Will online shopping make the retail giants extinct?

With the recent closures of Toys “R” Us (United States), Maplin (United Kingdom) and Topshop Australia, we investigate whether the internet is annihilating physical stores and offer practical advice to dynamic retail businesses on how to avoid going under.

Retail spaces are very different from the places they were 10 years ago, with shops increasingly being used as showrooms for products that customers will check out and then buy online, after some online price shopping.

This is true across global markets where retailers are finding that, while the basics of retail remain the same, their consumers' behaviour is changing. We asked our colleagues in Canada, the United States, Australia and the United Kingdom to give their insights into what businesses can do to meet the changing needs of a more sophisticated and increasingly digital customer, and how retailers can plan for the future in a disrupted market.

The changing role of the store

The role of retail stores has shifted. Along with acting as showrooms, they're now pick-up points for parcels, cafés and sometimes meeting points.

The smartest businesses are realizing this and evolving to stay ahead of the game. Many that haven't yet figured this out have gone out of business.

Research from location data advertising firm inMarket shows that shoppers in the United States are making more short trips to Whole Foods stores that have installed Amazon.com lockers, which allow shoppers to collect their Amazon parcels. Walmart recently decided to follow suit.

The answer, then, might suggest boarding up your windows and opening some virtual ones. However, this isn't always the best or most economical solution, says Grant Thornton LLP Canada Advisory Partner, Daniel Wootton.

“An online presence requires a large investment,” he says. “Some people assume that online sales might have lower overheads than in-store sales, but that is not always the case. In fact, online sales may require expanded customer service and separate distribution models. Some retailers—such as boutiques—need to maintain the personalized service they might be associated with offline."

There is still a place for the bricks-and-mortar store, says Simon Trivett, partner and national head of consumer products and retail at Grant Thornton Australia. "Best estimates are that online still accounts for only about seven to eight percent of total retail in Australia (compared with 16.9 percent in the United Kingdom and 10 percent in the United States).

"In Australia, distances between our major centres are huge. To fly from Melbourne to Perth takes four hours. Online retailers can't easily set up one or two centralized distribution centres. Or, they get the geography right, but they struggle to get the products out. So Australian retailers have a significant role to play.

"The basic retail 101 hasn't changed," Simon adds. "Retailers can still offer a compelling retail experience with good in-store service and by creating communities."

Keeping up with the changing consumer

"Retailers have seen consumers going through fundamental changes in spending and shopping behaviour—how consumers make their spending choices, what they choose to purchase, what method they use to make their purchase and the whole process consumers go through to make a buying decision," says Grant Thornton UK restructuring partner Senthil Alagar.

"In the UK market," adds Senthil, "the share of consumer spending on leisure and experiential activities is growing, whilst retail spending on non-food items and owning things is not.

"For many items, the spending decisions have fundamentally changed. There is plenty of choice for the consumer and they go to the store to experience the brand, the product, the size, but then many may actually make the purchase elsewhere."

The important thing, says Daniel, is knowing the customer—and this applies across all service sectors. Predicting consumer behaviour has become more important and the likes of Amazon know this, altering their stock according to what they think customers are likely to buy next.

Additionally, because customers are increasingly using social media to identify and research products, they demand price transparency—while still wanting a personalized service.

One good example of a company that has made that turnaround successfully is Best Buy, says Daniel. "It was struggling but it realized that some of its goods had become commodities—customers viewed the goods in-store, left the

store, went home and ordered online somewhere else (possibly at a lower price). So Best Buy created its own online presence, with sales promotions, email blasts and e-flyers, and has been able to mitigate lost sales." He adds: "Physical stores are still relevant; they just watched their customers' behaviour."

Investing in technology

To do all of this, it is essential to find the right technology. Being omnichannel can be costly, so how can you make sure you're investing in the right tools for the right approach? Should you invest the money in online marketing or should you be investing in tools that enable you to get to know your customers better?

When Blockbuster Canada went into receivership, it was still making money but its parent company wasn't. "This meant there was a limited ability to invest in Canada as profits were diverted to the parent," Daniel explains, "so the parent brought down the rest of the ship with it. The same situation largely may apply to retailers who are too highly leveraged with debt." The fact is, he says, you can't do too little too late.

> "Retailers need to recognize how fast technology has allowed the industry to change. We have to be adaptive or one or two years could go by and you're obsolete. Now social media, mobile and voice are all coming into play."

