

MERCAUX

Retail's Recovery from COVID-19

Reimagining the Future of Retail

April 2020
mercaux.com

Welcome from Mercaux

Retail is facing huge challenges as an industry. At the same time, we are trying to look ahead and think about how this lockdown will fundamentally affect retailers, so we can come out stronger on the other side.

Here at Mercaux, we not only see light at the end of the tunnel, but also an opportunity for retail to reset. This will mean high-level structural changes in the industry that will enable Retail 3.0, **bringing the best of digital and physical together**.

Those retailers that can weather the initial demand shock and fundamentally re-imagine the way they operate as a business will, I believe, come out of this crisis stronger.

Best Wishes
The Mercaux Team



Introduction

McKinsey released a briefing note on COVID-19. One of the primary actions for institutions in their executive summary read:

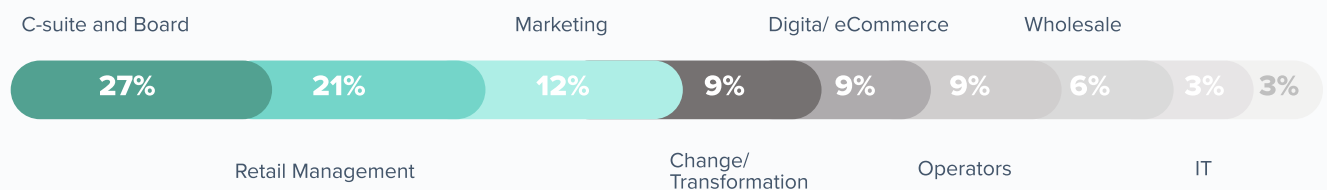
“Re-imagine the “next normal” – what a discontinuous shift looks like, and implications for how the institution should reinvent.”

This document has been produced to provide retailers with considerations for what the “next normal” might look like. These considerations have been produced from discussions we’ve had with the retail community, analysts, consultants and investors of how we can take advantage of this unprecedented opportunity in resetting retail.

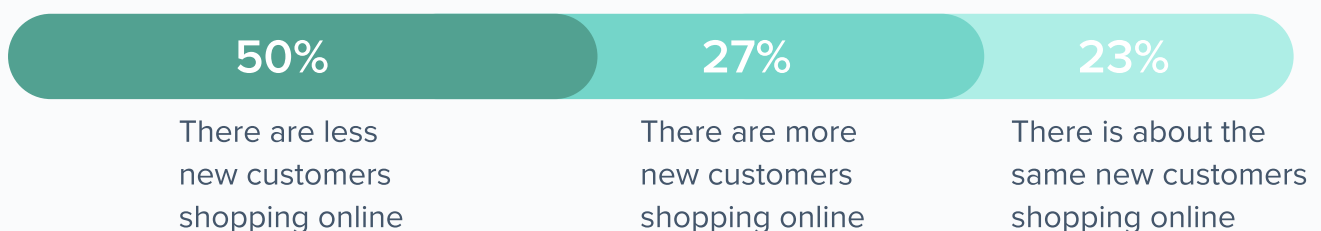
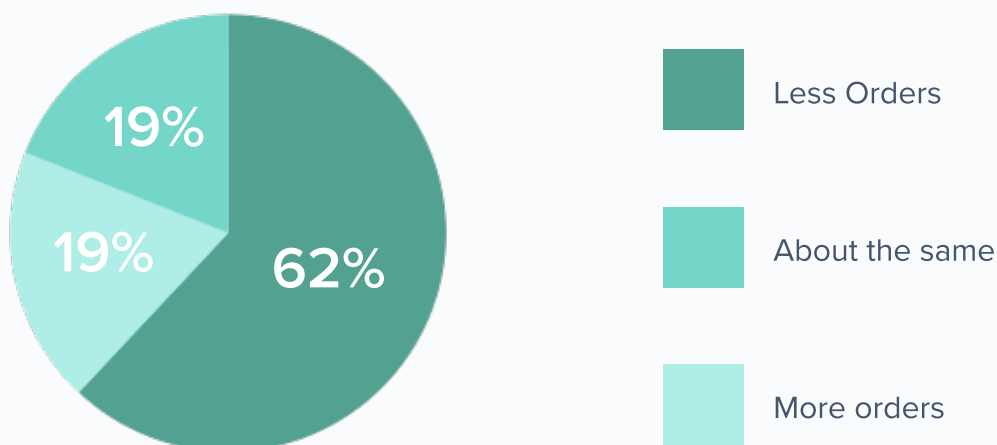
This report is also supported by results from an industry-wide survey we conducted to take the “Pulse of Retail” during this crisis with participation from senior level decision-makers across the UK, Spain, Italy, Russia and USA.

