

# Retail Disruption Drivers

how balance between online and offline, product sustainability, retail start-ups, supplier reshoring are going to transform the competitive landscape

**6 changes that will reshape  
the retail industry**

# Metamorphosis of bricks and mortar, digital retail

## A more strategic role for physical retailing

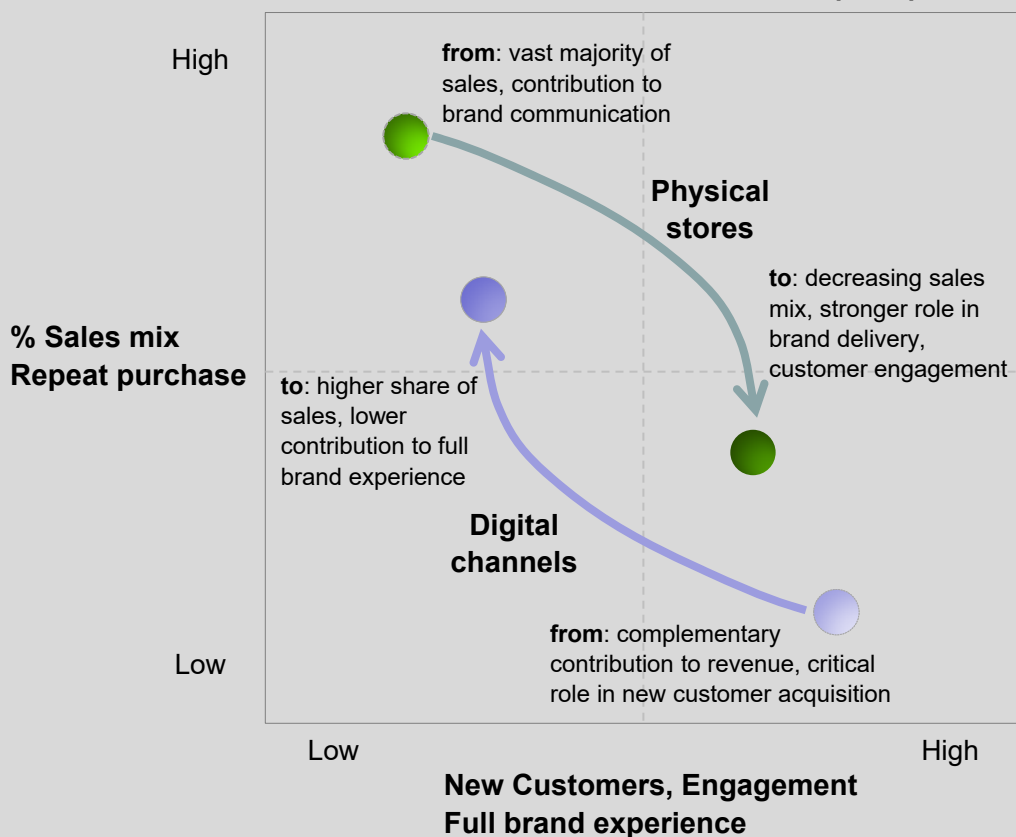
### The 6 changes

1. **Omnichannel inversion:** stores will become the main channel of brand delivery, customer engagement whereas digital channels will generate much higher sales
2. **Online transition:** e-players acquiring bricks and mortar brands; established, struggling retailers becoming online only
3. **Start ups and tests of new formats:** higher number of available locations will reduce rents and encourage new ventures
4. **Growth of second hand, recycle, upcycle:** sustainable, transparent fashion retailing as part of circular economy
5. **Growth of services:** complementary to products, they will become large contributors to revenue and key factors of differentiation
6. **Reshoring / nearshoring suppliers** to improve product quality, reduce carbon footprint, respond faster to seasonal to trends

### 1. The omnichannel inversion

- Among the outcomes of stores being closed and people staying longer at home, more customer segments have become familiar with online shopping. The purchase of branded products and repeat purchase will keep shifting to digital channels at faster pace than previously forecast and the fulfilment will be carried out across the available options of retailers' omnichannel model
- For the reasons above, the sales mix of physical stores will decrease as customers will find more convenient to buy online. However stores will gain relevance in delivering the full brand experience which will make them essential in achieving strategic goals. As Customer Acquisition Costs skyrocket in digital channels, **stores will represent the best way to engage new customers, to deliver the story telling, to communicate differentiation and innovation**
- The result will therefore be an inversion of the roles of online and offline channels. The number of stores will be reduced - Inditex just announced 1,200 stores will be shut globally – and priority will shift from the capillarity of distribution to the right locations that deliver the new priorities of the omnichannel retailing

