GINO VAN OSSEL

OPTICHANNEL RETAIL

BEYOND THE DIGITAL HYSTERIA

DEVELOP AND IMPLEMENT
A WINNING STRATEGY AS A RETAILER
OR BRAND MANUFACTURER

LANNOO CAMPUS

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INTRODUCTION

THE MESSI SYNDROME

‘An optimist takes the chance of losing;

a pessimist loses the chance of gaining.’

Hazrat Inayat Khan (Indian musician, writer and philosopher)

'Footballer for FC Barcelona and the Red Devils. And if that's not possible: policeman.' Yes, my youngest son William knows exactly* what he wants to be when he grows up. He is only ten, but I already like his view on life. Dare to dream! Aim for the best you can be and don't let practical objections get in your way! Because in life, you never know what might happen…

While waiting for FC Barcelona to come knocking, he currently plays for Ritterklub, our friendly local football team. But it is clear that several of his teammates also share the same dream. At training, the Barcelona shirt is easily the most popular among the boys – preferably with the name of star player Lionel Messi printed on the back – followed by the Red Devils, the Belgian national team.

As a parent, I try to view reality with a little more level-headedness. In Belgium, roughly 60,000 boys are born each year. From each generation, only five will be good enough to make it into the national team. In other words, one chance in 12,000! And William is lucky that he wasn't born in a bigger and more populous country. With ten times as many births, the chances of a boy to ever play for the German *Mannschaft* are as low as one in 120,000. And for budding Brazilian Neymars, the situation is even worse…

So what about the likelihood of one day being selected for FC Barcelona? To make this particular dream come true, William will be competing with thousands – in fact, tens of thousands – of young footballers from all over the world. With some 75 million boys being born somewhere around the planet each year, he has as much chance of winning the national lottery as he does of ever playing for his favorite team!

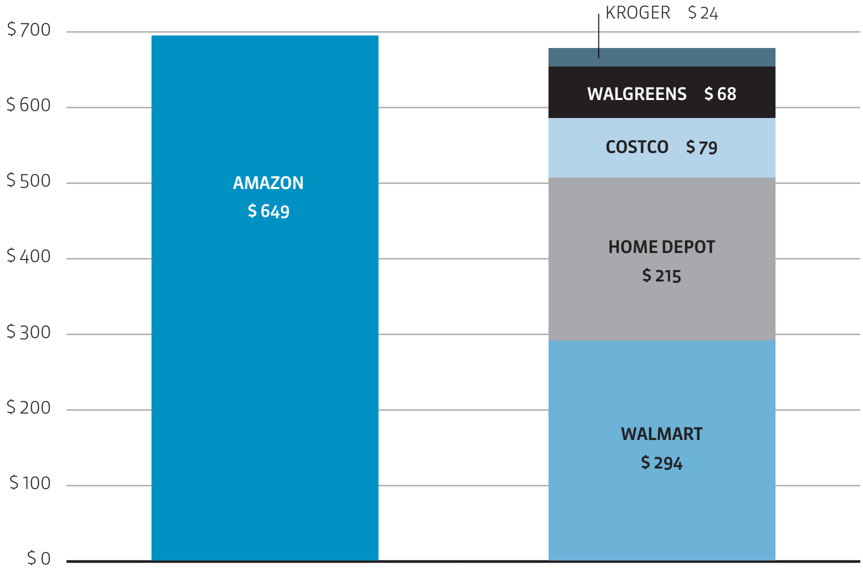
* In a rapidly changing world, it is perhaps no surprise that my son has now adjusted his ambitions in the weeks between the first and final versions of this manuscript. His Plan B is not longer to be a policeman, but to become a scientist instead.

AMAZON: THE FC BARCELONA OF E-COMMERCE

What Messi, FC Barcelona and the Red Devils are for football, Google, Apple, Facebook and Amazon are for the business world. Entrepreneurs dream that their brainchild will one day develop into an equally successful and highly valued company. Permeated by the spirit of Silicon Valley, start-ups frantically searching for investors are nowadays keen to play the 'profit is highly overrated' card. Their great and most inspirational example is Amazon. In its almost 25 years of existence, the largest webstore in the Western world has made less accumulated profit than Apple in a single quarter. Even so, in 2017 the stock market valued Amazon as being worth roughly 650 billion dollars (give or take a billion or two).[1] This is as much as the combined value of America's five largest retailers.[2] In September 2018, Amazon's market value finally reached a trillion dollars, making it the second company to break through this magical barrier, just a month after Apple. But perhaps Amazon's was the more remarkable achievement. It was made possible thanks to the company's unbelievably high price/earnings ratio of 220 to 1, which is ten times higher than the average of America's five leading retail chains.

