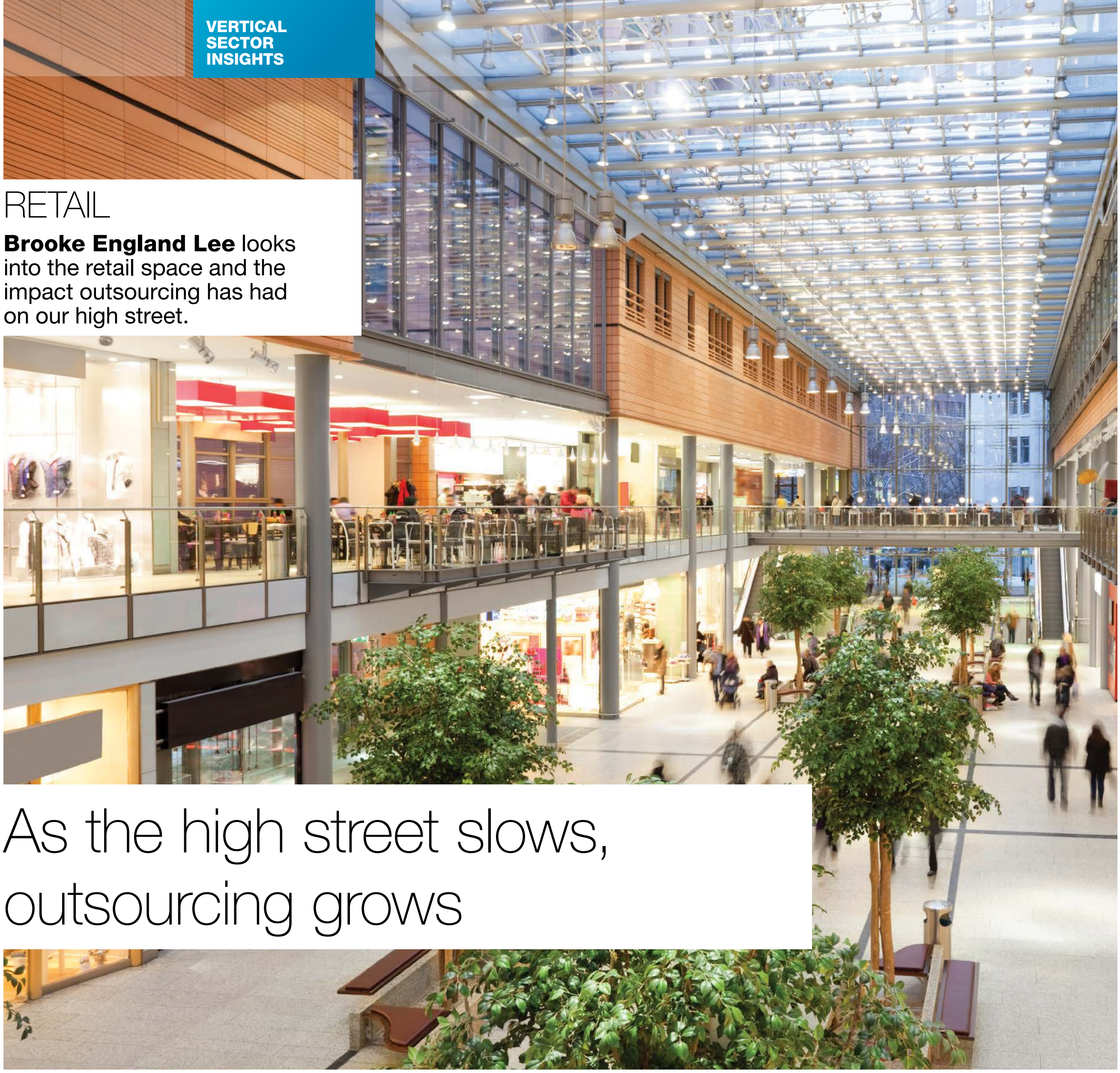

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RETAIL

Brooke England Lee looks into the retail space and the impact outsourcing has had on our high street.

As the high street slows, outsourcing grows

"It was the best of times. It was the worst of times." Perhaps the Charles Dickens classic opening to A Tale of Two Cities could be aptly updated: "It was good times for outsourcing companies. It was bad times for brick and mortar companies."

