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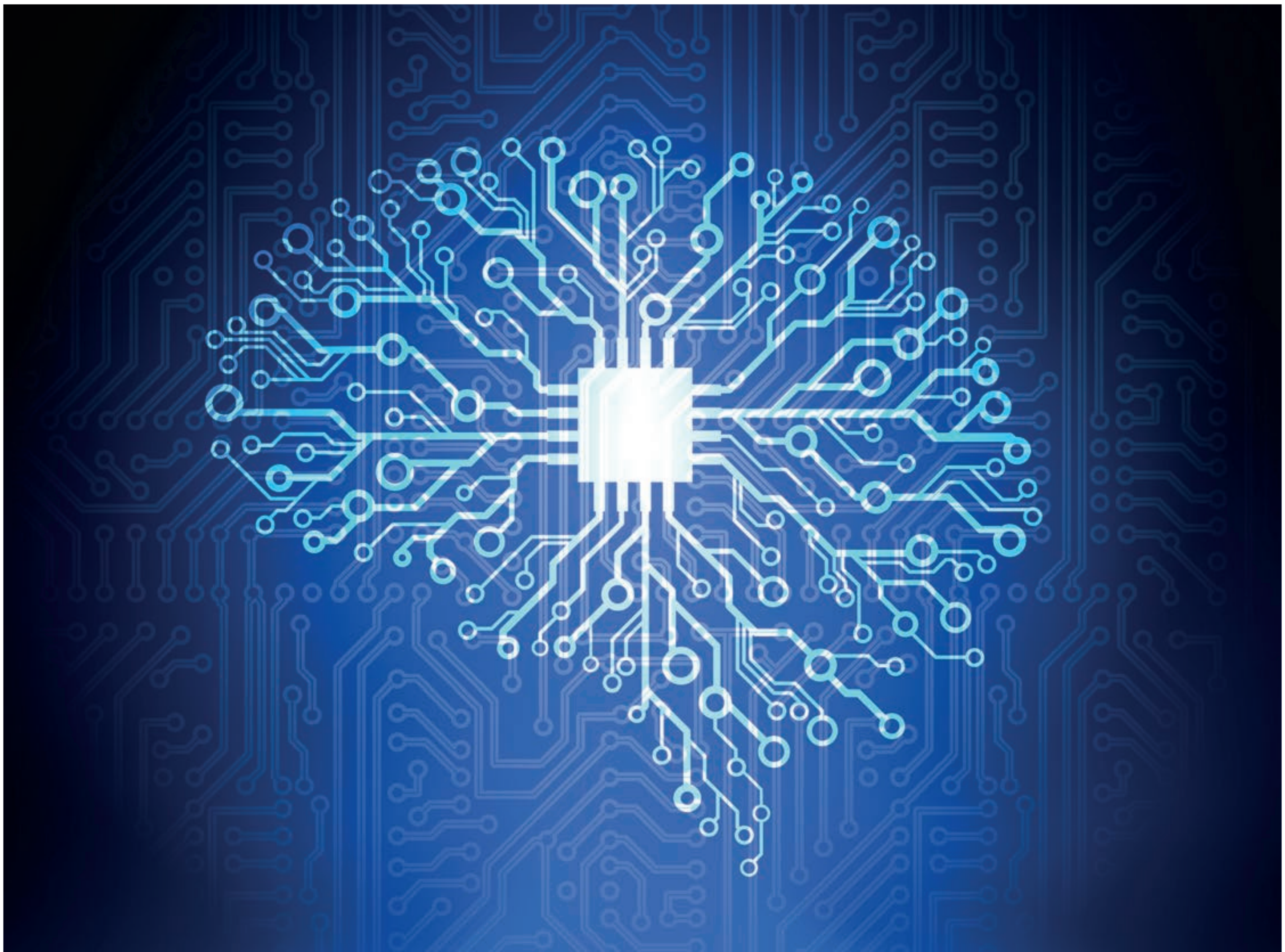

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EDITOR'S COMMENT

Luke Tugby

Stark Black Friday divide reveals two retail worlds

Shopify president Harley Finkelstein described retail as a tale of two worlds in our recent interview – the "resistant" and the "resilient" (see page 8).

"Resistant" retailers, he said, are "just waiting for this pandemic to be over so that they can go back to doing things the way they always did".

The "resilient", by contrast, are "future-proofing" their businesses by embracing the digital shift that has accelerated a during the coronavirus crisis.

The polarising fortunes of those two retail worlds have perhaps never manifested themselves quite so starkly in one day as they did last week.

Black Friday lived up to its name in more ways than one. On a day when the resilient flourished, raking in revenues during a digital discounting bonanza, the resistant floundered.

As retailers that have built their ecommerce capabilities kept the tills ringing at a pace despite their stores being closed, those that have rested too heavily on their bricks-and-mortar laurels could only watch helplessly as they suffered further market share erosion on one of the busiest shopping days of the year.

It did not have to be that way. Dixons Carphone offers a great example of a traditionally bricks-and-mortar-based retailer that has shifted investment into its digital capabilities over the past few years and is reaping rewards. Its Currys PC World business received almost six orders a second on Black Friday, helped by the ShopLive video shopping tool it introduced during the pandemic. The retailer dispatched around 4,000 products an hour over the weekend.

Arcadia could only dream of such figures, as Sir Philip Green's fashion empire endured a Black Friday for very different reasons. The group, which has been squeezed by value players Primark and H&M and online rivals Asos and Boohoo over the past decade, slipped further towards administration – a fate that was sealed by Monday.

Arcadia wasn't the first and certainly will not be the last fashion victim of this pandemic. But its demise could have been avoided. Topshop was one of the biggest players in UK fashion less than a decade ago. But as Finkelstein alluded to, it was guilty of "doing things the way they always did" and hoping that would be enough to sustain success.

They failed to keep up with changing shopping habits or to invest in their digital capabilities at the speed required to protect it against emerging online rivals. The fault lies at the very top of the business.

Following its CVA last year, Arcadia blamed its woes on the "increasing switch from in-store to online shopping". By the time the CVA scraped through a creditor vote, the £60m Arcadia pledged to plough into its online capabilities was never going to be enough. It earmarked a greater sum, £75m, to refurbish its stores. That encapsulates Green's undoing. His retail empire and the 13,000 people it employs could now pay the ultimate price for that short-sightedness.

Green's retail empire and 13,000 people it employs could now pay the price for short-sightedness

It is not too late for others. It is not too late for retailers to focus their energies on their digital capabilities or to form partnerships with businesses that can plug gaps in their areas of expertise.

Just ask Marks & Spencer and Pret a Manger. Both are businesses that relied heavily on stores and, by their own admission, were slow to embrace a digital culture.

At the start of November, M&S lifted the lid on its MS2 plan, combining its online, data and digital trading teams in a move that "flips the model" on which the entire business is run.

Pret has had to make similar shifts during the pandemic, transforming what boss Pano Christou labelled as "woeful" tech capabilities to create its own smartphone-driven coffee subscription proposition in just six weeks.

Such achievements are possible with the right strategy and investment focus. Retailers cannot afford to be on the wrong side of a divide that Black Friday so brutally exposed. **RW** **See the latest on the collapse of Arcadia and Debenhams on Retail-Week.com**

Read Luke's articles at **Retail-Week.com/Luke-Tugby** **Luke.Tugby@Retail-Week.com** **@LukeTugby**

THE BIG STORY

High street hit as Debenhams and Arcadia collapse

Arcadia's demise puts 13,000 jobs at risk

The collapse of 207-year-old department store group Debenhams and fashion giant Arcadia threatens the livelihoods of 25,000 people and raises questions not just about their future, but what that means for the wider retail industry

Who could potential buyers be?

While the impact of the pandemic hit Debenhams and Arcadia hard, both have struggled for several years and lost market share to competitors.

However, some of Debenhams' stores and assets such as own-brands are likely to appeal to buyers.

There is likely to be interest in deals for particular branches or parcels of stores. Next is an obvious contender. The fashion giant is pushing hard into the beauty category, a mainstay of Debenhams, and has already taken over some former Debenhams premises for its new beauty and home format.

Next chief executive Lord Wolfson said, when its plans were revealed, that it was "creating a new force in beauty retailing". Debenhams' latest difficulties may give him the chance to cherry-pick more of its premises.

JD Sports, which had considered buying Debenhams only to terminate its interest this week after a poor reaction from investors and the administration of Arcadia – Debenhams' biggest concessionaire – may also still be interested in the opportunities thrown up by the decision to wind down Debenhams.

So will tycoon Mike Ashley who has had a longstanding interest in winning control of Debenhams.

Shore Capital analyst Greg Lawless observes: "We believe Frasers Group will be watching developments closely, potentially looking at acquiring pockets of stock and certain stores, together with running the rule over the Maine and Mantaray own-label brands."

He estimates the two brands generate sales of £150m in their own right. In the past, retailers' own-brands have been acquired following their owners' collapse – Argos owner Home Retail, for instance, bought Woolworths' Chad Valley toy brand following Woolies' demise.

Debenhams' brand and website might also draw interest. Online shoppers can still buy from BHS – the brand is licensed and the business specialises in what the original BHS was most famous for: lighting. Similarly, menswear retailer TM Lewin is now online-only after closing its stores in July after the pandemic hit sales through stores.

However, one industry source questions whether Debenhams' online business would be a sufficient draw on its own to attract much interest. He believes that without stores it would struggle to have sufficient appeal to shoppers and it would be unable to reap omnichannel benefits such as the opportunities from click-and-collect.

He believes there could be value for a buyer in taking control of about 40 Debenhams shops and the website – and to buy Debenhams' successful Magasin Du Nord business in Denmark, which is not part of the wind-down – and use it as the springboard from which to build a new business.

The obvious candidate to buy Debenhams, or most of it, must be Ashley, who could wring the benefits of combined ownership with his Frasers department stores – and perhaps buy Arcadia brands to add to the mix.

Former Fenwick chief executive Robbie Feather says: "From a trading perspective, [Debenhams] has quite a few strengths – ironically, I think the core retail business is stronger than House of Frasers' was because of that high percentage of own-brand and its own sourcing.

"If you own all the brands and you can generate high-margin product in clothing, you've got a good beauty business and quite a good digital business, then I think there's good mileage in it.