#### 1. principles of omnichannel inversion



# Migration from offline to online; tests, start-ups

Revamped brands will move online; several new initiatives on high street

## 2. Online transition: pure players extending brand portfolio

- E-commerce platforms will keep reinforcing their offering to extend customer base. Acquisition of high street brands represents an easy route for brand and market extension:
  - targets will be struggling brands that can be taken over at reduced price
  - physical retail network is most often not acquired - brands becomes retail only
- The advantages are:
  - extended brand portfolio
  - lower customer acquisition costs compared to investments required in digital channels
  - reputation enhancement of proprietary e-commerce platforms
- Result:
  - **High street brands become online only, stores are closed**



## Struggling high street brands become online only

- Established brands suffering financial downturns are saved from administration and converted to online
- The advantages are:
  - leverage brand identity whilst reducing capex
  - retain loyal customer base engaged with the brand
- Result:
  - **High street brands become online only, stores are closed**



## 3. Start-up and test of new formats in available retail units



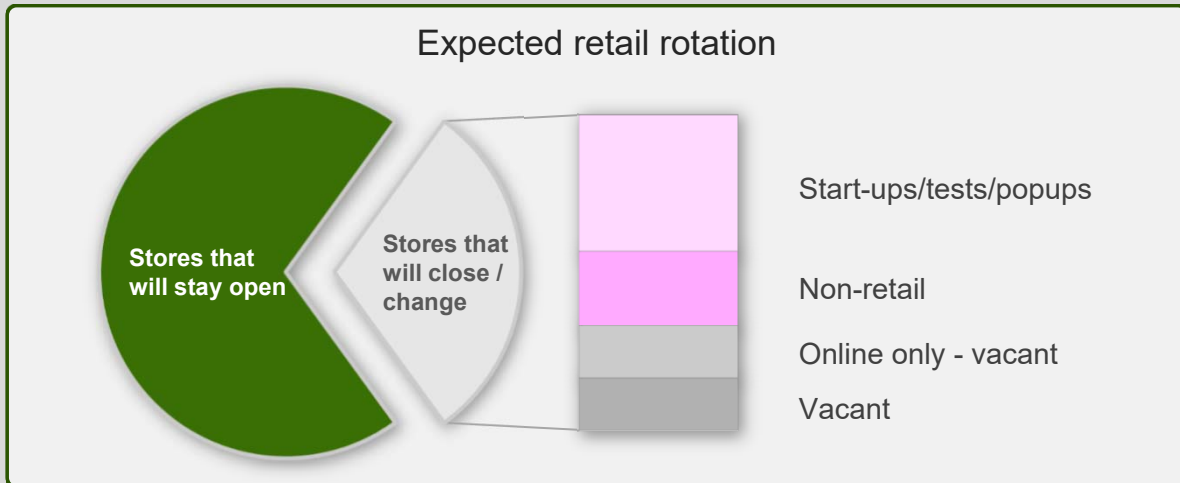
- Consequence of the economic crisis will be the vacancy of several retail positions and the likely reduction of rents; some of them will be replaced by new initiatives:
  - financially stronger retail groups will leverage this favourable scenario to **test new concepts**, brand extensions, new formats - e.g. The Beauty Hall from Next in the UK
  - innovative retail start ups** will be launched to lure market niches and local customers. The successful ones will respond to new expectations of product differentiation, sustainability, quality/price ration, durability
  - experiential eating, leisure, car showrooms, exhibitions, fitness centers, hotels, smart offices will **extend the non-retail offering**. High streets and shopping centers will look like lifestyle centers with higher percentage of services
- Result:
  - **Empty spaces will be replaced by innovative, more modern retail brands**

# Circular economy to pervade retail

Both new and existing brands will heavily invest on sustainability

## High retail rotation rate expected

- The vacancy rate is expected to have a sharp increase in the short-medium term. Part of the available positions will be taken by start ups, tests, pop ups and non-retail formats, others will remain vacant as a consequence of bricks and mortar brands migrating online



## 4. Growth of second hand, recycle, upcycle

- Commitment to circular economy will become integral part of retailers' strategy to radically reduce consumption of resources
- Customers will demand:
  - longer product lifecycle
  - extended offering of recycled, second hand, upcycled products
  - reduction of owned garments in exchange of higher quality and rented garments
  - peer-to-peer relations among individuals
- Result:

Total funding	
Rent The Runway	\$541m
The RealReal	\$358m
Thredup	\$306m
Poshmark	\$153m

source: company data

➤ **Funding for retailers committed in circular economy is expected to grow substantially**

### Timberland 2020 targets

- 100% sustainably sourced cotton
- 100% footwear to include recycled, organic or renewable material
- 100% Leather Working Groups tanneries rated gold or silver
- 100% footwear PVC free
- volatile organic compounds less than 42 grams/pair
- 100% products free from PFC - poly fluorinated chemicals
- 50% of energy from renewable sources

## Growth of sustainable, transparent fashion retailing

- Transparency, honest business terms - **Everlane** benchmark for transparency in product cost and ethical sourcing achieved \$227m revenue<sup>(\*)</sup>
- B Corp certified footwear brand **Allbirds** is using sugarcane for Sweatfoam soles, Tencel fabric produced from tree fibre for shoe uppers, Trino socks. That allowed to achieve \$220m revenue<sup>(\*)</sup>
- Born as direct-to-consumer, **Allbirds** is quickly moving to retail
- Result:

