

SQUIRE SANDERS RETAIL DEBATES

SUMMARY OF FINDINGS

London – Squire Sanders London Office – 10 October 2013

Leeds – Everyman Cinema, Trinity Leeds – 17 October 2013



There can be no denying that the retail landscape as we have known it is undergoing a period of serious evolution. The increasing dominance of online retail, the growing influence of mobile and the thoroughly-publicised decline of the British high street has left many high street retailers struggling to compete in the market. Just recently, for example, we have seen both Barratts and Blockbuster dip into administration again. In response to this, savvy retailers have moved towards 'multichannel' retail to drive sales and market share.

Following on from the launch of our Retail Report: *The Multichannel High Street: A Nation of Shoppers – But is it a Nation of Shopkeepers?* (<http://www.squiresanders.com/retail-white-paper-brochure/>) we held two Retail Debates to discuss the theme of multichannel retail. Bringing together experts from across the retail industry, we discussed the factors likely to affect the sector in the short term as well as those shaping its longer term future.

Both events began with an opening speech from Bryan Roberts (Kantar Retail) on the Report's main findings and recommendations and then led off onto four specific areas of focus: multichannel retail, property, brand and reputation, and incentivizing and retaining employees. Led by Squire Sanders' partners Matthew Lewis, Prew Lumley and Robert Wegenek, we were joined at both events by a variety of guest speakers.

Below you will find a summary of the main points of interest arising from both events.

Opening Speech

Bryan Roberts (Kantar Retail) highlighted that bricks-and-mortar stores are still important, even in an industry currently dominated by the threat and opportunity of online. This is mainly due to the fact that in-store remains the primary way that shoppers interact with a product; touch, feel and explore. Although large online megastores (like Amazon) are able to offer more competitive pricing, shoppers still visit physical stores to sample the product before committing to a purchase. The issue for the retailer is where that purchase is made. "Value" is not just about price; a race to the lowest common denominator will not benefit retailers.

Session One: How to Make Multichannel Work

Chair – Matthew Lewis (partner and global head of retail, Squire Sanders)

Panel – Keith Nesbitt (COO, TM Lewin), Matthew Hopkinson (Director, The Local Data Company), Bryan Roberts (Retail Insights Director, Kantar Retail), Richard Boland (Chief Executive, The Retail Trust), Andy McWilliams (Multichannel Director, Ann Summers), Michael Bates (Managing Director, Joe Brown), Matthew Stead (Multi-channel Director) and Peter Pritchard (Commercial Director) both of Pets at Home.

Opened by Matthew Lewis, this session covered the concept of multichannel and how it is integral to the future of the retail industry. Perhaps the term is no more than "industry speak" – shoppers care little for what the process is called or how it works – but technology such as tablet computers and smartphones gives retailers transparency. At the same time, this technology is being driven by the needs and desires of shoppers. The shopper can engage with a brand through these different mediums and this activity gives the retailer invaluable insight into their shopping behaviours and interests.

Matthew Stead noted, for example, that 93% of online shoppers with Pets at Home will also shop in store. With 25% of online shoppers using the click and collect service, they provide useful add-on sales when picking up their online purchases. Indeed, using online to drive in-store sales is one of the key imperatives of an integrated shopper interface.

Speakers agreed that uniting online and bricks and mortar offerings can be a complex task; if businesses do not operate an overall strategy, multichannel can be a big distraction, costing a significant amount of money for little discernible benefit in terms of sales. Keith Nesbitt maintained that businesses need to keep multichannel simple and offer the shopper what they want. He stated that online is a great way to advertise and bring shoppers into the store where you can give them top-quality shopper service and add-on sales.

It all needs to be seamless – so the shoppers can buy what they want, at the time they want to, and pick it up when it suits them. Michael Bates added to this, pointing out that customers expect to find in-store and online. In support of this, Andy McWilliams explained that the Ann Summers approach is to create a fun experience in store which is echoed by the site and this reiterates the findings of the Retail Report that shoppers are not shopping the channel but the brand.

Richard Boland highlighted that retailers need to concentrate on the entire shopping experience and good quality products, not just cheapest price because value is more than just price. He hinted that top quality brands are not afraid of showrooming as they offer the shopper a better overall service than Amazon can do and this, in turn, creates a loyal shopper base.

“Showrooming” occurs when shoppers visit a store to test a product before buying online from a different retailer, often at a cheaper price. It is a process that still terrifies many high street retailers. Everyone was in agreement that the retailer’s job is to sell to the shopper rather than simply showing off their wares. In this respect, forward-thinking retailers are now utilising showrooming for their own benefit, combining product interaction, great staff who provide great service, sharper pricing and selective price-matching to close the sale. This approach, coupled with multichannel capabilities – specifically mobile technologies – increases transparency, boosts brand interaction with shoppers and converts them from browser to buyer.