"If you put that together with House of Fraser, you start to build a picture where you can put 20-plus points on your margin by selling brands you own and you reduce the number of other peoples' brands so your sales don't get disintermediated."

While the Arcadia empire is made up of eight brands in total, its best chance of survival will be to be sold off in parts says GlobalData senior apparel analyst Chloe Collins, "with each given the attention and investment needed to stand out in the competitive UK market".

All eyes will most likely be on the jewel in Arcadia's crown, Topshop, which is understood to have reportedly already attracted interest from potential suitors including Boohoo, Asos, Next and Ashley.

Frasers Group offered Arcadia a £50m loan, which was turned down, but Ashley has stated an interest in being a part of the sale process for all or some of the group's brands.

Independent retail analyst Chris Field believes Ashley will most likely be in talks to secure Arcadia's stock, which he could sell through his own retail channels as well as with third-party discounters – leaving the brands with little value in their own right.

For Boohoo, both Topshop and Topman could be complementary additions to its portfolio, boosting its menswear division and adding to its bulging portfolio of on-trend womenswear brands.

The fashion giant also specifically set aside funds earlier this year for acquisitions, purchasing the online businesses for Oasis and Warehouse after they collapsed into administration in June.

Arcadia's Miss Selfridge brand, which has a smaller online and physical footprint, has been working with Asos on a wholesale basis for longer than its counterparts so could be a better acquisition to switch to online-only.

Collins believes Miss Selfridge has always lagged behind its competitors so could do with a boost from one of the online players. "Miss Selfridge has probably had the most competition come in the last few years from brands like Boohoo and In The Style. There are so many young fast-fashion brands and Miss Selfridge is a lot more expensive than most of them," she says.

"It might be better quality but young shoppers just want the latest fashion quickly and cheaply so it has struggled to stay relevant.

"It never does any influencer partnerships or celebrity collaborations so it's fallen behind on social media.

"Topshop has been affected in the same way but it still has a bit of brand relevance hungover from previous years."

But if a pureplay retailer were to acquire any of Arcadia's brands it would likely be an online-only move, leaving its stores and the vast majority of the group's 13,000 jobs behind.

The rest of Arcadia's portfolio could also do with a digital push to regain relevance within the fashion market.

"Next and M&S have reportedly shown interest in bidding for some of Arcadia's brands, particularly Dorothy Perkins and Burton, which would have the most appeal among their target demographics," explains Collins.

"However, Burton's ranges which mainly focus on formalwear, have been largely redundant throughout the pandemic as consumers work from home and social events have been cancelled."

Two brands most likely to disappear by the wayside are Wallis and Evans.

Wallis suffers from a focus on workwear, while plus-size specialist Evans have been displaced in the market by trendier brands such as SimplyBe, as well as the extension of many mainstream brands' sizing.

What will the ripple effects be?

The downfall of Arcadia has undoubtedly caused a domino effect, triggering JD Sports to pull out of the deal to take over Debenhams, which in turn led to the high street stalwart tumbling into administration.

While bad news for those that work there, Debenhams's problems may spell opportunity for others, particularly in beauty. Almost a third of Debenhams' 19 million UK customers are beauty shoppers and the retailer holds leading positions in upscale make-up, skincare and fragrance. It has said it is the "UK market leader in online premium beauty", which generates sales of about £100m.

"Look at the amount of market share that's up for grabs," says one industry source. "Boots has got to be going after that."

Similarly, in the event that stores close, other retailers will aim to scoop up market share in categories such as fashion. Along with Next, apparel retailers such as M&S stand to gain.

In the short term, as clearance Sales get underway soon at Debenhams stores, the issue that might affect others is the extent of discounting – especially ahead of Christmas after a difficult year. One industry source maintained that on past form, Debenhams would probably have been discounting anyway in the run-up to Christmas so the impact may not be great. However, as Debenhams is traded hard during the wind-down process, others may have to follow with price cuts deeper than anticipated.

Field believes the administrations and discounting at Christmas could be the straw that breaks the camel's back for many fashion retailers to scale back their store estates and instead invest in improving their online propositions.

"Anyone who is running a retail chain at the moment will be looking very closely at how well spread they are in terms of their channel mix," he says, adding that a retailer that may have built up a store estate of 100 or more stores could decide it needs as little as 12-15 today, and instead rely on online to drive sales.

"It's not just about Boohoo being 100% digital, it's about how they use digital – social media, influencers, marketplaces, they use every channel available," Field observes and something Arcadia's brands failed to do prior to their collapse.

The property perspective

While there was a sense of inevitability about the twin collapses of Arcadia and Debenhams, their failures will not come as any less of a shock to a retail property landscape already reeling.

At the last count, Arcadia's various brands currently occupy 444 stores across the UK, while Debenhams operates 127 department stores.

The biggest issue in the short term is the sheer scale of the retail space that could end up being left vacant. As real estate adviser Altus Group says, the closure of Debenhams' 127 stores would lead to over 11 million sq ft worth of retail property vacated.

A complicating issue in trying to figure out what will happen to Arcadia and Debenhams stores is that their property estates are very different.

Being a department store chain, Debenhams stores tend to be 50,000 sq ft-plus and are either anchors in predominantly secondary shopping centre locations or on more suburban and regional high streets.

Arcadia tends to have its flagship Topshops in more premium centres and high street locations, while its other brands tend to be smaller high street stores usually no more than 2,000 or 3,000 sq ft.

The primary challenge for the property sector is the size of the hole Arcadia and Debenhams leave on the high street versus the appetite in the market for physical expansion.

One retail property director says: "This is going to affect everyone. Everyone from the guy who owns a store on Winchester High Street to the big guys. The institutionals are going to be screwed by this.

"It's so much space coming back on to the market and there's not a single retailer I can think of that would take anything other than one or two stores."

Whether its landlords, fellow operators or pureplay competitors, the shockwaves of Arcadia and Debenhams' demise will be felt across the sector for months to come. **RW**

NEED TO KNOW

55 million people in England will be under tier two or three restrictions

Smiling through tiers: Retailers pin hopes on 'busier December'

As England enters it second tier system, 'non-essential' retail is permitted to open once more. But with hospitality still severely restricted, will the tougher rules hamper efforts to rescue the Golden Quarter? **Hugh Radojev** reports

Last Thursday, health secretary Matt Hancock rose to his feet in the House of Commons to update MPs and the country about the end of national lockdown on December 2 and a return to the tiered system of restrictions.

Hancock's role was a tough one. On the one hand, he insisted that the tiered restrictions have been beefed up to better contain the virus and save lives. On the other, he had to allay the anger of an increasingly vocal wing of his own Conservative Party, who disagree with the measures, and industry groups who fear vast swathes of the economy will not survive to see the arrival of vaccines in the spring.

Hancock and the government also had to ward off growing criticism from the scientific community about the rationale behind its plans to relax restrictions across much of the country between December 23 and 27.

While no retailer is expecting Christmas to be anything like normal this year, businesses are growing increasingly optimistic about how it will play out.

Quiet confidence

Crucially for retail, all non-essential shops are allowed to open now England has returned to tiered restrictions. Other high street operators such as hairdressers, gyms and places of worship will also be allowed to reopen.

Waterstones chief executive James Daunt sums up the mood of the sector: "Well, I can tell you being open is a damn sight better than not being open," he says.

Daunt believes there will be plenty of demand for physical retail in the lead-up to Christmas. "Once we are all open again, people will be spread out more equitably and that generally must be a good thing. And we will all get busier as December progresses."

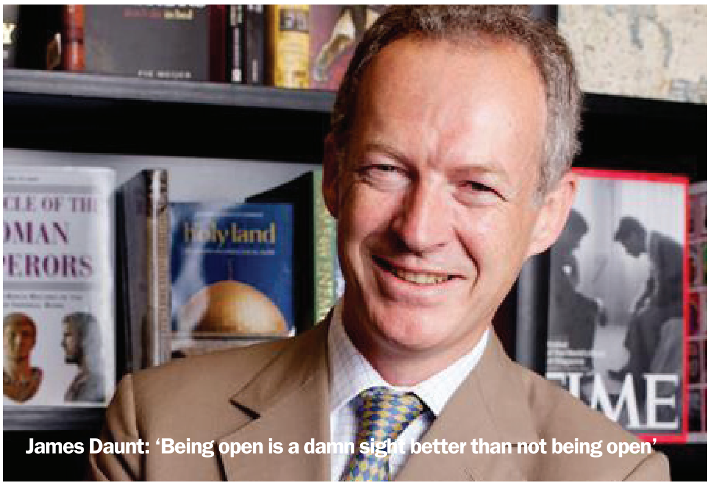
Marks & Spencer has also welcomed the easing of restrictions on non-essential retail, with a spokeswoman saying the reopening of non-food sections within stores will have a positive effect on sales in the run-up to Christmas.

"Being a retailer with stores across England and the devolved nations, we've become very flexible and agile at working with the various restrictions as they've been introduced," she says.

"Obviously we welcome the chance to reopen our clothing offering in stores from Wednesday. Having our full offer available in stores will allow our customers to plan their spending ahead of Christmas.

"Our Sparks Book and Shop [shopping reservation tool] has had great take-up with over 127,000 reservations already, and we're also going to extend our opening hours to midnight across 400 of our stores."

Just as the take-up of M&S' Book and Shop service suggests, Diane Wehrle, marketing and insights director at footfall specialist Springboard, predicts there will be high demand from customers when stores are allowed to reopen.



James Daunt: ‘Being open is a damn sight better than not being open’

“After stores reopen, I do think you’re going to see a lot of pent-up customer demand,” she says. “The drop in footfall in the second lockdown was nowhere near as pronounced as in the first. People are still going out and I think they’re desperate to get some activity and interaction.”

Such cautious optimism is shared by other retailers, including Poundland.

The value chain worked with YouGov on a survey that found more than two-thirds of consumers want to buy gifts and food in stores during December.

The data also suggested that 43% of Brits plan to spread their Christmas spending out over a broader period than usual this year, while 45% of the 2,000 consumers surveyed said they would not cut back on their festive spending, despite the pandemic.

A Poundland spokesman said that a relaxing of the rules around Christmas and the impact of government schemes on protecting many workers’ incomes offered other reasons to be confident.

