# Executive summary

*Multichannel Now* has been designed to give a unique insight by allowing retailers to speak to us in confidence about what is really taking place in their business, what their pain points are and how they intend to compete across all the channels in which they operate.

The 20 board directors and senior executives we interviewed have helped us make sense of many of the *Retail Week*'s headlines from the past year. And, more importantly, to help us predict trends and retailer actions we should expect throughout 2012. Customer focus is beginning to turn into actions, not just words. Structural changes are taking place within retail businesses, and operational changes. Multichannel retailing is having a real impact on what retailers offer to their customers, and how they go about offering it.

At the beginning of 2011, who would have thought that Argos would have launched a TV shopping channel, Kiddicare would reveal plans for 12 superstores, Mohamed al-Fayed would have bought an etailer or Aurora Fashions would expand its 90-minute delivery service to cities all around the country.

The market is moving fast. And the retailers that are doing best are the ones that are adapting to this speed and not resting on their laurels, trading on the success of their last innovation or customer launch.

### Skills shortage

The skills gap has intensified since last year, and retailers are reporting a desire for those with multichannel skills, as well as those with more specialist ecommerce skills.

Proof of the shortage can be seen from the merry-go-round of appointments seen during 2011. Within *Retail Week*'s Etail Power List – published in November 2011 – there were 11 retailers that had moved job in the past year. That one company alone, Marks & Spencer, has taken the most senior online executives from Tesco, Dixons and New Look inside of nine months, is indicative of this.

### Property's problems

In 2010, *Multichannel Now* predicted that multichannel retail's impact on property would begin to become an issue. The report uncovered an at the time unspoken feeling that many high street retailers had more property than they needed.

Within 12 months, this belief has come to the fore, and predictions are being made of substantial reductions in town centre property demand in the next decade. The debate about how many stores a multichannel retailer needs for national coverage while optimising profitability rages on.

Senior retailers have made estimates ranging from 50 to 150. Whichever end of this spectrum you favour, it's clear that this is far fewer than many operate at the moment.

The report discusses how far retailers will move forward with disposals in the near-term, and retailers' predictions for how this will polarise demand for retail space.

Our prediction from last year that retailers would begin to redefine space is coming true. What's been seen in the market so far is just the tip of the iceberg, and *Retail Week* expects that to be a strong emerging trend for the next couple of years.

### Is multichannel pricing right?

One of the new trends that has come through strongly this year is pricing and promotions in the multichannel world. It's an area where retailers have told us that they are not doing what they think their customers want them to; many report they are operating price differentials between channels.

And there seems no end in sight for the downward price spiral, particularly for non-food online. Yet despite this, we hear from some retailers who think it is a substantial area of opportunity, particularly if they can leverage appropriate cross-channel services.

### Promotional panacea

Despite retailers reporting the pain of squeezed margins, online promotional activity is a tactic many retailers have become addicted to in order to drive volume. We discuss whether this is a trend that is set to become a permanent feature of the market.

However, there is one online promotional type that received almost universal negative responses from our interview subjects – Groupon. They think they can run better promotions themselves while sacrificing less margin.

And that the same executives who had nothing but criticism for Groupon were on the whole positive about other developments such as mobile and Facebook shows that they are embracing new channels and innovation when they think it adds something for their customers and their top lines.

### Mobile futures

Mobile is moving at a tremendous pace. Retailers have followed their customers – developing mobile solutions because their customers were already interacting with them using smartphones.

Interestingly, it's a trend that even those that don't trade online say they can't afford to ignore. They see customers coming to their stores and comparing their products and prices with the competition on their mobile phones. It's keeping them on their toes on pricing, particularly at the value end of the market.

For those that are experienced online traders and have invested to tap into the growing mobile traffic, there is a learning curve about what good looks like for mobile key performance indicators. In particular, they are learning that the different way that mobile is used means that it's difficult to compare online and mobile conversion rates.

We have described mobile as the 'connective tissue' between all other channels, and we examine what else consumers are using mobile for other than completing transactions that makes it so valuable for multichannel retailers.

### Why collecting has clicked

In 2010, online-only and home shopping retailers realised that the rise of click-and-collect services among their competitors with stores was a real competitive threat. In particular, the supermarkets launching click-and-collect points for their non-food offers provided convenience that was attractive to customers.

They've hit back, with Amazon's lockers and Shop Direct Group's pushing of click and collect through Collect+ two examples of this. And N Brown Group has gone a step further, opening stores for its Simple Be brand to capture share of the substantial proportion of its market that's tied up in store sales.

We reference retailers who are fulfilling between 10% and 85% of their online sales through click and collect. This and other premium delivery services are being used to attract customers on things other than price, yet retailers tell us that they are not yet clear that all these delivery options are profitable.

### Brits abroad

More than a quarter of the top 100 retailers in our benchmarking study are fulfilling orders from their UK websites to customers overseas. This is a trend that will no doubt continue, as more retailers capitalise on international ecommerce.

But the story is already moving on, as retailers are using what they learn from opening their UK site to the world to inform the development of targeted country sites for other markets.

It's the one area of multichannel retailing where there are few worries about the cannibalisation of existing sales through other channels. Even retailers with franchisees overseas are trying to work out how they can capture international sales online without damaging their partnerships.

### Channel count

International websites and mobile are just two of the developments leading to channel proliferation. And retailers are creating new channels themselves with the development of marketplaces, which are soaking up the sales of smaller merchants attracted by the brand strength and traffic of their larger competitors.

For the same reason, Facebook is viewed in a generally positive light, although the social network could well find that it has a big job on its hands to convince many big retailers to use it as a transactional channel in the near future.

### Competitive threats

Finally the report highlights how current performance is no guarantee of future success with the speed the market is moving at. There are two trends of note.

The first is that retailers prepared to take risks, innovate and all at pace are able to leapfrog competitors in terms of the proposition they offer to customers. During 2012, Morrisons is the retailer to watch in respect of this trend. It's already stated that it wants to offer something different with its online launch. But it's not the only one attempting this; big-ticket item retail is another sector where real innovation in the customer experience is on the cards.

The second is the tit-for-tat tactical multichannel developments being used by retailers to jostle for position in ultra-competitive markets. Mobile apps were an example of this last year, and enhanced delivery options and international delivery are the current flavour of the month.

Multichannel retailers are beginning to make changes within their businesses that move them on from offering multiple channels to delivering genuine cross-channel and channel-agnostic customer experiences.

As the sectors most affected by online and digital developments show – music, books and video games – continuous multichannel development is increasingly a key ingredient of survival.