With many shoppers working full time office hours, online offers flexibility for busy individuals and preferred shopping times are shown to be 6 – 10 p.m. It was argued that shoppers should not be surprised by the state of the high street when they have chosen to spend money online. However, it was pointed out that certain retailers still defy this trend, such as John Lewis, because they understand the purpose, uniqueness and personal interaction and experience of bricks and mortar shopping. The quality of service coupled with online offering is important in moving people to choose bricks and mortar over online only retailers. Here, Bryan Roberts suggested that commission for sales assistants should be ditched over other incentives to encourage customer service. This is an issue that was returned to in the People session.

Towards the end of the discussion, the panel considered the future of retail. It was decided that, for many, shops will always be key because of the emotion of retail. However, Matthew Hopkinson also expressed the view that the future may not be multichannel or monochannel (e.g. store or online only): it’s dependent on the shopper. They are the drivers of this economy and it depends on what trend they embrace next. In a few years’ time, “multichannel” may be a term of the past as retailers begin to acclimatise to the change; they may simply be talking about “shoppers” and “shopping”.

Session One – Key Conclusions

- Shoppers shop brands: the industry needs to remember this and keep it simple.
- In-store is still the integral way for shoppers to interact with brands.
- Showrooming will need to be embraced by bricks-and-mortar retailers; they need to close the deal.
- Multichannel should be seamless – make your entire range available everywhere.
- Shoppers are the drivers of future retail developments as technologies develop; retailers need to understand mobile shopping and deliver.

Session Two: How Should the Property Market Adapt to Meet Challenges and Changes in the Industry?

Chair – Prew Lumley (partner, Squire Sanders)

Panel – Adrian Wright (Leasing Director, Intu Properties plc), Matthew Hopkinson (Director, The Local Data Company), David Diemer (Director, UK Out of Town Retail and Leisure, Aviva Investors), Nigel Duxbury (Property Director, AS Watson)

This session covered issues such as how it was possible for landlords to help and work with retailers for their mutual benefit.

Adrian Wright commented that current landlord-retailer relationships are “adversarial” and landlords need to build stronger relationships with retailers. They also need to work harder at providing (where possible) excellent retail surroundings to allow their tenants to flourish. This includes embracing technology and adapting spaces to create better shopper experiences.

Arising from this, a general agreement was that it was important to listen to retailers and understand their business. And above all be flexible. Building relationships and working to create flexible solutions such as turnover rents is the way forward. It was commonly agreed that turnover rents can be an excellent way of combining the tenant and landlord’s interest. Unfortunately however, nobody was able to confirm they had cracked the problem of how online sales can be captured in a turnover rent.

David Diemer raised the issue of other ideas such as shorter leases, incorporating break clauses into agreements and offering regular upwards/downwards rent reviews. Nigel Duxbury pointed out that short leases of one year are commonplace in Asia and the UK needs to catch up on this. However, as the landlord representatives were keen to point out, flexibility plays havoc with landlord yields.

With the popularity of pop-up shops increasing, the panel also considered that this could be an alternative future for the industry. Short lease units can stir up the interest of the shopper and help them re-associate with an area.

The discussion then moved on to problems of surplus retail space. It was generally agreed that there quite simply is too much retail space out there. A point was made that as the demand goes down for spaces, it is the job of the local authority to avoid these “ghost towns” by reducing overall costs and charges on town centre units. Matthew Hopkinson suggested that surplus space could be put into residential housing to entice people back into the area, thus encouraging connection with the areas in which they live. It was also considered however that many landlords have their hopes pinned on the retail rents that they assumed were guaranteed when they bought at the peak.

The debate ended on a final consideration by Prew Lumley – that the introduction of restaurant and food units into an area can help reduce empty retail units. These “urban kitchens” can bring employment, encourage a sense of community and entice shoppers to stay in an area for a longer amount of time. Trinity Leeds was referenced as a prime, modern example.

Session Two – Key Conclusions

- Landlord and tenants need to work more closely together as, in fact, their interests are more aligned than they might think.
- Introduction of shorter leases, more frequent rent reviews and break clauses should be considered.
- Landlord (and their lenders’) flexibility is integral for the high street to succeed.
- Surplus retail space is an issue that needs addressing urgently.

Session Three: Managing and Protecting Your Brand and Reputation

Chair – Robert Wegenek (partner, Squire Sanders)

Panel – John Suirdale (Consultant, Baronsmead Consulting LLC), Hannah Walsh (Account Director, Hill and Knowlton), Richard Boland (Chief Executive, Retail Trust), David Bannister (MD and Founder, Empowering Peoples Ltd.)

Robert Wegenek opened the third session by stating that “e-commerce is a dead word” and highlighting that brands need to be managed correctly.

The panel then discussed the differences between retailer and supplier brand ownership. Richard Boland suggested that though a retailer’s brand can be easy to manage, it is more difficult for suppliers to manage their brand from a distance. With many products, price is not the ultimate discriminator – it is more about creating a relationship with the shopper and conveying the correct message to them (about what your brand stands for).

