UNIVERSITY of STIRLING Management School

Understanding Retail Change in an Economy of Complexity

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BE THE DIFFERENCE

Understanding Retail Change …

- Change, Complexity & Turbulence
- The Retail Business Model & the New Reality?
- Impact in the UK
- Impact on IKEA

Environmental Change

“the modern-day manager’s mantra that we live in times of great and constant change”

“we perceive our environment to be in constant flux because *we only notice the things that do change*”

“the world continues to move ahead in small steps, punctuated by the occasional big one – just as it always has”

Huy & Minzberg (2003)

Scope of Change

Incremental Change

- modification of existing activity impacts on part of organisation

Radical Change\Discontinuous Change

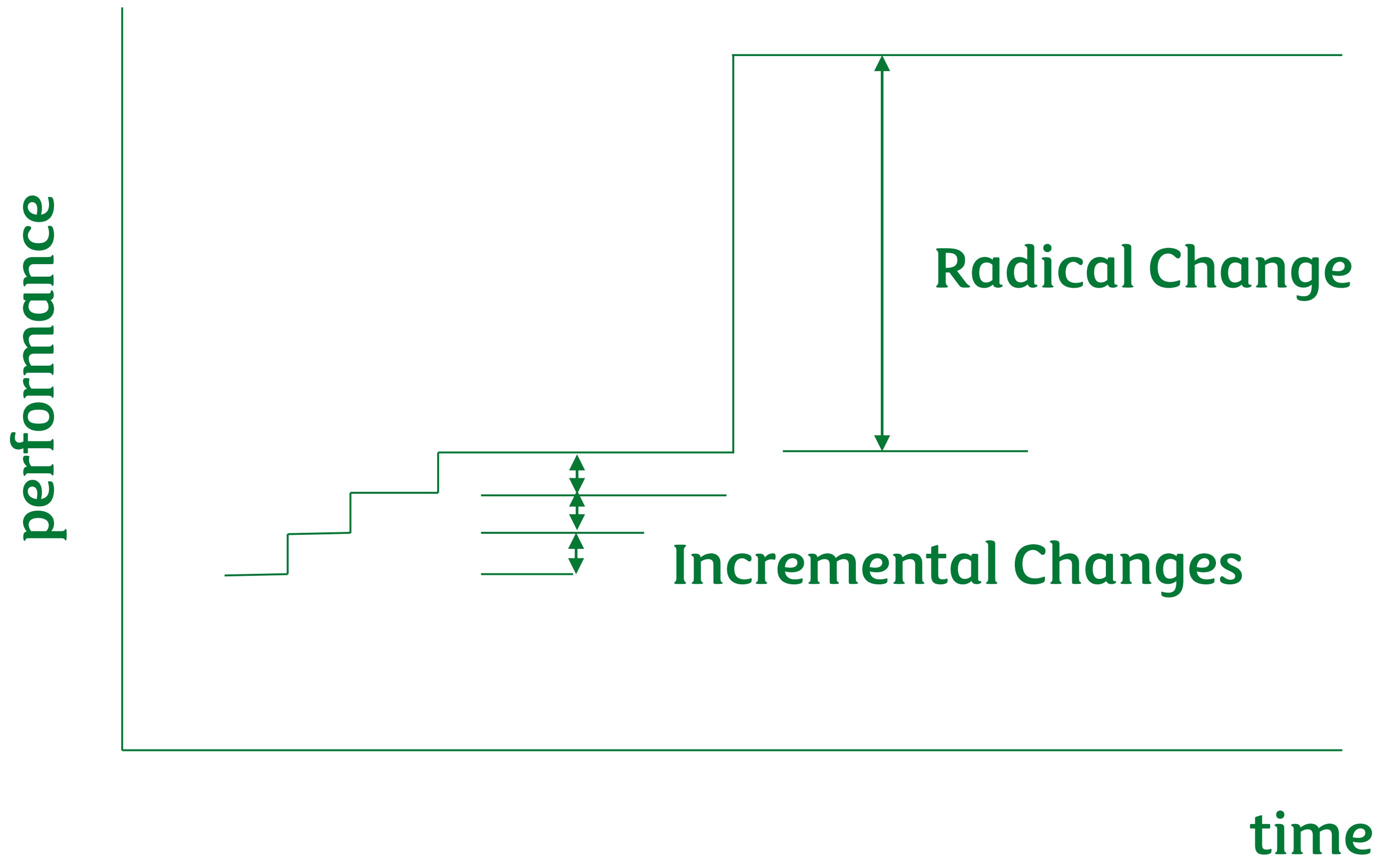
- significant change\rethink of how large part of organisation operates

Transformational Change

- organisation wide impact, re-inventing nature of organisation

Scale, Duration, Risk, Resources etc

Scope of Change



Environmental Turbulence

Extent of change in the environment

Five levels of turbulence:

- *repetitive* – placid environment, little change
- *expanding* – slow, incremental change
- *changing* – fast, incremental change
- *discontinuous* – discontinuous, but predictable change
- *supriseful* – discontinuous, and unpredictable change

Ansoff (1991)

The Retail Business Model

What do retailers do?

