



## BUSINESS RESOURCE FEATURES

### World Retail Congress 2009: top 10

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**Global retail leaders met in Barcelona earlier this month at the 2009 World Retail Congress. WGSN picks out 10 key ideas and discussions that caught our attention.**

Speaking at last year's World Retail Congress, retail tycoon Sir Philip Green, head of Arcadia and Bhs, told delegates the sector was to face an "acid test". Green said: "Now it's dark out there, let's see who can find the light at the end of the tunnel. In easy times, we get carried away. Now we're going to discover if what we are doing has stability and legs."

He was right. The economic crisis has resulted in high-profile retail casualties and has impacted deep into the retail supply chain. More than one year later, global retail leaders and industry experts gathered for the third and final WRC in Barcelona before the event moves to Berlin next year.

The economy was high on the agenda and throughout three days of briefings, the WGSN team heard retailers discuss how they dealt with the crisis and what new approaches they were taking for their business, all served up with a healthy dose of pragmatism. Here we pull out the 10 main topics of discussions and ideas.



World Retail Congress 2009, Barcelona

#### Economic recovery

Speakers at the WRC, including heavyweights from Deloitte and Mirae Asset, predicted the recession would begin to end in late 2009 with the **US and China dragging the world out of the downturn.**

- Some economists already see green shoots although Deloitte's Dr Ira Kalish said the economic crisis will have a lasting effect on the retail landscape, with fewer major retailers in each channel.
- The US will see its economy experience **structural change**, moving away from a consumer spending model towards one focused on exports, investments and government spending.
- Until recovery begins to bear fruit retailers are having to navigate precarious situations. However the feeling among delegates was that **the big shocks have happened**. There was optimism that the worst is now over; global retailers felt they are at least able to plan for the future, with better visibility of the situation they and their companies face.

#### The consumer is a changed animal

Consumers are making long-term changes in attitude as a result of the recession. David Roth, CEO of WPP's The Store, said the consumer has been through **three stages of grief** brought on by the worldwide recession: rage and acute distress; acceptance; and moving on.

#### World Retail Congress 2009: top 10

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#### About the event

The World Retail Congress 2009 was held in Barcelona, May 6-8. Next year the event will move to Berlin.

<http://www.worldretailcongress.com/>

- Look out for further WGSN coverage from the World Retail Congress on Business Resource and Retail Talk in the coming weeks.

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- Jim Stengel, former P&G marketing manager and now CEO of Jim Stengel LLC, says that some 90% of consumers say they are planning long-term changes. Even if only 20% of those follow through with those plans, it will still make a big difference. "It is not a weather change, it is a climate change," he stressed.
- In changing their aspirations, consumers have reprioritised their understanding of values. When recovery comes, said Roth, there will be **no return to business as usual in terms of pre-recession trading**. Rationalisation, which is a new cost-cutting agenda among retailers, is consumer-driven, with customers telling retailers that they do not need so much choice.
- Meanwhile, consumers are also changing as a result of technology, specifically the internet. Although ongoing for some time, retailers are now actively developing strategies to account for the way that online shopping, for example, is actually changing the way the consumer operates. eBay CEO John Donahoe said that **consumers are now "demanding that we break down the boundaries" between online and brick-and-mortar stores**, with the integration of online research and store visits only set to increase. "We need to embrace the fact that online and offline are blurring, and the consumer wants convergence," he said.
- Hot Topic CEO Betsy McLaughlin said that the mall is no longer the place where teenagers hang out socially - now they do it on social networking sites such as Facebook. As a result, retail strategies need to change in order to maintain traffic that could previously be almost guaranteed. "Retailers need to find a way to get people into their stores, rather than relying on mall traffic," she said.

### Consumers want to leave your store smarter

Retail has become more about **educating consumers** as shoppers seek out ways to validate the shopping experience.

- Jim Stengel cited a tie-up between US retailer Ann Taylor Loft and Procter & Gamble. The retailer, recognising that the trend for disposable clothing was over among customers, sought out a way to help shoppers create new outfits from investment pieces they already had. Part of that involved **the reuse of clothing**. The retailer worked in P&G's washing detergent brand Tide to promote its new Total Care products, including endorsement from Tim Gunn.
- Education also features in Tesco's international stores. Philip Clarke, Tesco international director, highlighted an example of a programme of painting classes in its Thai stores. "It is good for the community and good for us - we believe it builds customer loyalty, which is vital to the success of any retailer," Clarke said.