COVID-19 Retail Survey Results

We reached out to our retail community to take the “Pulse of Retail” around COVID-19. 48% of the respondents to our survey were at a board, C-level or C-1 position, with the remainder providing insights from a departmental level. 61% came from apparel and fashion, with the rest made up of footwear, health & beauty, jewellery and accessories professionals. The respondents came from a mix of SME and Enterprise-level retailers. Here are the key findings:



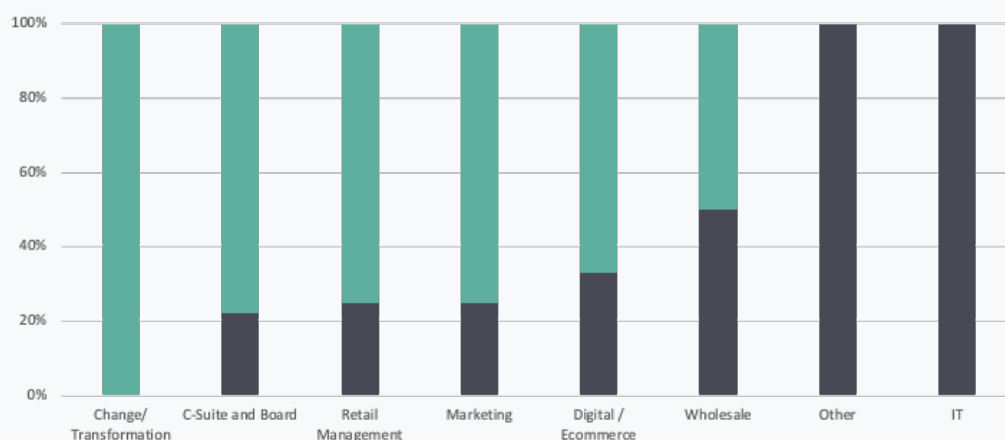
How have eCommerce orders been affected?



Initially, with store forced to close, the assumption was that eCommerce orders would increase as consumers could not obtain products in any other way. In reality, warehouses were forced to close to protect employee’s welfare and as a result, this channel was also forced to close.

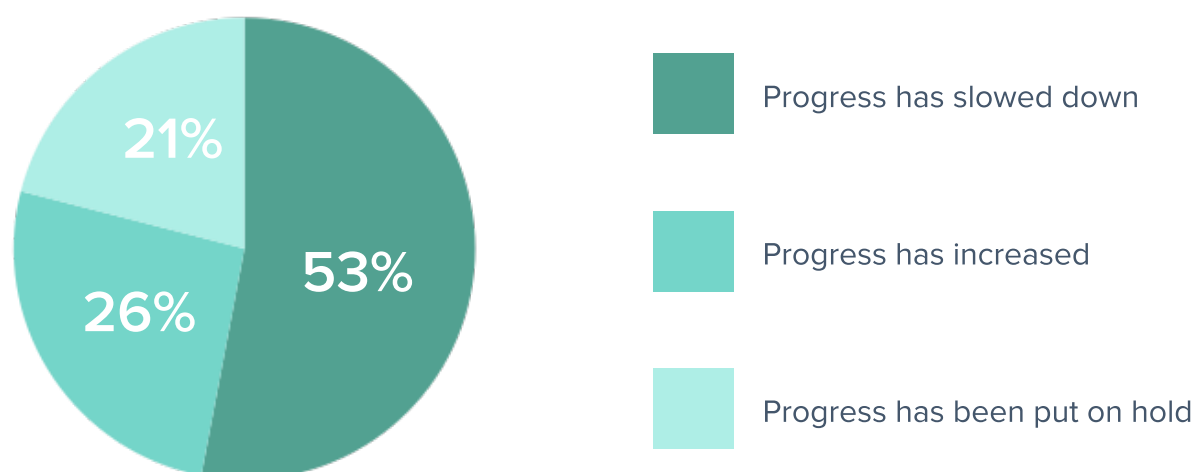
In the time that online was the only channel to purchase, consumers who were not digitally-savvy were exposed to the benefits of full inventory and fulfilment options available online. With this, their expectations of the store has now changed.

Do you feel that your role will have to change in light of this crisis?