- assemble products, add services, ensure availability

Brand the retail offer

- the added value ‘bundle’, differentiation, loyalty

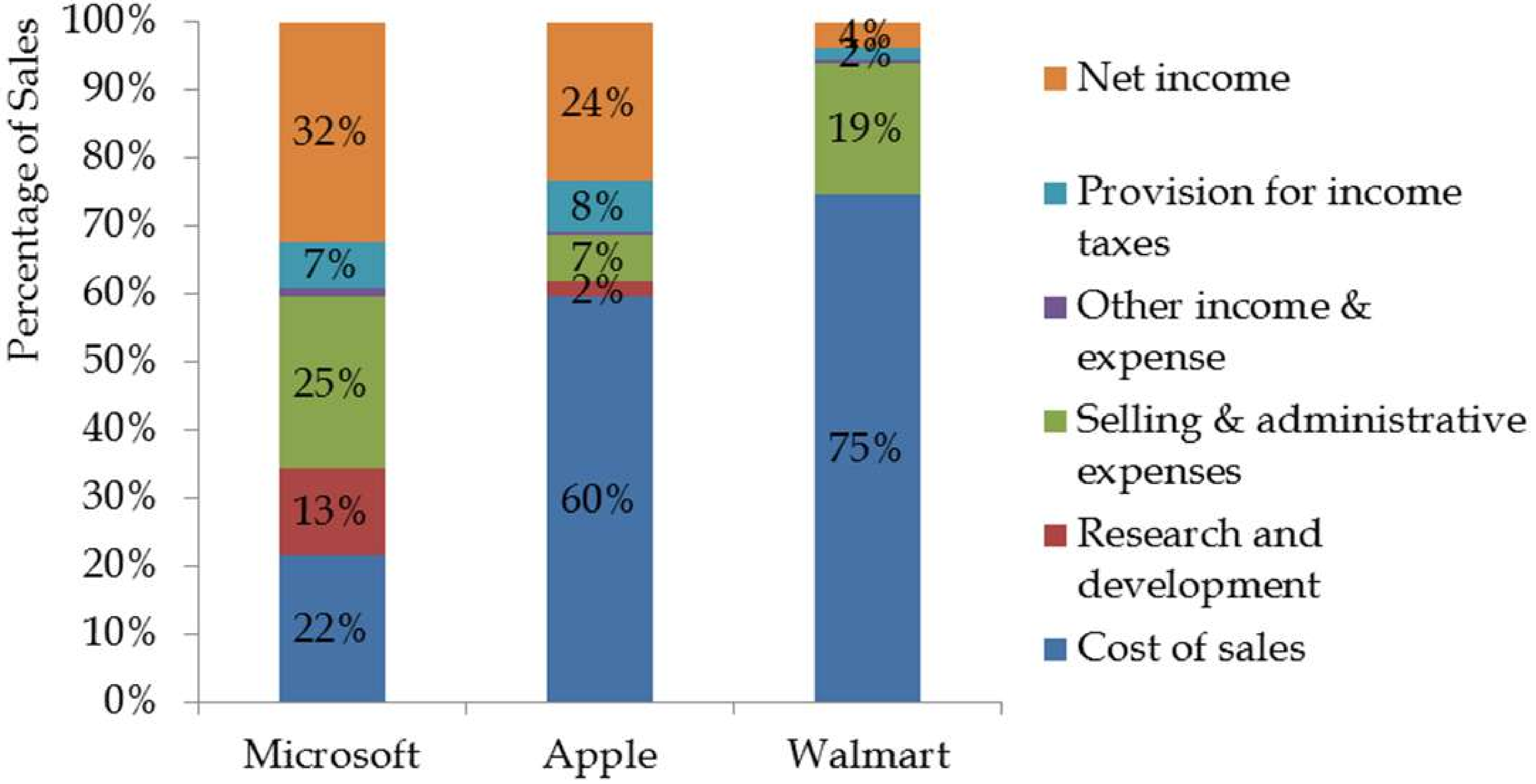
Low margin\high volume business

- increase sales, control\reduce costs

The store as the ‘unit of production’

- where the customer interacts with the retailer

Retail Business Model



The New (disrupted) Reality?