Outsourcing in the retail sector has had a very healthy 2011. According to sourcing advisory firm TPI's EMEA Index 3Q11, major outsourcing deals have almost doubled year on year. Last year there were 12 major outsourcing deals in the EMEA region in the retail sector worth over €20m, but 2011 has already had 20 equivalent deals. total contract value (TCV) for outsourcing deals in retail outsourcing in EMEA stands at €1.44bn this year (excluding the fourth quarter), which is already more than TCV in all of 2010. If 2011 has a strong final quarter there is a potential to match the 2009 TCV of €1.9bn.

Although TPI reports retailers' outsourcing spend has been vigorous, brands on the high street collapsed one after the other in 2011. Britain's battered high street chains have been struggling this year as austerity cuts bite into household budgets. One of Britain's best-known shoe chains, Barratts, collapsed into administration in December 2011 for the second time in two years. Although Barratts like many high street chain stores faced a downturn in trading as a result of the difficult economic conditions, Christine Elliott, chief executive of the think-tank Institute for Turnaround says, "The failures have been down to retailers not putting into place appropriate systems and making changes when the warning bells first started ringing. The reason [Barratt's] has failed again is that adequate changes to the operational business weren't made." Other familiar named chains that have faced administration issues in 2011 include, TJ Hughes, Habitat, Oddbins, HomeForm, and Jane Norman. Additionally, Blacks, Carpetright, HMV, Mothercare, Comet and Dixons are all facing difficult times.

Even for the high street survivors, 2011 has been a rough year for retail sales growth. According to the British Retail

Consortium, the average total sales growth for 2011 as of the third quarter was 1.8% – well behind inflation running at 5%. Additionally, sales growth has decreased from the equivalent 2010 figure when growth was at 2.9% during comparable difficult times. These figures prove that the health of UK retailing is deteriorating. Tight on cash consumers continue to be reserved as 2012 economic forecasts continue to look grim. Joanne Denney-Finch, Chief Executive, IGD reports to the British Retail Consortium, "The uncertain economic climate is clearly impacting on shopper sentiment: 50% of them now expect to be worse off next year".

> "Any sales for retailers are currently hard won with high discount and promotion levels. Retailers' performance is suffering because of weak top-line growth and declining margins, making the backdrop even more challenging".
> **Helen Dickinson, Head of Retail, KPMG**

Topshop tycoon, Sir Philip Green who owns the Arcadia Group stores, reported in November 2011 a near 40% drop in profits at his Topshop and BHS fashion empire and warned of plans to shed 250 UK stores. Green said its profit margins had come under pressure because, unlike high street rivals such as M&S and Next, it had not increased its clothing prices to reflect the jump in VAT and raw material costs. The decision to absorb the additional costs had resulted in a £53m hit.

On 4 January 2011, the standard rate of VAT in the UK increased 2.5% to 20%, raising an extra £13bn of revenue over a year. The VAT increase hit jobs, consumer spending, and the pace of recovery and added to inflation in the retail sector. Although many retailers took the hit and absorbed the rise in tax at the beginning of 2010 when the temporary reduction to 15% returned to 17.5%, in 2011 it was widely reported that many retailers increased prices above and beyond 2.5%. The Centre for Retail Research has stated that most retailers have had to increase prices somewhere between 5-8% to cover the increase in commodities costs partially due to the VAT increase. Stores who chose to absorb the increase in costs rather than passing them on to the consumer are now seeing rough times as well.

With all these extra costs to absorb, in order to stay afloat, retailers have two options: find ways to cut costs or find ways to tease an extra few quid out of cash-strapped consumers' pockets. Outsourcing is helping with both.

IT dominates the rise in outsourcing spend in 2011

The sunshine amongst the gloom of slow retail growth is the development in e-commerce. The e-commerce industry in the UK has become one of the most mature in the global market according to research done by KPMG. In KPMG's survey of 9,600 global consumers in 31 countries, some 77% of British shoppers prefer to buy goods online compared to just 65% globally.

Bhanumurthy B. M., Senior Vice President of Retail, CPG, Transportation & Government at Wipro Technologies suggests retailers have made the transition from bricks and mortar to the online marketplace to help them to adapt and overcome current challenges and to not only survive in the current environment, but to thrive. Bhanumurthy also states that, "Retailers that successfully use an online distribution channel are…maximising the potential of social media through innovative tools and technologies that enable the profiling of customers and what they demand in an online shopping experience." Bhanumurthy continues, "Mobility technologies can also allow customers to access products, wherever and whenever they demand." It also enhances mobility technologies to the point where barriers are removed and products are available wherever and whenever the customer demands."