David Bannister pointed out that it is important for a shopper to be able to clearly understand what the brand message is and what it stands for – all brands need a unique selling point; and a focus on that. Factors such as managing news and social media coverage are essential for the management of a brand, and businesses need to have an escalation policy in place in case of any negative PR. On this subject, it was suggested that external PR companies can be extremely useful for managing social media accounts and other day-to-day challenges involved with brand promotion. They can also be particularly useful for delivering tough advice to people inside the business who may not accept the point if made to them by a colleague.

Social media continued to be a heavy focus throughout the session, with Hannah Walsh suggesting that it was important to have clear terms and conditions on social media, including what was acceptable to post and how to be consistent with brand. It was also agreed that if brands are going to engage with social media they must maintain that engagement – many PR disasters arise from companies not reacting quickly enough to online postings.

Away from social media, the interaction between different types of retailer was considered. John Suirdale highlighted that the interaction between stores, online and out of town varies dependent on country. Using Japan as example, he noted that bricks-and-mortar stores are still extremely important – it is a society that interacts socially in restaurants and shops as opposed to friend’s houses.

A final consideration for the session was the Internet; in particular, brand websites. As often the first point of contact for overseas shoppers, websites can be a fantastic tool for overseas businesses and exposes the UK to a wider market. It was suggested that they also provide valuable market research: it is possible to view who is browsing the site and make a decision on expansion based on these statistics – whether overseas or in your own country.

Session Three – Key Conclusions

- Brand messages need to be kept simple – the shopper needs to be able to understand.
- Brands needs to focus on their USP and deliver the correct messages to shoppers.
- Social media can be a great way to engage with shoppers, but businesses need to be careful and have safety nets in place.
- PR agencies can be particularly useful for managing brand and client relationships.
- Utilising online can be a cost effective way to gather information on shoppers.

Session Four: Empowering and Incentivising People

Chair – Matthew Lewis (partner and global head of retail, Squire Sanders)

Panel – Kevin Dowson (Head of Retail and Professional Services, Pera Training), David Bannister (MD and Founder, Empowering People Ltd.), Richard Small (Head of HR, TM Lewin), Keith Nesbitt (COO, TM Lewin).

It is essential that retailers know what they want from their workforce and can motivate them to deliver great service. After all, shop workers are the shop window; the main focus of interaction with the shopper. Get this wrong and the shopper will walk away, possibly not to return. The problem over the last few years has been that staff are often trained just to retrieve stock for shoppers, which means there is no opportunity to connect with the shopper – when people are buying from people (as in store), being passionate is vital.

Though the panel agreed that workplace training and education are essential for creating a professional, shopper-focussed workforce, it was emphasised that the training needs to be relevant. Retailers need to think about what shoppers would appreciate day-to-day and train staff appropriately rather than, as is often the case, putting them through training courses largely for the sake of it. It is just as important to create excitement for those working for the brand as it is for shoppers. Both TM Lewin speakers pointed out that they get their employees to play a part in online business by giving them the opportunity to add-on sales in store. Richard Small noted that TM Lewin staff are now trained to adopt tablet computers in store, focussing on creating excitement and enthusiasm for the tablets as a new sales channel.

The discussion also covered incentivising staff in a multichannel environment. Despite being a somewhat divisive issue, the general consensus is that there needs to be a balanced combination of financial incentive alongside recognition. David Bannister suggested one way to create staff “buy-in” to multichannel was to attribute an online sale to the nearest store and many successful retailers do this.

He then went on to explain, however, that money alone does not appear to motivate staff as much as might be considered – it eventually becomes meaningless. Often, when incentives such as commission are removed as an option it can be easier to motivate individuals. Shopper service is key for retailers and individual incentives (rather than store-based) can often lead to staff haranguing shoppers for a sale rather than providing exceptional shopper service regardless of the outcome. It is more important to train committed and passionate staff that can provide a unique service to shoppers and to recognise them in more than a purely financial way for this.

Following on from incentivising staff, the final discussion revolved around retaining employees.

Kevin Dowson explained that it was important to recruit the right people from the very beginning, letting them know that there are career growth opportunities in the company. The panel further added to this point, saying that it is important to listen to employees and find out what they are looking for within the company. Creating a sense of pride amongst employees and celebrating their success can help to keep them engaged. Training programmes and structured career paths will help to retain staff.

Section Four – Key Conclusions

- Great people deliver great services; motivation of staff is vital and may have to understand the retailer’s vision
- Businesses need to focus on workplace training and selecting the right training for the individual worker.
- Creating brand excitement for staff as well as shoppers helps workers engage with the brand.
- Incentivising staff needs to be an appropriate balance of financial reward and recognition.

Contact Us

The Squire Sanders Retail Debates raised a number of interesting and important issues involving the retail industry and the future of the sector. We hope you enjoyed this summary on some of the matters discussed.

If you would like further information on any of the subjects covered or would like to be notified of any future Retail Debates near you, please get in touch with one of our contacts listed below.



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