THE GREATER FOOL THEORY

The 'greater fool' theory argues that the price of an object is not determined by its intrinsic value, but by the often irrational expectations of buyers. So long as a buyer thinks there is a bigger fool willing to pay an even bigger price for the same object tomorrow, he is prepared to spend an irrationally large sum of money to buy that object today. This theory holds good in particular for real estate, works of art and shares. As a result, this theory accounts for the 'bubbles' that periodically occur – and then burst – in the stock market. Likewise, the valuation of a number of technology companies can only be explained by the theory of the greater fool![3]



Market capitalization of Amazon compared with America's five largest retail chains (in billions of $). Source: Yahoo Finance

Most dreams turn out to be illusions. The vast majority of digital start-ups are doomed to failure. Even those who do manage to survive (and perhaps even thrive) are soon destined to discover that Amazon is playing in a league of its own. To make matters worse (depending on how you look at it), the five largest American retailers today all have an average share-price-to-earnings ratio that is significantly higher than the average technology company quoted in the American Nasdaq exchange.[4]

PROPHETS OF DOOM...

The valuation of a company obviously has a lot to do with the future expectations of investors. For traditional retail companies these expectations are highly unfavorable, at least if we can believe what we are told by the media. And there are always new prophets of doom who seem to enjoy adding even more fuel to the fire.

In 2013, for example, Marc Andreessen was already predicting the demise of the brick-and-mortar store.[5] The combination of fixed rental costs and the inefficiency of large stocks of goods would, he contended, prove fatal. Or to use his own words: '*Software eats retail*'.[6] Of course, Marc Andreessen is not just anyone in the business world. As a serial entrepreneur, he was, among other things, one of the co-founders of Netscape. With his investment fund he has backed Twitter, Groupon, Pinterest and Facebook. He also cashed in quite substantially when Microsoft bought Skype for 8.5 billion dollars. Today, he is a member of the board at Facebook, HP and eBay.[7]

In other words, he is someone whose word counts for something. What's more, he didn't just fabricate his predictions out of thin air. There were plenty of indicators. Since 2010, the number of shop closures in the United States has increased dramatically. Sears, once the icon of the American consumer society, has shut down more than half of its stores, before filing for bankruptcy in 2018. J.C. Penney and Macy's have also been badly hit in much the same way. Many of the shopping malls that use these department and general merchandise stores as anchors to attract customers have also been swept away in this tidal wave of closures. It is expected that by 2023 half of today's existing malls will have closed their doors.[8] The website www.deadmalls.com charts this depressing decline in stark detail, by inviting people to share photographs of empty shopping centers.

Moreover, this is not a specifically American phenomenon. There is plenty of bad news in Europe, as well. The number of empty shops in the continent's high streets has reached record proportions. Blokker Holding is selling out, C&A is up for sale and Carrefour is engaged in a worldwide restructuring program...

Given these figures, is it really any surprise that the media is talking about a potential 'retail apocalypse'?[9] Are we indeed heading towards the last days of the physical store?

Of course not! In reality, the doom-and-gloom predictions of the jeremiahs hide a much more nuanced picture:[10]

» A first signal is that in recent years the e-commerce companies have also decided to play at being shopkeepers. How would Marc Andreessen explain that just four years after his gloomy prophecies Amazon has splashed out 13.7 billion dollars to acquire Whole Foods? The Chinese e-commerce giants Alibaba and JD.com are also investing billions in traditional brick-and-mortar stores. In recent times, JD.com has been opening as many as a thousand new neighborhood supermarkets each week. By the end of 2019, they hope to increase that figure to a thousand new stores each day!