Losing\Displacing Sales

- lost sales > new entrants, new competitors
- displaced sales > store to online, fall in footfall

Rising Costs

- general operating costs > space costs, payroll, taxes
- ‘new’ costs > outbound logistics, product returns

New competition with a different business model & cost base

Digital Disruption

The Traditional Shopping Process

tasks transferred to the customer

- selection, picking, paying, bagging, outbound logistics, returns

costs transferred to the customer

The Digital Shopping Process

tasks retained by the customer

- selection, paying

transferred back to the retailer

- picking, bagging, outbound logistics, returns

costs transferred to the retailer

Differing Cost Structures

Retail		E-Commerce	
Factory cost	30%	Factory cost	30%
Marketing	10%	Marketing	10%
Distribution to Stores	3%		
Retail Costs	33%	Operating Costs	20%
(rent	*15%)*		
(payroll	*18%)*		
		Warehousing Costs	3%
		Shipping & Returns	7%
Profit Margin	14%	Profit Margin	30%

Adapted from WSJ\Onestop Internet Inc

The New (disrupted) Reality?

Impact on margins

- are traditional KPIs and metrics appropriate?
  - fall in (store) sales > fall in sales per sqm
  - cost of space remains > viability of store?

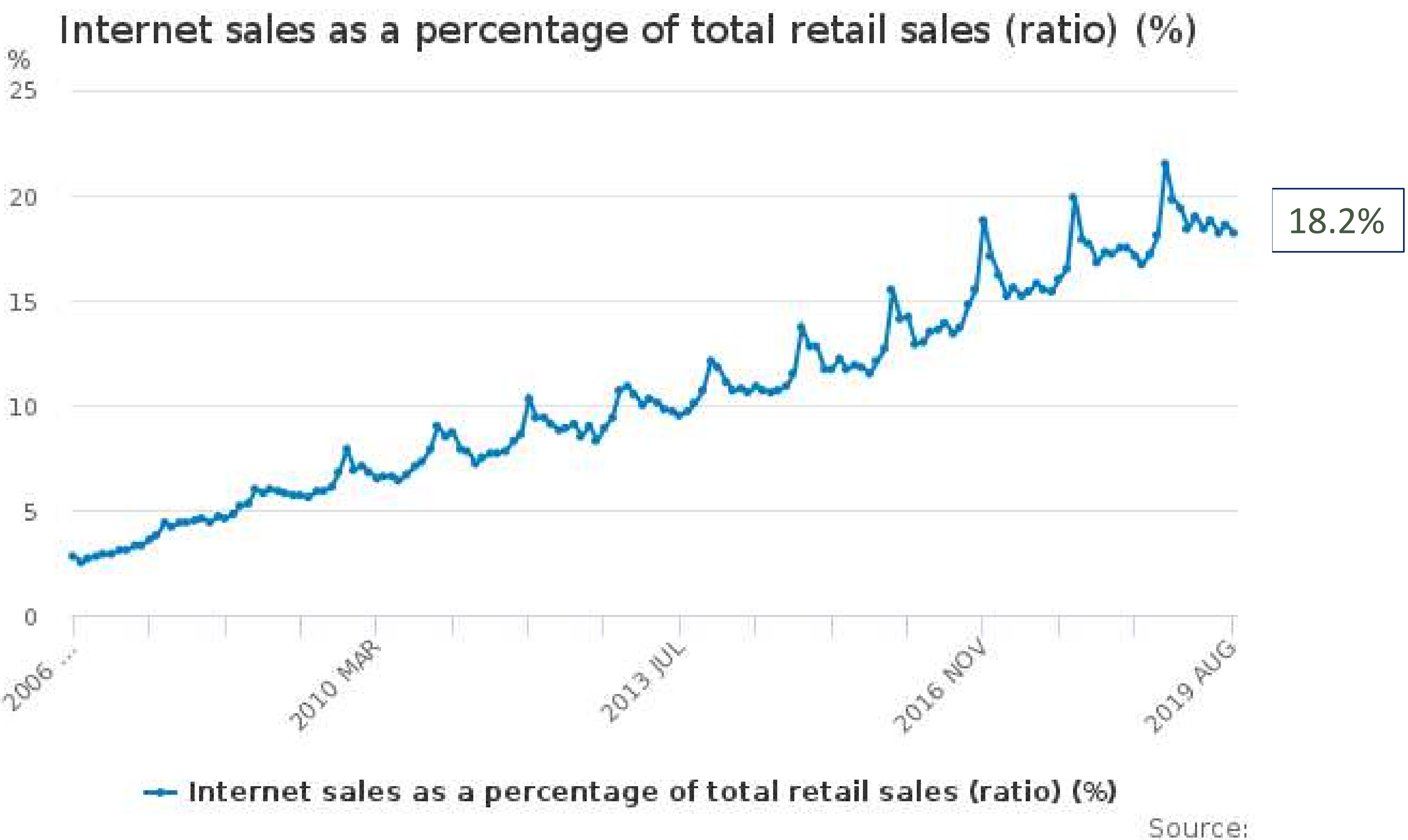
The role of the format, place and space

- role of store changing, need to account differently

Are retailers committing suicide?

