail business model has to be re-designed so that it becomes customer and service focused again, so as to give purpose back to shop-keeping. In order to facilitate that and potentially react to price competition (margin erosion), retailers need to dramatically reduce costs mostly in the supply chain and at head offices.

Over the last 50 years chain retailing has made shopping in stores an uninspiring experience for consumers. The re-design has to start by reversing that trend. On the following pages are 6 key ideas that can start reversing the trend.

ASOS is an up-&-coming on-line fashion retailer. It has shown year-on-year 100% growth. If you talk to Nick Robertson, the founder, he always tells this story: "If you go to a Top Shop in Hemel Hempstead, it has probably 10 dress styles. If you go to the Top Shop in Oxford Street you have 300 dress styles. If you go to the ASOS website, you will find 1800 dress styles, what is more – if you try and find a particular dress of the right colour and size on a busy Saturday in Top Shop Oxford Street it is difficult and the changing rooms are often packed, if you shop on ASOS we always have it in stock and you can try it on at home. If you don't like it you can send it back free!" That is why he believes they have been so successful. The growth is also being driven by the fact that many brands now want to be on ASOS, as they get so many eye-balls; it is hard to achieve the same volumes on their own websites.

1. Take real advantage of human contact (Go back to the future)

Once upon a time, retailers stood next to their barrows arranging their merchandise while warmly greeting and humorously haggling with their customers.

Periodically they would ask a close family member to replenish what was selling while they would vocally promote the continually refreshed assortment and attempt to move the slower moving stock – always casting a wary eye on their competitors. They had an intimate relationship with their markets.

It was a place to chat, to joke, to share smiles and gossip, and the shopkeeper and the customer liked it that way.

The move towards centralised decision-making over the past 50 years has punished both retailers and customers: it traded effectiveness for efficiency. As decisions gradually migrated from stores to the head office, the number (and skills) of people in stores was reduced – and so was the amount they were paid. The result has been that store staff turnover increased, the quality and training of people diminished and service levels dropped dramatically.

Today, customer service and “clienteling” have almost vanished.

Stores are no longer customer sanctuaries but product warehouses.

Chain retailers inadvertently created a self-defeating, self-fulfilling prophecy: they made themselves more vulnerable to non-store retailing. Less friendliness, less information and less service accompanied by higher prices are hardly a convincing purchase argument!

By reducing themselves to high cost service-less product “vending machines” they have made themselves vulnerable to non-store purchase alternatives where price is the only meaningful differentiator.

As stated previously, retailers have drifted far from their not so distant past. They have become vendor driven functional silos and have disconnected from their points of sale and customers.

What is the point of having staff in stores:

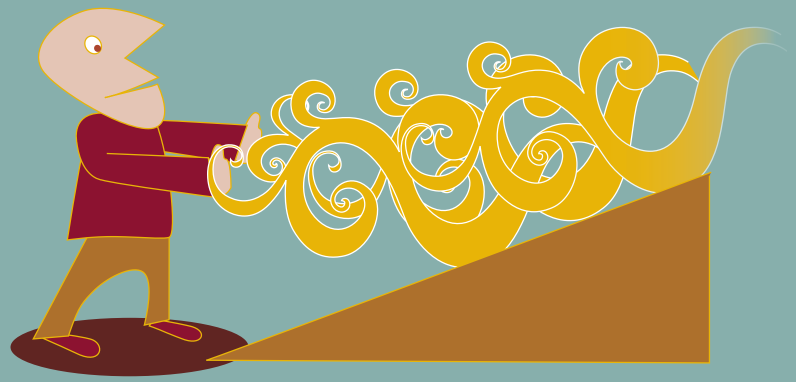
- **If they treat customers as though they are intruders?**
- **If the customer has to search the store for assistance?**
- **If their only purpose is to collect a payment?**
- **If they do not add value for a customer but add a premium to product prices?**

Price differentials cannot be justified by the cost of “worthless” personnel and store overhead.

The disadvantage of the on-line retailer, being the lack of human contact as part of the shopping experience, is no longer a disadvantage when it is duplicated at the store level through lack of service, expertise and motivation.