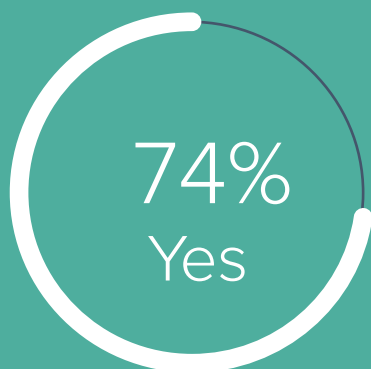
When we begin to consider how our roles will look in the future it's the c-suite and change transformation managers who see their roles changing the most. We found it very interesting that IT respondents did not see their roles changing, when we look at the responses to the following questions.

Has your company been able to maintain progress on larger CAPEX projects?



74% of CAPEX projects have either slowed or stopped completely, meaning the role of IT has to change in order to bring value to retailers in the recovery phase. Instead of focusing on these larger re-platforming projects that take up a lot of time, resource and money, we predict that focus will shift towards more cost-efficient projects that bring short-term gain for the company.

Do you think there will be large organisational restructuring needed in light of this crisis?



Reimagining what retail could be needs to happen company-wide, so it's not surprising that the respondents see large organisational restructuring needed to facilitate this. Only recently we've seen news of retailers beginning to implement these changes. Dreams, the bed specialist, has for example removed their CMO and Head of Retail as they look to focus more on digitalising their business.

How confident are you in your company's ability to recover from this crisis?



This question clearly shows response at differing levels of severity by country. Surprising was Russia, as their stores were still open at the time of collecting these responses and they are at a level of confidence equal to Spain and the UK who had been in lock down for a number of weeks prior. Italy is the least confident with their country being hit hardest by this crisis across Europe.



Don't just think “WHEN”, think about “HOW”

In recent years, the approach to customers, workforce, stores, fulfilment & inventory has been slowly evolving with the coming of Retail 2.0 (the rise of eCommerce), but **retailers have not been transitioning quickly enough to benefit from entering Retail 3.0 (bringing the best of digital and physical together).**

Additionally, retail accumulated a lot of inefficiencies. To name a few; unproductive and often unsupported by HQ sales associates, limited BOPIS and other omnichannel capabilities, lack of personalised experience not only online, but also in-store. Perhaps now with the “P&L” on hold, it is time to address those issues. The results from the survey show that retailers are now in a position to make wide-spread changes. Customers’ behaviour will also change post-crisis, and retailers need to think now how they can address this.

Those retailers that can weather the initial demand shock and fundamentally re-imagine the way they operate as a business will, we believe, come out of this crisis stronger.

We should not be asking ourselves **WHEN** will our stores reopen but re-imagine **HOW** our stores will look, what their purpose is and how they will be staffed. They simply can't reopen as they were before the crisis. They will not compete with other retailers transforming their business models today to meet the demands of tomorrow's consumers. For the purpose of this paper, we'll focus on the top four areas that we believe you need to start addressing now.

1

Workforce: Unlock productivity gains

Retailers understand that the role of Sales Associates won't be the same post Covid-19. Gartner released a report recently where they pose the following suggestion:

“Retailers Must Take COVID-19 Into Consideration and Restructure their Operating Models”

Retailers should be thinking how technology can be deployed as an agent of change to support colleagues in transitioning to Retail 3.0 when stores reopen. We are very aware that retailers may not be in a position to rehire all their store staff that they had before the crisis from the first day of opening. So, this is where technology focused on automating certain in-store operations, like stock check, product discovery or recommendations, can support the workforce in increasing productivity, so the same, if not more, can be achieved with less staff.

At Mercaux we also see sales associates owning a whole new set of tasks and activities post Covid-19 that power important functions of retail, particularly when it comes to boosting client loyalty and engagement via personalised in-store experience, and even driving footfall to stores via content creation on social media channels.

Where possible, see if your current technology stacks can be utilised by staff working from home. Some of our customers are using our Clienteling solution to keep engagement between store staff and customers from home so that when stores do reopen there is a loyal and engaged customer base ready to return.



2

Store purpose: Think of new store formats

This notion of stepping back and re-imagining what a store of the future could operate as was near-on impossible to actually consider before the crisis. To change one step at a time would have taken too much time, too much money and would have received resistance from multiple areas of the organisation; IT don't have the time, Retail Staff need to be trained on new ways of working, store formats need to be designed and built and crucially, existing revenues were to be protected at all costs.