“You’ve obviously had people on furlough and many people still working. There’s also been less to spend money on – people haven’t been going away, people haven’t been going out to hospitality venues. There’s going to be money to spend and I think people will want to treat themselves a little after the year we’ve had.”

Sales predictions by Mintel would appear to support that view. The market research firm has forecast that retail sales in November and December will hit a combined £81.7bn – just 0.4% down on 2019 levels. While food sales will account for the majority of that, Mintel still expects non-food sales to exceed £33.3bn.

Down the drain

While hopes of a good Christmas are therefore building among retailers, the same cannot be said for those in the embattled hospitality sector, which has been hit hard by the new restrictions.

In tier-two regions, pubs and restaurants can only serve alcohol “with a substantial meal” and households are not allowed to mix. In tier-three areas, pubs and restaurants are not allowed to open at all.

Given that more than 55 million people in England have been placed under tier two or three restrictions since Wednesday, the impact on pubs, bars and restaurants will be devastating, according to UK Hospitality boss Kate Nicholls.

“The new tier system will deliver another huge blow to hospitality, with 98% of trade now happening in tier-two or -three regions. This will see £7.8bn of trading wiped out compared with last year if the restrictions last all of December,” she warns. “These are safe spaces for people to meet, relax and socialise, and the sector is desperate to get staff back to work, open their doors and, in the long term, diminish reliance on the public purse and begin driving economic recovery.”

Mayor of the West Midlands and former John Lewis managing director Andy Street agrees. Much of Street’s constituency has moved up at least one tier since the national lockdown began, with Birmingham and much of the West Midlands poised to enter the most severe level of restrictions.

“While people might disagree with this non-negotiable decision, what is now critical is to ensure the region moves out as safely and quickly as possible,” he says.

“Given the trajectory our rate of infection is on, I am hopeful it won’t be long before we see a shift to tier two.”

Street insists that until then the affected high-street businesses in his constituency need more financial support from the government, plus proof that closures are actually preventing the spread of the disease.

“There clearly needs to be further economic support to help mitigate the damage that tier three brings – particularly to the hospitality and conference/exhibition sectors,” he says.

“Away from the financial support, the government also needs to provide clear epidemiological evidence as to why the hospitality sector is forced to close in tier three.”

Springboard’s Wehrle believes pub and restaurant closures in tier three will have a knock-on effect on high street footfall.

“You’re going to see fewer people on the street in tier three areas,” she says. “Dwell times will be shorter because, unless you’re going into a store, where else is there to go? You can’t go anywhere and have a meal or coffee and those are the elements that encourage people to stay longer in retail destinations.”

Although he is optimistic about how Waterstones will trade amid such challenges, Daunt harbours concerns about the future for independent high street businesses.

“You only have to walk down high streets at the moment to see the cataclysmic effect of closures and we haven’t even begun to get to the end on that,” he says.

“The people who are going to come through this are the kind of business that I run. We’ve got enough scale and we’ve got a website. So, actually, we’re all right. But what about the candlestick-maker next door to us? They’ve been totally screwed by all of this.”

For many retailers, the lifting of national lockdown and the reopening of non-essential stores brings some early festive cheer.

Christmas may be merrier than most had feared just a few weeks ago, but a happy new year might be out of reach for other parts of the high street. RW

The drop in footfall in the second lockdown was nowhere near as pronounced as in the first. People are still desperate to get some activity and interaction
Diane Wehrle, Springboard

M&S has welcomed the chance to reopen its clothing division

INTERVIEW

Harley Finkelstein

It feels like the retail world that would have existed in 2030 has been pulled into 2020. Covid has permanently accelerated online commerce and changed the landscape forever
Harley Finkelstein, Shopify

The man powering one million retail websites

Shopify president Harley Finkelstein tells **Luke Tugby** how today's retail landscape has become a battle between the resistant and the resilient

Animated, smiling and brimming with excitement, Harley Finkelstein does not exude the air of a man running a business in the midst of a global pandemic.

The positivity from the president of Canadian ecommerce platform Shopify is palpable – and a refreshing change from the tone of many retailers battling to navigate the current crisis.

It's no wonder Finkelstein is so chipper. Shopify's star is soaring as it helps retailers cope with the unprecedented level of online demand during the pandemic. Last quarter alone an eye-watering $30bn gross merchandise volume was spent across Shopify's network of websites.

Needless to say, Finkelstein is excited by what lies ahead.

"I think right now is the most exciting time for retail since John Wanamaker created Wanamaker's department store – the first department store in the world – in Philadelphia in 1876," Finkelstein says.

Finkelstein can afford to be optimistic – Shopify, after all, occupies an incredibly sweet spot in a rapidly changing retail market.

The business has disrupted and democratised the online market since its inception in 2006 and harbours an ambition to become "the world's first retail operating system".

It provides customers with stock tracking, payment and website platforms, and offers access to its shipping network, for as little as $29 a month for new businesses, or $299 a month for larger companies that want access to a greater range of capabilities.

Shopify passes on its economies of scale in areas like logistics to the companies it works with, levelling the playing field by allowing a brand new business to operate with the cost efficiencies enjoyed by some of the world's biggest retailers.

As a result, Shopify's 1 million-strong customer base now spans: up-and-coming entrepreneurs selling products out of their living room as a "side hustle"; retailers like Gymshark, Graze and Allbirds that have grown exponentially working alongside Shopify; and already established brands such as Heinz, Lindt and Polaroid, which have turned to Shopify to power their direct-to-consumer (DTC) drives

During the coronavirus crisis, Shopify has launched local kerbside pickup as a fulfilment option for its vendors and struck eye-catching partnerships with Walmart – allowing its vendors to also sell on Walmart Marketplace – and TikTok to launch shoppable video ads.

It has also expanded its Shopify Capital programme to offer $200m in funding to start-ups in Canada and the UK, and launched Shop – an app that allows consumers to find products, place orders and track deliveries from a multitude of brands, all in one place.

Retailers – the resilient vs the resistant

But perhaps the biggest indication of the 14-year-old company's progress came in July when its gross merchandise volume – the amount spent by consumers across Shopify's network of websites – surpassed that of rival eBay for the first time, rocketing 119% to $30bn (£23bn) during its second quarter.

"It feels like the retail world that would have existed in 2030 has been pulled into 2020. Covid has permanently accelerated online commerce and I think it has changed the retail landscape forever," Finkelstein says, explaining the rapid growth that pushed Shopify's market cap through the $110bn barrier this year.

"What we're seeing is a tale of two retail worlds. On one side, you have these resistant retailers who are looking to go back to the status quo. They are just waiting for this pandemic to be over so that they can go back to doing things the way they always did, but that's not going to be the case. On the other side, you have these resilient retailers who are future-proofing their business – and a lot of them are using Shopify to do that.

"That resilient side is quite inspiring, it's exciting and it's incredibly democratising. What you're seeing is brands like Fran Bishop's Pud Store, and I talk a lot about Gymshark and Lounge Underwear becoming the incumbents in their verticals.

"That is happening because the previous incumbents, which were very large, more traditional retailers, are not adapting fast enough. These digitally native brands with very innovative, forward-thinking founders and leaders are doing an amazing job right now."

Speaking on the eve of the Black Friday and Cyber Monday weekend, and the crucial Christmas trading period, Finkelstein believes it is those brands that will reap the biggest rewards during the holiday season.

In a number of its global markets, Shopify is observing an increasing propensity for consumers to seek out smaller, independent, environmentally conscious businesses with which to spend their money.

"I think the holiday season will be a blueprint for the future of retail," Finkelstein predicts, leaning forward in his chair in his home office in Ottawa. "In this new reality, independent businesses and brands and the entrepreneurs behind them will lead the retail industry.

"Consumers are voting with their wallets to support independent brands. We are all looking around at our towns and communities and saying: 'After the pandemic ends, if our town is going to be interesting, it has to have small businesses there'.

"My wife runs an ice cream shop just around the corner from our home and it is amazing to watch the number of people in our community in Ottawa send Lindsay messages about buying gift cards. It's November in Canada – it's freaking cold here, no one wants to buy ice cream right now. But the amount of interest that small businesses like Lindsay's ice cream shop are receiving is a trend that will not go away.

"I think consumers will say: 'Wherever possible, we don't want to buy from a department store, we want to buy from an independent brand and we want to buy direct'."

DTC is the future

Finkelstein insists the direct-to-consumer revolution is not "just a fad", but the future of retailing.

He points to struggling department store businesses such as Neiman Marcus and Barneys in the US as examples of "resistant" retailers that have failed to adapt quickly enough to the DTC and online dynamics. He insists that physical retailers that do not offer a strong own-brand proposition, or shopping experiences that consumers are happy to pay a margin for, will ultimately disappear.

Digitally native brands with very innovative, forward-thinking founders and leaders are doing an amazing job right now
Harley Finkelstein, Shopify

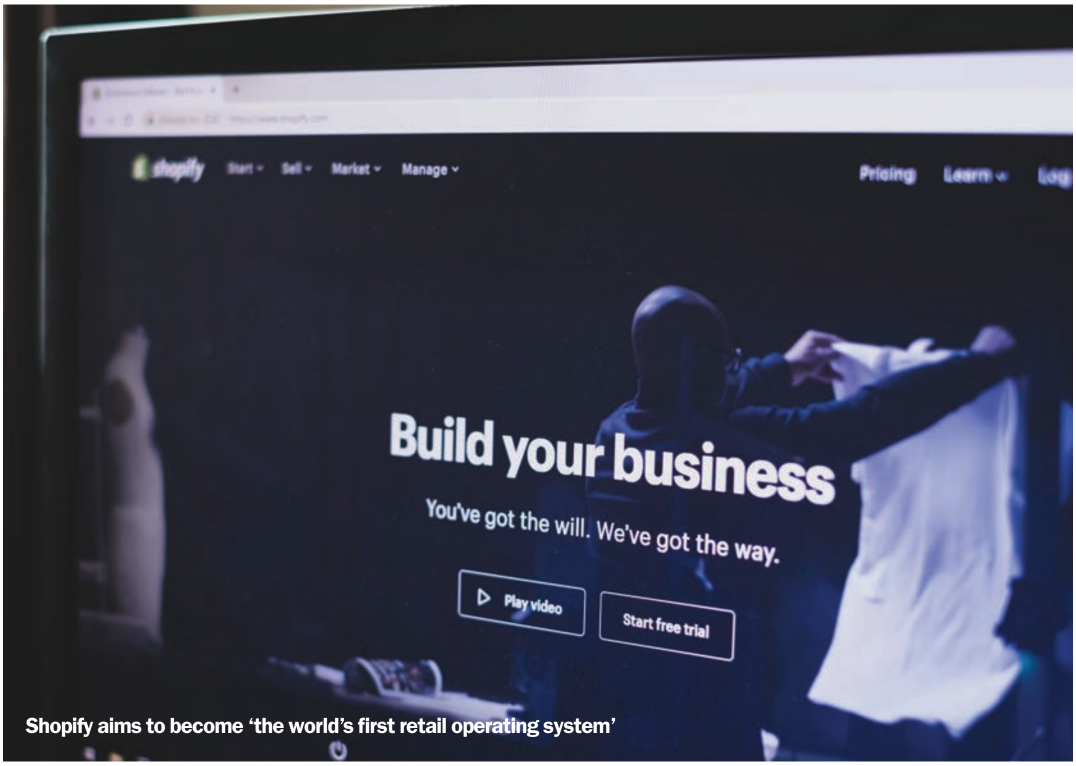
"This is one of the most important questions that our industry should be asking every single day: what is the role that the old intermediaries are going to play in the new model? The key to that is simple: it's about value-add," Finkelstein says.