➤ **A growing number of highly differentiated, sustainable, transparent brands**

# Differentiation through services and reshoring

Services to complement business model; suppliers integrated to new strategy

## 5. Growth of services

- The quantity of products sold will most likely decrease as a consequence of changed lifestyle - less need to buy - and more attention to environmental impact – purchase of fewer, higher quality items
- Beyond the rationalization of retail networks mentioned earlier, another fundamental evolution is the growth of store services driven by customers inclination to enjoy the brand in broader terms. **Fewer owned products will convert into a demand for product differentiation, knowledge, lifecycle**
- Typical services are maintenance, repair, classes, training, spaces rented for private use, product customization, monogramming
- Result:
  - **higher share of wallet and broader brand experience**

### Strategic role of services

#### Halfords

24%<sup>(\*)</sup> of revenue generated by services

<sup>(\*)</sup> source: 2019 company data

#### Pets at Home

34%<sup>(\*\*)</sup> of sales generated by services

<sup>(\*\*)</sup> source: 2020 company data

## 6. Reshoring - nearshoring

New consumer habits and expectations will accelerate the evolution of consolidated business models. Strategies based on low price, low quality, short lifecycle, high volume, long time to market appear to be fading away in favour of more conscious product design, production, duration

Retail brands will be asked to embark on a innovative approach to product development and supplier strategy

Retailers' top priorities in reshoring, product development, strategic relation wit suppliers:

### New assortment and differentiation strategy

- Product strategy based on improved perceived product quality for extended lifecycle consistently to the new customer paradigm 'less is more'
- Differentiated assortment based on unique selling points rather than traditional 'me-too' approach

### Flexibility on styles, materials, colors, finishing

- Production capacity is booked without product detailing
- Materials are sourced without detailed allocation to products
- Final product specs are confirmed in season after customer evidence has been collected

### Product sustainability

- Selection of suppliers that implement more advanced production techniques which consume less resources
- Reduced emissions as a consequence of shorter shipping distances

### Shorter time to market

- Suppliers with shorter set up times, lower minimum production volumes, simplified packaging process
- More skilled team to quickly implement manufacturing details of new products

### Fewer, strategic partners

- End-to-end integrated process from collection styling to shipping
- Shared product lifecycle management, assortment planning tools
- Simplified fitting process with fewer steps and less product movement

### Faster reaction to trends

- Selected manufacturers with internal design office monitoring fashion evolution and trends
- Proactive relation with retailers to identify, respond quickly to new fashion opportunities

# Re-designed materials, production process

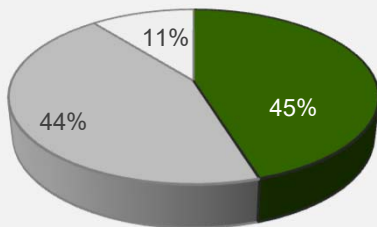
Closer and more integrated partners

## Rapid evolution

Several brands have already been adjusting the supplier mix as a result of reshoring process

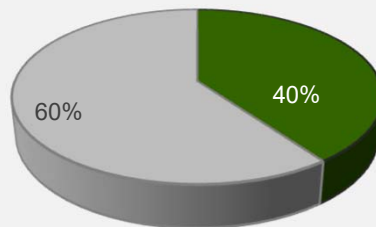
### Rebalancing the supplier basis

% Ted Baker's suppliers



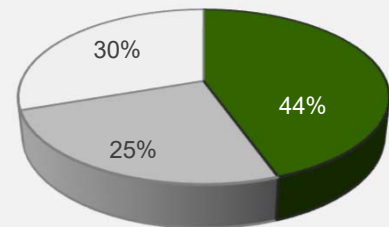
■ Europe, Northern Africa  
■ China, Vietnam  
□ India, Indonesia, Philippines

% Boohoo garments



■ UK  
■ R.O.W.

% Asos' suppliers



■ Europe, Northern Africa  
■ China, Sri Lanka, Vietnam  
□ India

source: company accounts, 2019

**Please get in contact with us to further discuss the fundamental changes that will transform retail in the next years**

## A New Retail Landscape

The challenges to emerge as successful players

- optimize the role of channels as physical stores will have stronger impact on brand experience and on customer acquisition
- test, extend offering; add services as brand extension and revenue generator as retail network will be rationalized
- adopt the new circular economy principles to assortment
- reshore production to manage higher quality, more flexible manufacturing, more sustainable product



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#### Ispira Ltd

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Our team has gained experience from working with some of the world's most successful retailers in highly competitive markets.

Ispira has developed a unique experience in evolving the Brand Delivery for omnichannel retailers integrating customer service, product knowledge, brand communication, local community