

Repackaging Your Retail Business For The Modern Consumer

HOW TO FUTURE-PROOF YOUR BUSINESS STRATEGY



MENZIES
BRIGHTER THINKING

Retail Sector Insights Report

FOREWORD

Retailers must adapt or die in the quest to seize market share in today's volatile marketplace.

“With the sheer volume of products now available online and footfall on Britain's high street flagging, the question is how can firms carve a niche for themselves and drive customer loyalty?”

For many businesses, managing cash flow is their biggest challenge. Focusing on the refinement of product lines and integrated stock management systems is essential if profitability and stability are to be achieved. Implementing these changes requires a systematic and analytical approach and could involve considerable time investment. However, taking action now could pay dividends; unlocking the funds and potential required to grow.

“In order to differentiate their offering, retailers must be bold. They must possess the conviction to move away from traditional models, adopt new technologies, consider alternative finance options and enter new markets.”

Roberto Lobue, Head of Retail & Wholesale

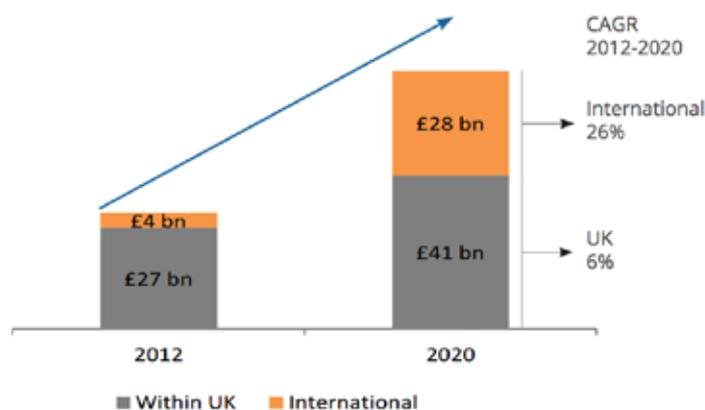


THE BIG PICTURE

The current retail climate represents a complex cocktail of both threats and opportunities for UK businesses. The sector has continued to display instability post-recession, with high street giant, BHS, and menswear veteran, Austin Reed, the latest big names to fall into administration - the demise of these retail institutions should act as a stark warning to others.

Both firms' strategic shortcomings are rooted in their outdated trading models which have allowed costs to spiral, while a lack of agility has led to alienation of the retailers' once loyal customer base. Embracing the changing needs of the consumer and harnessing data to inform intelligent operational decision making must remain a priority for businesses looking to achieve cut-through, stability and growth.

In its latest [Outlook for Retail](#) report, independent consultancy, Retail Economics, highlighted the sustained adoption of outdated business models as an ongoing problem for UK retailers. It also reported a lack of investment by firms in pursuit of the increased transparency and agility required to optimise multi-channel sales. However, it is not all doom and gloom – the securing of increased online sales presents an excellent avenue for business expansion. Data reveals that international online orders placed with UK firms are set to increase in value from an estimated £4.2billion in 2014, to £28billion by 2020.



Source: Retail Economics Outlook for Retail 2016

Retailers that act now to update their business strategy to adhere to the needs of the next generation of consumers can guard themselves against market shocks and gain significant competitive advantage.

Managing cash flow:

Preserving working capital has long proven difficult for retailers. Securing additional finance from traditional lenders is often a challenge, as in case of default, stock is perceived as having a low residual value. Many wholesalers are under increased pressure to offer extended payment terms to larger customers and with cash at a premium, chasing overdue or ultimately bad debt can prove time consuming and expensive. This can significantly limit opportunities for investment and in some cases endanger their ability to meet business critical payments such as staff wages and key suppliers.

“*It is important that businesses identify any events or time periods when cash flow may be stretched so that they react accordingly.*”

Chris Maloney

To ensure effective cash flow management, retailers must first be sure to create clear financial forecasts which allow them to make informed decisions regarding spending and investment activity. It is important that businesses identify any events or time periods when cash flow may be stretched so that they can react accordingly, delaying non-essential expenditure and if required, seeking additional finance early. Periods of increased investment such as the festive season and the time immediately following the business' quarterly VAT payments can often cause significant strain.

One of the biggest mistakes retailers make is over investing in stock. Often, any profits are ploughed straight back into the purchase of inventory, with businesses lured into seemingly unmissable offers by liquidators willing to sell large volumes of ex-competitors' stock at a discounted rate. Businesses must avoid rushing into any such decisions and be sure to confirm that any purchases do not impede cash flow as well as providing the most profitable return on investment.

In the preservation of working capital, some retailers are now learning lessons from e-commerce specialists by seeking consignment stock arrangements. Whereas traditionally, all stock was purchased in-bulk at the beginning of each season, this arrangement means that goods are only bought from suppliers once they are sold, freeing up funds for investment and increasing the business' liquidity.