"Why do I go to FAO Schwarz to buy Lego when I can buy it directly from Lego.com? It's because it's basically a carnival in a retailer. I get this great value-add experience. I am happy to allow FAO Schwarz to charge me a little bit more than I would by buying direct because they give me something of value – the experience.

"Why do I walk into Harrods in London and buy a James Perse T-shirt there as opposed to online at James Perse? Because there is a salesperson there who has an amazing understanding of every single SKU in the James Perse collection and is adding value to my purchasing experience.

"These are amazing experiences that I don't think more traditional retailers can emulate because they are stuck in their ways of thinking 'our job is simply transactional'.

"There are some that just get it, and there are some that are missing the boat. I just want to shake some of these resistant retailers to rethink their past assumptions because everything is different now."



Shopify aims to become 'the world's first retail operating system'

Selling on the social town square

The partnership Shopify struck with TikTok last month encapsulates just how different the retail landscape has become. The Chinese video-sharing social media platform did not even exist five years ago.

Last month, its app was downloaded for the two-billionth time and it has become a vital route to market for retailers across the globe. The partnership with Shopify is TikTok's first move into direct commerce, allowing customers to click through from a video ad directly to the retailer's Shopify page.

"If this was 150 years ago, we would be enabling merchants and brands to sell in the town square because that's where people were congregating," Finkelstein analogises. "The town square in 2020 and in the future is the internet and social media.

"TikTok is certainly a place where a lot more people, at an increasing pace, are congregating. It's an exciting place. It's one more place that merchants can now find consumers. The more places that commerce can connect, whether it's social media, marketplaces or a bricks-and-mortar store, the better it is for consumers.

"That's why the one thing I am dumbfounded by is this idea that multichannel is the strategy. It's shocking. The strategy is: sell wherever the consumer is, sell using the method the consumer prefers. That's the strategy. The tactic to do that is multichannel.

"So when I listen to retailers, some that don't even exist today but that were struggling in the summer, they talk about a channel conflict and online hurting their offline sales. You will never hear [Gymshark founder] Ben Francis talk about channel conflict, ever. Whether or not you buy Gymshark at the warehouse sale, at a pop-up, on Instagram, on the online store, or anywhere for that matter, that is great. You see that with Allbirds, with Lounge, with Pud Store. They don't look at retail the same way that the resistant ones do – it's all just retail and they want to sell their products in the most compelling, convenient way."

Shopify's rapid growth has been borne out of its ability to help retailers do precisely that. If Finkelstein is right, the next few weeks could offer a huge indication as to what comes next. RW

NEED TO KNOW

How In The Style reached a £100m valuation

In The Style is considering a stock market flotation valuing it at £100m just six years after Adam Frisby launched it from his Manchester bedroom, Rosie Shepard reports


Adam Frisby

The valuation would mean the fashion etailer has doubled its worth in three years. In 2017, Livingbridge Venture Capital took a £5m stake in the etailer in a deal that valued it at £50m.

While In The Style recorded a pre-tax loss of £1.5m in its latest results for the year ending March 2019, sales in the first half of this year have doubled, bringing it into profit.

Like other online fashion powerhouses Boohoo, Missguided and Asos, In The Style has made gains during the pandemic, but what else has contributed to its success?

Celebrity collaborations

When Frisby launched the business in 2014, with £1,000 and six dresses from a wholesaler, it had the potential to operate in the same vein as its fast-fashion counterparts.

However, recognising that young social media users had a tendency to copy what their favourite stars wore, he spotted a gap in the market to create a brand based on collaborations with the celebrities themselves.

Starting with *The Only Way is Essex* star Lauren Pope, In The Style has launched collaborations with a host of celebrities over the years, using their fame to drive sales.

That has been particularly successful when Frisby won contracts with stars from reality TV programmes – *Love Island* winner Dani Dyer and *I'm a Celebrity… Get Me Out of Here* winner Jacqueline Jossa both saw peaks in their fame after finishing their respective shows – meaning In The Style could capitalise on the buzz.

While rivals have also built up their social media credentials by creating collections with celebrities, they have mostly been for a limited time with a limited number of products.

In The Style's collaborators have said they get more control over designs than would be the case with other fashion names.

Frisby also focuses on creating long-lasting relationships with stars and influencers who return to create new collections again and again.

Tech-focused team

Frisby has spent the past few years bolstering his leadership team with retail experts.

His first two appointments were poached from competitor Missguided – former chief financial officer Paul Masters and global marketing director Dane Stanley both jumped ship in 2017, taking on the roles of chief operating officer and chief marketing officer respectively.

This show of faith in the brand's potential was also seen in In The Style's other appointments. It hired Sofology chief technology officer Jonathan Cleaver and experienced merchandiser James Malysz who had previously worked for All Saints and River Island.

Female empowerment

In The Style has a well-published ethos of empowering its female customers to feel body confident.

It was one of the first UK fashion labels to stop airbrushing its models in 2019, second only to Asos, launching its #ITSjustgotreal campaign.

"We want to empower our customers to be brave, embrace body positivity and most of all, love themselves for who they are," Frisby says on the brand's website.

"Our message is clear: be who you are, not what you think you should be. Collaborations are in our brand DNA, offering a unique approach to product that you won't find anywhere else.

"Our collections are designed for everyone, regardless of shape or size, inclusivity is at the core of everything we do. Whether she's looking for the latest trends or her go-to fashion staples, there's something for every kind of woman. We keep prices affordable, products reactive to demand, user experience seamless and we pride ourselves on quality of service."

With sustainability becoming more important in recent years, In The Style has also made strides to "love the planet" as well as "love yourself".

Its key promotion is for customers to recycle their old clothes using the Regain app in return for vouchers. It has also pledged to work with the Marine Conservation Society to reduce waste and plastic pollution.

The power of social

While not unique to In The Style, the business has used social media very effectively to elevate itself in a short period of time.

Frisby is active on Instagram and often posts pictures with collaborators or comments on their pages – cementing the idea that the business is built on friendships as well as financial contracts.

The brand has 2.7 million followers on Instagram – around a third of what both Missguided and Boohoo have but admirable given its age – and with 1 million active customers, engagement rates are high.

In The Style also launched its TikTok channel using videos of its stars and has racked up more followers than Missguided on the platform after posting just 41 videos so far.

While small compared to some of its competitors, Frisby has carved a niche in the market unique to In The Style, capitalising on social buzz and using collaborations with celebrities to create trends rather than copying them. RW

OPINION

Tiers and fears may disrupt but they won't derail recovery

As England enters tougher tier restrictions after exiting its second national lockdown, retailers must make the most of being able to reopen at this crucial time for the sector, says **George MacDonald**

Much of the country emerged from lockdown this week facing more restrictions than when it began in November. However, as a new year approaches, retailers can afford to look forward with some optimism after a year of turmoil.

Life as it used to be remains a frustratingly distant prospect, but the industry has adapted to the so-called 'new normal' and is better positioned to make the most of what 2021 ushers in.

And whatever else it brings, there will certainly be ongoing volatility as the pandemic plays out.

After the latest English lockdown ended on December 2, big population and retail centres such as Birmingham and Manchester are now in tier three where the strictest measures will be in force. Areas formerly in tier one have now, in the main, come out into tighter tier two rules.

But there's one big difference. No matter what the tier, all retailers including those that formerly had to shut after being deemed 'non-essential' will be able to trade.

Yes, punishing restrictions on hospitality and the general nervy mood mean footfall to town and city centres may take time to recover. But with the expectation – and political ambition – of no further general lockdowns, and optimism that a vaccine will soon start to be distributed, retailers can proceed with some confidence that they can rebuild store trade from here on in.

They certainly can't afford to take a Panglossian view.

As he unveiled his spending review last week, chancellor Rishi Sunak warned that the Covid "economic emergency" had only just begun. The UK economy is expected to shrivel by 11.3% this year and the impact, including on jobs, will take years to unwind.

However, gory as that may be, it wouldn't have taken Miss Marple to work out that the pandemic has dealt a shattering economic blow.

For retailers, the priority must be the present and immediate future. On that front they can expect some improvement in conditions that will help them, and help them do their bit to put the economy back on track.

The end of lockdown gives retailers the chance to win back some of the Christmas spend lost during the golden quarter to date. More importantly, they have some certainty as they plan for a new year.

Retailers and consumers are now used to the new ways of living and shopping that the Covid-19 outbreak heralded. Businesses are familiar with the requirements of safe trading, whether in store or in distribution centres, and they have ramped up online capacity.

They are well-placed to win spend from consumers also familiar with the changed ways in which shops operate and, while still cautious, yearning for more freedom and more fun – both looking a little bit closer following the good news on vaccines, even though widespread vaccination will take time.

George MacDonald
Executive editor
Retail Week

> **For retailers, the priority must be the present and immediate future. On that front they can expect some improvement in conditions that will help them**

There will be upsets to come and some of the changes brought by the outbreak and lockdown will be permanent. It's hard to see, for instance, working arrangements ever returning to what they were before. Retailers will need to address the radical changes to established footfall patterns in major cities that shift is likely to bring.