  Within the next five years, their ultimate objective is to create a network of a staggering one million stores, mainly in rural areas, where they will be run by franchisees.[11] This reflects an earlier trend already noticeable in the actions of the American online opticians Warby Parker and men's fashion webshop Bonobos, both of whom opened showrooms across the length and breadth of the United States. In the Netherlands, the online consumer electronics retailer Coolblue underlined its belief in physical outlets by opening its XXL stores, which seek to offer customers improved brand and product experiences.

» The glut of vacant shop premises is at its peak in medium-sized towns, where shrinkage in the core shopping area was inevitable. But in the big cities retailers are still queuing up to lease the best premium locations. And while many smaller shopping centers may be closing their doors, crowds in the US are still flocking in droves to the Mall of America.

» Not every sector has been as badly hit by the shift to online. Music, film and gaming have certainly been digitalized (farewell Virgin Megastore and Blockbuster), but builders' merchants and DIY stores have been less affected by the 'irresistible' march of e-commerce: worldwide, only 3% of their turnover has switched to the internet.

» This picture of winners and losers is also reflected in terms of shop size and format. The general warehouses and department stores have lost out heavily to competition from e-commerce. But the discount channel is more than holding its own, as witnessed by the popularity and growth of Lidl, Action and Primark, none of which has a webshop truly worthy of the name. Hypermarkets have been hard hit, but local neighborhood supermarkets have been sprouting up all over the place (also see the box entitled: 'Carrefour: a victim of e-commerce?').

» It is even possible to see winners and losers within a particular format and/or sector. The department stores of De Bijenkorf in the Netherlands are thriving, while the once comparable V&D has gone to the wall. In the United Kingdom, John Lewis continues to win market share, while Debenhams and House of Fraser are struggling desperately to keep their head above water.[12]

» Not every problem is the responsibility of e-commerce. Many retailers are not suffering from online competition, but from the excessively heavy burden of debt they are carrying from the past.[13] As a result, they were already fatally weakened before the online game even started. They didn't (and don't) have the necessary resources to invest in their future. This means that as soon as their turnover is badly under par for two or three consecutive quarters, there is no other real option but to file for bankruptcy. The Dutch Macintosh Retail Group, once the proud owner of Brantano, Scapino, Kwantum and Halfords, was forced to close down simply because it no longer had the money to buy new collections for its stores.

» Last but not least, a number of fundamentally strong retail formats have shown a remarkable resilience to survive and bounce back, even after major restructuring or bankruptcy. The Belgian Brantano and the Dutch Miss Etam have both been successfully reborn under the wings of the FNG fashion group. The Amsterdam-based Hema chain of stores managed to reinvent itself in a manner that has won over the hearts and minds of consumers in many European countries, not just in the shopping streets but also online.

CARREFOUR: A VICTIM OF E-COMMERCE?

As I write these words, the Carrefour group has just announced a major restructuring, which will see the scrapping of thousands of jobs. Social media soon set the general tone for the public response to this announcement: there was a positive deluge of posts blaming e-commerce for the sorry plight of the French distribution giant. 'They'd do better selling out to Amazon' was a comment that appeared more than once in various forms. By extension, this was also taken to mean: the traditional shop is dead.

Is this true? Or is it just another example of digital hysteria?

There is certainly no denying that Carrefour has missed the digital boat. The new CEO Alexandre Bompard has even said as much himself. In fact, Bompard had been brought in nine months earlier specifically in the hope that he could repeat the successful transformation he had implemented at Fnac Darty, the French consumer electronics retailer. In other words, there was already a widespread recognition that a digital overhaul at Carrefour was long overdue.

But the problems go much deeper and are much older than that. The core problem is that Carrefour realizes more than half its turnover from its hypermarkets. Unfortunately, this is a store format that is under severe pressure worldwide. What used to be a customer benefit ('everything under one roof') has now become a liability ('a little bit of everything, but expert in nothing'). Long before the advent of e-commerce, Carrefour was already losing customers hand over fist. People now prefer to buy non-food products – electrical goods, fashion, sports items, etc. – in dedicated specialist stores like MediaMarkt, H&M or Decathlon, which offer a far wider range of choice within their specialization. Similarly, for grocery shopping an increasing number of consumers prefer either the lower prices of the discounters or the convenience of smaller, more local supermarkets – a trend that has been exacerbated by the growth in smaller families and single-person households, who tend to shop more frequently and more impulsively. Why should they make the effort to drive to a hypermarket on the edge of town, when they can find what they want just around the corner and often at an equally low price?