It is tragic that people believe it’s more pleasant and convenient to shop on-line rather than in stores. As a result, in-store retailers have lost market share and margins because they have had to launch bigger and bigger promotions to lure customers back into their shops.

Unfortunately, many consumers are so disappointed by their experience of in-store retail shopping that they prefer the lack of human contact on the internet to the in-store treatment they receive!



You can only deliver the human contact that your customers want through your staff.

If 75% of your workforce is churning every year, you must address this or give up and go home. How should retailers inspire generally younger workers to perform to a higher standard and stay interested and passionate about their business and their customers? It has to be about having great compensation systems, strong values and a positive culture. This is the front line – creating positive long-term change in these workers is key. Many of them are only in retail as a stop gap, so how do retailers make it a career choice for them? Creating change without a stable and passionate store management and strong store teams is like pushing water up-hill.

Staff have to be trained in: product expertise, selling and up-selling methodologies, clienteling techniques, communication and negotiating skills, logging customer preferences and information to support customer satisfaction efforts in such things as product preferences, past purchases and birthdays.

Vendors are eager to provide product training and the store organisation has enough expertise to deliver success-enabling education on in-store methods that work. All of this can be delivered over the internet on a regularly scheduled basis.

We really need to provide staff with an environment that engages them, lets them use the art of their own discretion when making decisions (especially customer orientated ones), have them come to work because they want to, because it's a fun, stimulating and an engaging choice with exciting future possibilities.

Lastly you cannot retain good staff if you have poor salaries and rewards. That does not mean that you have to increase fixed costs, but a lot more can be done through better incentive schemes. Without good compensation systems it will be impossible to provide careers to the right quality of staff.

Peter Morris wanted to buy a flat screen TV over Christmas in 2008. He went to John Lewis and found the product he wanted, a specific Panasonic model, priced at £705. He went home and looked it up on the internet and found it on an unknown internet brand website at £495. In talking to his colleagues at work he said he could not afford to ignore the price difference, even though he was much more confident of the John Lewis brand. The 5 year warrantee did not make up for the price difference. That afternoon, during his lunch break he passed by a Richer Sounds store. On his return to the office he told his colleagues that he had finally bought the flat screen TV. Assuming that he had gone online, they were surprised to find that he had in fact bought it from Richer Sounds. "The salesman at Richer Sounds was so knowledgeable, and they deliver it and they help install it".
It turned out the price was only £505 for the same TV. Eventually when pressed over his sheepish looks, his colleagues found that he had spent £1100 at the shop. The Richer Sounds salesmen had sold him a full-surround sound system and a blue-ray video. Peter will only now buy electronics from Richer Sounds.

2. Stop managing averages

The current retail business model was born in another age. Its fundamental premise is that increased square footage equals increased sales, equals increased profits. This formula continued successfully for about 50 years until market crowding and demographics caused a power-shift – an abrupt transition from a sellers market to a buyers market. This model was further disrupted when on-line retailing began to seriously erode in-store retail productivity.

During this 50-year period, characterised by the rapid growth of sales, stores (square footage) and profits, retailers learnt to manage their enterprises by managing averages – and it worked. It worked because the rising tide created by the sellers market lifted all boats.

As the power-shift from a sellers market to a buyers market occurred, managing averages (average stores, average customers) began to work less well. Profits and market-share began to suffer and as time passed and on-line retailing began to capture market share – and as store square footage growth continued unabated – averaging further damaged them.

Chain retailing, as it has evolved over the last 50 years, has increasingly centralised decision-making. As these decisions centralised and became less store and customer specific, merchandise assortments became more generic and buyers became more vendor, rather than customer, focused.

In the environment in which they now find themselves – a buyers market, a zero sum game, a contest in which every gain can only be made at someone else's expense – managing averages is potentially fatal.

Managing averages causes estrangement from a retailer's primary assets: its customers, stores, staff and competitive environments.

In a buyers market, where supply exceeds demand, a "one size fits all" philosophy is not only inadequate, it is destructive. It puts growth, profitability and market share at risk.

