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Retail CEO's Priorities: Online, More Exclusives

By ARNOLD J. KARR

Retailing's chief executives are racing to catch up with the pace of technology.

In a survey of ceo's from U.S. and Canadian retail organizations timed to coincide with the start of WWD's CEO Summit at the Plaza Hotel in New York today, respondents identified increased use of e-commerce as their single highest priority as they look to get back into growth mode in the face of the struggling economy. According to the study, 90 percent said they were "likely" to increase their use of e-commerce, while another 5 percent said they were "somewhat likely" to do so.

Additionally, 62 percent said they would increase their use of social networks and another 28 percent were somewhat likely to take that step.

The study was conducted by PwC Retail Consulting Services in collaboration with WWD. Antony Karabus, the Canada retail consulting services leader who conducted it, said that executive enthusiasm for social networks was tempered by "significant concerns...as to how to monetize investments in social media."

Taking a more philosophical view, every one of the retailers interviewed agreed that "seamless, easy cross-channel integration was the key game changer today and would continue for the next few years," according to Karabus. "Some ceo's commented that control had started to shift from brands to the consumer, who now has the ability to research, browse, tweet, comparison shop and transact and pay online," a trend that's only accelerating with the proliferation of smartphones and tablets.

"Accessibility and understandability will be critical to this seamless cross-channel integration," the PwC official stated. "More personalized, customized two-way dialogues will become important to this digital, mobile customer generation."

The group's growth plans were hardly relegated to digital opportunities. While e-commerce and social networks finished first and third on their to-do lists, the second most prominent choice of the ceo's was the introduction of new stores or new store concepts, with 76 percent likely to move in that direction and another 19 percent somewhat likely to. Indicative of an incessant focus on differentiation, the fourth most significant growth strategy was increased use of private brands or exclusive collections, with 70 percent likely and 20 percent somewhat likely to boost such products.

"The retailers were increasingly focused on growth strategies that helped to differentiate them in a sea of sameness, providing a more compelling proposition for their customers to keep coming back again and again in the quest for new and exclusive fashion and value," Karabus said.

The retailers surveyed covered all categories, but were dominated by specialty stores. One ceo responded to the private label issue by commenting, “We are working tirelessly to replace commodity brands that can be found in numerous retailers and to fill our stores with exclusive fashion brands that the customer cannot get anywhere else, but at very compelling price points. Making sure we have the right brands and value...is much more crucial than adding low-cost opening price points.”

Karabus said he was surprised by the lack of enthusiasm among the ceo’s for lowering price points or moving into merchandise with lower price points, even among stores catering to a more budget-conscious consumer: “Nothing was more important to the retailers we spoke with than having the customer walk through the door, or even shop online, and say, ‘I want that!’ One ceo we spoke to said that his prices had moved up 8 or 9 percent, but that it didn’t limit his business at all because he was ‘value-focused without being cheap’ and had upgraded the quality of his brands.”

In fact, 38 percent of those polled said they were likely to trade up to higher-margin categories and lines, with another 48 percent somewhat likely to, and exactly half planned to add merchandise categories with an additional 25 percent somewhat likely to augment their assortments.