It was partly for these reasons that Carrefour in Belgium carried out a first major reorganization in 2010. Large household appliances and sports equipment were scrapped from the store's product range. Not because of the threat posed by e-commerce, but because of the savage competition experienced from category killers à la MediaMarkt and Decathlon. Back in 2010, there was no e-commerce threat in Belgium. For example, the Dutch bol.com – today the No.2 player in the local e-commerce market – had been launched only months previously and had fewer than 25,000 Belgian customers. Zalando – the current No.3 – only made its entry into the Belgian market a full two years later.[14]

Even so, the reorganization did not achieve its aims. In subsequent years Carrefour in Belgium continued to lose its share of the groceries market to discounters such as Colruyt, Aldi and Lidl. Once again, this evolution had little or nothing to do with the rise of e-commerce, which has remained negligible in the food and drink market. The situation is different in Carrefour's home base in France, where e-groceries now represent 5% of the market, with E. Leclerc as the major winner.

It is true, of course, that in the non-food segment the rapid growth in e-commerce after 2010 has indeed had a serious negative impact on the hypermarkets. Webshops offer more convenience and choice. As a result, consumers are no longer prepared to make the effort to visit distant physical stores that only sell a fraction of the range they can find online. This immediately explains why in Belgium the restructuring of competing hypermarkets like Cora and Makro was inevitable.

Makro, for example, has now closed down its entire multimedia and consumer electronics department, inviting MediaMarkt to open its own stores in Makro premises as a shop-in-a-shop alternative. This underlines how the crisis in Carrefour is not specific to the company in particular, but to the hypermarket model in general.

During the past 20 years, Carrefour has invested heavily to save its hypermarkets. Every so often a new CEO would be appointed and new test stores would be opened, in the hope of finally turning the tide. And when it didn't work, a new CEO and new store concepts would be tried. All these changes created confusion among Carrefour's customers, so that the company's image became less and less clearly defined. By failing to opt for the roll-out of smaller local supermarkets and a properly developed e-commerce platform, the company effectively wasted millions investing in the past rather than in the future.

Is it not correct, then, to talk of digital hysteria when the decline of Carrefour is attributed exclusively to the rise of Amazon and e-commerce? It makes even less sense to see Carrefour's difficulties as a portent for the end of the physical store! A comparison with the American Walmart shows just how ludicrous this proposition really is. Back in 2000, the American distribution giant, which also runs hypermarkets and is more directly exposed to competition from Amazon, was the biggest retailer in the world, with Carrefour then occupying the No.2 spot. Today, Walmart is still the biggest, but Carrefour is now down in seventh position, with a smaller turnover than it had almost two decades ago...

And what of the social media comments with which we started this section? Is it likely that Carrefour will indeed be acquired by Amazon? Almost certainly not. Carrefour is not active in the two countries that currently form Amazon's most important European markets: the UK and Germany. What's more, a chain of hypermarkets – a store format belonging to the past – would represent a burden that Amazon can well do without. I am happy to think that Amazon may have looked at the acquisition option, but suspect that, if so, they quickly came to the logical conclusion: not to touch it with a ten-foot barge pole.

So where does this leave us with the idea that Carrefour is somehow the 'victim' of Amazon and soon to become its prey? The answer, of course, is nowhere. It is pure digital hysteria.

...AND VISIONARIES

So is there really nothing going on? Of course there is! If you want to know what, I suggest you read the fantastic book by my colleague Steven Van Belleghem. In *Customers the Day After Tomorrow* he explains with great insight and precision how artificial intelligence, big data and automation will fundamentally redraw the battle lines to win the hearts and minds of the customers of the future.[15] He also cites numerous examples of less well-known companies whose inspirational example you might be wise to follow.