But, despite ongoing restrictions and uncertainty, there is surely only one direction of travel now for retail sales – up.

In its response to the tier announcement last week, the Confederation of British Industry observed that "retail can begin to reopen and look towards a recovery".

Retailers cannot afford to worry about, and cannot solve, the problems that cast a dark shadow over the wider economy.

Retail has always been the most pragmatic of industries and that will stand it in good stead. As conditions change, retailers should redouble their efforts to serve customers as effectively as possible, in ways new and old – then the tills will start properly ringing again. RW

OPINION

Read a longer version of this article
Retail-Week.com/Opinion

Why the market is more forgiving of Farfetch than M&S

Forget store data, it is customer data that is key to instilling long-term confidence in your business' investors. **Suzy Ross** talks metrics that matter

Just a few months before Marks & Spencer reported its first loss as a public company, Farfetch disclosed a quarterly loss of a much greater magnitude than M&S' £88m.

But what's striking is how differently the market reacted. M&S' share price languishes far below former highs, whereas when Farfetch posted a $436m (£329m) second-quarter loss in August its share price actually went up by 20%.

So why is the market so forgiving of ongoing substantial losses at Farfetch?

The justification is usually focused on Farfetch being valued as a technology business, but the market is also emboldened by the disclosure in its pre-filing of certain key customer metrics that give investors confidence in its long-term profit potential.

Customer metrics

Specifically, it's the information showing how customers behave over time that is so revealing of future profit potential.

Ahead of the float, Farfetch disclosed its customer cohort chart (known as the C3). This displays revenue by acquisition cohort over time and how total customer spending changes as each cohort ages. It highlights whether you are effectively acquiring loyal customers who will continue to shop for years to come or acquiring fickle one-time shoppers.

What Farfetch's investors can tell from its C3 disclosure is that the luxury fashion retailer has an incredibly loyal customer base; once Farfetch acquires a customer, it keeps them for a long time.

Customer transparency

There is a huge opportunity for retailers to highlight the loyalty of their customer base by revealing key metrics on customer acquisition and retention.

Such transparency would allow investors greater clarity on the health of the customer base and the potential for longer-term profit, and allow them to value that in the share price.

Looking at financial disclosures, models and metrics is currently the preserve of academics and investors seeking to evaluate business performance.

However, the customer data that investors want to see is of much more than academic interest. It is the key to future retail growth as retailers move from being shopkeepers to 'customerkeepers'.

With the migration to online accelerating, traditional performance metrics such as store like for likes are becoming increasingly meaningless as a way to evaluate business performance.

Shareholders and management must use customer metrics to evaluate business performance. Customer like for likes should become the norm for retailers.

So what needs to change at the majority of retailers to make truly customer-centric retailing a reality?

Democratising customer data

Marketers need to give up their ownership of customers and customer data, recognising that from now on every area of the business 'owns' the customer.

So that means, for instance, giving the buying teams data about the products and brands that are driving the acquisition and retention of the best-performing customers. And chief marketing officers and their teams need to work closely with the supply chain to ensure the availability of the key brands that attract and keep customers.

Chief financial officers need to embrace customer-based planning with bottom-up forecasting based on the acquisition and retention of customers, and accurately predict future value.

Suzy Ross
Founder,
Bureau of CustomerKeepers

Data that matters

Policymakers and regulators should be imposing mandatory disclosure requirements for a standardised set of customer metrics. This would force retailers to be transparent about the health of their customer base. In turn, investors would be able to make more accurate valuations by factoring in statistically robust forecasts of future revenue and profit from the customer base.

All this hinges on the right approach to data. Having joined-up customer data – combining identifiable customers (eg: from loyalty and ecommerce) with unidentified but unique customers (using tokenised credit card data) – must be every retailers' priority.

Cloud-based data and analytics tools enable the collection and joining of vast amounts of granular data about individual customers' behaviour at speed and scale.

This enables a completely joined-up, single view of every customer's current and potential value and behaviour.

The difference this will make is profound and exciting. The best retailers will be able to make longer-term bets focused on the future rather than just fret over the next quarter's numbers.

That means being able to compete on an equal footing with businesses such as Amazon, and fighting to reclaim lost ground – and even surge ahead – by focusing on and investing in the things that truly matter to customers. RW

In-store experience is the key to relevance

Homebase boss **Damian McGloughlin** explains why retailers need to work extra hard to ensure shops are inspirational as online sales soar

The Covid-19 pandemic has brought about significant – and likely long-lasting – shifts in how people want to shop and how they feel about going out to the shops.

Safety is understandably now the number one factor for shoppers when deciding whether to visit any store. Customers must be assured that their health is a retailer's top priority and we can expect to see people continue to vote with their feet here.

This new safety-conscious shopper also comes into the store with a completely different mindset and expectation for the shopping experience.

The keyword here is 'experience' – when consumers can order products to their door at the click of a button, a physical store must offer something over and above the items it sells.

Having made the trip to a physical store, customers are looking to be engaged, inspired and even entertained. They must be able to see, do or access something they can't online.

We know that many people get their initial ideas for home and garden updates or transformation projects from social media, which has a huge impact on how they then want to shop.

Customers are expecting to see products in situ, along with suggestions for which paint colours will go best with what furniture, and whole room sets to help them envisage how the look could fit in their own home.

This trend has been building for several years, but has been heightened by the pandemic, as people spend more time online browsing for inspiration and planning room ideas that fit with their lifestyle.

Our new 'get the look' room sets, and 'storage and home' shop-within-a-shop layouts are good examples of how we are making it easy for customers to visualise how products and designs might look in their own home.

Damian McGloughlin
Chief executive, Homebase

In the last year, we've been trying out innovative new store formats that also focus heavily on inspiration, for example, our newly launched Decorate by Homebase stores.

This new safety-conscious shopper comes into the store with a completely different mindset and expectation for the shopping experience

These stores feature dedicated 'creativity spaces' that allow customers to work with our team to try different colours next to one another, as well as mapping out what their new living room or bedroom might look like.

Likewise, our new Bathstore and Kitchens by Homebase showroom in Guildford – which opened in October – is equipped with technology such as 3D-visualisation software, to help customers get really hands on in creating their dream rooms.

Green thinking

According to Kantar's Covid-19 barometer, 51% of people think environmental issues remain important through the disruption Covid-19 has brought, while an additional 22% think they are more critical than ever.

We know from our own research that three quarters of people are eager to make their homes more energy efficient, yet many struggle to know where to start.

With our customer passions and priorities in mind, we are so proud of the recent launch of our green aisle, which puts a range of our most environmentally friendly and energy-efficient products all in one place.

The pandemic has prompted everyone to consider their own personal impact on the environment and we believe we have a role, and a responsibility, to help make it easier for people to shop in line with these values.

Retailers have had to adapt to an extraordinary amount of change in the past few months, both operationally and in light of how customers want to shop.

To rise to these challenges, retailers must not let the pandemic become a distraction, but keep a laser focus on the customer, and be ready to act on this insight with the bravery and ambition to make bold changes. RW

ANALYSIS

How can retailers really revive the high street?

After a catastrophic year for the high street the time to act is now. Gemma Goldfingle asks some of the industry's big thinkers how retailers and local communities can take matters into their own hands

The high street was already in desperate need of reinvention before Covid hit UK shores. But after the toughest year in retail's history, when non-essential stores have been forced to shutter for much of the year and footfall has been weak when shops were reopened, it's time to take drastic action before it's too late.

Retail experts are not shirking the challenges the high street faces. Susanne Given, a non-executive chair of businesses including Morrisons, Made.com and Hush, is frank: "The high street is going to have to shrink quite dramatically."

But she is adamant that there is still life left in the high street if it can adapt and remain relevant to how customers are shopping and living today.

But what will bring shoppers back to the high street?

Whereas experiences, retail theatre and services were seen as the elixir for many retailers, that is looking increasingly unfeasible while we live with Covid. Many retailers have canned their in-store experiences – from personal shopping to beauty consultations – in light of current restrictions,

Even when Covid concerns subside, Bain partner Jonathon Ringer is unconvinced that experience and retail theatre is the answer for the majority of retailers. "It may form part of the answer but it is much better done in larger stores in destination locations. It won't work for relatively modest shops on traditional high streets," he says.

It's clear that new ideas are needed so Retail Week has turned to a selection of the industry's big thinkers to come up with ideas to help revive our town centres.

We've asked them to stay away from rent and rates reform. That is undoubtedly a big contributing factor of the struggles on the high street but we want to focus on ideas that retailers and local communities can act on rather than wait for policy changes that may never come.

Idea 1: Create hybrid stores to serve all community needs

A big problem for many high streets is that they are only busy for a small portion of the day.

As Gensler strategy director and retail practice leader Lara Marrero says: "Shops may open from 10am til 7pm but they're only capturing the footfall they need between 5pm and 7pm when people finish from work."

Marrero says the high street and its stores need to adapt their offer to serve people's needs throughout the day. That means converting space to fulfil other community uses, such as workspaces, education spaces, and childcare premises.

She points out that recent planning changes, which introduced a Class E category that allows premises to easily switch uses across categories including retail, restaurants, offices, health centres, and gyms, will help to create more fluid spaces that serve the needs of local people throughout the day.

Marrero says: "That's an opportunity to have our workstyles and lifestyles supported by the spine of the town – the high street. It's time to look at retail not as money spent, but as the value it offers to the community."

Former John Lewis boss Andy Street, now mayor of the West Midlands, has made this part of his plan to revitalise the region's high streets.

"There are lots of reasons people come to a place: leisure, work, living and accessing public services," he says. "A thriving modern town centre needs to offer far more than shopping. Successful places need people to want to come and spend time there." His plan includes making high streets and town centres a place for public services such as health and services, skills training and careers advice, and points to how Sainsbury's in Dorridge, Solihull, has built a doctor's surgery and small retail units alongside their main store.

Street also believes workspace needs to be a bigger part of high streets.

John Lewis, Street's former employer, is embracing this hybrid retail model and converting half of its Oxford Street store to co-working space. It is also building rental homes above or besides Waitrose supermarkets.