## Give consumers meaning, not money

The traditional polarised price model, which puts Prada at one end of the pricing scale and Primark at the other, is changing. Instead, it is being replaced by a model based on **social engagement**, according to Michael Jary, worldwide managing partner at OC&C Strategy Consultants.

- Consumers have a desire to have an emotional engagement to the purchase process, he argued. Brands and retailers should therefore **adjust to this consumer desire** and change the way they develop.
- Matt Rubel, president and CEO of Collective Brands Inc, which runs US footwear retailer Payless ShoeSource, cited the example of eco range Zoe & Zac, which targets a 16- to 30-year-old customer. As the collection ties into issues that this consumer group cares about, it commands a 12% higher price than other brands.
- In another example, the company's prosaic dyeable shoe offer was rebranded from 'custom colour' to 'moment of celebration and unforgettable moments', focusing on weddings and proms. It was designed to replicate a cosmetics display in store, and in-store designer Leila Rose validated the 64-colour palette. Prices went up but sales grew by 150% in the first 90 days. Rubel said: **"The strategy that we use is this: we build platforms for our brands that tie in with emotional occasions in people's lives"**.

## Luxury: trading up

The recession is actually helping the traditional luxury market, creating more space for it in the market and prompting it to move upwards, said Concetta Lanciaux, CEO of Strategy Luxury Advisors.

- During the slowdown, the aspirational customer can no longer afford - or no longer even wishes to aspire to - luxury, she continued. As a result, the brands that catered for that market will suffer, but at the same time **the luxury market is "going back to haute couture and its principles"** of personalisation, artisan-made, exclusivity and quality.
- Consumers still want luxury products, but are not prepared to compromise on a 'halfway-house' of a pseudo-luxury brand. Consequently, brands such as Hermès, Burberry and Prada will still be desirable, as consumers prefer brands with a recognised, authentic heritage.
- The notion of trading up that was popular before the recession is also still continuing now, said Lanciaux, but now raising the price of goods as well is no longer possible. **"Trading up means removing fake,"** she added. "Consumers today prefer to buy semi-precious stones rather than zirconium."

## Polish up your touchpoints

The retail journey is becoming **more fragmented**. Consumers are moving between online research, social networking sites, mobile networks and stores before they purchase. According to research presented by IBM, 50% of UK consumers and 46% in the US switch from store to internet when purchasing from a brand.

- Retailers need to understand the touchpoints for consumers and appropriate them to **enable a consistent and helpful retail journey** where the consumer stays within the brand's channels. US retailer Sears, for example, realised it was losing customers, who were coming into stores to look at product but who wanted to research price online afterwards. By putting terminals in store, they persuaded customers to stay with them while weighing up the convenience of going home and ordering or "getting it now". This clinched sales and gave customers the information they needed to make the "best buying decision possible".
- Borders Inc CEO Ron Marshall said: "It is about having a conversation and building a relationship with the customer online that feeds back into the stores. **You need to take each medium, look at its specific strengths and play to those.** Online content reaches out and touches people, in-store you can stage events that bring those people in to your stores in a different and very real way." The retailer holds music and author evenings in stores, which evolve through online book and music clubs. Events such as its midnight Twilight club, where it opened at midnight on the day the teenage vampire movie was released on DVD, led to more than a million hits on social networking sites. "You can talk to customers in a way that no one else can - it's incredibly impactful," he said.
- In retail IT trends, the future is also heading towards personalisation, noted Neil McGowan, CIO of UK home shopping business JD Williams. The retailer is tracking what McGowan called **"real-time" online customer interaction systems**, which would allow it to target customers with relevant information and offers as they are online. "We are moving towards a time when each customer will have their own personalised homepage and we interact with them on a much more individual basis," he said.



Delegates

### Emerging markets: the rocky ride

Although emerging markets offer huge potential, foreign retailers face two major difficulties - populations very different to the ones they cater for (but very familiar to the local competitors in the market), and huge countries where customer needs vary between regions.