More specifically in relation to the retail sector, I would also warmly recommend the visionary *The Future of Shopping* – rightly chosen as the 2018 Management Book of the Year in the Netherlands. In its wisdom-packed pages, my good friends Jorg Snoeck and Pauline Neerman do not confine themselves to the digital trends we can expect to wash over us in the years ahead, but also devote their shrewd attention to wider social developments, such as the ageing of the population and increasing urbanization.[16]

But for every Steven, Jorg or Pauline, there are a hundred other digital gurus who can see no further than Amazon, Apple, Facebook and Google as role models for the retail world of tomorrow. Add a dash of Airbnb, Alibaba, Uber, Booking.com, Netflix and Tesla, and you have a predictable cocktail of cases that is repeated in the literature ad infinitum.

Of course, the success of these companies appeals to our imagination. And they do indeed embody how the digital revolution has turned many sectors upside down. But what can you actually do with these examples, impressive though they are? Ricardo Semler, the Brazilian entrepreneur and management thinker, has made the following telling comparison: ‘It’s like me taking a photo of George Clooney to the barber’s and telling him that’s the way I want to look when he has finished. It just isn’t realistic.’[17]

Today’s retailers and brand manufacturers have heard it all before, hundreds of times. They are not just sitting on their hands, waiting for the next wake-up call from the next smart-ass prophet of doom, exhorting them to ‘act before it is too late!’ They already know that they don’t want to end up going the same way as Kodak, Toys"R"Us, Sears or goodness knows how many others (you can fill in your own names).

The last thing they need is another superficial message from the self-absorbed coterie of digital ‘evangelists’ (the word says it all!), who specialize in proclaiming half-truths based on very little real business knowledge and a very selective choosing of their facts. Their recommendations go no further than the installation of the obligatory digital mirrors in shop fitting rooms! Yesterday, beacons were thought to be the answer to everything. Today, you need to invest in Amazon Echo. Tomorrow, it will no doubt be something else.

BEYOND THE DIGITAL HYSTERIA

This is what I call ‘digital hysteria’. I would be the last person to deny that the challenges facing our retailers are huge. But the opportunities available to them are huge as well. If we want to exploit these opportunities effectively, we need to move beyond the current digital hysteria. Hence the purpose – and the title – of this book.

It all starts with the need to properly analyze the changes that are likely to confront us in the years ahead. This means being able to distinguish between real trends and passing hypes. In the following pages you will also read about

Amazon and AI, but they will be viewed in a more critical light and with greater nuance than in many other recent management books.

However, the analysis of these trends is only a means and not an end in itself. You need to go further than where the visionaries stop. As a retailer or brand manufacturer, you need to see how you can turn this analysis into a winning strategy and an effective plan for its implementation.

For me, you can say that you have a winning strategy if you belong to the top 25% of the best-performing companies. But achieving this is much more difficult than it sounds. To begin with, it means that you need to keep 75% of your rivals behind you in the pecking order. But even that is not enough. The number of retail companies currently going to the wall is considerable, and the list looks likely to get even longer in the years to come. If another 20% of today's retailers disappear from the scene, this means that you need to be among the top 25% of the surviving 80%. In other words, you must become a top 20% company!

DARE TO GO FOR GOLD!

Before you start, you need to be fully aware that the digital age will be a golden time for companies that excel, but a nightmare for those that don't. As a result, retail is destined to become a sector of winners and losers. So make sure you go for gold! Discover the positive power of daring to think big. This is the only way that your company can become the new Messi in the retail landscape. And even if you don't reach the giddy heights of the Barcelona wunderkind, you can still significantly increase your chances of enjoying a successful career as a pro footballer. Sometimes in life (and in business) we have to settle for the bronze medal – and that is no mean achievement. But make sure you at least get to the finals and don't get knocked out in the qualification rounds!

HOW DOES THIS BOOK WORK?

In the first part of the book we will analyze why we are currently standing at the end of the beginning of the digital age:

1. How has e-commerce developed so far?
2. How has the retail sector reacted to these developments?
3. What does the second wave of e-commerce hold in store?
4. What are the challenges and opportunities, both today and tomorrow, for retailers and brand manufacturers?

Next, we will identify and discuss the basic ingredients for an optichannel strategy. Based on a clear customer focus, the right degree of competitive strength and the availability of sufficient financial resources, this is the strategy that will separate the winners from the losers.