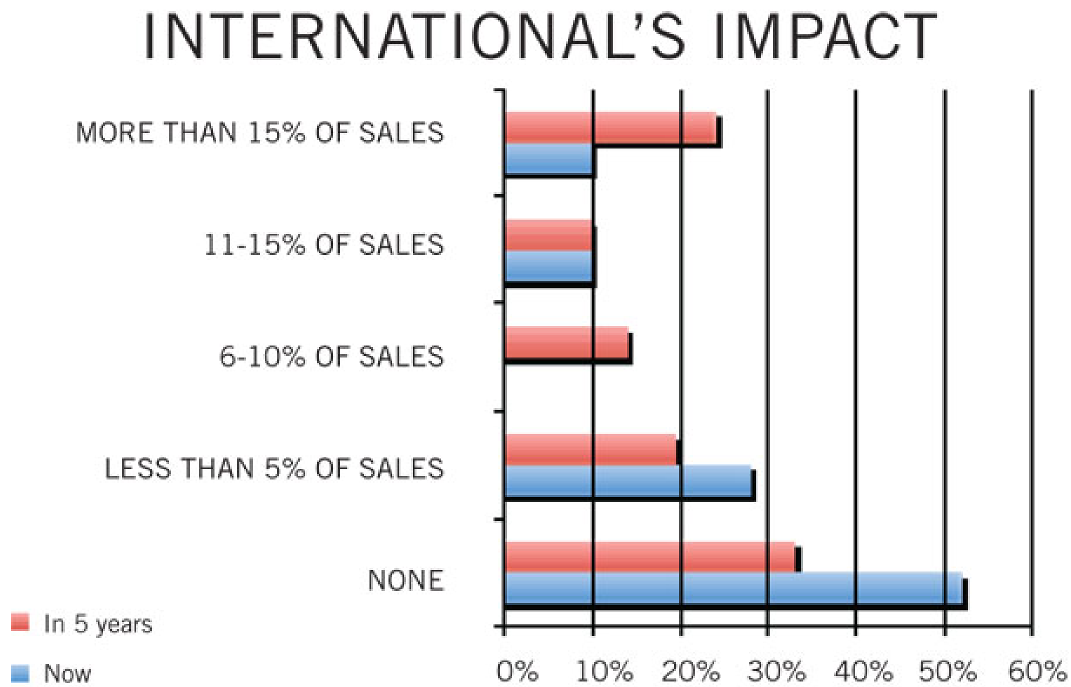
Most plan to establish or increase their penetration in international markets, even if they do so through franchises or other partnerships rather than on their own. However, enthusiasm for globalization was far from overwhelming, with 57 percent likely to expand internationally and another 10 percent somewhat likely to pursue that path.

Asked to delineate the current state of their global efforts, as well as their five-year plans in this area, 52 percent said they had no international presence, with 33 percent expecting to be doing business only in their home markets five years from now. Meanwhile, 10 percent of respondents said they derived more than 15 percent of sales in international markets now, while 24 percent expected to be at that level by 2016.

A number of retailers indicated they were struggling with whether to assign priority to international or online expansion. “You cannot invest in everything,” one ceo said. “We know we are far behind in investing in e-commerce, but we chose to invest in international expansion and it now makes up more than 15 percent of our business. And we expect it to get to more than 33 percent in five years. For us, it is more important than e-commerce. We know it is likely different for many other retailers.”

Store executives shared their business metrics and comments with PwC and WWD on condition of anonymity.

E-commerce was far less developed than international penetration among the PwC retail sample. Fourteen percent had no sales through the channel, with only 5 percent expecting to be still with no digital sales in five years. Ten percent were above 15 percent sales online and 24 percent expected to be at that level in 2016, coincidentally identical to the figure for future international sales. A full 43 percent had less than 5 percent of sales through e-commerce now, with 33 percent at between 6 and 10 percent of sales. In 2016, 10 percent expect to be under 5 percent, 47 percent at 6 to 10 percent of sales and 14 percent at 11 to 15 percent.



Enthusiasm for acquisitions was muted, with only 19 percent of retailers considering them an important component of their growth strategies and the same percentage counting acquisitions as somewhat important, leaving 62 percent who felt they were not important. Karabus noted that many retailers were taking an opportunistic view of purchasing other retailers, picking up stores or companies as they became available through other retailers' divestitures or bankruptcies.

