



# The future of retail – Is the truth out there?

With so much speculation around the shape of retail to come, what does the medium term look like for retailers and suppliers? **Steve Bohling** reports.

**IN THE SECOND HALF** of last year, **Bud Little** and **Doug Robertson**, on behalf of *NZ Hardware Journal*, set to working their way around key senior level people in the industry, suppliers and retailers alike.

A useful by-product of all this documentary work has been the accumulation of general attitudes and outlooks, including the major concerns of both ends of the supply chain and what each group considers their own and the other's major challenges ahead.

The upshot is that this serves to form a useful snapshot of both intentions and attitudes around the New Zealand channel at this point in time, some of which we will share with you now.

## THE SUPPLIERS' GREATEST CHALLENGES

From the supply side, some things haven't changed fundamentally, even if the rate of change is increasing.

Suppliers are concerned about their customers becoming competitors.

They're worried about a perceived "duopoly" of the two big players in the DIY sector.

They're increasingly polarised around demands for exclusivity and pressured by the ongoing rationalisation of suppliers.

They're being squeezed by new trading terms, rebates and discounts, and are experiencing general pressure on margins from "aggressive and price driven" retailers and merchants.

And, with the increasing presence of low-end, own brand products and parallel and direct imports – not to mention counterfeiting in the grey market – they're worried about how their brands can stay relevant.

Oh and they're in two minds about what to do to service online interest without aggravating their retail or merchants partners (who, they admit, are firmly in the driving seat).

## What were people talking about at #NRF15?

A round-up by SAP (<http://bit.ly/1DV5NrQ>) of the key social media talking points around the National Retail Federation's influential BIG Show in January this year shows a clear picture of what was top of mind for the attendees:

- **22%** Investment in mobility (moving from fixed to mobile POS).
- **19%** Retail technology solutions (RFID and beacon technology).
- **15%** Global e-commerce (getting the right local partners and tailored content).
- **10%** Optimising omni-channel.
- **10%** Big data for consumer insights.
- **8%** Digitising in-store.
- **8%** Personalised customer experience.
- **7%** Cloud solutions.
- **4%** Internet of Things.

Also at the NRF BIG Show, **Robert Safian**, Editor in Chief and MD of *Fast Company*, talked about "Generation Flux." The only prediction he was happy going on the record about was that the retail world "will not be static, it will keep changing – as much as it may feel like it's changed in the last two years it gonna keep changing at that pace and we have to get ourselves prepared for it!"



### RETAILERS' & MERCHANTS' BIGGEST CONCERNS

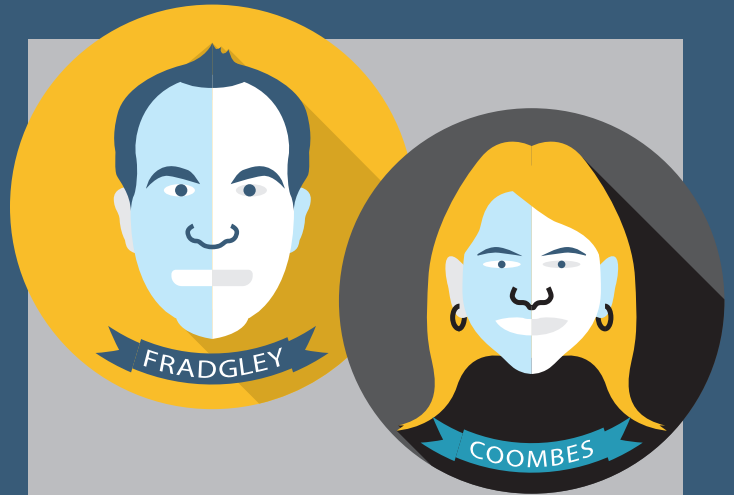
As to the retailers and merchants, many of their concerns are shared with their supply partners. For example, retailers and merchants are also worried about this "duopoly" of the two big players in the DIY sector.

Retailers are also trying to establish parameters around price and value, are wary of suspect quality imports and, interestingly, also see exclusive brands as a challenge, but will still seek to further shorten supply side lead times.

Key challenges for retailers and merchants we polled include coping with the pace of change, including both general and construction industry legislation and compliance, and countering the inroads being made into the hardware market by non-traditional retailers.

### START OF A NEW AGE OR ARMAGEDDON?

So, over and above inevitable innovations like click & collect, and actively improving the channel's offer to the growing



## View from the top

We asked **Dean Fradgley**, Fletcher Building's Chief Executive, Distribution New Zealand, and **Jacqui Coombes**, Bunnings NZ General Manager, some quick-fire questions about their short to medium term outlook.

### What are your three key New Year's resolutions for 2015 as a merchant or retailer?

**Dean Fradgley:** Service, service and service – the customer is the King/Queen and we aim to constantly improve our service to them. Our customers work so hard and we know their time is precious. We want to help them as much as we can. We are focusing on rolling out our Service Charter which pledges to get the things right that our customers tell us are very important to them.