Former Co-op boss Richard Pennycook believes that further urban planning changes are needed to speed up high street regeneration, such as making it easier to rezone retail.

"If there's a particular part of a town where two out of five retailers have closed, it becomes less and less attractive to consumers. To speed up that regeneration, we need to rezone where the retail offer should be by moving them to different parts of town and improving the vibrancy," he says.

Town centre reinvention needs to go beyond just revamping stores, says Marrero who believes that businesses, with the help of local authorities, should "use everything at their disposal to create places that are relevant for the community".

With social distancing now a big consideration, she suggests that high street businesses utilise outdoor space. "The high street could use parks nearby to extend their customer base."

She points to how many restaurants have used igloos to create heated dining areas in the winter months. "They're perfect for social distancing," says Marrero. "Businesses could

Stockton has tapped into its town history to rebrand its high street

use them as co-working space during the day and socially distanced restaurant space in the evening."

Idea 2: Upping the convenience factor

One of the big assets of local high streets, which has been brought to the fore during lockdown, is convenience. Despite the proliferation of speedy delivery services by businesses such as Amazon, a short walk to the local high street to buy that much-needed computer cable or food for lunch.

Ringer says the retailer needs to "double down" on convenience if it is to fend off the threat of online.

This convenience can be upped by making high streets more accessible by offering free and abundant parking. Newcastle City Council offers free parking in seven city centre car parks after 5pm to encourage late night shopping. This helps high streets compete with retail parks, which offer a wealth of free parking.

Pennycook says this is particularly important during Covid because consumers are reluctant to use public transport. "There was a lot of work done to help cyclists during the summer, but people are not going to do that in January. All the parking restrictions that stop people driving into town need to be suspended or reviewed in a radical way," he says.

Ringer says that retailers should also "push the boundaries on opening hours" to enhance their convenience to shoppers, so they can get the things they want, when they want them. "Too often stores shut at 5.30," he says.

Some businesses - such as c-stores - have made later opening hours their USP. In banking, Metro Bank, which in stark contrast to other banks is growing its high street presence, is open seven days a week and operates later opening times.

Ringer acknowledges for some retail categories, particularly those that rely on infrequent purchases, this may not be appropriate but for others being open when the majority of people are on the high street could help boost trade.

Another important convenience that the high street can offer is click and collect. Ringer says high street retailers must leverage stores for collection and returns, and not just for themselves.

Retailers are already collaborating to create collection points on local high streets. John Lewis customers can pick up parcels at more than 500 Co-op stores, along with 12 Booth stores and Waitrose supermarkets. This offers the stores where goods are being collected a prime opportunity to win incremental sales. John Lewis itself acts as a collection point for Nespresso and Sweaty Betty customers, who are likely to also be the department store's target customers.

Ringer points out that not every store on the high street can have a pick up and drop off point, however, he puts forward other complementary services that retailers could offer, such as repair and dry cleaning services in clothing retailers, which could drive traffic and incremental sales in store.

Idea 3: Smart brand collaborations

Retail tie-ups should go beyond delivery and collection. Bringing in concessions and brand partners can give shoppers another reason to visit stores.

Pennycook points to the positive impact that Post Office concessions in retailers such as WHSmith and The Co-op has on footfall.

At a time where many brands are finding it difficult to make the economics of running stores stack up and some have become online-only businesses, there is an opportunity to bring such names into stores as concessions.

In fashion, brands such as Oasis and Warehouse – which were bought by Boohoo earlier this year – Cath Kidston and TM Lewin have ditched stores and sell only online. These brands still have cache and could attract customers to stores.

ANALYSIS

M&S, for example, could widen its appeal to younger shoppers and boost its long-struggling clothing division by leaning on concessions. The retailer recently signed up sustainable womenswear brand Nobody's Child as an online partner, but could take this further and bring new brands to stores.

Given says smart collaborations of this ilk can help make high street stores "more energising".

It's a tactic that supermarkets are deploying. Asda has tie-ups with brands including The Entertainer, B&Q, Decathlon, McDonald's and Greggs, while Tesco has launched shop-in-shops with a vast array of retailers including Next, Arcadia, Holland & Barrett, Pets at Home, Vision Express and Timpson.

Just last month it struck a partnership with electricals etailer AO.com to create its first physical shops at five Tesco Extra stores.

Given, who sits on the board of many digital businesses, says there would be appetite from other online brands to take space "if the location was interesting and the terms were flexible".

Idea 4: Adding a local flavour

Given believes that many high streets are suffering as they offer nothing distinct to shoppers. She blames this on the overexpansion of national chains over the past 20 years, which she says has created a homogenous high street offer.

"When you look at the era from the early noughties, we were rolling out businesses into every meaningful high street across the land. Every high street looked the same."

"Over time consumers have become a little bored. For some excitement they've had to go elsewhere, either online or areas where the assortment and profile are different and there's not many of those areas." She picks out high streets in Marylebone, London and Godalming, Surrey, as examples of distinct high streets.

Given says introducing more local businesses to high streets can help give a unique flavour.

Ringer agrees that local businesses and produce really matter to customers and says that has grown during lockdown, when shoppers have felt more community-driven. He refers to his local grocer Jempsons, a chain in the Kent and East Sussex region, which sells an array of products sourced from across those counties. He says shoppers have gravitated towards the business during lockdown and beyond.

Bill Grimsey, the former Focus DIY boss who has authored two reviews looking at how to reinvent the high street, agrees that shoppers are seeking out local produce, particularly in food.

This is prevalent in the next generation of shoppers who are more ethically aware and concerned with the environmental impact of the food they consume, he says. "My granddaughters are constantly asking where the food we're eating is from. We're seeing a trend towards local produce and high streets can offer this."

Grimsey points to Altrincham, a town that has reinvented itself from England's emptiest high street to the winner of High Street of the Year in 2018. An important factor in its regeneration was the development of a bustling street food market, which houses a plethora of local eateries and a 180-seater dining area.

> **Over time consumers have become a little bored. For some excitement they've had to go elsewhere, either online or areas where the assortment and profile are different**
>
> **Susanne Given, non-executive chair of Morrisons, Made.com and Hush**

Idea 5: The rise of the pop-up

However, adding new local businesses to town centres will require landlord flexibility as many artisan traders, which would undoubtedly add something distinct to homogenous high streets, cannot afford to be tied in to long, expensive leases.

Godalming in Surrey is an example of a high street that offers a 'local flavour'

Altrincham's food market has been central to its regeneration

Given says that landlords need to come together and collaborate in order to create a high street that is relevant for today's shoppers. She says highly flexible rent agreements are necessary to attract local businesses and digital brands to the high street. She believes the introduction of pop-up space could help facilitate this.

Pennycook agrees: "Both local authorities and landlords need to think much more about being traders of space. The old model is completely broken - no one is going to sign up for a 35-year lease any more.

"People who own properties have to trade those properties and think about putting interesting local start-ups into a site for a year, seeing if it works, then moving to something else if it doesn't. But that mentality needs a new class of property owner."

Stockton, in the north east of England, has had success by offering affordable pop-up space to small businesses.

At the council-supported Enterprise Arcade at the Fountain Shopping Mall, young businesses can take space for as little as £10 a day to try out their format. Fourteen former tenants have moved into more prominent units in Stockton town centre as a result of their pop-up experience.

> **Both local authorities and landlords need to think much more about being traders of space**
> **Richard Pennycook, former CEO of the Co-op**

Idea 6: Create a brand for your high street

High streets don't just need indie brands and local traders, they need an identity of their own.

Street says: "Each town centre has a character of its own that makes the locals love it. Whether it is a bustling high street serving the local Asian community or a quaint old market town, we celebrate a town centre's unique selling point."

Local authorities need to create a vision of what their town centre stands for and how they want to enhance it, says Grimsey, and they must ensure that landlords and traders buy into that vision.

"Local leaders need to ask themselves 'why should people live, work and shop here?' Discover the reason and then create a brand around what that USP is."

He points to Stockton, which has leant on both its market heritage by revamping its street market and bringing in local traders to the city centre, and its history as the birthplace of the steam train.

It has invested in a mechanical sculpture of a steam train called The Stockton Flyer, inspired by George Stephenson's first locomotive, which rises from a plinth at 1pm each day pumping out steam.

Grimsey says this has become a big attraction and brings families to the town centre to watch the spectacle.

Initiatives of this ilk take investment, and more importantly, vision. Grimsey believes strong local authority leadership is needed to not only build their high street vision but to galvanise all stakeholders.

Branding and events around the USP of a high street are needed to make sure communities also feel proud to spend time in the heart of their town.

Reviving high streets takes time, effort and vision but if lockdown has taught us anything, it is that people crave social contact and a sense of community. High streets can deliver that to people if they strive to make spaces people not only use but feel part of. RW

ANALYSIS

The great Christmas stock shortage of 2020

Supply chains have been hit hard by the pandemic, with delayed orders, port congestion and unexpected demand all causing disruption this golden quarter. Rosie Shepard reports

While some retailers are concerned about store closures and reduced demand, others are more worried about having enough stock to get through the crucial Christmas period. Delayed orders, clogged ports and unprecedented demand for certain categories has created a supply bottleneck that will hit some retailers in the vital golden quarter.

Retailers are struggling to mitigate the impacts of a supply chain issue that has been building since March, with The Entertainer boss Gary Grant warning the situation is so bad there may be empty shelves come Christmastime.

Retail Week explores the categories most affected and how shortages could impact the industry over the coming months.

Port pandemonium

Reports surfaced over the last month of chaos at Felixstowe port in Suffolk, where shipping containers full of consumer goods are waiting to be unloaded.

Part of the problem was a shipment of 11,000 containers of vital PPE ordered by the government blocking other ships from entering the port, creating a serious congestion issue.

Certain ships have been diverted to other ports, delaying delivery of orders to retailers all over the UK.

The problem has been exacerbated by the backlog of orders in Chinese factories, where staff are working overtime to clear shipments delayed during the peak of the pandemic.

Grant explains: "Supply was disrupted by coronavirus affecting Chinese factories earlier in the year, then companies pausing their buying, like we did, for nearly three months while we waited to see what the future looked like. Many of the orders that would've been placed [for Christmas stock] were deferred.

"You've now got factories in China absolutely run off their feet, unable to increase production and fully booked for the foreseeable future.