In order to stay in the game, retail companies need to remain competitive by growing their e-commerce and implementing multi-channel purchasing. Martec International suggests that e-commerce represents the only growth in sales for many UK retailers and therefore it makes sense to invest in expanding websites, adding m-commerce, and improving their multi-channel business. Because retailers are struggling to keep pace with the rapidly changing requirements of multi-channel operations with old commerce platforms, retailers have made significant IT investments in 2011. IT investments in e-commerce and m-commerce by the UK's top 100 retailers has grown from 17% in 2010 to 23% in 2011 as additionally reported by Martec International.

Argos, Homebase, John Lewis, New Look and Boots have all agreed to major contracts in 2011 to improve their e-commerce. John Lewis has teamed up with web self-service solution provider Transversal to help improve customers' online experience especially in terms of their experience on the FAQ section of their website. Transversal uses algorithms to interpret the context of words to help diminish the importance of key words in searches on the website. All questions are logged by Transversal helping John Lewis to later analyse what customers are asking about and use it to their advantage in communications. Mark White, business development director, Transversal, states that "Transversal will help enable users to stay on the site for longer by answering questions or redirecting so they will not need to call a helpline to ask a question, which in turn could increase revenues."

Argos and Homebase have employed Intelligent Environments NetFinance to help with personalisation of shopping for card holding customers and to help ensure their loyal customers are aware of the current deals. The tool gives Argos and Homebase card holders special financial and retail offers through their online accounts. By adding this platform Argos and Homebase are hoping to reward for loyalty while increasing revenues.

Both Boots and New Look have launched successful mobile sites in the last year to enable their customers to quickly and easily interact with their brands in any location. Boots has

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collaborated with Usablenet for their mobile site and has seen 300,00 unique visitors to the m-commerce site since its launch in August 2011. New Look has seen incredible success since teaming up with Mobile Interactive Group in April 2011 for its mobile site. New Look reports that mobile sales were up 500% year on year. Additionally, total sales between April and July 2011 increased by 45% and saw a 60% increase in orders. It is clear consumers enjoy and take advantage of mobile commerce sites which allow them to compare prices, search store locations, browse products and buy products with credit cards or Paypal.

> "E-commerce will continue to be a top IT investment priority for retailers. E-commerce represents 10% of retail sales right now and will be responsible for the majority of total sales in the next ten years."
>
> **Dan Wagner, CEO of e-commerce platform Powa and Chairman of internet investment company Brightstation Ventures, predicts a healthy future for IT investments**

Although various case studies show that the bigger retailers are investing heavily in IT infrastructure and e-commerce, this is certainly an area where SMEs can gain some ground. The flexibility and agility of smaller organisations can enable them to take advantage of the online retail space as they are able to react a lot quicker to customer demands than the larger retailers. Wipro's Bhanumurthy B. M., Senior Vice President, Retail, CPG, Transportation & Government states an observation that will evolve in 2012, "As the ever-increasing shift to the digital economy continues in 2012, the economies of scales that previously delivered a significant advantage to large retailers are starting to have less of an impact. Small retailers are gaining real power in the marketplace due to agility and the distribution efficiency they can leverage through the online environment. Retailers that can capitalise on these technologies can position themselves for growth even in the current weak economy. It's a formula for success through 2012 and most likely the rest of the coming decade."

E-commerce is not the sole IT function being outsourced by retailers. In the IT Retail Report 2011-2012, Martec International reports that 5% of the leading 100 retailers have outsourced their entire IT function. Such companies include Aurora who outsource to Retail Assist, DSG to HCL, Matalan to Capgemini, Phones 4 U to TCS and Thorntons to EDS. IT outsourcing means retailers can control costs and improve service delivery better and allows for more predictable budgeting, innovation and business improvement, better concentration on core business and cost savings.

THORNTONS: TAKING ON HIGH STREET STRUGGLES THROUGH OUTSOURCING

The confectioner Thorntons emerged as one of the high street casualties when it gave a profit warning in May 2011. Thornton's warning of weak trading has come in a year when many retailers are struggling with lower consumer spending. In order to adapt to the challenging times, Thorntons has taken on a new strategy of an intensified focus on their commercial division and online sales, as well as turning to outsourcing to help cut annual costs.

Thorntons revealed in September 2011 that it's IT and other outsourcing activities should help deliver an annual cost saving of £2m. The company signed a six year deal with HP Enterprise Services for IT in September 2010 to provide end-to-end management and support for IT, networking and applications for the company under a multi-million pound deal.

