
# RETOOLING RETAIL
## IN A CLIMATE OF DISRUPTION
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The world is awash in disintegration—systems that have been in place for decades have lost cohesion—and they are causing major disruption. Retailing as we know it is a prime prototype. Traditional brick-and-mortar stores have lost both market share and market cap, witnessed by Amazon's purchase of Whole Foods. WeWork's acquisition of Lord & Taylor's flagship Fifth Avenue store speaks to how retailers are rethinking their real estate. Other retailers may soon follow suit as they scramble to adapt to shoppers' shifting preferences to purchase products online.

Although worldwide retail sales are growing, how they are being transacted is undergoing a sea change. Online sales on a global basis have mushroomed—50% of China's purchases now are made online, and 75% of them are transacted via smartphones. Retailers are struggling to confront and adapt to that change by investing in the tools needed to turn it to their advantage. Walmart and Target are tackling the challenge in aggressive ways. Walmart has courted the disruption with its purchase of jet.com, which allows it to compete head to head with the likes of Amazon, and more recently, Parcel, which promises same-day delivery in New York City. Target just announced its purchase of Shipt, a grocery delivery service, and hopes to be making same-day deliveries from half its stores within six months. It could give a badly needed boost to Target's stock price, which has shed 13% this year. Target is signaling its recognition that it must adjust to the new reality of retailing. "Retailers who adapt to consumers' changing shopping preferences will not only survive, but will also emerge stronger," notes Stuart Nussbaum, Consumer Products Sector Leader at Mazars USA.

Consumers are the driving force, and savvy retailers must step up communications to understand what is behind the change in purchase behavior, how best to get end products to purchasers, and how best to please those who do shop in stores. What is it about the Amazon shopping experience that causes a consumer to buy online versus in a store? An obvious answer is the promise of next-day delivery is more satisfying than looking for limited inventory with the aid of fewer (and overburdened) customer service staff. Getting buyers in the door demands it be a more gratifying encounter, something the pressure on retailers' falling profit margins may preclude. The consumer's insistence on faster and quicker trumps retailers' preference for dictating what they sell and at what price.

Nor are wholesalers immune to the new trend—consumer purchasing behavior decrees what is produced, where it is sourced, and how it is manufactured. A new reality has emerged. Big-volume orders encompassing a cumbersome supply chain delivered a few times a year from big factories have given way to more nimble processes to distribute small orders several times a week, and at competitive prices.
Even the production process has undergone

a revolution, among which is software automation. For example, robotic sewing can produce volume at a lower price. Optitex, leaders in 3D design (now part of EFI), offers digital product solutions for the textile industry that streamline the process, resulting in virtual sampling, fit, and ordering.

Retailers who hope to thrive and flourish must adjust their supply chain to the new reality by making technology investments needed to support it, and take a hard look at their business and determine whether they have the wherewithal to make them. If not, they may need to examine their business in a different light, perhaps opting to stock less inventory and fewer designs. Or, they can opt for digital designs, simplify logistics, and take advantage of drop shipping. The role between the manufacturer and the consumer is being redefined, and although retailers are playing a lesser part, they can overcome obstacles by having the proper strategy and a solid financial plan to achieve it.

It may be that a strategic acquisition, or even an outright sale, is the answer. In a marketplace suffering from continued fragmentation, mass consolidation is inevitable. For example, Whole Foods appealed to a high-end customer, yet was perceived to be a laggard in the shift to on-line purchases, making it ripe for Amazon to acquire it. Amazon Prime's members make more than $100,000 a year, of whom more than 50% already purchase groceries through its website. This helps explain why the key to success is having a platform that can be leveraged—something Amazon continues to demonstrate in spades.

**"ANOTHER KEY TO RETAILERS' PIVOTING THEIR BUSINESS IS ADJUSTING THEIR USE OF REAL ESTATE, AS LORD & TAYLOR'S $850 MILLION TRANSACTION DEMONSTRATES. HAVING HELD COURT ON FIFTH AVENUE SINCE 1914, IT IS THE OLDEST DEPARTMENT STORE IN THE COUNTRY. YET ITS DECISION TO CONSOLIDATE OPERATIONS IN A SMALLER SPACE WITHIN ITS LANDMARK ITALIAN RENAISSANCE MARBLE EDIFICE WAS THE RIGHT THING TO DO IN AN ERA OF CHANGING CONSUMER BUYING BEHAVIOR."**

Another key to retailers' pivoting their business is adjusting their use of real estate, as Lord & Taylor's $850 million transaction demonstrates. Having held court on Fifth Avenue since 1914, it is the oldest department store in the country. Yet its decision to consolidate operations in a smaller space within its landmark Italian Renaissance marble edifice was the right thing to do in an era of changing consumer buying behavior. After all, if buyers are eschewing stores for the ease of shopping with a computer from the comfort of their living room sofa, retailers can put the operations and carrying costs associated with maintaining an expensive prime location to better use. They will want to take a sharp pencil to the numbers and determine whether it makes sense to keep expensive properties or if the better approach may be "creating value through creative transactions with our real estate," says Richard Baker, chairman and interim chief executive of Hudson's Bay, Lord & Taylor's parent, in the above-quoted Wall Street Journal article.

In adapting to the changing landscape in retailing, companies must embrace attracting workers from a significant employee segment: Millennials. By definition, Millennials are different from the norm. Raised in the era of smartphones, they operate in distinctive ways, and they will prosper only in an environment that recognizes those differences. Ping pong tables may not be required, but a fun and flexible work/life balance is at the top of their list. According to a survey conducted by Wells Fargo, Millennials rate having satisfactory family relationships and intellectual pursuits at a higher level than work (56%, 52%, and 40%, respectively), and prefer (by a wide margin) being happy every day to financial success and recognition (34% versus 11%). They also are used to a collaborative decision-making process, so companies must be realistic about structuring a work environment that appeals to them. "Where Millennials may be weak is in understanding accounting and cash management, so modeling it and showing the effects decisions have on variable and fixed costs and working capital should receive special emphasis," says Stuart Nussbaum. In turn, incorporating Millennials into the company provides powerful insight into a brand's uniqueness and can revolutionize a path to uncovering the consumer's motivation to purchase it.

In summary, the disruption in retailing is monumental, as consumers the world over transform their buying patterns. Rather than hiding their heads in the sand, successful retailers must reinvent themselves by retooling their approach and embracing the shift to the consumer driving the process. It demands making new technology investments to lower manufacturing and distribution costs and to quickly respond to what the consumer wants and when. It may involve equipping supply chains with digital design capabilities and streamlining delivery logistics. If making these investments is unrealistic, retailers can explore realigning the company through a strategic acquisition or sale, and re-evaluate the best use of its real estate. And embracing Millennials into the work force, and their ability to harness technology, can transform a company's perspective and vision for capitalizing on changing consumer behavior.

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