Retailers must now re-focus on their "new" frontier: the customer and the store. They must become local again, responsive to the needs and wants of local customers, responsive to local competition.

In short, retailers must return to their roots to succeed in the years ahead. They must learn to manage each store as if it was their only store.

That's why averages must be abandoned. Averages smother success. Averages disguise disasters.

Traditional retailers can do what on-line sites cannot do – they can go back to being local. The fact is, all communities are different: ethnicity, lifestyle, culture, income and demographics have guaranteed that no two localities are the same. Consequently the needs of each community may be different. By "going local", the retailer strengthens the relationship with the community by having local ranges, local prices, local promotions and (of course) local promotional events.

3. Reconnect with the customer

How should retailers connect with their customers in store?

Firstly, retailers need to get close to who their customer really is. This can only be done by abandoning the traditional “target customers aged 35-45, AB1, etc, etc.” and go and speak with them face-to-face and on-line via social media – gaining real insight and real knowledge about their behaviour, what they want and why they want it. Once they have real insight – not averaged customer research – they then need to think how they serve and market to them in a real way that engages trust and delivers what they want.

Customers do not want to be treated as intruders, they want to be welcomed as guests, friends, neighbours. And good customers want, and deserve, even more – they want to be cherished.

The loyalty equation goes both ways, and when retailers resume being loyal to their core customers, customers will return that loyalty.

You cannot demand customer loyalty from a customer you don’t recognise. Recognition can be demonstrated by:

1. Providing additional free services and additional discounts – special treatment for valued customers. For example:

- **You can drop off your dry cleaning**
- **We’ll help watch the kids while you shop**
- **We’ll give the kids a voucher for a chocolate chip cookie**

2. Calling the customer when you have a product that you believe the customer will be interested in and taking it off the floor for them if they want it.

3. Offering many more value added services, for example:

- **Booksellers can help a customer build a book collection, offer a leather binding service and run lectures on subjects at lunchtime so that customers are enticed to shop**
- **Women’s retailers can run fashion shows, offer makeup advice, makeovers and personal shopping services**

Creating a relationship of intimacy and trust is not easy but it is the one thing that can differentiate the store experience from the on-line experience and keep bringing customers back into the stores.

4. Get the pricing strategy right

Retail pricing has become confusing. Even if retailers have clearly defined price strategies and price architectures – which many do not – they are implemented by individual buyers and merchandisers, across a varied product and store range, often very inconsistently.

What's more, the current economic pressures and increased competition has made many retailers react in a knee-jerk fashion with promotions and discounts. This has contributed to price confusion, in the process, destroying any semblance of a pricing strategy.

This behaviour has been noticed by consumers, who are changing their shopping behaviour to take advantage of retailers, making pricing and margin control even harder.

What are common causes of poor pricing strategies?

- Too many retailers are unaware of the product price differentials between them and their (on-line and in-store) competitors. As a result, they fail to understand the impact that this is having on their business. Unfortunately, if the price differential between competitors (either on-line or in-store) and themselves is too great, it becomes an insurmountable hurdle in the eyes of the consumer – a disincentive to buy.
- Many retailers neglect the fact that products and consumers behave differently in different markets and channels, and do not take these differentials into account when determining pricing and promotions.
- Too many retailers plan, execute, manage and monitor at too high a level. This dilutes and indeed defeats their ability to compete as effectively as they can at each store, eroding customer appeal and market competitiveness.
- The majority of retailers have a value, convenience and power assortment in each store but fail to recognise that pricing strategies and methods should vary based on the product's role. For example, the value assortment is extremely price sensitive and generates high traffic and unit volume sales, the convenience (always in reach) assortment is less price sensitive whilst the power assortment (the retailer's unique high margin product mix) is the least price sensitive component of the product mix.

Retailers need to turn price into an opportunity for selling and use it as a competitive weapon.

The problem with pricing is that it is both a statement of strategic competitive positioning and also a tool for optimising sell-through and margin. That is why it needs more considered thought.