**Jacqui Coombes,** Bunnings NZ General Manager: To continue to deliver on our promises of lowest prices, widest range and best service. Don't be complacent. Innovate and improve – with everything!

### Can the pace of new retail store openings continue?

**DF:** The competitor landscape is pretty intense and that can only be a good thing for our customers. Incremental store openings and network expansion can only be sustained if those sites are profitable and the customers want to use them. I saw the same in Europe and the lesson was that large format stores in secondary sites were too expensive to run through an economic cycle. Those organisations then focused on tighter, smaller sites with less fixed costs.

**JC:** If the customer need is there yes, it's being able to deliver to customer expectations not just more locations.

### Online commerce – is it about transactions or customer knowledge?

**DF:** Omni channel and e-commerce is really interesting. Customers want both – knowledge, technical features and benefits in certain areas. In other cases, where it is a clear "I know what I want and I want it now" purchase, the online transaction is ideal. The reality is that it is both knowledge and transaction across a project – the industry is suited to omni-channel in some areas more than others. Click & collect has been huge in the USA and Europe and I suspect it will grow here exponentially.

**JC:** Both of the above!

### In-store technology – where next?

**DF:** Augmented reality, video apps, scan for knowledge. I wish my local pub did an app like Air NZ coffee app, where you can order your pint of Waikato before you arrive at the pub!

**JC:** In-store technology is all about efficiency to deliver a better, faster customer experience.

## Is there a future for bricks & mortar?

In a nutshell: could be, it depends on your market... GfK recently hosted an interesting session in Auckland exploring the changes in the relationship between bricks & mortar retailing and the increasingly mobile consumer.

The session, entitled *Bricks & Mortar Mobile*, was based around stats and attitudes derived from Futurebuy, GfK's annual survey of shopper attitudes and behaviours.

GfK's conclusions confirm what everyone already knows – that people are not only using the internet to search for the best price and for products & services but are also increasingly looking for general information about products and actually making purchases.

However there is a clear if not consistent split in attitude and outlook between early adopters – a group GfK is calling Leading Edge Consumers (LECs) – and Average Joes and Joannes (everyone else).

For example amongst LECs it's clear that **bricks & mortar is declining**. Some 70% of these LECs said traditional stores are much less important to their shopping than few years ago, that they can shop for almost everything they need online and can see a future where traditional retail stores will not be a big factor in their shopping.

Fewer but still almost half of shoppers outside of this elite group agreed with the above.

These LECs are also **less loyal to any one retailer or brand** – unless they get something in return. Indeed, more than three quarters felt "more in control than ever before when shopping", but almost as many may think differently about being loyal to a brand or retailer which gave them input into what they bought.

The "other" shoppers polled disagreed with the last point...

As you'd expect, for our LECs, our top shoppers, mobile devices are becoming central to their shopping habits with well over half saying they make **mobile payments** whenever possible and are planning on making more mobile payments in the next 12 months.



The percentage of other shoppers who agreed with these points was quite a bit less.

**Security concerns** about shopping online were shared by both the elite and Average Joes and Joannes. The main difference is that three quarters of the LECs would trade this off against websites that keep track of their visits and make tailored recommendations.

In contrast, a little over a third of non-LECs went along with this trading off of perceived security against a curated experience.

This may be part of the reason why GfK's Aussie markets stats show that the number of smartphone users who are showrooming – saw product in-store then bought it on the phone elsewhere – halved in 2014 compared to 2013.

The decrease is less dramatic when it comes to tablet users but the pattern is the same. In both cases almost a quarter of respondents who saw the product on the phone then went in-store to purchase it.

<http://www.gfk.com/au/>


number of customers who want to transact and be informed online (of which you can find more in the sidebars dotted around these pages), where to from here?

Both sides of the equation agree that for the benefit of all parties there needs to be greater visibility and transparency around ordering, lead times, inventory, sales etc – and that technology will be the enabler of progress in this respect.

Both also agree that, despite the presumption that own brand and exclusives won't be going away any time soon, there will be more focus on long term relationships and trusted brands.

Another key change may be who talks with whom. Suppliers will increasingly have to engage not only with the retailer but also the retailer's customers. Some of our respondents even went so far as to suggest customers will order in-store, but direct from the supplier...

I am conscious that all this paints a picture of both business as usual, as well as changing relationships. I am also conscious that this exploration doesn't solve anything and that there will probably always be tension between the demand and the supply sides of any industry.

However this tension clearly isn't intractable – this actually isn't an industry at loggerheads. I hope our research has been useful to gauge that both demand and supply actually do see the same picture and indeed agree upon some of the paths towards better business. 

## 10 Things every retailer should be considering

As you can see around these pages, we have been looking far and wide for key attitudes, trends and innovations.