- chasing sales … increasing costs & undermining own business models

UK: Disruptive Change



Source: ONS

UK: Incremental Change

Space Costs

- Business Rates linked to rental value
  - approximately 50% rental value
  - revised every 5 years (2017)
  - eg John Lewis, Oxford St store +57% to £19.9m\€22.3m

Employee Costs

- minimum wage
  - 2015 £6.70/hr > 2019 £8.21/hr (+23%)
- apprenticeship levy
  - turnover £3m+ = 0.5% of payroll

UK: Incremental Change

Sales Revenues:

Trading Regulations- Products, Promotions & Pricing

- VAT (20% from 17.5% 2011; 0% food)
- alcohol\tobacco
- sugar "tax"
- product labelling
- promotional practices ?
- packaging requirements?

And to confuse things further …

UK: Outcomes

Retail Failure

- Debenhams, Bath Store, Karen Millen, Office Outlet

Use of CVAs (Company Voluntary Arrangements) to control space costs

- Arcadia, New Look, Monsoon, Mothercare, Homebase

Renegotiation of rents

- John Lewis, H&M

Store closures – High St (top 500) H1/2019

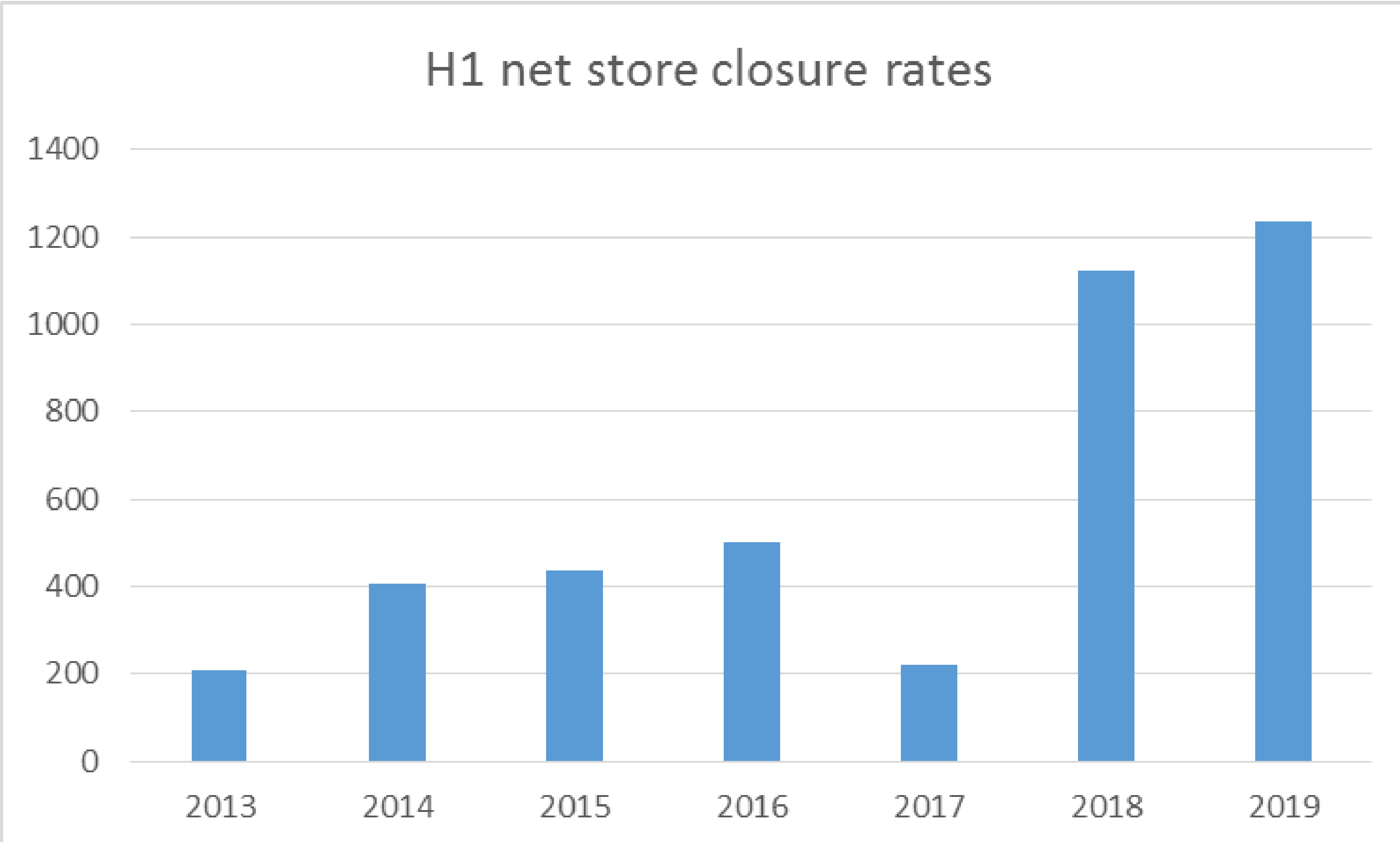
- 2,868 closed (16/day); 1,234 opened = net loss 1,234

