

# Agility, customer focus keys to 2024 success in retail

## Transcript

KEVIN KELLY: Welcome to our Retail industry podcast. This is Kevin Kelly, National Managing Partner of our Retail industry here at Grant Thornton. You know, as we're entering into 2024, wanted to share some of the key themes, observations and trends that we're seeing out there in the retail industry.

It's certainly a very dynamic and ever-changing industry—lots happening. So let's get right into it.

So first thing first, always keep the consumer at the center of everything that you do. More brands are really gravitating towards the direct to consumer industry model and I think they're seeing the benefits of that—and it's an evolution, not a revolution—really looking at maximizing how they reach the consumer and the fact that you sell direct-to-consumer via ecomm stores, wholesale marketplaces. It's really important that you put the consumer at the center of everything you do, and we all know the consumer is channel-agnostic. So, really making sure that your products are available where the consumer wants the shop, I think, will really maximize the impact of your brand and grow your business and your revenues. But when we think about the multiple channels, the store experience is key, and one that is evolving over time as we see how stores are being utilized.

And lastly, when we think about the consumer mindset, it seems like there's a much greater focus on offering a more curated product assortment. In years past, it was endless aisles have everything that the consumer could possibly imagine. And I think now we're seeing trends of, “Let's give a more curated assortment and really focus on what those product offerings are,” because that will result in a much more positive experience for your customer, as well as sharing with them your point of view on your brand and what your products are all about. Very important there to really focus on the consumer and create that seamless experience for your customer.

You know, when we think about the macro-environment and, ultimately, some consumer trends—kind of staying with that theme—conditions are choppy, they remain choppy. There's conflicting data as far as what's happening with the economy. And companies really have to remain agile. And I think companies are running much leaner as a result, despite the fact that the consumer has continued to show up and they'll hopefully continue to show up in 2024. It's “the recession that wasn't.” Were we going into recession? Do we hit a recession? Are we going to have a soft landing? And it's one where the consumer has been pretty resilient and has continued to spend over this past year.

But I think there are some signs that the consumer is pulling back. Maybe they're going to pull back in 2024. Let's see. But as a result, I think companies are being a little bit more conservative and cautious on how they run the business.

When we think about what's happening out there in the economic landscape, savings accounts, or maybe a little bit more depleted credit card debt is increasing. As a result, even though the consumer has continued to be there, there's some concern that it won't be as robust in 2024—but let's see what happens. Let's remain nimble. Let's put our companies in a position to respond to the trends that we see, and that agility and how management teams are running the business is really key.

We think about—also another theme—talking about operational excellence and really what's going on in the core of the business. What I love is the importance of the store. We've talked about that in the past and the store is so, so important. E-com(merce) is continuing to grow and continues to drive growth, but you know let's be clear, 80-85% of retail happens out in the store. So the stores are really central to what retailers do, and those retailers who entered in as digitally native brands have grown to open up stores and have benefited from opening up stores. Brick-and-mortar sites are key—love to see more conversations about the importance of the store and what they're doing for the overall growth of the business.

And stores, let's face it, stores are very effective tools to acquiring customers, and in fact, the cost of acquiring customers from an e-commerce digital standpoint has gone up over the years. Stores are doing a great job in bringing in new customers to companies, brands, and really helping companies grow.

When we think about the stores as well, the store is more than just a store, it is a customer acquisition vehicle. It is an opportunity to serve, maybe, as a “mini-distribution center” for your products. And it's also, obviously, another avenue for your consumers and customers to return product, and if we can make that customer interaction and customer experience as seamless as possible, that will benefit your brand, in the long run.

You know another area that we hear from an operational standpoint are the importance of loyalty programs. I can't tell you the number of companies that have refreshed and revamped and refocused on their loyalty programs and they truly are benefiting. I've heard some stats where some companies get 90-95% of their sales through those loyalty customers, those loyalty-program-brand customers. So if you haven't taken a fresh look at your loyalty programs, that's probably something worth doing and really looking at the efficiency of those programs and making them as effective as possible to grow your business.

Again, we talk about those multiple-channel offerings and being in multiple channels. It's really going to benefit the brand no matter what channel you're in, because it elevates the brand in the eyes of the consumer.

And then, one other area we talked about, we've seen a focus on operational excellence and effective and efficient inventory management. We all know what happened over the last couple of years with the supply chain disruptions and the blow-up effect on inventory. But companies have really hunkered down and got under the covers on what their business

is and how to best manage inventory. And as a result, maybe they're seeing fewer markdowns, maybe they're improving their working capital management and that is driving profitability.

So a theme has definitely been “profits over revenue growth” and we've seen that recently. And as we kind of look out to the future, and now that that operational excellence has hopefully been weaved into your organization, now it's time to really look for opportunities to grow your sales. There's been so many improvements made to infrastructure investments in technology, investments in operational efficiencies that we're seeing an improvement and profitability, even though revenues may have been flat, in modest growth or in some cases declining. But yet, profits are increasing, and at the end of the day, that's the focus in driving shareholder value, no matter who your stakeholders are.

And lastly, we've talked a lot about omnichannel and what we're seeing. The other element that we're seeing about omnichannel mentality is think(ing) about omnichannel visibility and tools with your vendors. If you're working with certain vendors and you giving them a report on your e-com(merce) sales and your store sales and then they have to assemble that, think about the ability to make those investments in improving that omnichannel view to your vendor partners, and I believe that you'll see a return on that investment and some growth in overall improvement if those tools are more efficient in working with your vendors. It will truly bring some efficiency and growth to that vendor partnership.

And then, I guess, one other area I wanted to touch upon is technology. Many, many companies in the last couple of years have invested in technology and made improvements and enhanced their omnichannel capabilities. And I think those organizations are seeing the benefits and return on that investment. Now we hear a lot about AI and what's happening with AI, and from a retail standpoint, I get the sense that retailers are being a little sensitive on how quickly they embrace that. There's definitely some sensitivity on how customer data is used. At the same time, I believe there's a big move behind the scenes to understand AI, to understand how it could maybe help in efficiency of operations, and then down the road, hopefully, it can be a helpful way in driving improvement in sales and modifications and product assortment to better respond to customers' demands and what they're really looking for.

But as we think about technology and AI, also think about your overall data governance responsibilities and structure. That's important. Have that foundation set before you embark on any AI journey because you need to really understand the data that's out there, how you're going to use that data, and also how you're going to put the appropriate guardrails on how that data is utilized so you're not in the news for something that you don't want to be in the news for. So that data protection is very, very valuable.

So, as we look to what's happening in retail, it's an evolution, not a revolution. You need to continue to evolve your business, your business model to stay close to where the consumer is, to show up where the consumer wants to be. Multi-channel is key—it's table stakes. It's marketplaces, it's stores, it's e-commerce, it's wholesale partners, it's shop-and-shops to give your customer, hopefully, a very, very positive shopping experience and the ability to get your products wherever they want to be because the consumer is the center, really, at

what retailers do.

So with that, this is Kevin Kelly, National Managing Partner Grant Thornton's Retail industry practice talking about all things retail. and what we're seeing going into 2024.