Much more needs to be understood and defined about pricing than retailers are doing at the moment.

Pricing needs to be linked to a value proposition that can be clearly articulated by people in stores, a proposition appropriate to their target customers which is clearly rationalised against the Amazons. For pricing to be a selling tool it needs to be competitively dynamic. Retailers need to be able to react more quickly to competitive prices based on situational rules. For example, stock levels, rates of sale or sell-through rates can shape these rules.

If retailers are going to be promotionally driven, they need to understand better the price elasticity of the products across assortments, in their stores and market-by-market.

Retailers should consider abandoning the concept that the product will be the same price in every store, that the price will not be raised if the product is in short supply or that the price in the store will be the same as the price on the website.

They might even consider allowing consumers to bargain on prices. For example, if a consumer in-store says that the same product is available on Amazon at a lower price, the shop staff should be able to respond based on pre-agreed rules, particularly to a valued customer. The value a shop assistant brings to the retail equation is the ability to communicate and respond to specific situations.

Using price strategically and optimising it dynamically is not only a technical possibility; it is a necessity in today's competitive world. Technology is available that will incorporate competitor pricing data with consumer, product and market information into a dynamic pricing system. This can automate pricing and promotional recommendations while supporting corporate strategies and objectives, product-by-product, market-by-market, channel-by-channel.

5. Focus on partnerships that enhance the customer and community experience

The giants of the retail industry have achieved their competitive advantage and market dominance by blurring the lines between themselves and their channels of distribution: vendors, manufacturers, wholesalers, suppliers, financial institutions and service providers. This has permitted them to reduce prices, control costs and risks, preserve margins and increase both convenience and market share.

This blurring has given them significant power and this power will only increase as they utilise (and re-utilise) the advantage of ever increasing scale to further reduce cost and risk while increasing competitive leverage. But it has come at a price: a loss of customer "intimacy", a reduction in the shopping experience and lower levels of customer service.

Retailers should consider altering their organisational and inter-organisational relationships to create new types of professional partnerships, "virtual presences" that mimic those created by the giants; partnerships that also blur many of the same lines that the giants have blurred, while at the same time permitting them to retain their individual focus, identity and value.

The environments, programmes and events created by these partnerships should focus on enhancing the service proposition and customer experience, by:

- Creating a shopping "destination" – whether on-line or on the high street – by extending product ranges "virtually" through supplier collaboration, where shoppers can visit to conveniently get everything they need with high levels of product quality, product expertise and customer service. For example: taking in-store orders for an un-stocked product with supplier direct next day order fulfilment.
- Cross-promoting partners in advertising, in-store display, kiosks and discount offerings as well as in-store e-commerce capabilities.
- Potentially enhancing the shopping experience by incorporating food, beverage and entertainment companies into the partnership via joint offerings and promotions. Partnerships should not be limited to other businesses but should also be encouraged with local communities and groups.
- Rewarding communities for their participation and loyalty by creating high street and community events and offerings that go beyond shopping – to reward, inform, entertain, surprise and delight. For example:
  - Creating "discount clubs" in association with local businesses, charities and clubs, where the club members earn additional discounts and additional services for aggregate purchases. At the end of a calendar year the accumulated purchases of all group members are totalled and a cash donation is given to their organisation.
  - Rewarding valued communities with, for example, discounts for restaurants, theatres, concerts, petrol stations and dry cleaners, making people part of a broader partnership group.
  - Creating community web logs (Blogs) that focus on local bodies, local community needs, local events as well as community feedback on their needs and wants.

Marketing departments in retailers may have to move away from exclusively focusing on product-led promotions as these may be meaningless to many sections of the customer base and community. Instead they need to become event co-ordinators bringing their partners, their stores and the local communities together in a way that adds value to all concerned.

Community building and partnerships has to be at the heart of modern retailing.

6. Integrate multiple channels to increase customer conversion

Just as a gem has many faces, so do retailers – and the facets that the customer sees will change and grow as retailing evolves. Each facet should contribute to the attractiveness of the whole.