"That's now led to a capacity issue with containers leaving the East – both finding empty containers or getting them on boats, which has also resulted in increased costs because container prices are rising."

The prospect of Brexit has also caused a rush for retailers to secure stock before the new year, exacerbating already stretched capacity overseas.

Unexpected demand

When the first lockdown regulations were put in place, retail held its breath as it waited to see what consumption would look like going forward, which meant delaying and reducing orders for the year ahead.

Cushman & Wakefield retail and logistics partner Tim Crighton points out that the order time for products far sourced, typically in East Asia, is around 12-16 weeks, which means retailers were planning for Christmas when pulling orders during the first lockdown.

He also points out that some manufacturers in Asia pivoted to produce PPE to offset the lack of retail orders. This has reduced capacity as supply was turned back on.

PwC senior retail adviser Kien Tan explains that this, coupled with buoyant consumer demand in categories such as homewares, toys and games, and cycling, has created a stock issue in those areas.

Tan points out that many consumers have been unaffected by the pandemic and are in fact making savings by not going out or making big purchases, including going on holiday.

This has freed up spend on consumer goods, particularly in the home where people have spent more time living and working.

Tan says: "Most of retail had no idea there was going to be a boom when the shops reopened on June 15. Suddenly there is this massive demand, which is great because then you clear all your stock. But there was less stock in the system already due to China being closed.

"In certain categories it's already become a problem – you can't buy a bicycle, for example. In other categories, kids are at home more so, even though schools have reopened, you can't go anywhere in half term, for example, which means toys and crafts. Outdoor and garden stuff has been really popular too."

Crighton says: "Supply chains all work on predictability – being able to anticipate the level of demand from customers and respond by matching that demand to the supply rate of product – this year has totally screwed that up.

"It's also really important to remember that Covid has not been equitable to all retailers. You've got peak demand from those retailing well and those struggling are trying to hold back stock and orders, which puts huge pressure on supply chains and ports in particular."

Which products are impacted?

Some retailers will have planned their seasonal ranges in the second quarter, when the UK was in the throes of the first lockdown and many were cautious about forward orders.

The all-important toys category – the staple of the festive season – is one of the sectors facing major shortages.

Lego is reportedly working 24 hours a day, seven days a week to try to keep up with orders from retailers. The Entertainer says its

Over a third of the product we receive is arriving at the wrong time. It adds a phenomenal amount of complexity and quite a bit of cost as well
John Roberts, AO.com

delivery from the toy manufacturer was 40% below what was ordered for November.

This is made worse by the fact that Lego has been popular throughout the pandemic for adults and children alike – causing an uptick in demand that is proving impossible to keep pace with.

Electricals is also being impacted, with retailer AO.com saying shipment delays are causing havoc in its warehouses. "Felixstowe is a mess at the minute, so there is a lot of product being unloaded elsewhere and redirected by road, and also being redirected through Liverpool," says AO chief executive John Roberts.

"Over a third of the product we receive is arriving at the wrong time. That might sound like a very simple thing, but when you're planning labour and bays in warehouses, it adds a phenomenal amount of complexity and quite a bit of cost as well."

Tan says homewares has struggled to replenish stock after a surge in demand during the first lockdown. He says customers are still struggling to get hold of certain products such as barbecues, outdoor heaters and garden tables.

On Homebase's website, at the time of writing, just one of its extensive range of outdoor heaters is available to purchase for delivery in three weeks' time, while just three of its outdoor table and chair sets are available.

At B&Q it a similar story, with no electric heaters on the website and only three outdoor furniture sets and one of each type of barbecue in stock.

Of course, not all sectors are affected. With fewer events to go to and social gatherings restricted, many fashion retailers are still overstocked and are likely to be throughout the Christmas period and beyond, according to Tan.

A very Covid Christmas

All of this could lead to empty shelves in December as retailers await stock.

Grant has urged shoppers to buy earlier or risk facing disappointment.

Tan says there is very little retailers can do to fill stock gaps before Christmas as factories and logistics providers are working flat out to catch up on the backlog. He points out that retailers around the world are fighting for the same item and highlights that bike retailers are still struggling for stock after the first lockdown brought unprecedented demand.

He says retailers around the world will all be in the same position and fighting for the same stock out of China.

However, he suggests that retailers could try to push shoppers to other in-stock items during this period.

Discounting or additional marketing may be needed to entice shoppers to buy these products if must-have items sell out.

But Grant is right. Consumers with their heart set on a specific gift would be wise to place the order sooner rather than later to avoid disappointment this Christmas. RW

ANALYSIS

How to think like a pureplay

With the switch to online shopping accelerated by the pandemic, traditional businesses are having to rethink their strategies, putting data first. George MacDonald reports

The time of the pandemic has been, for retail, the time of the pureplay – or at least a definitive switch to online.

Ecommerce sales surged to a record high of just over a third of total sales during the spring lockdown, according to the Office for National Statistics. Although growth has since moderated, few in retail doubt that it will only grow in importance.

The evidence is all around. Etail stars such as Asos and Boohoo have dodged fashion's doldrums and continued their stellar growth. Big grocers dialled up online capacity by breathtaking proportions as demand rocketed. For instance, year on year at Sainsbury's – which also owns Argos – digital sales have grown from 19% to almost 40% of the total.

Staff from closed stores, such as John Lewis, were redeployed to serve the online business. Consumers, stuck at home, entertained themselves with Netflix and kept in touch over Zoom.

As a second lockdown was imposed, online grew yet again. Industry body IMRG reported online sales growth of 61% in the first week of November – the highest year-on-year rate since June and the fourth-highest of the year.

Amid such a shift, traditional retailers have upped the ante and focused on building online operations. And, as they have done so, they have increasingly sought to replicate the ways of operating that typify pureplay businesses and are the foundations of their success.

Google director of lifestyle retail Alison Lomax observes: "Overall there's been a step-change and thinking like a pureplay has come up quite a lot with people we speak to. There's an acute difference at c-level."

M&S, for instance, has explicitly said that it aims to think and act like a pureplay and in pursuit of that aim created MS2, a division of its clothing and home arm not visible to the customer that behind the scenes deploys the art and science that characterises the new breed of digital stars.

In other words, the human creativity that informs great product design, combined with the data insights that enable understanding of shoppers' needs and wants and make them profitable, serial spenders.

M&S said when it unveiled its plan earlier this month that "to date, M&S.com has been structured as the online channel of a stores retail business moving in lockstep with the rhythm of physical store-based trading, rather than competing head to head with pureplay competitors".

Now it is determined to embed "the pureplay mentality and ways of working we began to adopt during lockdown" in a way which "inverts the model to create a single integrated online, digital and data team and a refocused product supply engine".

How a pureplay operates
Data-led decision making

But what is it that makes a pureplay tick? According to those who work for such businesses the answer is simple: data, data, data.

Etail leaders say that, by centring decision-making on real-time customer data, they can create businesses that better serve shoppers.

Trouva co-founder Mandeep Singh says: "The key word is data – it's an obsession with an individual customer and their lifetime and behaviour that's very difficult to do offline."

Made.com chair and Morrisons non-executive director Susanne Given says: "If I really had to distil what a pureplay is, it's a level of precision. They're entirely about how to pinpoint what their customers are doing, what they're thinking about, and the data processing power to be crystal-clear about their consumers and how to find others like that.

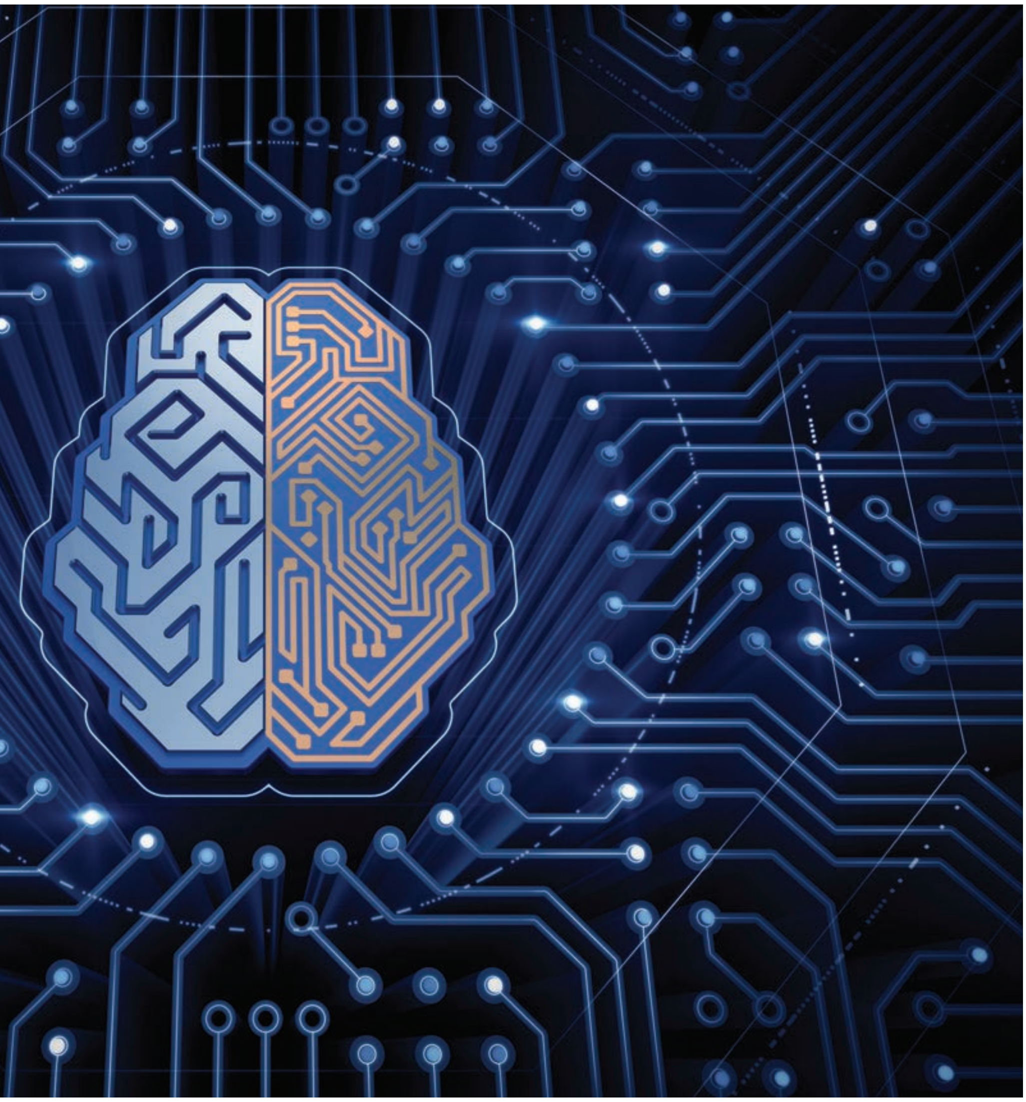
"That's what a more historical business might have more difficulty mirroring – they can, but it requires a different mindset."