"Those companies that invest in data analytics and tools to manage the supply chain better will also stay ahead," says Kevin Kelly, Grant Thornton US audit services partner and retail industry practice leader. "The power of the data that's out there is tremendous, but data alone won't give you the knowledge you need."

Investment in tech is essential, but only if it's used correctly—after all, there's no point in spending a fortune on the latest tools if you don't have the staff to use them properly or the willingness to adopt the changes the tools allow or suggest.

Pivoting your retail business

Retailers should be prepared to alter their set-up fast, says Simon: "A great example of this is British brand TM Lewin. It set up in Australia because the fastest-growing part of the UK business was online sales. It started as an Australian business with a UK brand.

"However, the customers were buying online from the United Kingdom and trying to go into the store to exchange. They were unable to do so because everything was being managed from the United Kingdom. TM Lewin realized the problem and set up a seamless new system whereby the store would package the exchange and ship it back to the United Kingdom. It adapted very quickly and made it work for the customer, and now it's doing well."

The retail industry has been disrupted and has changed fast so staff, and more importantly their leaders, need to be adaptive. AI is going to transform businesses, so company culture will also need to change accordingly. Stay ahead, live and experience the evolution or risk being disrupted.

But cash is your friend, Daniel says. "If you aren't cash-positive, nobody's going to give you money—so if you cut, you have to cut deep." Daniel suggests addressing store count, staff, programs that aren't working. "Take a top-down, bottom-up approach to capture everything."

How to address retail disruption

Daniel suggests revisiting your company goals and mission or perhaps bringing in a chief restructuring officer in a distressed environment, both for a new perspective and for the skillset these situations demand.

"Retail is no different than other sectors that have been disrupted. While retail has always been a dynamic sector with a continual demand for innovation to remain relevant and a need to adapt commercial strategy, legacy retail models are vulnerable. Some management teams are striving to understand the new environment and transform their businesses. However, this can be challenging when a retailer has a large, legacy leased store portfolio and high operational gearing," says Senthil. "It's not so easy to 'pivot' with this heavy infrastructure and operational framework."

Senthil has seen some management teams complement their existing team's capabilities and experience with new talent that brings different skills and capabilities, such as social media management or optimizing brand offerings for millennials. Retailers are also investing and incubating new, emerging retail concepts within their group, offering a new route to take advantage of innovative propositions.

Make a sustainable plan

The fundamental challenge and opportunity for retailers is to be relevant and achieve sustainable growth. "In the United Kingdom, we have seen the use of company voluntary arrangements (CVAs) as a tool for restructuring some high profile retail names," Senthil says. CVAs are a formal compromise arrangement between a company and its unsecured creditors to restructure its liabilities and provide a launch pad towards a viable future. "This can offer a useful way for retailers to exit unprofitable stores and begin to restructure operations and cost base. However, CVAs need to be part of a viable turnaround plan for the business to ensure a longer-term, sustainable solution.

"We support management teams, shareholders and lenders of retail businesses to have a robust business plan and select the optimal restructuring option to deliver their turnaround strategy," says Senthil. "We can assist them to analyze their internal data as well as augment that with insights from our leading location planning tools, and help them consider the risks and opportunities involved in their proposed change initiatives. Being able to draw upon practical, senior leadership experience of retail transformations and turnarounds is very important in these situations, which is why we're delighted that Patrick Woodall recently joined Grant Thornton UK as an advisor. He has more than 35 years' retail experience and is the current non-executive chairman of LK Bennett. His unique experience and wide-ranging skillset will help our clients capitalizse on growth opportunities and navigate the challenges faced in the sector."

Action plan: future-proof your retail business

Knowing your customer is key. This is not news, but retail giants shouldn't get too comfortable—or it could lead to their downfall. Along with understanding and predicting behaviour, making a sustainable plan will allow the business to adapt in this age of retail disruption—be that by investing in new technology, training or hiring appropriate staff, or taking decisive action to revise its business model.

Grant Thornton has the industry expertise to both challenge and support management teams to help them improve and change in response to disruption. Contact Daniel Wootton, Simon Trivett, Senthil Alagar and Kevin Kelly or visit our global recovery and reorganization page for experts in your region.

Create your action plan

- Know your customer
- Invest in the right tech for the right reasons
- Prepare and train staff for a changing marketplace
- Decide what action you can take right now

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