- In India, potential benefits include a predicted 6% rise in GDP this year, with broad-based consumption moving into lifestyle and aspirational products, and perhaps most importantly a vast, growing market. However, delegates were warned of **the**

**downsides** - with India being described as several countries all put together, with tough competition from lower cost base 'mom & pop' stores - meaning that steady growth and local market focus was key. "People make the mistake of coming to India and expecting to enter the whole country in the first year," said Shoppers' Stop managing director BS Nagesh.

- Hiro Harjani, CEO of UK label Aftershock, entered the Indian market in 2005, but halted expansion as **operating costs per square foot doubled** from \$75 to \$150, making its expansion model unworkable. He cited dysfunctional legal systems, mall openings not happening on time and hidden charges from mall operators as unbearable. "I went alone but should have gone with a partner who could play the real estate game," he commented.
- Ian Cheshire, CEO of home improvements business Kingfisher, said it was **a mistake to talk of emerging markets as homogenous areas**; they are all different and not emerging in a straight line. Retailers had to expect a lot of turbulence and volatility. "The opportunities to make money are all very different," he said.

## Local focus

Understanding the role of retail in a local or regional market and **adapting to suit local needs can pay dividends** for a wide range of retail businesses and formats.

- Vittorio Radice, CEO of Italian department store chain La Rinascente, said: "With stores in some of the world's most beautiful cities it's important to realise you are part of the **fabric of their being** and that you should try to give value to that by making your store in some way unique to its location. It is then that you can start a winning formula for your business."
- US consumer electronics retailer Best Buy, which has expanded into Canada, China, Europe and Mexico, focuses on 'local' in its approach to customer-centric retailing. Bob Willett, CEO of Best Buy International, said **the retailer analyses local demand to co-create (with customers and the local team) services and solutions for that market**. "In most retail organisations buying has the power, but this is about putting the customer at the centre of everything - even to the point of how you segment the P&L. You need to create local solutions and enable your team to innovate."
- Staying local to your customers from a business-to-business perspective can also reap rewards. Disney locates its direct-to-retail business sales offices close to its four biggest private-label customers: Walmart and Toys R Us in the US and Tesco and Asda in the UK. Andy Mooney, chairman of Disney Consumer Products, said: "In some cases we have built these offices less than five minutes' walk away and it has meant that no other licensor can compete with us on customer service."
- Philip Clarke, International Director at Tesco, concurred, and pointed out that out of 200,000 colleagues that worked for Tesco internationally only 270 were British. **"Local people can focus better on what is needed locally,"** he said.
- Jacques Levy, CEO of Sephora, stated that although Sephora has a unified worldwide image, it was very different at a local level, where it **"incubated small local brands"**, capturing market share - 70% of US store product is made up of smaller niche brands.



## Sustainability is the new IT

The adoption of sustainability as a **horizontal function** across retail businesses could be as impactful as the integration of IT, argued Guy Champniss, director of business insights at Havas Media Intelligence.

- According to a Havas 2009 survey of 22,000 consumers across 10 markets, **consumers are still concerned about sustainability and are not losing sight of the issue despite economic pressures**. Four-fifths of those surveyed would reward rather than punish brands that adopt sustainable practices; almost half (48%) are prepared to pay more for sustainable product; and two-thirds would go out of their way to find out more about companies' social and environmental practices.
- "It is fundamental, not elemental to business," said Champniss. A firm's ability to thrive and survive will depend on the integration of sustainability across traditionally siloed company structures. One approach is to **recognise sustainability's similar characteristics to IT**: it is inherently horizontal, it has the potential to become universal, and it is a basic business-driver adding to brand value, just as IT has done. "

## Don't waste a good recession

Now is a good time to **take advantage** of some of the positives that come out of a recession

- One such potential benefit of retail closures is that those that are left have more of a bargaining position with landlords. Collective Brands CEO Matt Rubel noted that, outside of the A-level malls, there is room for manoeuvre, with landlords basing rental prices on traffic levels.
- Although bruised and battered by the economic events of the past year, retailers were reminded that **crisis can create advantage**. Dr William Fung, managing director of the world's largest sourcing company, Li & Fung, explained to delegates that the Chinese character for crisis is the same as the one for chaos, and includes two elements - one meaning 'danger' and the other 'opportunity'.

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