How frustrating then to find that almost all of our findings have been already encapsulated and succinctly to boot by those clever global futurists at PSFK, in their report *The Future of Retail 2015...*

To précis the following 10 pearls of wisdom, PSFK offers the following: "The physical store remains a critical component of the shopping experience for retailers, brands and consumers. But if retailers continue to fail to connect with the modern consumer, many more stores will close and the shopper will simply give up waiting for the revolution and buy everything and anything through the personalized, synchronized, multi-device, communal retail experience that many online retailers already offer."

In other words, work out ways to connect with the customer:

1. **Be there and everywhere** – Enable customers to shop anywhere on their own terms.
2. **One-click everything** – Enable customers to plan their own perfect store experience.
3. **Power to the people** – Give associates the tools to connect with customers in more ways.
4. **Digitise the real world** – Connect customers with the right information, right now.
5. **Everyone of a kind** – Create a personalised shopping experience for every customer.
6. **Be the hub** – Transact in culture, experiences and relationships.

## The case of the incredible shrinking retailer

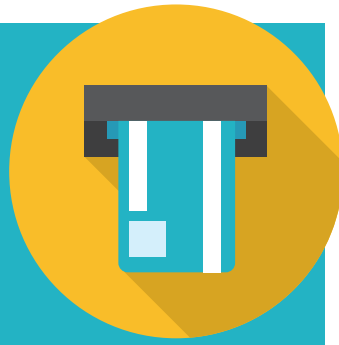
In a recent article on the excellent Transworld Business website ([www.business.transworld.net](http://www.business.transworld.net)), US consultant and analyst Jeff Harbaugh

talks about the implications for marketers and retailers facing an “unprecedented rate of change”.

Candidly admitting “I’m not sure I have any idea what will happen a year from now, let alone five years,” Harbaugh nevertheless posits the following trends around how and where retailers will be soon doing business:

- That there will be a reduction in retail space, the US and UK especially being overshopped per capita of population, he says.
- This will lead to reduced inventory as retailers’ physical footprints shrink.
- All but high-end malls will continue to see reducing traffic and spending.
- New technologies like 3D printing are enabling affordable, short run, more customised products.
- Digitally generated sales will continue to grow and possibly even accelerate – so long as retail logistics improve.
- How to achieve real product differentiation? “Making a product at least occasionally hard to find will matter,” says Harbaugh.
- Meet the customer on their own turf – “Decisions about where and how to distribute will need to be made on a case by case basis... unless you do your omnichannel connection so well that it doesn’t matter where you’re distributed as long as your merchandising is well done.”

[www.jeffharbaugh.com](http://www.jeffharbaugh.com)



## Can mobile make your employees look great again?

It feels like the debates, hopes and fears around the relationship between mobile devices and retailing have been discussed since the turn of the century but in fact it was in just the last year that retailing has embraced mobile.

Mobile may have been around since 2007 when the first iPhone was introduced but a new report from Retail Systems Research (RSR) says the tipping point at which time retailers stopped fearing mobile and started thinking about ways to make the most of it came in 2013/2014.

Yes it was just a year ago, says RSR, when US retailers’ worries about showrooming were put aside in favour of driving consumers into stores.

Says the report: “Consumers are in love with their mobile devices; the best thing any retailer can do right now is think creatively about how to leverage that relationship. And with stores in such need of reinvigoration, it has the potential to be a match made in heaven. Mobile’s greatest opportunity is to help return the store to relevance...”

With the caveats that we no longer live in “a world with one-size-fits-all challenges – or solutions” and that there’s a “common tendency among those whose sales are hurting to overhype the saving power of a single technology”, the subtext of RSR’s report is probably “seize the day!”

Two of the most telling extracts from its 2015 Benchmark Report, *Mobile Retail Finds New Purpose*: “Customers expect more from the in-store experience than ever before. It’s time to meet their expectations.” And “The time is long overdue. Mobile must become part of every retailer’s DNA.”

Small retailers might be looking for deeper customer engagement to drive sales through personalised offers, while mega retailers for their part might be looking for deeper customer engagement to build loyalty through mobile channels.

But RSR’s benchmark retailers also almost all see mobile as a way to get store employees up to speed: “Mobile devices in the hands of employees can rectify the inequity between mobile-informed shoppers and those people expected to serve them,” says RSR.

This will be especially relevant for retailers selling higher ticket goods, because “the more complex the product being sold, the more employees are being outgunned”.

“For purchases where a significant amount of pre-purchase investigation goes on (TVs, furniture), retailers see tremendous opportunities for mobile to make their employees great in front of the customer.”

[www.rsresearch.com](http://www.rsresearch.com)



7. **Imagine the ideal** – Sell customers on an aspirational lifestyle.
8. **Experiences not products** – Design new ways for customers to get hands-on with products.
9. **Zero inventory** – Transforms your store into a digital showroom and on-demand delivery hub.
10. **Kill the checkout** – Treat the entire store as a place where customers can tap to pay.

Now clearly not all of these exhortations will necessarily work in the local context, but they do indicate that some retailers have work to do if they want to tick off even half these points of best practice...

[www.psfk.com](http://www.psfk.com)