Refining your product offering:

Too many smaller retailers are attempting to adopt the 'Amazon model' of commerce; stocking a variety of product lines in an attempt to optimise sales. However, such a strategy carries significant risks and smaller, independent retailers that follow this model could easily lose out to lean online retailers that may be able to undercut them on price.

“It is essential that businesses do not fall into the trap of trying to provide everything to everyone, a strategy likely to dilute their brand and fail to promote customer loyalty.”

Andrew Mosby

- **Differentiation**

To compete, businesses must find a differentiator and refine their product offering. In order to evaluate whether they are pushing the right products, businesses can utilise data analytics to determine which lines are the most popular and which deliver the most value to the firm's bottom line. Carving the right niche for the business and focusing on quality can be achieved by honing in on a specific selection of quality products that are available at different price points. This approach, accompanied by a tailored marketing strategy could prove fruitful in attracting and retaining a loyal customer base.

- **Modern Consumers**

The modern consumer is extremely savvy, and willing to shop around across multiple outlets, both on the high street and online, in order to secure the best deal. In the battle between product and price, making the correct product selection can guard against larger counterparts that are able to stock a greater variety of lines and operate at lower margins.

Investing in stock management systems:

With large e-commerce businesses now stocking a huge range of products all year round and consumer buying behaviour heavily influenced by seasonal trends, the ability to accurately forecast demand is a must. Holding too little stock is likely to drive customers elsewhere, while purchasing too much can lead to firms being left with outdated and effectively worthless products that drain cash flow and are difficult to shift.

Retailers should aim to improve stock visibility by investing in an Electronic Point of Sale (EPOS) or an integrated tillling system. As well as facilitating the effective reordering of products in a manner which reduces the requirement for stockpiled inventory, these systems also increase transparency to inform better strategic decision making. Information on the speed at which different product lines are selling allows for popular products to be reordered in-season to maximise sales opportunities.

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Alternatively, rather than marking down all outdated stock by 90 per cent at the end of each season, knowing which products have been hanging around for too long, means that retailers can take action. For example, amendments to store layout, an additional marketing push or the resale of excess items via third parties can be used to bolster profit margins. Crucially, any promotions activity which is dictated by stock levels must take into account which products are seasonal and which are recurring – ensuring that all products generate the highest revenue possible.

Sourcing products from overseas:

While the opportunity for international sourcing is widely understood, some business owners are reluctant to leave their comfort zone and view this move as one fraught with unnecessary risk.

However, driving cost savings by purchasing goods from regions such as China or Eastern areas of continental Europe can prove extremely profitable if executed correctly. It is vital that retailers work to forge links with UK Trade & Investment (UKTI) to support them in building effective working relationships with overseas suppliers, as well as aiding their understanding of any potential cultural differences or local business customs.

In order to assuage any concerns regarding logistics, quality or delivery, business owners should invest the time to go and meet with potential suppliers. Not only will a face-to-face introduction aid in contract negotiations, sight of factories and production techniques is likely to increase the business' confidence in the supplier's working practices and ability to deliver on its promises. To reduce risk further and to guard against the impact of a break in supply, retailers should pursue a dual-sourcing strategy, ensuring that they have a back-up vendor in place in the event of business interruption caused by supplier disruption or geopolitical disturbance.

International expansion:

For smaller retailers the opportunity for business growth could lie within expansion into new export markets. As with the adoption of any business strategy, a full analysis of potential challenges is often effective in smoothing the transition to overseas trading.

Retailers should carefully consider the effects of exchange rates, gain an understanding of how to navigate customs and implement robust logistics and customer services to ensure success. Seeking assistance from UKTI can be helpful and it is wise to start small and iron out any operational difficulties before fully committing to the delivery of a large scale contract.

Similarly, many global retailers still use London as a key base for their businesses. Therefore, it may be fruitful for them to utilise this on the ground presence by introducing a niche selection of products into the marketplace. Again, implementing a phased sales strategy and seeking feedback from customers is essential in ensuring consumer satisfaction and effective market penetration.

Be bold:

Although the continued volatility of the retail market and tough high street trading conditions are a likely concern for industry players, opportunity awaits the bold. Those firms willing to take a critical view of current systems in the pursuit of a modern and agile business model could reap significant rewards. Business leaders must take control of their own destiny through intelligent cash flow management, refined product selection and by navigating successful entry into the international marketplace. Data driven decision making and the proliferation of innovative technology solutions hold the key to continued success, growth and longevity.

CONTACT

For more information about how your business can future-proof its inventory management systems, protect cash flow and achieve growth, contact the [Retail Sector Team](#) at Menzies:



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