Too many retailers are trying to use their on-line sites to compete directly with the Amazons. That will not succeed; the Amazons just have too much of a price advantage and just too many eye-balls via high volume customer visits. Most retailers do not have the marketing budgets to compete on building up traffic.

A retailer's on-line presence should be targeted at being a customer enhancing experience.

Retailers need to link the operations and goals between on-line resources and physical stores so that the customer is served by the process and not vice versa:

- **Provide more information to support purchase decisions**
- **Add more convenience in making the purchase and arranging fulfilment**
- **Incorporate mobile devices**

The retailer's website should allow the customer to shop anytime from anywhere, fulfil them in every way and know everything:

- **Reserve on-line in the morning and pick up in-store today**
- **Order on-line and get next day delivery (directly from the store)**
- **Allow customers to put in product reviews**
- **Interact with other customers**
- **Allow customers of a given store to be part of a local community, led by the store manager**
- **Allow the customer to review their historic purchases**
- **Allow customers to review and download promotional offers (vouchers) onto their mobiles**

Websites have to become mechanisms that will allow you to understand and interact with your customers better. Well designed service propositions based on the merging of distribution channels to improve customer conversion and service performance are the key.

Conclusion

Retailers are convinced that in an economic environment where sales are declining and margins are getting squeezed, they simply cannot find the breathing room to invest in change.

We do not believe that needs to be so. Many of these changes can be done without significant investments or increases in costs. Retailers can create room for investing in change.

There are still enormous opportunities to reduce costs and improve margins in most retailers. In releasing cash from cost efficiencies and margin improvements, retailers can truly start the transformation needed to enable them to compete in a world increasingly being dominated by the Amazons.

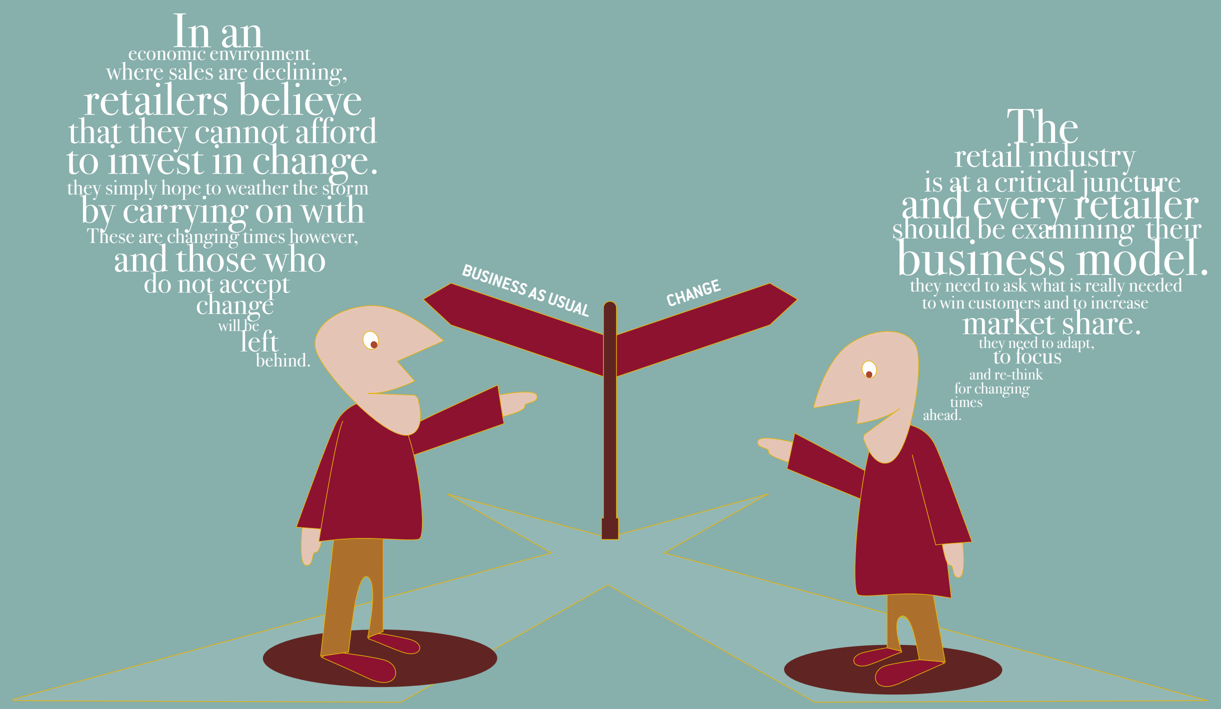
The most important message we would like to pass on to retailers is that now is not the time to carry-on with "business as usual". This is a critical juncture for the retail industry. Every retailer should examine very carefully their business model.