To even suggest such change on a wide scale would have been unconventional as the **impact felt on the largest 3 P&L contributors (Stock, Staff and Real Estate)** would be unprecedented. We are now in very unconventional times and as such these impacts no longer exist. Some questions to ask yourself:



- What benefits from the digital world can I bring in-store? Can I introduce a “contactless” store? Can I let customers browse via devices but try real products in-store? Can I eliminate “lost sales” by keeping all my products in all sizes by shipping the products directly to a customer’s home from the warehouse after they purchased in-store?
- What can I do to drive traffic to the store that’s different or exciting? Will customers post-crisis prefer more human interaction or less?
- Should I look to partner with cafes or coffee shops to increase traffic and dwell time in store?
- How will customers interact with staff? What would be the “value add” from my store teams? Would it be around product knowledge, personalised experience, or will they simply focus on store layouts?
- How can I show all our company has to offer in smaller store formats?

3

Inventory and fulfilment: Lean store and tackling overstock

In the first week of store closures (before warehouses were subsequently closed cutting off eCommerce orders) 100% of consumers wishing to purchase your products had to do so online. The customer is now fully multi-channel and so is expectant of an omnichannel experience. The speed, convenience and information of an eCommerce experience now has to transfer to the store. A customer coming into the store tomorrow will expect the same level of inventory oversight and fulfilment available to them online.

You can't afford to be saying 'no' to a customer when you reopen. Your staff should be easily able to offer an alternative product, order it and ship to home, or click and collect in another store - just as is commonplace online. This is a basic need that needs to be offered in store. Have you considered only allowing customers to touch and try on in-store, and have their size shipped to their house the next day? These "out of the box" ideas should be now placed on the table for consideration.



4

How to afford it? No CapEx, success-based

The key considerations on the above points is how the technology driving the changes is deployed, the cost structure, and the speed in which it can be up and running. We know that retailers will not be in a position to sign off big CAPEX projects and high running costs or invest to develop in-house. As mentioned previously, we found that 74% of retailers have either seen a slow down or complete stop on CAPEX projects. So, you have to look for alternative cost models with your tech partners and suppliers, ideally no-CAPEX and success-based.

You want your staff and customers to take advantage of these technologies from the first day of re-opening your stores, so consider how these technologies are deployed and if your staff can access and train on them remotely during lockdown prior to your stores reopening.

Summary

Mercaux is only successful as a business if our retail customers are successful, so we are here to support you in any way we can. We will be releasing various blog posts, white papers, webinar recordings, infographics and animations to help you in planning for the “next normal”:



New store formats



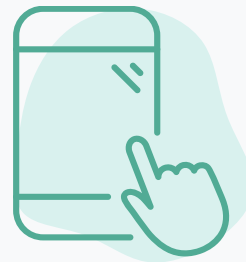
**Productivity gains
with the workforce**



**Inventory and
fulfilment**



**Changing customer
expectations**



**New technology
deployment**

When considering the above, keep these following points in mind:

- It's imperative that you start planning now for when stores reopen (whilst not inflicting pain on stock, staff or real estate)
- Act now to transition to Retail 3.0 as customers will be drawn to those retailers over those that have not transitioned
- Ensure that the decisions you make today are implemented immediately, ready for when your stores reopen

If you would like to discuss the considerations made in this report or have any question, please get in touch – we'd be more than happy to chat.

About Mercaux

Mercaux helps retailers' transition to Retail 3.0 (known as the "next normal" in retail) by bringing the best of digital and physical retail together. This transition enhances the customer experience, improves store efficiency and increases sales.

Retail 3.0 reimagines what retail could be by focusing on four key pillars:

- 1 Reimagining new store formats
- 2 Reimagining productivity gains in the workforce
- 3 Reimagining inventory and fulfilment
- 4 Reimagining cost structures of technology deployment

We equip Sales Associates and stores with the digital tools they need to serve and sell smarter, across the entire customer journey. The solutions are operated by Sales Associates using a tablet-based app or self-served by customers using touch screen kiosks and managed by a HQ Platform.

Our core solutions Sales Assist, Omnichannel and Clienteling equip staff with instant access to product information, company-wide inventory, digital content, customers' profiles and wish lists, through to mobile checkout capabilities. Additional add-ons such as AI-driven Styling Suggestions, Store Communications and Advanced Analytics elevate stores towards a fully integrated digital ecosystem.

When clients like Nike, French Connection and Benetton adopt digital tools in their stores, they see an increase in conversion, loyalty and units per transaction (UPT). On average they experience a sales uplift of 8% and 5x ROI.



We're excited to be listed in Retail Week's Discovery 50 list, which shines a light on the world's top tech companies whose innovative solutions are supporting the retail sector both during the pandemic and in the future.

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