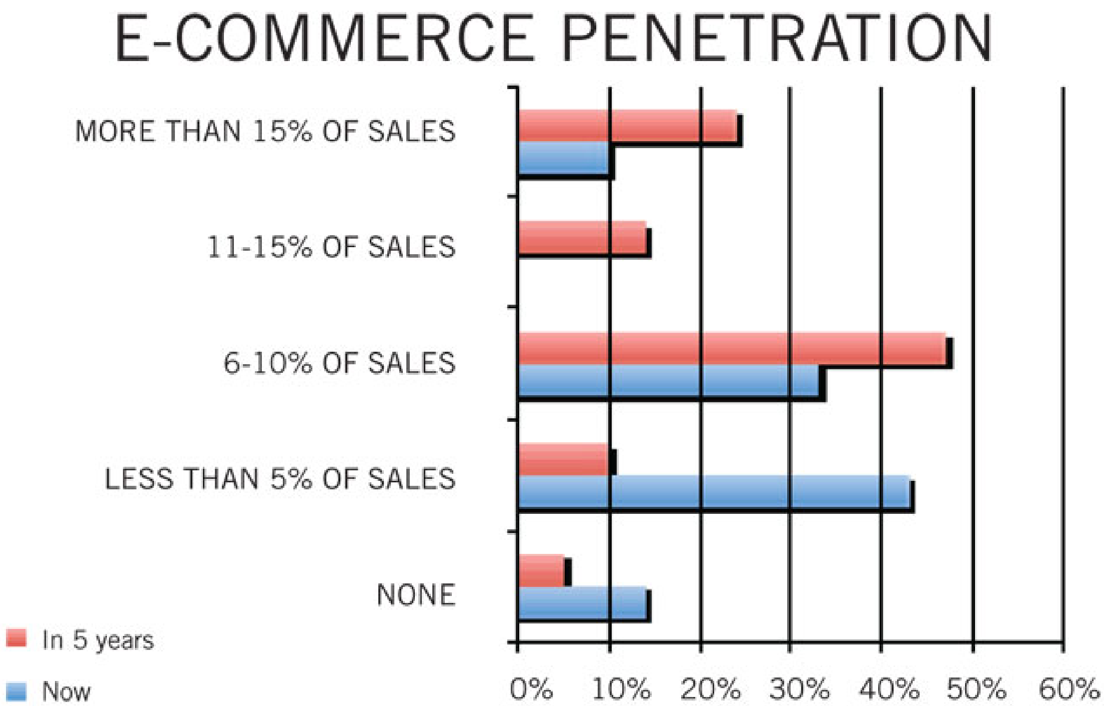
Asked to quantify their expectations for their own companies and the retail industry at large, ceo's were characteristically more optimistic about their own prospects than they were about those of their competitors. Forty-three percent anticipated "healthy sales and margin growth, even as external financial pressure persist," but none anticipated such positive results for the industry. Conversely, none expected that their own firm would experience a "prolonged period of low or no sales growth" accompanied by "increased margin pressure," although 20 percent felt that was ahead for the retail industry as a whole.

Forty-five percent expected retailers to undergo "modest sales growth and margin improvement as soon as next year," and 33 percent expected the same for their companies. Thirty percent see "modest sales growth and margin improvement, but still a few years off" for the retail sector, but only 5 percent anticipate that fate for their firms. Five percent expect "healthy sales and margin growth" for retailing once the general economy improves, while 19 percent consider that an apt description of their companies' prospects.

What's holding retailing back? Eighty-five percent identified weak consumer confidence as having either an important or moderate affect on their businesses, followed by unemployment, which was selected by 79 percent of respondents. The housing crisis was the third most favored option, garnering 69 percent, while higher product prices (63 percent) and general inflation (58 percent) also drew a nod from more than half of respondents.

“The moderate customer does not have the ability any longer to refinance her home to finance retail spending as she has far less equity value in her home,” one ceo told Karabus, who noted a more subdued tone among store executives in markets most affected by housing and construction, such as California, Arizona and Florida.

The stock market’s performance was rated as having a severe or moderate impact on business by 47 percent of executives, but U.S. government gridlock, the U.S. debt and deficit, and Europe’s debts and deficits were seen as far less critical, with severe-to-moderate effects cited, respectively, by 32 percent, 26 percent and 16 percent of respondents.



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