UK: Outcomes

Administration & CVA

UK: Outcomes

Store Closures Net Loss in H1



Local Data Company

Disruptive Change: IKEA

Total sales (2019)

- €41.3bn (+6%); online sales €2.9bn [7%] (+43%)

Store visits

- 2015 884m (+7.6%); 2018 957m (+2.2%)

Website visits

- 2015 1,900m (+18.7%); 2018 2,500m (+8.6%)

App visits

- 2015 54m (+17.4%); 2018 182m (+32.8%)

Rethinking the business model and the store

Disruptive Change: IKEA

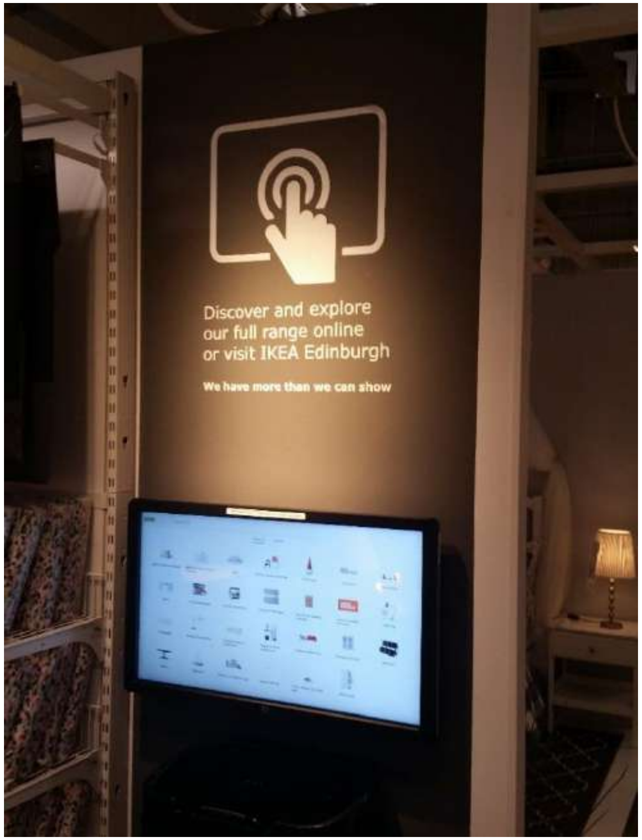
"we know that 80 percent of consumers start their shopping online, and at the same time we know our stores play an important role in the total experience – as a source of home furnishing expertise and inspiration. We're tapping into those strengths to provide an even better everyday life for more people, however they choose to meet us"
(Brolin, CEO 11/18)

- Job loss announcement - 7,500

IKEA – Big Box, Out of Town

IKEA – Big Box, In Town

IKEA – Collection Point



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BE THE DIFFERENCE

IKEA – In town Stores

IKEA – Showroom

IKEA – Catalogue

Anything New ?

" … the troubles facing a retailer have slowly increased. Competition, staff problems, lower margins, higher wages, shrinkages, waste, rising overheads and various other difficulties have forced many a shopkeeper to close down and make others whether or not it is worth while carrying on" (p9)

Galvani P & A Arnell (1952), *Going Self-Service*, Sidgwick & Jackson, London

The New Reality

Rethinking 'Space'

- too many stores, too much space?
- purpose of space: sales space to promotional\ theatre (customer engagement) space?
- store environment to screen environment?

Rethinking Flows

- managing home delivery?
- managing customer returns?

Rethinking Business Models

- appropriate KPIs & measures?