



2015 State Of The Industry:

Retail

Executives in the retail industry face many critical strategic questions in 2015. Here, L.E.K. Consulting shares its views on the current state of the industry, as well as the biggest challenges and opportunities for retailers.



What is the Current State of the U.S. Retail Industry?

This industry is a mixed bag. Players of all types must constantly work to solidify their place as a compelling choice for consumers while the rules and landscape around them changes. Broadly, retailers like off-price, club and some segments of specialty are doing well, while others such as teen, consumer electronics big box, and large and small box multi-brand concepts are struggling. That said, there are both winners and losers in every segment of retail, so it comes down to how well a business delivers on consumers' needs and creates true value-add, relative to the many alternatives available to them.

We believe the industry will be in a major state of transition for the foreseeable future. In five to 10 years, the retail world will look very different than it does today, and the right strategies that will enable retailers to succeed along this path are still being defined.



What are the Key Challenges and Opportunities?

The most challenging issue facing the retail sector at the moment is the decline in foot traffic at brick-and-mortar stores. With fewer consumers shopping in stores each year, retailers are challenged to move inventory in ways that aren't price and promotion-driven. There will eventually be an equilibrium where the number of physical stores are aligned to foot traffic. However, the downward trend in traffic is likely to continue, posing challenges for retailers as they look to sustain productivity in stores, while also serving the consumers' increasing desire to shop across multiple channels. This will require retailers to confront head-on the role that stores should play within their broader strategy to deliver what consumers want.

Retailers who see these challenges as opportunities instead of impediments stand to gain. Those that focus on innovating and evolving their businesses to best meet the needs and demands of consumers in today's world can take share from those that fall short.

Another major theme in today's marketplace is the increasingly empowered consumer. With digital tools and easy access to information, consumers of all types are savvier than ever in their shopping behavior. This raises the bar for retailers as they must be at the top of their game to win spending dollars from consumers who are highly informed and have many choices at their fingertips. The call to action for companies to get their digital strategy right is deafening, which, if done properly, should boost sales at both online and physical channels, while delivering a more compelling overall experience for their customers.

Clearly, the digital marketplace has created an environment where the number and accessibility of competitors has increased greatly for virtually every category. Determining how to "get noticed" by consumers and differentially stand out from competitors will be essential to sustaining relevance. This places increasing pressure on retailers to challenge all aspects of their businesses models, from the products and services they offer, to the marketing strategies they employ, to the very value proposition they promise to consumers.

Broader themes that we expect to continue unfolding in 2015 and beyond include health and wellness, international expansion, especially in emerging and developing markets, and market share gains of focused specialist brands that deliver on specific needs and occasions. While we expect brands to be highly powerful as a general rule, we also see places where consumers are more confident in themselves and their choices where they do not need a brand badge (mostly in apparel and home furnishings).



What Burning Issues are Senior Executives Facing?

Quickly and effectively adapting to changes in consumers' needs, shopping behaviors and competitive dynamics has always been critical in retail and the future will be no exception. The key question is how to effectively address the aforementioned challenges and opportunities, which requires prioritization and making smart decisions despite not having perfect information. We believe several key issues should be at the top of most retailers' strategic agendas:

- **Store strategy.** How many stores should you have, what role(s) should they play and what is the right format for the future (size, configuration, etc.)?
- **Marketing effectiveness.** Identifying what methods and messages do and don't work in driving customer acquisition, transaction frequency and spend while delivering positive ROI
- **Branding.** Enhancing brand/customer engagement and satisfaction, and driving true and higher levels of loyalty
- **Omnichannel and digital.** Defining what they actually mean for your company and determining how quickly you need to get there
- **New growth platforms.** Developing new platforms (e.g., categories, brands, services, geographies) that are strategically sound
- **Efficiency gains.** Continually striving to operate at peak efficiency; you simply can't be giving up margin points by having sub-optimal store operations, supply chains and overhead structures

Our Retail Practice

In an industry literally awash with data, we use sophisticated analytics to identify solutions to complex issues and give executives the insights they need to make more effective decisions. We provide a full array of services including growth strategies, consumer insight, segmentation analysis, strategic sourcing and cost management.

Meet Our Leaders



Jon Weber
Managing Director
Practice Head



Robert Haslehurst
Managing Director



Manny Picciola
Managing Director



Wiley Bell
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Stuart Jackson
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