Additionally, in June of 2011 Thorntons made a decision to outsource its warehousing and distribution supply chain business to DHL. The one-off transition costs, which are to be taken on in the first year, are £680,000 but in the long run it is expected to deliver a net benefit of £5m.

Thorntons stated that the preliminary results for their year which ended 25 June 2011 showed that the renegotiation of its IT services outsourcing contract in 2010 and a recent completion of outsourcing its warehouse and distribution activities should deliver a full-year benefit of £2m that will flow through in full in the 2012/2013 financial year.

Improving efficiency and cutting costs through updated supply chain systems

Retailers are consistently turning to technological advancements and the use of data analytics to improve processes at both the front and back end of their businesses. The traditional method for an end-user to improve supply chain efficiency, is to reduce direct costs with the supplier. The use of sophisticated data analytics in today's market can result in a more mutually beneficial agreement between a company and a supplier.

Sajid Ghani, Global Managing Director of PRGX Business Analytics states, "At a time when we hear so much about suppliers being squeezed beyond reason, it's worth considering a different approach, which benefits both company and supplier. By using data analytics, companies can go beyond the traditional techniques of consolidating spend or asking the supplier to accept lower margins and looks at the relationship between the company and the supplier. Using a specialist tool such as the PRGX Spend Trax tool, a company can compare its relationship with a supplier over time, and assess the supplier's performance against the performance agreed to in the contract."

Shared services are another weapon against overheads. Where there is investment to be made or excess of capacity to fill it makes sense to unite with likeminded partners. Retailers are getting in on the shared services action and are sharing certain collaborative developments to cut costs. David Noble, CEO of Chartered Institute of Purchasing and Supply comments, "We are seeing more businesses collaborate with each other, even within competing industries. An example of this is supermarkets talking of sharing transportation loads. With fuel prices as they are, and likely to increase further, collaboration opportunities will be sought in many areas, maybe we'll see some sharing of freight or capacity within manufacturing outsourcing in the future."

Struggling entertainment retailer HMV uses sourcing platform technology to help find the most cost effective suppliers. HMV has implemented Wax Digital's wed3 e-sourcing platform in the hope of cutting costs and boosting efficiency.

In August 2011, supermarket giant Tesco signed a $45m contract with CA Technologies for IT management software. The CA Technology Systems will help Tesco to accurately and effectively manage its IT infrastructure and monitor processes across PCs, mainframes, blade servers, networks, credit card transactions and suppliers.

Poundland also made investments in 2011 to improve its supply chain system. Poundland upgraded its LAN infrastructure in order to improve its administration and warehouse distribution sites. The discount retailer upgraded using NextiraOne to ensure its core network can handle stock control, distribution, financial and staff management systems and to integrate sales and stock information with a 24/7 warehousing operation.

Outsourcing to the rescue?

Britain has been warned of the disappearance of the high street in 2012.

As we go to print retail guru, Mary Portas released her 2011 annual report that suggests the high street had been "displaced" by out-of-town shopping centres, without anyone considering the impact of such a huge change. Independent shops are struggling to keep up with soaring rent rates while consumers are fed up with parking regulations that hinder their shopping experience. E-commerce is also contributing to the disappearance of the high street. It is clear retailers are going to need to make business strategy changes, keep up with advancements in technology and cut costs to survive.

The outsourcing industry may not provide all the answers but it is able to streamline processes, keep costs down and promote intelligent collaboration between suppliers and end users – something which a struggling high street could certainly benefit from.

WHAT'S GOING TO BE HOT IN 2012?

Dan Wagner, CEO of e-commerce platform Powa and Chairman of internet investment company Brightstation Ventures shares his predictions for hot topics in 2012:

"The first hot topic is mobile. For many consumers, their smartphone is their most important electronic device. It will become- is already becoming- crucial for retailers to engage consumers more efficiently and get them using a mobile device to engage with you as a brand, as well as just a retailer.

The second major issue is how to leverage social media more effectively. Retailers need engagement from consumers rather than just having a customer join their Facebook page as a fan. Social media brand outlets should be two way activity streams.

The third big topic in 2012 for retailers is likely to be group buying. The explosion of this trend over the past couple of years is not ready to cease- it will become more and more important.

The fourth will be personalisation and profiling of users- the shopping experience will become more and more personalised. It's simple, if companies can profile people better they will buy more. Despite being in its relative infancy now, this kind of dynamic profiling is something set to evolve very fast, hugely enhancing the online shopping experience as it does so."