They need to go back and look at their business in the light of the changing competitive landscape and ask what is really needed to win and retain customers and market share. To what extent is their current business model an aid or a handicap?

To answer this, they may want to use the ideas in this book as a baseline test which they measure themselves against.

As a retailer we would encourage you to ask yourself, how good are you, at:

1. Making that human contact count?
2. Looking at each of your stores individually? Or do you still use techniques of grading, which determine your decisions?
3. Connecting with customers individually? To what extent is your business centred on the customer?
4. Pricing – are you really using it as a competitive weapon and a selling tool or is your pricing strategy and behaviour a handicap?
5. Creating partnerships and communities? You probably cannot fight the Amazons on your own, so do you use partnerships to extend (virtually) your products and service offers, and focus marketing effort on local communities. Do you use on-line social networks, and is your website also the store's local community site?
6. Using your multiple distribution channels to enhance the customer experience and create a better service proposition – remember your on-line competitors cannot do that.



If you are having trouble really answering these questions, ask your store managers. If you want to be really courageous ask your customers to grade you on these 6 factors.

In this environment you really need to know if your business model is poised at the tipping point. "Forewarned is Forearmed."

Biography of the writers

Ali Athar has worked with retailers for over 30 years. He is currently CEO and founder of Itim, a company focused on technology to transform retailing. His entry into retailing was straight from college when he was involved in the largest EPoS programme in the 1970s at Tescos, run by IBM. It was the start of chain retailing. Since then he has worked as a consultant and advisor on projects with many large and small retailers on the design of supply chains, introduction of merchandise planning techniques, introduction of central replenishment, implementation of space management, optimisation of on-shelf availability, outsourcing of supply chains and, finally, private equity turnarounds. His career has paralleled the successful growth of chain retailing. Itim has over 50 retail customers. Prior to Itim, Ali worked with CSC in their business re-engineering practise-focused on retail, and prior to that he was founder of Inforem, a technology and systems integration consultancy focusing on retail.

Steve Beck is both a business man and a technologist. He, as much as anybody, has contributed to the advent of chain retailing. He has worked at Limited & Next in a variety of operational and strategic roles. He has performed organisational, strategic, logistics and technological consulting for a variety of retailers on four continents. He is best known for being the architect behind 'Arthur', one of the best known retail (planning) applications ever developed and used by chain retailers, 'TRIM', one of the earliest ERPs, and currently 'IPO', a profit optimisation application for retail. His knowledge of retailing and retailers is invaluable and his ideas and originality have made him exceptional at developing solutions for the retail industry. Steve is currently an independent consultant.

"Customer feedback is that people are still willing to spend in shops as long as the product offering is fresh and original, the service efficient and the environment home-made, intimate and inviting. In many ways it is the sense of being part of a community that makes good old-fashioned shop keeping so exciting – even rewarding. When I think of the businesses that are capsizing on the shopping streets, big or small, it's because most of them have lost the connection with their communities (or core markets). High staff turnover means there's a problem with the working environment as shop assistants clearly do not want to spend time on the shop floor and this translates into a lack of real, human relationships with customers. Cavernous interiors that lack a sense of intimacy send shoppers running to the door. And cookie-cutter concepts that can be spotted somewhere else on the planet do not create a sense of positive familiarity but rather a weary sense of fatigue that leaves consumers feeling they have seen it all before. Indeed they have which is why they're not keen on cracking open their wallets."

Tyler Bruler   FT   10.01.2009