The deep insight that data provides pureplays means they are able to analyse and act upon customer behaviour, often extremely rapidly.

Singh says that two people visiting the Trouva site might see different versions as A/B testing is utilised to test variants and measure whether one is more successful than another. But customer observation and understanding goes much deeper.

He says: "Even before a customer visits a site you can see what they're doing. You know whether they've been to your site before, what else they've looked at. That means you can customise the customer journey in a way that it's very difficult for offline to do."

This makes pureplays the most knowledgeable shopkeeper in the world.



There's a culture of experimentation and lack of fear. We'll build it, get it out there and use data to tell us if it's working
Mandeep Singh, Trouva

Imagine walking into a store and the sales assistant know exactly what you're looking for, what you've already seen and what suits you.

Pureplays typically invest a lot in acquiring customers, and they want those that will be as profitable as possible. To maximise profit opportunity from each customer acquired, they typically offer a highly personalised proposition to individual shoppers.

"You're investing disproportionately more in getting customers to be loyal and repeat," Singh explains.

The need for speed

Another defining characteristic of pureplays is speed of decision-making and putting those decisions into action.

Singh says: "One thing is for sure: there's a culture of experimentation and lack of fear. Legacy companies are sometimes very fearful. Often there's less debate [in start-ups] about whether something is going to work and they just try it. We'll build it, get it out there and use data to tell us if it's working."

The test-and-learn approach means that pureplays can afford to take risks without betting the bank on success. Because ideas can be tried out rapidly, and data gathered just as fast on whether or not they are working, risk can be mitigated as well as taken.

Pureplays' speed of operating action was flagged as an advantage by Marks & Spencer chair Archie Norman when the retailer revealed its MS2 plans.

He gave the example of a traditional retail promotion, which would necessitate everything from delivery of stock to stores through to production and distribution of marketing collateral. "Online you could do that in an afternoon," he told Retail Week.

"Asos and Boohoo and Amazon aren't worrying about any of that."

While they have a buccaneering reputation, pureplays can often be highly considered in how they operate internally. Amazon, for instance, is well-known for the memos that play a central part in meetings.

PowerPoint is banned but the person in charge of a meeting typically provides a six-page memo at the beginning, which others then digest in silence over 20 minutes or so before the discussion begins.

"It forces you to be very succinct and clear about what you're supporting," Amazon director of robotics Jacqueline Underberg told the website Money.

The approach also results in "democratisation" of meetings, she maintains, by enabling all – including quieter team members – to participate. She said: "When I worked for other companies, I wasn't great at having a flashy PowerPoint. This equalises folks and enables them to present on the power of their ideas."

It is an approach that would be unrecognisable in many businesses, including in retail where big personalities and gut instinct have often held sway in the past..

Structure

The expertise and mindset associated with technology-driven companies is different to that traditionally found at more established businesses, which is reflected in how pureplays think about structure and responsibility.

A pureplay is less hierarchical than a traditional retailer and, perhaps as a result of not having channel divides, far less siloed.

Given says the entire business needs to revolve around data science.

"There has to be one team," she says. Key directors such as chief data officers or chief information officers must "make sure that tech people aren't apart from the marketing and trading teams. You need to bring together a creative stream and a tech stream, and there will be different skills."

Retailers can learn from the example of how challenger banks such as Monzo think and act, Lomax thinks, as examples of how tech companies tend to be built on a culture of transparency.

There is empowerment of staff to solve problems, she says, through sharing of data within the business and shared focus on customers and innovation. "Flexibility, data visibility and empowerment" are at their heart.

MS2 aims to emulate that. It will be headed by clothing and home managing director Richard Price and chief strategy and transformation director Katie Bickerstaffe, and combines online, data and digital trading in one team. Rather than being run separately, the UK and overseas online operations will be run as one, rather than separately as they were previously.

ANALYSIS

What changes can bricks-and-mortar retailers make?

Becoming data-led

Retailers need to be bold, forget about how they have always done business and let data, which ultimately indicates what their customers really want, guide their decisions.

Of course, that is easier said than done as, for many traditional retailers, data is not their greatest strength. Some are drowning in the stuff and don't know how to make the best use of it.

Given says setting up a dedicated data science operation is an option. However, she points out that this requires significant investment.

That is the route being taken by M&S, which recruited chief digital and data officer Jeremy Pee. He has overseen the overhaul of the Sparks loyalty programme, which now has 8 million members, and the new MS2 division will make "maximum usage of one of the best customer databases in the UK to drive digital customer engagement and build loyalty".

Other retailers, such as Sainsbury's, are also seeking to enhance use of data. Earlier this year, for instance, the grocer began offering Nectar points to Argos customers. Nectar can be used online or in-store, so this should help the retailer develop a more sophisticated and connected understanding of its shoppers.

The alternative would be to work with a specialist partner. Big names such as Ahold Delhaize and Metro are among those to work with data specialist Dunnhumby, which also runs Tesco's Clubcard scheme, to harness data to make business decisions.

Understanding how customers shop in store

The glaring difference between established retailers and pureplays is that the former have stores. While some see bricks-and-mortar stores as a millstone around the necks of such retailers, they also perhaps offer opportunity if thought about as part of a single business, in the same way that pureplays view their operations as crucial ways of gaining more data and insights into customers.

That is the approach being taken by MS2, where staff in pilot digital stores are among the most enthusiastic advocates of the shift.

Many retailers struggle to harness precise data about how their customers shop when they are in stores. Retailers often do not know whether customers are going up and down aisles, what they are looking at or whether they are picking up product to inspect, only to return it to the shelf – all information available to a pureplay.

But it need not be that way, at least not to the same extent, as retailers can better link data that shows in-store and online behaviour – such as loyalty scheme data, e-receipts and tokenised card payments.

"If you can unify on- and offline it's the holy grail," says Singh. "If you were thinking like a pureplay, rent would become an interesting number. Paying rent is essentially the shopfront, marketing expenditure." He points to the example of Apple stores, where shoppers might not buy a product there and then, but have a great experience and buy, perhaps online, a few months later. Conversely, though, he says "a lot of stores won't wash their face if you think about it in that way".

M&S wants to go head-to-head with pureplay competitors

New structures

Retailers are increasingly modifying their structures to operate as single businesses rather than in silos.

On his first day in the job in June, new Sainsbury's chief executive Simon Roberts gave Clodagh Moriarty a bigger role as retail and digital director – previously her remit had been entirely digital. She is tasked with creating an "integrated and seamless experience" for the group's customers.

Similarly, B&Q owner Kingfisher's new chief executive Thierry Garnier is adapting his business. "We are fundamentally reorganising our commercial operating model to serve our customers better," he said when the retailer issued half-year results.

He reported that the business had "accelerated our plans around ecommerce, with a focus on fulfilment from stores".

Initiatives include "prioritising rollout of the group's digital technology stack, enabling more efficient and agile digital capabilities" and "exploring use of ecommerce marketplaces, with common technology and vendor management".

> **Grocery has excelled at pivoting. It was unbelievably painful and it's unbelievable to see what they've done**
> **Susanne Given, Made.com and Morrisons**

Agile ways of working

New structures that ditch silos are one thing, but retailers have to truly embrace an agile way of working that puts speed, experimentation and innovation, and customer-centricity at the core of their business.

This means unlocking the shackles of hierarchy, embracing test-and-learn and reducing time spent on planning and administration. This creates an organisation with more doers and fewer managers. This sounds easy but it can often jar with the traditional way retailers have been run. The result is not only a business that reacts more quickly to what customers want but one that can operate with a lower cost base.

We've seen retailers act with such agility during the coronavirus crisis.

Given points to the example of the big supermarket groups as businesses that turned on a sixpence during the pandemic to ramp up online operations, demonstrating agility and singleness of corporate purpose that would do any pureplay proud.

"If you think about Covid and look at grocers, they have excelled at pivoting," she says. "They turned their organisations inside out to address a crisis and a huge swing into digital in a matter of days. It was unbelievably painful and it's unbelievable to see what they've done."

It is not just grocers. Retailers were forced to act quickly to adapt to fast-changing regulations such as store closures or safety requirements and to serve a customer that had very different needs.

New shopping channels were turned on overnight. Virtual shopping services were launched by the likes of Dixons Carphone, John Lewis and Liberty, as were new click-and-collect facilities, such as The Entertainer's 'ready in 10' fast-track service.

Retailers changed how they operate, where their staff work and fast-tracked decisions in a manner never seen before.

Having pulled off such feats in such circumstances, perhaps traditional retailers can get closer to thinking and acting like pureplays than they would have thought possible. RW

DATA

View the full list at
Retail-Week.com/Tech-100

The leaders and disruptors driving innovation in 2020

RWRC has revealed its annual index of the global leaders powering retail innovation, spanning all sectors from start-ups and disruptors to investors and established brands.

As retailers battle to deliver an online Christmas and optimise their digital strategies, there has never been a more pressing time to uncover the individuals changing the way the industry thinks, operates and sells. To help businesses learn from the individuals powering innovation and transforming digital commerce, RWRC has published the Tech 100 2020 – its annual index of the most innovative technology leaders influencing retail today.

From the brains behind emerging brands giving established retailers a run for their money to the investors fuelling this new era and the collaborators partnering for success, this year's Tech 100 highlights the changing face of the industry.

Produced in association with ChannelAdvisor, DataRobot and Salesforce, the digital report showcases the people retailers should be working with, taking inspiration from and even investing in.

Visit Retail-Week.com/Tech-100 to meet the faces of retail's digital future:

- **Find out the new wave of start-ups and disruptors shaking up the industry**
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